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 immediate holding company is Kenson Investment Limited, a private limited company incorporated in the British Virgin Islands. Its ultimate holding company is Enerchina Holdings Limited, a limited liability company incorporated in Bermuda with its shares listed on Hong Kong Stock Exchange. The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information of the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"). The reason for selecting HKD as its presentation currency because the Company is a public company incorporated in Cayman Islands 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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendments of 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 December 2005 or 1 January 2006. The application of the new HKFRSs has no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [8]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions [6]
HK(IFRIC) – INT 12	Service concession arrangements [7]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 March 2006.

[3] Effective for annual periods beginning on or after 1 May 2006.

[4] Effective for annual periods beginning on or after 1 June 2006.

[5] Effective for annual periods beginning on or after 1 November 2006.

[6] Effective for annual periods beginning on or after 1 March 2007.

[7] Effective for annual periods beginning on or after 1 January 2008.

[8] Effective for annual periods beginning on or after 1 January 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2002

Goodwill arising on an acquisition of subsidiaries 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 at the date of acquisition.

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 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 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 consolidated balance sheet.

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent years.

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

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 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.

3. 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") *(continued)*

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 carrying 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

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 net assets 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.

Goodwill arising on acquisitions prior to 1 January 2002

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2002 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions on or after 1 January 2002

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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.

Revenue from gas supply is recognised when gas is used.

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

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, and any impairment losses.

Depreciation 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 consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Exclusive operating rights for city pipeline network

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

Loans and receivables

Loans and receivables (including trade receivables, other receivables, deposits, amounts due from minority shareholders, pledged bank deposits and bank balances) 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 financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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 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 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.

Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate 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 conversion 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 conversion 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.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted before 7 November 2002

The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

Equity-settled share-based payment transactions *(continued)*
Share options granted after 7 November 2002 and vested after 1 January 2005

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

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 years. Taxable profit differs from profit as reported in the consolidated 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 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.

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 year, 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 exchange 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 exchange reserve.

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits cost

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expenses when employees have rendered service entitling them to the contributions.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, 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.

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. At 31 December 2006, the carrying amount of goodwill is HK$68,640,000. Details of the recoverable amount calculation are disclosed in note 17.

Income taxes

As at 31 December 2006, no deferred tax asset is recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$109,733,000 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 consolidated income statement for the period in which such recognition takes place.

Share option benefit expenses

The number of options to vest 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 and share option reserve.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include available-for-sale investments, pledged bank deposits, bank balances and cash, trade and other receivables, trade and other payables, amounts due from/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.

Market risk

(i) *Price risk*

The Group has an exposure on equity price risk on its available-for-sale investments. For unquoted investments, the management will closely monitor the performance of the investee companies.

(ii) *Fair value interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (see note 25 for details of these borrowings). It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimise the cash flow interest rate risk.

(iii) *Cash flow interest rate risk*

Interest bearing financial assets are mainly bank balances carried at prevailing market rate, that exposed the Group to cash flow interest rate risk. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

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 2006 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, other receivables and deposits 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

6. 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. These divisions are the basis on which the Group reports its primary segment information. 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	Gas pipeline construction	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 December 2006			
REVENUE			
External	2,311,696	331,220	2,642,916
Segment results	33,384	30,634	64,018
Other income			87,373
Unallocated corporate expenses			(64,720)
Share of results of associates			(13,664)
Changes in fair value of derivative financial instruments			(124,151)
Finance costs			(178,422)
Loss before taxation			(229,566)
Taxation			(17,073)
Loss for the year			(246,639)

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.

6. 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 People's Republic of China ("PRC") and assets are solely located in the PRC.

	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)
Share of results of associates			20,829
Changes in fair value of derivative financial instruments			(208,127)
Finance costs			(116,173)
Profit before taxation			240,997
Taxation			(35,064)
Profit for the year			205,933

7. OTHER INCOME

Other income mainly comprised of:

	2006 ***HK$'000***	2005 *HK$'000*
Interest income	**29,988**	42,275
Discount on acquisition of subsidiaries	**24,085**	–
Dividend income from available-for-sale investments	**11,083**	5,104
Gain on disposal of held-for-trading investments	**11,338**	–
Discount on acquisition of additional interest in a subsidiary	**4,500**	15,168
Gain on disposal of property, plant and equipment	**1,701**	–
Gain on disposal of available-for-sale investments	**–**	4,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

8. OTHER EXPENSES

Other expenses mainly comprised of:

	2006 HK$'000	2005 HK$'000
Donations	1,931	966
Impairment loss recognised in respect of available-for-sale investments	983	–
Loss on disposal of property, plant and equipment	–	353

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	3,454	4,752
– bank and other borrowings not wholly repayable within five years	4,446	–
– convertible bonds	25,097	22,782
– senior notes	131,336	132,404
	164,333	159,938
Net interest expense (income) on interest rate swaps	12,874	(43,988)
	177,207	115,950
Bank charges	1,215	223
	178,422	116,173

10. (LOSS) PROFIT BEFORE TAXATION

	2006 *HK$'000*	2005 *HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 11)*	12,138	17,411
Share-based expenses for other staff	4,468	6,696
Other staff costs	124,433	55,798
Retirement benefit scheme contributions (excluding directors)	17,841	6,909
Total staff costs	158,880	86,814
Amortisation of intangible assets (included under administrative expenses)	4,107	428
Auditor's remuneration	6,327	2,855
Depreciation of property, plant and equipment	104,584	63,297
Operating lease rentals in respect of land and buildings	10,927	7,859
Release of prepaid lease payments	4,922	1,505
Allowance for doubtful debts	40,000	–
Share of tax of associates (included in share of results of associates)	12,597	3,573

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2005: 11) directors were as follows:

	Year ended 31 December 2006												
	Chen Wei *HK$'000*	Cheung Hon Kit *HK$'000*	Fok Kin Ning, Canning *HK$'000*	Ge Ming *HK$'000*	Li Fujun *HK$'000*	Li Xiao Ru *HK$'000*	Ou Yaping *HK$'000*	Shen Lian Jin *HK$'000*	Tang Yui Man, Francis *HK$'000*	To Chi Keung, Simon *HK$'000*	Zhang Keyu *HK$'000*	Zhang Ke *HK$'000*	Total *HK$'000*
Fees	–	250	–	128	–	250	–	–	–	–	–	125	753
Other emoluments													
Salaries and other benefits	3,336	–	–	–	130	–	750	889	750	–	605	–	6,460
Retirement benefit scheme contributions	51	–	–	–	9	–	12	12	12	–	9	–	105
Share-based payments	1,247	332	–	–	–	332	–	831	1,247	–	831	–	4,820
Total emoluments	4,634	582	–	128	139	582	762	1,732	2,009	–	1,445	125	12,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

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 benefit scheme contributions	56	–	–	–	32	–	12	12	12	–	10	134
Performance related incentive payments *(note)*	1,000	–	–	–	–	–	200	–	500	–	–	1,700
Share-based payments	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

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 2006, the five highest paid individuals of the Group included four (2005: four) 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 2006 were amounted to HK$1,585,000 (2005: HK$1,167,000), representing salaries and other benefits paid, retirement benefit scheme contributions and share-based payments, amounted to HK$820,000 (2005: HK$678,000), HK$12,000 (2005: HK$12,000) and HK$753,000 (2005: HK$477,000) respectively.

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 2006.

12. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**17,475**	41,243
– under(over)provision in prior years	**810**	(6,179)
Deferred taxation credit *(note 26)*	**(1,212)**	–
	17,073	35,064

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

12. TAXATION *(continued)*

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

	2006 *HK$'000*	2005 *HK$'000*
(Loss) profit before taxation	(229,566)	240,997
Tax at the applicable rate of 33% (2005: 33%) *(Note)*	(75,757)	79,529
Tax effect of expenses that are not deductible for tax purposes	119,574	111,212
Tax effect of income that are not taxable for tax purposes	(5,804)	–
Tax effect of income that is exempted from PRC Enterprise Income Tax in determining taxable profit	(30,369)	(86,108)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	(5,440)	(32,546)
Effect of different tax rates of subsidiaries operating in different provinces	(8,391)	(29,371)
Tax effect of share of results of associates	4,509	(6,873)
Tax effect of utilisation of tax losses not previously recognised	(427)	(244)
Tax effect of tax losses not recognised	18,368	5,644
Under(over)provision of taxation in previous years	810	(6,179)
Tax charge for the year	17,073	35,064

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.

At the balance sheet date, the Group has unused tax losses of HK$109,733,000 (2005: HK$68,291,000) 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 be expired within five years.

13. (LOSS) EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic (loss) earnings per share, being (loss) profit for the year attributable to equity holders of the Company	**(256,334)**	155,777
	Number of shares	
	'000	*'000*
Weighted average number of shares for the purposes of basic (loss) earnings per share	944,809	942,251

No diluted (loss) earnings per share has been presented in both years as the outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or conversion would result in a decrease in loss per share (2005: increase in earnings per share).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture and fixtures	Gas pipelines	Motor vehicles	Plant and equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1 January 2005	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
Additions from 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
Currency realignment	7,969	–	585	60,980	1,598	10,036	2,118	83,286
Additions	48,214	–	13,332	161,439	30,564	19,267	433	273,249
Additions from acquisition of subsidiaries	98,178	–	3,877	282,994	9,165	73,356	1,190	468,760
Disposals	(7,180)	(1,159)	(1,854)	(18,092)	(8,346)	(3,686)	–	(40,317)
Transfer	48	–	–	59,595	–	–	(59,643)	–
At 31 December 2006	265,509	–	28,964	1,953,784	69,452	308,053	433	2,626,195

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings	Leasehold improvements	Furniture and fixtures	Gas pipelines	Motor vehicles	Plant and equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION								
At 1 January 2005	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
Currency realignment	557	–	325	4,175	702	2,195	–	7,954
Provided for the year	10,439	261	6,497	66,473	12,062	8,852	–	104,584
Eliminated on disposals	(704)	(783)	(655)	(85)	(5,231)	(922)	–	(8,380)
At 31 December 2006	20,769	–	11,919	148,111	23,293	65,449	–	269,541
CARRYING VALUES								
At 31 December 2006	244,740	–	17,045	1,805,673	46,159	242,604	433	2,356,654
At 31 December 2005	107,803	637	7,272	1,329,320	20,711	153,756	56,335	1,675,834

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

At the balance sheet date, the Group pledged certain of its property, plant and equipment with an aggregate carrying value of HK$30,037,000 (2005: HK$40,432,000) to secure banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	*HK$'000*
Balance at the beginning of the year	**86,265**	37,482
Currency realignment	**5,657**	1,245
Additions	**16,561**	4,455
Additions from acquisition of subsidiaries	**51,816**	45,115
Disposals	**–**	(527)
Charge for the year	**(4,922)**	(1,505)
Balance at the end of the year	**155,377**	86,265
Analysis for reporting purpose:		
Non-current portion	**150,785**	83,548
Current portion	**4,592**	2,717
	155,377	86,265

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

16. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2005	10,035
Currency realignment	260
At 31 December 2005	10,295
Currency realignment	5,045
Additions from acquisition of subsidiaries	126,750
At 31 December 2006	142,090
AMORTISATION	
At 1 January 2005	875
Currency realignment	23
Provided for the year	428
At 31 December 2005	1,326
Currency realignment	130
Provided for the year	4,107
At 31 December 2006	5,563
CARRYING VALUES	
At 31 December 2006	136,527
At 31 December 2005	8,969

The intangible assets represent the Group's exclusive operating rights for city pipeline network.

17. GOODWILL

	HK$'000
At 1 January 2005	24,485
Currency realignment	292
Additions from acquisition of subsidiaries	30,635
At 31 December 2005	55,412
Currency realignment	492
Additions from acquisition of subsidiaries	12,737
At 31 December 2006	68,641

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. The management considers each subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of Benxi Panva Gas Co., Ltd., Daiyi Panva Gas Co., Ltd., Jianyang Panva Gas Co., Ltd., Qiqihar Panva Gas Co., Ltd., Yuechi Panva Gas Co., Ltd. and other subsidiaries of HK$10,158,000, HK$3,612,000, HK$19,789,000, HK$9,846,000, HK$5,339,000 and HK$19,897,000 respectively.

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 10.5% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a steady growth rate of 5% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

18. INTEREST IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Share of net assets	555,371	380,817
Goodwill on acquisition of associates	89,569	84,917
	644,940	465,734

Details of the Group's associates as at 31 December 2006 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 distribution of natural gas, coal gas, LPG, metallurgical coke and coke oil
山東百江燃氣有限公司 Shandong Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	48%	Provision of LPG, natural gas and related services and gas pipeline construction

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

	2006 HK$'000	2005 HK$'000
Total assets	2,643,201	2,040,177
Total liabilities	(1,479,272)	(1,262,703)
Net assets	1,163,929	777,474
Revenue	1,677,135	1,425,295
(Loss) profit for the year	(27,377)	44,139

19. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'000
Unlisted shares in the PRC, at cost	**170,528**	189,806

As at the balance sheet date, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. INVENTORIES

	2006 HK$'000	2005 HK$'000
Finished goods	**25,005**	27,852
Consumables	**71,732**	39,013
	96,737	66,865

21. TRADE RECEIVABLES/OTHER FINANCIAL ASSETS

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:

	2006 HK$'000	2005 HK$'000
0 to 90 days	**66,021**	487,560
91 to 180 days	**62,970**	696
181 to 360 days	**3,682**	1,815
Over 360 days	**–**	3,164
	132,673	493,235

The fair values of the Group's trade receivables at 31 December 2006 approximate to the corresponding carrying amounts.

Other financial assets

The bank balances carry interest at prevailing market rates ranges from 3.0% to 5.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

22. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are recoverable within one year/repayable on demand. The amounts due from/to minority shareholders are of a non-trade nature.

The fair values of the amounts due from/to minority shareholders at 31 December 2006 approximate to the corresponding carrying amounts.

23. TRADE PAYABLES/OTHER PAYABLES AND ACCRUED CHARGES

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

	2006	2005
	HK$'000	*HK$'000*
0 to 90 days	**80,366**	233,753
91 to 180 days	**30,384**	4,266
181 to 360 days	**13,954**	2,737
Over 360 days	**26,575**	6,199
	151,279	246,955

The fair values of the Group's trade payables at 31 December 2006 approximate to the corresponding carrying amounts.

During the year, government grant of HK$41,559,000 (2005: nil) for the expansion of natural gas supply system of a subsidiary has been received and included in the consolidated balance sheet under other payables and accrued charges. The amount has been treated as deferred income. The amount will be transferred to income over the estimated useful lives of the relevant assets, while no amount was credited to income in the current year.

24. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2005, the Group entered into two interest rate swaps 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 was estimated at HK$327,680,000 at 31 December 2005. These amounts are based on market prices quoted from financial institutions which were determined with reference to estimated cash flows with appropriate yield curve 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 in the consolidated income statement.

During the current year, the Group early terminated the interest rate swaps arrangements and the loss in changes in fair value of HK$124,151,000 has been recognised in the consolidated income statement by reference to the settlement price of HK$433,612,000 at the time of termination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

25. BORROWINGS

	2006 HK$'000	2005 HK$'000
Bank loans – secured	11,473	20,163
Bank loans – unsecured	24,527	–
Other loans – unsecured	119,823	79,100
Convertible bonds (note a)	349,506	362,116
Guaranteed senior notes (note b)	1,557,386	1,553,926
	2,062,715	2,015,305
Carrying amount repayable:		
On demand or within one year	110,964	86,770
More than one year but not exceeding two years	355,324	48,389
More than two years but not exceeding five years	29,218	360,690
More than five years	1,567,209	1,519,456
	2,062,715	2,015,305
Less: Amount due within one year shown under current liabilities	(110,964)	(86,770)
Amount due after one year	1,951,751	1,928,535

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 convertible bonds were listed on the Luxembourg Stock Exchange. 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), subject to adjustment for, subdivision on consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal amount of the bonds US$43,880,000 (2005: US$47,725,000) 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%. At 31 December 2006, the market value of the convertible bonds amounted to US$48,707,000 (equivalent to approximately of HK$379,913,000). During the year, US$3,845,000 of the convertible bonds were converted into ordinary shares of the Company.

25. BORROWINGS *(continued)*

Notes: (continued)

(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%. At 31 December 2006, the market value of the Guaranteed Senior Notes amounted to US$216,166,000 (equivalent to approximately of HK$1,686,095,000).

(c) The bank and other loans carry fixed interest at a range of 4.0% – 6.0% (2005: 2.0% – 4.8%) per annum.

The fair value of the Group's bank and other borrowings, except to those disclosed above, 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.

26. DEFERRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the current year:

	Intangible assets	
	2006	2005
	HK$'000	*HK$'000*
Acquired on acquisition of subsidiaries during the year	**42,801**	–
Currency realignment	**1,551**	–
Credit to consolidated income statement during the year *(note 12)*	**(1,212)**	–
At 31 December 2006	**43,140**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

27. SHARE CAPITAL

	HK$'000
Authorised:	
2,000,000,000 shares of HK$0.10 each	200,000
Issued and fully paid:	
958,303,336 shares of HK$0.10 each	95,830

A summary of the movements in the issued capital of the Company is as follows:

	Number of shares	***HK$'000***
At 1 January and 31 December 2005	942,250,891	94,225
Issue of shares on exercise of share options	8,169,000	817
Issue of shares on conversion of convertible bonds	7,883,445	788
At 31 December 2006	958,303,336	95,830

During the year ended 31 December 2006, the Company allotted and issued 2,710,000, 4,529,000 and 930,000 shares of HK$0.10 each for cash at the exercise price of HK$0.475, HK$0.940 and HK$3.500 per share respectively as a result of the exercise of share options.

During the year ended 31 December 2006, US$3,845,000 of the issued convertible bonds were converted into 7,883,445 shares of HK$0.10 each of the Company at HK$3.8043 per share.

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

28. RESERVES

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.

29. ACQUISITION OF SUBSIDIARIES

The summary of the acquisition of subsidiaries, the net assets acquired in the transactions and the goodwill or discount arising on acquisitions during the year ended 31 December 2006 is as follows:

(a) On 1 January 2006, the Group acquired 61.67%, 90% and 80% equity interest in Qiqihar Panva Gas Co., Ltd. ("Qiqihar Panva"), Chaoyang Panva Gas Co., Ltd. ("Chaoyang Panva") and Tieling Panva Gas Co., Ltd. ("Tieling Panva"), respectively, at an aggregate consideration of HK$182,583,000.

	Acquirees' carrying amount before acquisition *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Property, plant and equipment	280,371	–	280,371
Prepaid lease payments	30,682	–	30,682
Intangible assets	–	65,154	65,154
Inventories	18,711	–	18,711
Trade receivables	9,381	–	9,381
Other receivables, deposits and prepayments	6,153	–	6,153
Amounts due from minority shareholders	7,650	–	7,650
Bank balances and cash	76,252	–	76,252
Trade payables	(32,461)	–	(32,461)
Other payables and accrued charges	(86,442)	–	(86,442)
Amounts due to shareholders	(1,831)	–	(1,831)
Borrowings	(107,510)	–	(107,510)
Deferred taxation	(973)	(21,501)	(22,474)
	199,983	43,653	243,636
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			(15,678)
			182,583
Satisfied by:			
Cash consideration			163,923
Transfer from available-for-sale investments			18,660
			182,583
Net cash outflow arising on acquisition:			
Cash consideration			163,923
Bank balances and cash acquired			(76,252)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			87,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) On 1 March 2006, the Group acquired 100% equity interest in 深圳北科蘭光能源系統技術有限責任公司 ("Beike Lan Guang Group") at a consideration of HK$85,750,000.

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	105,906	–	105,906
Prepaid lease payments	8,342	–	8,342
Intangible assets	–	37,170	37,170
Inventories	3,510	–	3,510
Trade receivables	353	–	353
Other receivables, deposits and prepayments	60,602	–	60,602
Bank balances and cash	821	–	821
Trade payables	(3,443)	–	(3,443)
Other payables and accrued charges	(102,250)	–	(102,250)
Borrowings	(3,604)	–	(3,604)
Deferred taxation	–	(12,266)	(12,266)
	70,237	24,904	95,141
Minority interests			(5,649)
Discount on acquisition			(3,742)
			85,750
Satisfied by:			
Cash consideration			85,750
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			(821)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			84,929

29. ACQUISITION OF SUBSIDIARIES *(continued)*

(c) On 1 July 2006, the Group acquired 90% equity interest in 阜新百江燃氣有限公司 Fuxin Panva Gas Co., Ltd. ("Fuxin Panva") at a consideration of HK$71,334,000.

	Acquiree's carrying amount before acquisition	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	66,315	–	66,315
Prepaid lease payments	12,792	–	12,792
Intangible assets	–	24,426	24,426
Inventories	2,212	–	2,212
Trade receivables	586	–	586
Other receivables, deposits and prepayments	663	–	663
Amounts due from minority shareholders	10,466	–	10,466
Bank balances and cash	161	–	161
Trade payables	(7,318)	–	(7,318)
Other payables and accrued charges	(13,293)	–	(13,293)
Tax payable	(43)	–	(43)
Borrowings	(4,463)	–	(4,463)
Deferred taxation	–	(8,061)	(8,061)
	68,078	16,365	84,443
Minority interests			(8,444)
Discount on acquisition			(4,665)
			71,334
Satisfied by:			
Cash consideration			51,330
Other payables			20,004
			71,334
Net cash outflow arising on acquisition:			
Cash consideration			51,330
Bank balances and cash acquired			(161)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			51,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29. ACQUISITION OF SUBSIDIARIES *(continued)*

(d) On 1 October 2006, the Group acquired 50% equity interest in 杭州百江液化氣有限公司 Hangzhou Panva LPG Co., Ltd. ("Hangzhou Panva") at a consideration of HK$24,631,000.

The Group controls more than half of its board of directors of Hangzhou Panva and accordingly Hangzhou Panva was regarded as a subsidiary.

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	16,168	–	16,168
Inventories	5,551	–	5,551
Trade receivables	5,925	–	5,925
Other receivables, deposits and prepayments	18,330	–	18,330
Bank balances and cash	7,059	–	7,059
Trade payables	(669)	–	(669)
Other payables and accrued charges	(5,911)	–	(5,911)
	46,453	–	46,453
Minority interests			(23,226)
Goodwill			1,404
Total consideration satisfied by cash			24,631
Net cash outflow arising on acquisition:			
Cash consideration			24,631
Bank balances and cash acquired			(7,059)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			17,572

These transactions have been accounted for by the purchase method of accounting.

The discount on acquisitions of approximately HK$24 million is attributable to the acquisitions of 61.67% equity interest in Qiqihar Panva, 100% equity interest of Beike Lan Guang Group and 90% equity interest in Fuxin Panva. The discount on acquisitions arising from acquisition of subsidiaries was attributable to the ability of the Group in negotiating the agreed terms of transactions with the vendors.

The goodwill on acquisitions of Chaoyang Panva, Tieling Panva and Hangzhou Panva represents value obtainable from synergies with the Group, expertise the Group brings to the proposition and access to respective markets that the acquisitions provide to the Group.

The subsidiaries acquired during the year contributed HK$313,724,000 to the Group's turnover and a profit of HK$29,452,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

29. ACQUISITION OF SUBSIDIARIES *(continued)*

If the acquisitions had been completed on 1 January 2006, total group revenue for the period would have been HK$2,696,535,000 and loss for the year would have been HK$238,825,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

The fair value of the intangible assets acquired, which relates to the exclusive operating rights for city pipeline network, has been determined by reference to professional valuation.

During the year ended 31 December 2005, 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.

	Carrying amount and fair value *HK$'000*
Net assets acquired:	
Property, plant and equipment	145,771
Prepaid lease payments	45,115
Available-for-sale investments	3,977
Inventories	2,366
Trade receivables	290
Other receivables, deposits and prepayments	33,694
Bank balances and cash	16,188
Trade payables	(2,056)
Other payables and accrued charges	(49,698)
Taxation	(516)
Borrowings	(80,259)
	114,872
Minority interests	(24,096)
Goodwill	30,635
Total consideration satisfied by cash	121,411
Net cash outflow arising on acquisition:	
Cash consideration	(121,411)
Bank balances and cash acquired	16,188
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(105,223)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

29. ACQUISITION OF SUBSIDIARIES *(continued)*

The subsidiaries acquired during the year ended 31 December 2005 contributed HK$191,435,000 to the Group's turnover, and HK$106,341,000 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.

30. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2006 *HK$'000*	2005 *HK$'000*
Sinolink Worldwide Holdings Limited *(Note a)*	Licence fee expense	**976**	546
Shenzhen Sinolink Enterprises Co., Limited *(Note b)*	Rental expense	**367**	331

Notes:

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

(b) 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 11.

31. 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:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**7,789**	4,695
In the second to fifth year inclusive	**18,479**	10,251
Over five years	**36,411**	13,424
	62,679	28,370

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

32. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of unpaid capital contribution to investment projects	**–**	146,533
Acquisition of property, plant and equipment	**27,838**	142,030

33. 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 or 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 Worldwide Holdings Limited ("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 Holdings Limited ("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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

33. SHARE OPTIONS *(continued)*

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 GEM 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 be more than 10 years after the date of grant.

No share option is granted under 2005 GEM Share Option Scheme during the year ended 31 December 2006.

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$l per grant.

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	Forfeited during the year	Outstanding at the end of the year	Vested at the end of the year
For the year ended 31 December 2005						
Pre-GEM Listing options	13,870,000	–	–	(1,900,000)	11,970,000	11,970,000
The Scheme						
2001 options *(note 1)*	8,569,000	–	–	(1,770,000)	6,799,000	6,799,000
2004 options *(note 1)*	21,200,000	–	–	–	21,200,000	6,360,000
	43,639,000	–	–	(3,670,000)	39,969,000	25,129,000
Weighted average exercise price	2.036	–	–	0.699	2.159	1.366
For the year ended 31 December 2006						
Pre-GEM Listing options	11,970,000	–	(2,710,000)	–	9,260,000	9,260,000
The Scheme						
2001 options *(note 1)*	6,799,000	–	(4,529,000)	(300,000)	1,970,000	1,970,000
2004 options *(note 1)*	21,200,000	–	(930,000)	(800,000)	19,470,000	11,310,000
New Scheme						
2006 options *(note 2)*	–	5,000,000	–	–	5,000,000	–
	39,969,000	5,000,000	(8,169,000)	(1,100,000)	35,700,000	22,540,000
Weighted average exercise price	2.159	2.810	1.077	2.802	2.477	2.033

33. SHARE OPTIONS *(continued)*

The weighted average closing price of the Company's shares immediately before the date of exercise of 349,000 options on 12 January 2006, 2,070,000 options on 13 February 2006 and 5,750,000 options on 14 December 2006 were HK$3.975, HK$4.050 and HK$4.720 respectively.

The weighted average price of the Company's shares at the date of exercise of 349,000 options on 12 January 2006, 2,070,000 options on 13 February 2006 and 5,750,000 options on 14 December 2006 were HK$3.950, HK$4.000 and HK$4.760 respectively.

Had all the outstanding vested share options been fully exercised on 31 December 2006, the Company would have received cash proceeds of HK$45,835,000 (2005: HK$34,337,000). Details of specific categories of options are as follows:

Option type	**Date of grant**	**Vesting proportion**	**Exercisable period**	**Exercise price** *HK$*
Pre-GEM Listing options	04.04.2001	50%	01.01.2003 – 03.04.2011	0.475
		50%	01.01.2004 – 03.04.2011	0.475
2001 options *(note 1)*	13.11.2001	30%	13.02.2002 – 13.02.2007	0.940
		30%	13.05.2002 – 13.02.2007	0.940
		40%	13.11.2002 – 13.02.2007	0.940
2004 options *(note 1)*	19.11.2004	30%	31.12.2005 – 30.03.2011	3.500
		30%	31.12.2006 – 30.03.2011	3.500
		40%	31.12.2007 – 30.03.2011	3.500
2006 options *(note 2)*	03.10.2006	30%	04.10.2007 – 27.11.2015	2.810
		30%	04.04.2008 – 27.11.2015	2.810
		40%	04.10.2008 – 27.11.2015	2.810

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 during year ended 31 December 2006 is HK$0.94 per share and was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	31.12.2006
Weighted average share price	HK$2.80
Weighted average exercise price	HK$2.81
Expected volatility	30.03%
Expected life	5.0
Risk free rate	3.961%
Expected dividend yield	0%

33. SHARE OPTIONS *(continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expenses of HK$9,288,000 (2005: HK$16,129,000) for the year ended 31 December 2006 in relation to share options granted by the Company.

Notes:

1. The 2001 option and 2004 option represented the share options granted under the Scheme.

2. The 2006 option represented the share options granted under the New Scheme.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34. RETIREMENT BENEFIT 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 charge for the year ended 31 December 2006 amounted to approximately HK$17,807,000 (2005: HK$6,915,000).

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 consolidated 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 2006, the Group made retirement benefit scheme contributions amounting to HK$127,000 (2005: HK$128,000).

35. POST BALANCE SHEET EVENT

Pursuant to a sale and purchase agreement (the "Agreement") entered into by the Company with Hong Kong and China Gas (China) Company Limited ("HK&CG (China)"), a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited ("HKCG"), and HKCG, the Company has agreed to purchase from HK&CG (China) the entire issued share capital of eight companies ("Target Companies") and to purchase and take assignment of the outstanding loans due from the Target Companies to HK&CG (China) or its associates (within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange) as at the completion subject to the terms and conditions of the Agreement (the "Acquisition"). In consideration of the Acquisition, the Company has agreed to allot and issue 772,911,729 ordinary shares of HK$0.10 each in the capital of the Company, each credited as fully paid, to HK&CG (China).

The Target Companies hold, collectively, equity interest varying from 27% to 100% in ten companies established in the PRC. These PRC companies operate in various cities in the PRC including Qingdao, Zibo, Longkou, Weifang, Weihai, Taian, Maanshan and Anqing. They are all engaged in the operation of piped gas assets and related business in the PRC.

Details of the transactions are set out in the circular of the Company dated 30 January 2007. The above transactions were approved by the shareholders of the Company pursuant to the ordinary resolution passed at the extraordinary general meeting of the Company held on 15 February 2007.

The Acquisition was completed on 1 March 2007. Immediately upon completion, HK&CG (China) owns approximately 43.97% of the issued share capital of the Company and becomes the single largest shareholder of the Company.

The Group is in the process of finalising the relevant financial information of these Target Companies and accordingly, the financial impact of the Acquisition to the Group is not disclosed.

36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 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
Panva LPG Investment Holdings Limited	BVI – Limited liability company	US$10,000,000	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

36. 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
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
Chaoyang Panva Gas Co., Ltd. 朝陽百江燃氣有限公司	PRC – Limited liability company	RMB89,248,000	90%	Provision of natural gas and related services and gas pipeline construction
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
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
Fuxin Panva Gas Co., Ltd. 阜新百江燃氣有限公司	PRC – Limited liability company	RMB77,200,000	90%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Panva LPG Co., Ltd. 杭州百江液化氣有限公司	PRC – Limited liability company	RMB50,000,000	50%	Wholesaling and retailing of LPG
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

36. 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
Indirectly-owned subsidiaries *(continued)*				
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
Jinan Panva LPG Co., Ltd. 濟南百江液化氣有限公司	PRC – Limited liability company	RMB20,000,000	70%	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
Pan River Gas (China Southwest) Co., Ltd. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

36. 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
Indirectly-owned subsidiaries *(continued)*				
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 百江投資有限公司	PRC – Limited liability company	US$200,000,000	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 a)	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
Qiqihar Panva Gas Co., Ltd. 齊齊哈爾百江燃氣有限公司	PRC – Limited liability company	RMB80,000,000	61.67%	Provision of natural gas and related services and gas pipeline construction
Qingyuan Panva Gas Co., Ltd. 清遠百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	80%	Provision of natural gas and related services and gas pipeline construction
Shaoguan Panva Gas Co., Ltd. 韶關百江燃氣有限公司	PRC – Limited liability company	RMB20,000,000	100%	Provision of natural gas and related services and gas pipeline construction

36. 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
Indirectly-owned subsidiaries *(continued)*				
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd. 四川省資陽恒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
Tieling Panva Gas Co., Ltd. 鐵嶺百江燃氣有限公司	PRC – Limited liability company	RMB49,210,000	80%	Provision of natural gas and related services and gas pipeline construction
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 b)*	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 c)*	Wholesaling and retailing of LPG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

36. 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
Indirectly-owned subsidiaries *(continued)*				
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
深圳北科蘭光能源系統技術有限責任公司	PRC – Limited liability company	RMB58,000,000	100%	Investment holding

Notes:

a. Southwest Panva holds a 56.94% equity interest.

b. Yangzi Panva holds a 55% equity interest.

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