1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars while the functional currency of the Company is United States Dollars. The reason for selecting Hong Kong dollars as its presentation currency because the Company is a public company incorporated in Hong Kong with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LPG") and natural gas (together "Gas Fuel") in The People's Republic of China (the "PRC") including the sale of LPG in bulk and in cylinders, the provision of piped LPG and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LPG and natural gas household appliances.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has adopted HKFRS 3 "Business Combinations" with retrospective application for business combinations for which the agreement date is on or after 1 January 2002. The principal effects of the application of HKFRS 3 to the Group are summarised below:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2002 eliminated the carrying amount of the related accumulated amortisation of HK$267,000 with a corresponding decrease in the cost of goodwill (see note 18). The Group has discontinued amortising such goodwill from 1 January 2002 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2002 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged since 1 January 2002. Comparative figures for 2004 has been restated (see note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisition of that foreign operations has been translated at the closing rate at 31 December 2005. There is no material impact on the Group's translation reserve in respect of such transaction.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill at 1 January 2002 presented as deduction from assets with a corresponding increase to retained earnings (see note 3 for the financial impact).

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-Based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors and employees' share options of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instruments that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The Group has made a retrospective application in accordance with the requirements of HKAS 32 and comparative figures have been restated accordingly (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, the Group classified its investments in securities as "investment securities", which were securities held for an identified long-term strategic purpose, and were measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. "Available-for-sale financial assets" are carried at fair value, with changes in fair values recognition in equity. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. Accordingly, an adjustment to increase the Group's retained earnings and to reduce the carrying amount of the Group's guaranteed senior loan notes on 1 January 2005 of HK$226,000 was made in accordance with the transitional provision of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that are not held for hedging purposes, on 1 January 2005, the Group recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005, amounting to HK$101,335,000 with a corresponding debit to retained earnings (see note 3 for the financial impact).

Owner-occupied leasehold interest in land and buildings

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

In addition, the Group has changed its accounting policy and elected for stating the buildings elements of the Group at cost less accumulated depreciation rather than at their revalued amount. The change in this accounting policy has been applied retrospectively in accordance with the requirements of HKAS 8 “Accounting policies, changes in accounting estimates and errors”.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 2005 are summarised below:

	31.12.2004	Reclassification	Retrospective adjustments	31.12.2004	Opening adjustments	1.1.2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(originally stated)			(restated)		(restated)
Balance sheet items						
Property, plant and equipment	1,063,321	–	(43,525)	1,019,796	–	1,019,796
Prepaid lease payments	–	–	37,482	37,482	–	37,482
Negative goodwill	(40,125)	–	40,125	–	–	–
Goodwill	21,856	–	2,629	24,485	–	24,485
Interests in associates	35,300	–	118	35,418	–	35,418
Derivative financial instruments	–	–	–	–	(101,335)	(101,335)
Convertible bonds	(378,988)	–	49,077	(329,911)	–	(329,911)
Guaranteed senior notes	(1,524,710)	–	–	(1,524,710)	226	(1,524,484)
Total effect on assets and liabilities	(823,346)	–	85,906	(737,440)	(101,109)	(838,549)
Retained earnings	620,877	–	30,992	651,869	(101,109)	550,760
Share premium	712,337	–	10,497	722,834	–	722,834
Asset revaluation reserve	4,881	–	(4,881)	–	–	–
Share option reserve	–	–	2,733	2,733	–	2,733
Convertible bonds reserve	–	–	48,350	48,350	–	48,350
Minority interests	–	334,859	(1,785)	333,074	–	333,074
Total effect on equity	1,338,095	334,859	85,906	1,758,860	(101,109)	1,657,751
Minority interests	334,859	(334,859)	–	–	–	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs and changes in accounting policies as at 31 December 2003 and 2004 are summarised below:

	31.12.2003	**Reclassification**	**Retrospective adjustments**	**31.12.2003**	**Opening adjustments**	**1.1.2004**
	HK$'000 (originally stated)	*HK$'000*	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)
Retained earnings	358,037	–	9,712	367,749	–	367,749
Share premium	135,092	–	10,497	145,589	–	145,589
Asset revaluation reserve	4,881	–	(4,881)	–	–	–
Convertible bonds reserve	–	–	48,350	48,350	–	48,350
Minority interests	–	264,637	(1,809)	262,828	–	262,828
Total effect on equity	498,010	264,637	61,869	824,516	–	824,516
Minority interests	264,637	(264,637)	–	–	–	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The effects of changes in accounting policies on the consolidated income statement are summarised as follows:

	HKAS 8 & HKAS 17	HKFRS 2	HKAS 32 & HKAS 39	HKFRS 3, HKAS 36 & HKAS 38	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2004					
Increase in staff costs and related expenses	–	(2,733)	–	–	(2,733)
Decrease in amortisation and depreciation of property, plant and equipment	40	–	–	–	40
Increase in minority interests' share of results for the year	(24)	–	–	–	(24)
Decrease in amortisation of goodwill	–	–	–	1,167	1,167
Increase in release of negative goodwill to consolidated income statement	–	–	–	22,103	22,103
Decrease in effective interest on the Group's borrowings	–	–	727	–	727
	16	(2,733)	727	23,270	21,280
For the year ended 31 December 2005					
Increase in staff costs and related expenses	–	(16,129)	–	–	(16,129)
Decrease in amortisation and depreciation of property, plant and equipment	40	–	–	–	40
Increase in minority interests' share of results for the year	(24)	–	–	–	(24)
Decrease in amortisation of goodwill	–	–	–	4,986	4,986
Increase in release of negative goodwill to consolidated income statement	–	–	–	13,721	13,721
Increase in effective interest on the Group's borrowings	–	–	(7,262)	–	(7,262)
Losses arising from changes in fair value of derivative financial instruments	–	–	(208,127)	–	(208,127)
	16	(16,129)	(215,389)	18,707	(212,795)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective as at 31 December 2005. The directors of the Company anticipate that the application of these standards, interpretations and amendments will have no material impact on the financial statements of the Group.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of subsidiaries or associates represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries or associates at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2002

For previously capitalised goodwill arising on acquisitions prior to 1 January 2002, the Group has discontinued amortisation from 1 January 2002 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2002

Goodwill arising on an acquisition of subsidiaries or associates for which the agreement date is on or after 1 January 2002 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or associates at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of associates is included in the cost of the investment of the relevant associates.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of subsidiaries or associates, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of subsidiaries and associates for which an agreement date is on or after 1 January 2002 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 3 above, all negative goodwill as at 1 January 2002 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Discount on acquisition arising on acquisition of additional interests in a subsidiary

Discount on acquisition arising on acquisition of additional interests in a subsidiary represents the excess of the book value of the net assets of the subsidiary attributable to the additional interest acquired over the cost of acquisition of the additional interests.

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profit and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has been passed.

Income from gas pipelines construction, representing gas connection revenue, is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation, amortisation and any impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	3% to 6%
Furniture and fixtures	18% to 20%
Gas pipelines	3%
Leasehold improvements	15%
Motor vehicles	6% to 18%
Plant and equipment	6% to 10%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to other categories of property, plant and equipment.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Exclusive operating right for city pipeline network

Exclusive operating right for city pipeline network is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating right is capitalised and amortised on a straight-line basis over the estimated useful life of twenty years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables (including trade receivables, other receivables and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories.

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Bank and other borrowings and guaranteed senior notes

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction cost) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Convertible bonds

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Other financial liabilities

Other financial liabilities including trade payables, other payables and amounts due to minority shareholders are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group uses derivative financial instruments (primarily interest rates swap) to hedge its exposure against changes in interest rate. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on translating monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in note 3, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits cost

Payments to defined contribution retirement benefits schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expenses as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$1,675,834,000. The Group depreciates the property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at 3% to 20% per annum. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and consumables based primarily on the latest invoice prices and current market conditions.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill is HK$140,329,000 (including an amount of HK$84,917,000 included in interests in associates). Details of the recoverable amount calculation are disclosed in notes 18 and 19.

Income taxes

As at 31 December 2005, no deferred tax asset was recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$68,291,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 35 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and share option reserve.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value of derivative financial instruments

The fair value of derivative financial instruments is based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. The amount is estimated by using a discount cash flow model which incorporate market data, discount rates and other assumptions. Should these assumptions be changed, there would be material changes to the carrying amount of the derivative financial instruments.

6. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include available-for-sale investments, bank deposits, bank balances and cash, trade and other receivables, trade and other payables, amounts due to minority shareholders, bank and other loans, convertible bonds and guaranteed senior notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group collects all of its revenue in Renminbi ("RMB") and most of the expenditures as well as capital expenditures are also denominated in RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against HKD and USD may have positive or negative impact on the results of operations of the Group.

Certain borrowings of the Group are denominated in USD. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The interest rate risk was managed through appropriate derivative financial instruments and a mix of fixed and variable rate debt. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

Credit risk *(Continued)*

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group currently organises its operations into two business segments, namely sale and distribution of gas fuel and related products, and gas pipeline construction. The principal activities of the business segments are as follows:

Sale and distribution of gas fuel and related products	–	Sale of LPG in bulk and in cylinders, provision of piped LPG and natural gas, and sale of LPG and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipelines

The Group's operation by business segment is as follows:

	Sale and distribution of gas fuel and related products *HK$'000*	Gas pipeline construction *HK$'000*	Consolidated *HK$'000*
For the year ended 31 December 2005			
REVENUE			
External	1,612,032	712,068	2,324,100
Segment results	174,712	406,044	580,756
Other income			81,822
Unallocated corporate expenses			(118,110)
Finance costs			(116,173)
Share of results of associates			20,829
Changes in fair value of derivative financial instruments			(208,127)
Profit before taxation			240,997
Taxation			(35,064)
Profit for the year			205,933

The assets and liabilities of the Group are substantially attributable to sale and distribution of gas fuel and related products, an analysis of segment assets and liabilities is not presented.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

No geographical segment analysis is shown as the Group's operating businesses are solely carried out in the PRC and assets are solely located in the PRC.

	Sale and distribution of gas fuel and related products	Gas pipeline construction	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 December 2004			
REVENUE			
External	1,368,664	431,589	1,800,253
Segment results	129,614	225,717	355,331
Other income			38,066
Unallocated corporate expenses			(36,642)
Gain on partial disposal of interest in a subsidiary			2,433
Loss on disposal of a subsidiary			(374)
Finance costs			(27,099)
Share of results of an associate			83
Profit before taxation			331,798
Taxation			(19,711)
Profit for the year			312,087

8. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Interest income	**42,275**	13,126
Dividend income from available-for-sale investments	**5,104**	–
Gain on disposals of available-for-sale investments	**4,177**	–
Discounts on acquisition	**15,168**	22,967
Net exchange gain	**12,772**	614
Sundry	**2,326**	1,359
	81,822	38,066

9. OTHER OPERATING EXPENSES

	2005 HK$'000	2004 HK$'000
Loss on disposal of property, plant and equipment	353	628
Donations	966	1,015
Sundry	3,259	1,012
	4,578	2,655

10. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	4,752	11,047
– bank and other borrowings not wholly repayable within five years	–	28,486
– convertible bonds	22,782	13,685
– senior notes	132,404	–
	159,938	53,218
Net interest receivable on interest rate swaps	(43,988)	(26,239)
	115,950	26,979
Bank charges	223	120
	116,173	27,099

11. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(Note 12)*	**17,411**	6,072
Other staff costs	**62,494**	41,172
Retirement benefits scheme contributions (excluding directors)	**6,909**	5,118
Total staff costs	**86,814**	52,362
Amortisation of intangible asset (included under administrative expenses)	**428**	502
Release of prepaid lease payments	**1,505**	1,471
Auditors' remuneration	**2,855**	1,549
Depreciation and amortisation of property, plant and equipment	**63,297**	36,936
Operating lease rentals in respect of land and buildings	**7,859**	7,194
Share of tax of associates (included in share of results of associates)	**3,573**	–

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 11 (2004: 12) directors were as follows:

	Year ended 31 December 2005											
	Chen Wei	**Cheung Hon Kit**	**Fok Kin Ning Canning**	**Ge Ming**	**Li Fujun**	**Li Xiao Ru**	**Ou Yaping**	**Shen Lian Jin**	**Tang Yui Man Francis**	**To Chi Keung, Simon**	**Zhang Keyu**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	250	–	250	–	250	–	–	–	–	–	750
Other emoluments												
Salaries and other benefits	2,961	–	–	–	456	–	650	312	650	–	365	5,394
Retirement benefits scheme contributions	56	–	–	–	32	–	12	12	12	–	10	134
Performance related incentive payments *(Note)*	1,000	–	–	–	–	–	200	–	500	–	–	1,700
Share-based payment	2,282	609	–	609	–	609	–	1,521	2,282	–	1,521	9,433
Total emoluments	6,299	859	–	859	488	859	862	1,845	3,444	–	1,896	17,411

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Year ended 31 December 2004												
	Chen Wei	Cheung Hon Kit	Fok Kin Ning Canning	Ge Ming	Lai Wen Guang	Li Fujun	Li Xiao Ru	Ou Yaping	Shen Lian Jin	Tang Yui Man Francis	To Chi Keung, Simon	Zhang Keyu	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	300	–	39	–	–	300	–	–	–	–	–	639
Other emoluments													
Salaries and other benefits	2,070	–	–	–	47	530	–	260	158	260	–	380	3,705
Retirement benefits scheme contributions	42	–	–	–	1	32	–	12	–	12	–	–	99
Performance related incentive payments *(Note)*	–	–	–	–	–	–	–	–	–	–	–	30	30
Share-based payment	387	103	–	103	–	–	103	–	258	387	–	258	1,599
Total emoluments	2,499	403	–	142	48	562	403	272	416	659	–	668	6,072

Note: The performance related incentive payments are determined having regard to the performance of individuals and market trends.

Employees' emoluments:

For the year ended 31 December 2005, the five highest paid individuals of the Group included four (2004: five) directors of the Company, details of their emoluments are included above.

The emoluments of the remaining highest paid individual for the year ended 31 December 2005, representing salaries and other benefits paid, retirement benefits scheme contributions and share-based payment, amounted to HK$678,000, HK$12,000 and HK$477,000 respectively.

Emoluments of these five individuals were within the following bands:

	Number of employees	
	2005	2004
HK$nil – HK$1,000,000	**3**	4
HK$1,000,001 – HK$1,500,000	**1**	–
HK$2,000,001 – HK$2,500,000	**–**	1
HK$4,000,001 – HK$4,500,000	**1**	–

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2005.

13. TAXATION

	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**41,243**	19,711
– overprovision in prior years	**(6,179)**	–
	35,064	19,711

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC enterprise income tax has been provided for after taking these tax incentives into account.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**240,997**	331,798
Tax at the applicable rate of 33% (2004: 33%) (Note)	**79,529**	109,493
Tax effect of expenses that are not deductible for tax purposes	**111,212**	13,508
Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit	**(86,108)**	(80,865)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provinces	**(61,917)**	(23,594)
Tax effect of share of results of associates	**(6,873)**	(27)
Tax effect of utilisation of tax losses not previously recognised	**(244)**	–
Tax effect of tax losses not recognised	**5,644**	1,196
Overprovision of taxation in previous years	**(6,179)**	–
Taxation for the year	**35,064**	19,711

Note: The tax rate of 33% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for both years.

13. TAXATION *(Continued)*

At the balance sheet date, the Group has estimated unused tax losses of HK$68,291,000 (2004: HK$49,559,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire within five years from the date of origination.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company	**155,777**	285,368
Effect of dilutive potential shares:		
Effective interest on convertible bonds	**22,782**	13,685
Earnings for the purposes of diluted earnings per share	**178,559**	299,053
	Number of shares	
	'000	*'000*
Weighted average number of shares for the purposes of basic earnings per share	942,251	938,499
Effect of dilutive potential shares:		
Share options	17,725	19,341
Convertible bonds	97,851	97,851
	115,576	117,192
Weighted average number of shares for the purposes of diluted earnings per share	1,057,827	1,055,691

The conversion of the Company's outstanding convertible bonds did not have dilution effect on earnings per share for the year since the conversion would result in an increase in earnings per share.

The following table summarises the impact on basic and diluted earnings per share as a result of the changes in accounting policies:

	Basic earnings per share		**Diluted earnings per share**	
	2005	2004	**2005**	2004
	HK cents	*HK cents*	***HK cents***	*HK cents*
Reported figures before adjustments	**39.11**	28.14	–	26.38
Adjustments arising from the changes in accounting policies	**(22.58)**	2.27	–	1.95
Restated	**16.53**	30.41	–	28.33

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Gas pipelines HK$'000	Motor vehicles HK$'000	Plant and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2004								
– as originally stated	90,815	2,806	9,012	346,481	27,122	155,032	54,052	685,320
– effect on change in accounting policies	(39,169)	–	–	–	–	–	–	(39,169)
– as restated	51,646	2,806	9,012	346,481	27,122	155,032	54,052	646,151
Additions	1,885	1,159	2,364	–	5,538	2,247	271,806	284,999
On acquisition of subsidiaries	7,832	–	538	173,854	725	2,735	9,801	195,485
Disposals	(18)	–	(347)	(629)	(2,405)	(1,039)	–	(4,438)
On disposal of subsidiaries	–	–	(27)	–	(90)	(139)	–	(256)
Reclassification	–	–	–	212	–	(212)	–	–
Transfer	530	–	(31)	300,502	–	357	(301,358)	–
At 31 December 2004	61,875	3,965	11,509	820,420	30,890	158,981	34,301	1,121,941
Currency realignment	1,844	73	296	22,280	795	4,129	889	30,306
Additions	24,323	–	2,172	471,725	4,511	27,598	39,805	570,134
On acquisition of subsidiaries	35,801	–	989	72,793	3,199	32,327	662	145,771
Disposals	(11,443)	–	(963)	(233)	(2,924)	(11,328)	(44)	(26,935)
Reclassification	5,318	(2,879)	(979)	3,106	–	(4,566)	–	–
Transfer	562	–	–	16,777	–	1,939	(19,278)	–
At 31 December 2005	118,280	1,159	13,024	1,406,868	36,471	209,080	56,335	1,841,217
DEPRECIATION AND AMORTISATION								
At 1 January 2004								
– as originally stated	7,317	22	2,889	11,903	10,743	36,658	–	69,532
– effect on changes in accounting policies	(1,925)	–	–	–	–	–	–	(1,925)
– as restated	5,392	22	2,889	11,903	10,743	36,658	–	67,607
Provided for the year	1,915	296	1,669	20,583	3,476	8,997	–	36,936
Eliminated on disposals	(1)	–	(245)	(5)	(1,672)	(368)	–	(2,291)
Eliminated on disposal of subsidiaries	–	–	(8)	–	(60)	(39)	–	(107)
Reclassification	–	–	–	(212)	–	212	–	–
At 31 December 2004	7,306	318	4,305	32,269	12,487	45,460	–	102,145
Currency realignment	215	4	122	1,259	348	1,260	–	3,208
Provided for the year	2,731	348	1,790	43,445	4,105	10,878	–	63,297
Eliminated on disposals	(13)	–	(415)	(5)	(1,180)	(1,654)	–	(3,267)
Reclassification	238	(148)	(50)	580	–	(620)	–	–
At 31 December 2005	10,477	522	5,752	77,548	15,760	55,324	–	165,383
CARRYING VALUES								
At 31 December 2005	107,803	637	7,272	1,329,320	20,711	153,756	56,335	1,675,834
At 31 December 2004	54,569	3,647	7,204	788,151	18,403	113,521	34,301	1,019,796

The buildings are held under medium term leases and are situated in the PRC.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At the balance sheet date, the Group pledged certain of its property, plant and equipment with an aggregate net book value of approximately HK$40,432,000 (2004: HK$56,472,000) to secure banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
Balance at beginning of the year	**37,482**	31,161
Currency realignment	**1,245**	–
Additions	**4,455**	656
On acquisition of subsidiaries	**45,115**	8,040
Disposals	**(527)**	(904)
Charge for the year	**(1,505)**	(1,471)
Balance at end of the year	**86,265**	37,482
Current portion	**(2,717)**	(1,266)
Non-current portion	**83,548**	36,216

The amount represented medium-term land use rights situated in the PRC.

17. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2004 and 31 December 2004	10,035
Currency realignment	260
At 31 December 2005	10,295
AMORTISATION	
At 1 January 2004	373
Provided for the year	502
At 31 December 2004	875
Currency realignment	23
Provided for the year	428
At 31 December 2005	1,326
CARRYING VALUES	
At 31 December 2005	8,969
At 31 December 2004	9,160

The Group's exclusive operating right for city pipeline network was purchased from third parties.

18. GOODWILL

	HK$'000
COST	
At 1 January 2004	15,801
Elimination of accumulated amortisation upon the application of HKFRS 3 *(note 3)*	(267)
Arising on acquisition of subsidiaries	8,951
At 31 December 2004	24,485
Currency realignment	292
Arising on acquisition of subsidiaries	30,635
At 31 December 2005	55,412
AMORTISATION	
At 1 January 2004	
– as originally stated	1,847
– effect on adoption of HKFRS 3 *(note 3)*	
– reversal of amortisation	(1,580)
– elimination of accumulated amortisation upon the application	(267)
At 31 December 2004 and 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	55,412
At 31 December 2004	24,485

The goodwill, which arose from acquisition of subsidiaries, is not amortised commencing from 1 January 2002 in accordance with the transitional provision of HKFRS 3.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated under "sale and distribution of gas fuel and related products" segment and "Gas pipeline construction" segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 12% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates of 5% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budgets approved by management for the next 5 years. The directors considered no impairment loss is necessary at 31 December 2005.

19. INTERESTS IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Share of net assets	**380,817**	35,377
Goodwill on acquisition of an associate	**84,917**	35,418
	465,734	70,795

Details of the Group's associate as at 31 December 2005 are as follows:

Name of associate	Place of establishment and operations	Percentage of equity interest attributable to the Group	Principal activities
佛山市燃氣集團有限公司 Foshan Panva Gas Group Ltd.	PRC – Sino-foreign equity joint venture	45%	Provision of LPG, natural gas and related services and gas pipeline construction
長春燃氣控股有限公司 Changchun Gas Holdings Limited	PRC – Sino-foreign equity joint venture	48%	Production and/or distribution of natural gas, coal gas, LPG, metallurgical coke and coke oil

Summarised financial information in respect of the Group's associates is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	**2,040,177**	277,919
Total liabilities	**(1,262,703)**	(198,963)
Net assets	**777,474**	78,956
Revenue	**1,425,295**	44,553
Profit for the year	**44,139**	185

19. INTERESTS IN ASSOCIATES *(Continued)*

Details of movements of goodwill on acquisition of associates are as follows:

	HK$'000
COST	
Arising from acquisition of an associate and balance at 31 December 2004	35,418
Arising from acquisition of an associate	49,499
At 31 December 2005	84,917
AMORTISATION	
Amortised during the year	118
Effect on adoption of HKFRS 3 *(note 3)*	(118)
At 31 December 2004 and 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	84,917
At 31 December 2004	35,418

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 12% using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates of 5% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budgets approved by management for the next 5 years. The directors considered no impairment loss is necessary at 31 December 2005.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2005 ***HK$'000***	2004 *HK$'000*
Unlisted shares in the PRC, at cost	**189,806**	–

As at the balance sheet date, investments in unlisted equity securities issued by private entities incorporated in the PRC are measured at cost less impairment because the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Finished goods	**27,852**	14,430
Consumables	**39,013**	25,247
	66,865	39,677

22. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 90 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**487,560**	184,318
91 to 180 days	**696**	841
181 to 360 days	**1,815**	1,798
Over 360 days	**3,164**	494
	493,235	187,451

The fair values of the Group's trade receivables at 31 December 2005 approximates to the corresponding carrying amounts.

23. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**233,753**	16,537
91 to 180 days	**4,266**	2,762
181 to 360 days	**2,737**	3,167
Over 360 days	**6,199**	1,610
	246,955	24,076

The fair values of the Group's trade payables at 31 December 2005 approximates to the corresponding carrying amounts.

24. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable on demand.

The fair values of the amounts due to minority shareholders at 31 December 2005 approximates to the corresponding carrying amounts.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 HK$'000	2004 HK$'000
Derivatives under hedge accounting		
Fair value hedges – interest rate swaps	**327,680**	–

Fair value hedges

During the year, the Group entered interest rate swaps contracts to manage its interest cost. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
US$200,000,000	22 September 2011	From 8.25% to MAX (USD LIBOR BBA + 3.72%, 12%)
US$200,000,000	22 September 2011	From (0, 7.12 x Spread rate * + 0.01%) to 8.25%

* *Where:*

"Spread Rate" means the rate (expressed as a percentage per annum) calculated in accordance with the following formula:

US$ 30 year CMS – US$2 year CMS

"US$ 30 year CMS" means 30-year US$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period; and

"US$ 2 year CMS" means 2-year US$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period.

The fair value of swaps entered into at 31 December 2005 is estimated at HK$327,680,000. These amounts are based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. Changes in the fair value of interest rate swaps during the year ended 31 December 2005 of HK$208,127,000 have been recognised to the consolidated income statement.

26. FINANCIAL LIABILITIES

The fair values of other payables at 31 December 2005 approximates to the corresponding carrying amounts.

27. BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank loans – secured	**20,163**	26,941
Bank loans – unsecured	**–**	18,850
Other loans – unsecured	**79,100**	935
Convertible bonds *(Note a)*	**362,116**	329,911
Guaranteed senior notes *(Note b)*	**1,553,926**	1,524,710
	2,015,305	1,901,347
Carrying amount repayable:		
On demand or within one year	**86,770**	29,420
More than one year but not exceeding two years	**48,389**	17,306
More than two years but not exceeding five years	**360,690**	329,911
More than five years	**1,519,456**	1,524,710
	2,015,305	1,901,347
Less: Amount due within one year shown under current liabilities	**(86,770)**	(29,420)
Amount due after one year	**1,928,535**	1,871,927

Notes:

(a) The Company issued the 2% convertible bonds of US$50,000,000 on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The conversion price at which each share shall be issued upon conversion is HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares). The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48%.

(b) The Group issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%.

(c) The bank and other loans carry fixed interest at a range of 2.0% – 4.8% per annum.

The fair value of the Group's bank and other borrowings approximates to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

28. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Shares of HK$0.1 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 2005	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2004	779,097,891	77,910
Issue of shares on placing and subscription arrangements	155,200,000	15,520
Issue of shares on the exercise of share options	7,953,000	795
At 31 December 2004 and 2005	942,250,891	94,225

Changes in the share capital of the Company during the year ended 31 December 2004 were as follows:

(a) On 8 January 2004, the Company issued 155,200,000 shares of HK$0.1 each pursuant to the agreements in respect of placing and subscription of shares of the Company that Sinolink Worldwide Holdings Limited ("Sinolink") placed 155,200,000 existing shares of the Company to independent investors at HK$4.00 per share and subscribed for the same number of new shares issued by the Company at the same price per share.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business and for general working capital purposes.

(b) The Company allotted and issued a total 5,770,000 and 2,183,000 shares of HK$0.1 each for cash at the exercise prices of HK$0.475 and HK$0.94 per share respectively as a result of the exercise of share options.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

29. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 47.

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

Capital reserve represents the deemed contribution arising from waiver of loans from the minority shareholders of the subsidiaries.

30. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 70%, 100% and 80% of the registered capital of Pengshan Panva Gas Co., Ltd., Jiangyang Panva Gas Co., Ltd. and Benxi Panva Gas Co., Ltd. respectively for an aggregate consideration of HK$121,411,000. These acquisitions have been accounted for by the acquisition method of accounting. The aggregate amount of goodwill arising as a result of the acquisition was HK$30,635,000.

During the year ended 31 December 2004, the Group acquired 100% registered capital of Cangxi Panva Gas Co., Ltd., Daiyi Panva Gas Co., Ltd., and Zhongjiang Panva Gas Co., Ltd.. The Group also acquired 90% of the registered capital of Yuechi Panva Gas Co., Ltd.. Aggregate consideration for these acquisitions amounted to HK$100,562,000. These acquisitions have been accounted for by the acquisition method of accounting. The aggregate amount of goodwill and discount on acquisition arising as a result of the acquisitions was HK$8,951,000 and HK$22,646,000 respectively.

	2005	2004
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	145,771	195,485
Investment in securities	–	4,221
Available-for-sale investments	3,977	–
Prepaid lease payments	45,115	8,040
Inventories	2,366	1,749
Trade receivables	290	1,794
Other receivables, deposits and prepayments	33,694	17,615
Bank balances and cash	16,188	3,405
Trade payables	(2,056)	(2,659)
Other payables and accrued charges	(49,698)	(65,958)
Taxation	(516)	–
Borrowings	(80,259)	(46,183)
Minority interests	(24,096)	(3,252)
	90,776	114,257
Goodwill	30,635	8,951
Discount on acquisition	–	(22,646)
Total consideration	121,411	100,562
Satisfied by		
Cash	121,411	84,067
Amounts due to minority shareholders	–	16,495
	121,411	100,562
Net cash outflow arising on acquisition:		
Cash consideration	(121,411)	(84,067)
Bank balances and cash acquired	16,188	3,405
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(105,223)	(80,662)

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

The acquiree's carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required.

The subsidiaries acquired during the year ended 31 December 2005 contributed HK$191,435,000 (2004: HK$191,346,000) to the Group's turnover, and HK$106,341,000 (2004: HK$128,405,000) to the Group's profit before taxation.

If the acquisitions made during the year ended 31 December 2005 had been completed on 1 January 2005, total group revenue for the year would have been HK$2,356,978,000, and profit for the year attributable to equity holders of the Company would have been HK$150,230,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2005, nor is it intended to be a projection of future results.

31. DISPOSAL OF A SUBSIDIARY

	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	149
Inventories	–	37
Trade receivables	–	29
Other receivables, deposits and prepayments	–	173
Bank balances and cash	–	126
Other payables and accrued charges	–	(69)
Minority interests	–	(31)
	–	414
Loss on disposal	–	(374)
Total consideration	–	40
Net cash inflow arising on disposal:		
Proceeds received on disposal	–	40
Bank balances and cash disposed of	–	(126)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(86)

32. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

Name of related party	Nature of transactions	2005 HK$'000	2004 HK$'000
Sinolink *(Note a)*	Licence fee expense	**546**	460
Sinolink Properties Limited (formerly known as (Shenzhen Sinolink Enterprises Co., Limited *(Note b)*	Rental expense	**331**	325

Notes:

(a) Mr. Ou Yaping, director and shareholder of the Company, has a direct beneficial interest in this company.

(b) It is a fellow subsidiary of the Company, of which Mr. Ou Yaping is a director.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 12.

33. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2005 HK$'000	2004 HK$'000
Within one year	**4,695**	4,979
In the second to fifth years inclusive	**10,251**	10,602
Over five years	**13,424**	14,518
	28,370	30,099

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

34. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of unpaid capital contribution to investment projects	**146,533**	526,008

35. SHARE OPTIONS

The Company's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 19 April 2001 and, will expire on 3 April 2011 respectively. Under the Pre-GEM Share Option Scheme and the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 24 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. In addition, pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The 2005 GEM Share Option Scheme has replaced the Scheme there will be no options granted under the Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the Scheme shall remain in full force and effect.

The 2005 GEM Share Option Scheme and the New Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005 and 28 November 2005 respectively.

The share options under the 2005 Share Option Scheme (the "2005 GEM Options") and the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not more than 10 years after the date of grant.

At 31 December 2005, no share option is granted under 2005 GEM Share Option Scheme and the New Scheme.

The 2005 GEM Options granted or the New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option.

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options				
	Outstanding at the beginning of the year	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at the end of the year**
For the year ended 31 December 2004					
Pre-GEM Listing options	19,640,000	–	(5,770,000)	–	13,870,000
2001 options	11,824,000	–	(2,183,000)	(1,072,000)	8,569,000
2004 options	–	21,200,000	–	–	21,200,000
	31,464,000	21,200,000	(7,953,000)	(1,072,000)	43,639,000
Weighted average exercise price	0.650	3.500	0.602	0.940	2.036
For the year ended 31 December 2005					
Pre-GEM Listing options	13,870,000	–	–	(1,900,000)	11,970,000
2001 options	8,569,000	–	–	(1,770,000)	6,799,000
2004 options	21,200,000	–	–	–	21,200,000
	43,639,000	–	–	(3,670,000)	39,969,000
Weighted average exercise price	2.036	–	–	0.699	2.159

35. SHARE OPTIONS *(Continued)*

Had all the outstanding share options been fully exercised on 31 December 2005, the Company would have received cash proceeds of HK$86,277,000 (2004: HK$89,572,000). Details of specific categories of options are as follows:

Option type	Date of grant	Exercisable period	Exercise price HK$
Pre-GEM Listing options	04.04.2001	01.01.2004 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
2001 options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 options	19.11.2004	31.12.2005 – 30.03.2011	3.500
	19.11.2004	31.12.2006 – 30.03.2011	3.500
	19.11.2004	31.12.2007 – 30.03.2011	3.500

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

The fair value of share options granted in 2004 is HK$1.48 per share and was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	31.12.2004
Weighted average share price	HK$3.5
Weighted average exercise price	HK$3.5
Expected volatility	35.74%
Expected life	6.5
Risk free rate	3.358%
Expected dividend yield	0%

The Group recognised total expenses of HK$16,129,000 (2004: HK$2,733,000) for the year ended 31 December 2005 in relation to share options granted by the Company.

36. RETIREMENT BENEFITS SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2005 amounted to approximately HK$6,915,000 (2004: HK$5,113,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2005, the Group made retirement benefits scheme contributions amounting to HK$128,000 (2004: HK$104,000).

37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Directly-owned subsidiary				
China Pan River Group Ltd.	BVI – Limited liability company	US$12,821	100%	Investment holding
Indirectly-owned subsidiaries				
Benxi Panva Gas Co., Ltd. 本溪百江燃氣有限公司	PRC – Limited liability company	RMB97,824,900	80%	Provision of natural gas and related services and gas pipeline construction
Cangxi Panva Gas Co., Ltd. 蒼溪百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	100%	Provision of natural gas and related services and gas pipeline construction
Changsha Pan River Enterprises Co., Ltd. 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LPG
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	60%	Wholesaling and retailing of LPG

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
China Overlink Holdings Co., Limited	BVI – Limited liability company	US$1	100%	Investment holding
Dayi Panva Gas Co., Ltd. 大邑百江燃氣有限公司	PRC – Limited liability company	RMB3,300,000	100%	Provision of natural gas and related services and gas pipeline construction
Jianyang Panva Gas Co., Ltd. 簡陽百江燃氣有限公司	PRC – Limited liability company	RMB1,790,000	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Panva Gas Co., Ltd. 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	51%	Provision of natural gas and related services and gas pipeline construction
Lezhi Panva Gas Co., Ltd. 樂至百江燃氣有限公司	PRC – Limited liability company	RMB6,960,000	100%	Provision of natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	US$6,000,000	55%	Wholesaling and retailing of LPG
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US$1,010,000	100%	Provision of LPG and related services and gas pipeline construction
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LPG
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LPG
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LPG
Pan River Enterprises (Yongzhou) Co., Ltd. 永州百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LPG

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Pan River Gas (China Southwest) Co., Ltd. ("Southwest Panva") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	50.1%	Wholesaling and retailing of LPG
Pan River Gas (Zunyi) Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	50.1%	Wholesaling and retailing of LPG
Panriver Investments Company Limited	PRC – Limited liability company	US$30,000,000	100%	Investment holding
Panva (Chizhou) Gas Co., Ltd. 池州百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	Provision of LPG and related services and gas pipeline construction
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,840,000	28.53% *(Note 1)*	Wholesaling and retailing of LPG
Pengshan Panva Gas Co., Ltd. 彭山百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC – Limited liability company	RMB3,590,000	90%	Provision of natural gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd. 平昌百江燃氣有限公司	PRC – Limited liability company	RMB4,900,000	90%	Provision of natural gas and related services and gas pipeline construction
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd. 四川省資陽恆源壓縮天然氣有限公司	PRC – Limited liability company	RMB800,000	66.6%	Provision of compressed natural gas, petroleum and petroleum products to automobiles
Singkong Investments Limited 盛港投資有限公司	Hong Kong – Limited liability company	HK$10,000	100%	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	US$1	100%	Investment holding
Sinolink Power Investment Limited	BVI – Limited liability company	US$1	100%	Investment holding

37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activities
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC – Limited liability company	RMB5,000,000	99.5%	Provision of natural gas and related services and gas pipeline construction
Xiang Tan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	60%	Wholesaling and retailing of LPG
Yangzhou YPC & Panva Gas Co., Ltd. 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	27.5% *(Note 2)*	Wholesaling and retailing of LPG
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LPG
YPC & Panva Energy Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US$7,230,000	50% *(Note 3)*	Wholesaling and retailing of LPG
Yuechi Panva Gas Co., Ltd. 岳池百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	90%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Panva Gas Co., Ltd. 中江百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	100%	Provision of natural gas and related services and gas pipeline construction
Zhongjian Pingan Petroleum and Gas Limited Liability Company 中江縣平安氣油有限責任公司	PRC – Limited liability company	RMB3,000,000	55%	Provision of compressed natural gas to automobiles
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司	PRC – Limited liability company	RMB18,890,000	90%	Provision of natural gas and related services and gas pipeline construction

Notes:

1. Southwest Panva holds a 56.94% equity interest.

2. Yangzi Panva holds a 55% equity interest.

3. Yangzi Panva is a subsidiary of the Company as the Group has control over its board of directors.