



Notes to the consolidated financial statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The consolidated financial statements is presented in Hong Kong dollars ("HKD") while the functional currency is Renminbi ("RMB"). The reason for selecting HKD as its presentation currency because the Company is a public company with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The principal activities of the Group are supply of electricity, sale and distribution of liquefied petroleum gas and natural gas ("gas fuel") and construction of gas pipelines.

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 and financial position 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 ²
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁵
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁶
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions ⁷
HK(IFRIC) – INT 12	Service concession arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 March 2006

⁴ Effective for annual periods beginning on or after 1 May 2006

⁵ Effective for annual periods beginning on or after 1 June 2006

⁶ Effective for annual periods beginning on or after 1 November 2006

⁷ Effective for annual periods beginning on or after 1 March 2007

⁸ Effective for annual periods beginning on or after 1 January 2008



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the 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, as explained in the accounting policies 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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

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 acquisition 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 subsidiary 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 periods.

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.

Goodwill arising on acquisition of additional interests in a subsidiary

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



Notes to the consolidated financial statements

For the year ended 31 December 2006

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")

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.

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

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

Investments in associates

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, 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 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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

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 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 electricity supply is recognised when electricity is supplied.

Revenue from gas supply is recognised when gas is used.

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

Sales of securities are recognised when the sale agreement becomes unconditional.

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 accumulated 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.

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.

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 contract 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 an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so 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.

Inventories

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



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Financial assets

The Group's financial assets are mainly classified into one of the three categories, including financial assets held for trading, 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables 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 (including amount receivable, trade receivables, pledged bank deposits, other receivables, amount due from an associate, amounts due from minority shareholders of a subsidiary and bank balances) 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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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.

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/guaranteed senior notes/exchangeable note

Interest-bearing bank 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 a subsidiary of 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 a subsidiary of the Company's own equity instruments is classified as an equity instruments.

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).



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Convertible bonds (continued)

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 a subsidiary of the Company, will remain in convertible bonds reserve until the embedded 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.

Financial liabilities

Financial liabilities including trade, notes and other payables and loan from a minority shareholder of a subsidiary 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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated 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 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 as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other 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)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 bases 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.

Operating leases

Leases are classified as financial 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.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the relevant lease terms. 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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

Retirement benefit costs

Payments to state-managed retirement plans and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to contributions.



Notes to the consolidated financial statements

For the year ended 31 December 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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. Details of the recoverable amount calculation are disclosed in note 19.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, bank balances, trade and other receivables, trade payables, notes payables, other payables and borrowings. 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.

Credit risk

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

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 except for sale of electricity supplies to government department in Shenzhen, PRC, which the management does not expect material credit risk from the balance due. The other exposure spread over a number of counterparties and customers.



Notes to the consolidated financial statements

For the year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

(i) Price risk

The Group is exposed to equity security price risk through its held for trading investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

(ii) Fair value interest rate risk

The Group's bank and other loans are mainly carried at fixed-rate and exposed the Group to fair value interest rate risk (see note 28 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.

6. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover

An analysis of the Group's turnover is as follows:

	2006 HK\$'000	2005 HK\$'000
Supply of electricity	1,161,252	1,292,131
Sale and distribution of gas fuel and related products	2,311,696	980,958
Gas pipeline construction	331,220	547,081
	3,804,168	2,820,170



Notes to the consolidated financial statements

For the year ended 31 December 2006

6. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments

For management purposes, the Group is organised into two operating divisions – electricity supplies and gas fuel business. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Electricity supplies <i>HK\$'000</i>	Gas fuel business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 December 2006			
TURNOVER	<u>1,161,252</u>	<u>2,642,916</u>	<u>3,804,168</u>
RESULT			
Segment result	<u>130,601</u>	<u>64,018</u>	194,619
Other income			98,992
Discount on acquisition of interest in subsidiaries	–	28,585	28,585
Unallocated corporate expenses			(82,705)
Finance costs			(237,072)
Loss on deemed disposal arising from dilution of interest in subsidiaries			(19,460)
Share of results of associates	–	(13,664)	(13,664)
Changes in fair value of derivative financial instruments	–	(118,861)	<u>(118,861)</u>
Loss before taxation			(149,566)
Taxation			<u>(17,879)</u>
Loss for the year			<u>(167,445)</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

6. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	Electricity supplies <i>HK\$'000</i>	Gas fuel business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Year ended 31 December 2005			
TURNOVER	<u>1,292,131</u>	<u>1,528,039</u>	<u>2,820,170</u>
RESULT			
Segment result	<u>124,918</u>	<u>404,245</u>	529,163
Other income			110,248
Unallocated corporate expenses			(100,264)
Finance costs			(150,225)
Share of results of associates	–	6,421	6,421
Changes in fair value of derivative financial instruments	–	(191,205)	(191,205)
Gain on disposal of available-for-sale investments			<u>114,471</u>
Profit before taxation			318,609
Taxation			<u>(33,828)</u>
Profit for the year			<u>284,781</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

6. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Balance sheet

	Electricity supplies <i>HK\$'000</i>	Gas fuel business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 December 2006			
ASSETS			
Segment assets	1,737,387	5,099,221	6,836,608
Interest in associates	–	644,940	644,940
Unallocated corporate assets			<u>1,321,589</u>
Consolidated total assets			<u><u>8,803,137</u></u>
LIABILITIES			
Segment liabilities	(205,352)	(524,537)	(729,889)
Unallocated corporate liabilities			<u>(3,270,278)</u>
Consolidated total liabilities			<u><u>(4,000,167)</u></u>
OTHER INFORMATION			
Capital additions	45,041	742,010	787,051
Goodwill additions	–	12,737	12,737
Intangible asset additions	–	126,750	126,750
Depreciation and amortisation			
– Business segment	86,008	108,691	194,699
– Unallocated	–	–	460
Release of prepaid lease payments	<u>993</u>	<u>4,922</u>	<u>5,915</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

6. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Balance sheet (continued)

	Electricity supplies <i>HK\$'000</i>	Gas fuel business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 December 2005			
ASSETS			
Segment assets	2,058,586	4,558,731	6,617,317
Interest in associates	–	465,734	465,734
Unallocated corporate assets			2,038,296
Consolidated total assets			<u>9,121,347</u>
LIABILITIES			
Segment liabilities	(196,878)	(546,418)	(743,296)
Unallocated corporate liabilities			(3,620,681)
Consolidated total liabilities			<u>(4,363,977)</u>
OTHER INFORMATION			
Capital additions			
– Business segment	214,580	1,715,505	1,930,085
– Unallocated	–	–	580
Goodwill additions			
– Business segment	92,951	1,609,985	1,702,936
– Unallocated	–	–	6,405
Intangible asset additions	–	9,132	9,132
Depreciation and amortisation			
– Business segment	94,418	43,654	138,072
– Unallocated	–	–	598
Release of prepaid lease payments	968	657	1,625
Impairment loss on goodwill			
– Unallocated	–	–	6,405

Geographical segments

As over 90% of the consolidated turnover, trading results and assets for both years are derived from or located in the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.



Notes to the consolidated financial statements

For the year ended 31 December 2006

7. OTHER INCOME

Other income mainly comprised of:

	2006 HK\$'000	2005 HK\$'000
Dividend income		
– listed	189	572
– unlisted	11,083	4,774
	11,272	5,346
Interest income on bank deposits	48,253	52,001
Discount on acquisition of interest in subsidiaries/ additional interest in a subsidiary	28,585	15,168
Gain on fair value change on investments held for trading	20,021	13,074
Gain on disposal of property, plant and equipment, net	1,701	–

8. OTHER EXPENSES

Other expenses mainly comprised of:

	2006 HK\$'000	2005 HK\$'000
Impairment loss recognised in respect of available-for-sale investments	983	–
Allowance for amount due from an associate	108	–
Loss on disposal of property, plant and equipment, net	–	2,387
Impairment loss recognised in respect of goodwill	–	6,405

9. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

During the year ended 31 December 2005, the Group disposed of its 41% equity interests in Xin Hua Control Engineering Company Limited ("Xin Hua"). Xin Hua was classified as available-for-sale investments as the Group did not have any significant influence in Xin Hua.

Included in the consideration with respect to the above disposal is an amount receivable of HK\$24,459,000 bearing interest ranging from 0.25% to 3.00% per annum and shall be received on 31 March 2007 pursuant to the equity transfer agreement. The amount receivable is included in the consolidated balance sheet as a current asset under other receivables, deposits and prepayments as at 31 December 2006. Further details relating to the amount receivable is set out in note 35.

The fair value of the amount receivable as at the balance sheet date approximates to its carrying amount.



Notes to the consolidated financial statements

For the year ended 31 December 2006

10. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	71,969	69,599
Interest on bank and other borrowings not wholly repayable within five years	4,446	–
Interest on convertible bonds	25,097	17,245
Interest on guaranteed senior notes	121,471	77,223
	222,983	164,067
Net interest expense (income) on interest rate swaps	12,874	(6,831)
	235,857	157,236
Less: Amounts capitalised	–	(7,196)
	235,857	150,040
Bank charges	1,215	185
	237,072	150,225

During the year ended 31 December 2005, borrowing costs capitalised arising on borrowings were calculated by applying a capitalisation rate of 5.3% (2006: nil) to expenditure on qualifying assets.



Notes to the consolidated financial statements

For the year ended 31 December 2006

11. (LOSS) PROFIT BEFORE TAXATION

	2006 HK\$'000	2005 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Amortisation of intangible assets (included under administrative expenses)	4,107	400
Auditors' remuneration	7,621	3,154
Depreciation of property, plant and equipment	191,052	138,270
Release of prepaid lease payments	5,915	1,625
Minimum lease payments under operating leases in respect of rented premises	28,765	8,173
Staff costs:		
Retirement benefit scheme contributions	18,695	5,621
Staff costs (including directors' remuneration)	164,100	75,079
Total staff costs	182,795	80,700
Allowance for doubtful debts	40,000	-
Share of tax of associates (included in share of results of associates)	12,597	1,063

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

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

	Year ended 31 December 2006								Total 2006 HK\$'000
	Sun Qiang Chang HK\$'000	Ou Yaping HK\$'000	Xiang Ya Bo HK\$'000	Tang Yui Man Francis HK\$'000	Xu Xinghai HK\$'000	Xin Luo Lin HK\$'000	Lu Yungang HK\$'000	Davin A. Mackenzie HK\$'000	
Fees	-	-	-	-	-	250	250	250	750
Other emoluments									
- salaries and other benefits	-	1,340	1,990	2,900	-	-	-	-	6,230
- contributions to retirement benefit schemes	-	24	100	24	-	-	-	-	148
- share-based payments	2,233	-	-	-	-	-	36	36	2,305
Total emoluments	<u>2,233</u>	<u>1,364</u>	<u>2,090</u>	<u>2,924</u>	<u>-</u>	<u>250</u>	<u>286</u>	<u>286</u>	<u>9,433</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

Year ended 31 December 2005

	Sun Qiang	Ou Yaping	Xiang Ya Bo	Tang Yui Man Francis	Leng Xuesong	Xu Xinghai	Xin Luo Lin	Lu Yungang	Davin A. Mackenzie	Total 2005
	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	-	1,374	3,024	3,609	-	437	-	-	-	8,444
- contributions to retirement benefit schemes	-	19	160	19	-	14	-	-	-	212
- share-based payments	-	-	-	-	-	55	-	63	63	181
Total emoluments	-	1,393	3,184	3,628	-	506	250	313	313	9,587

The five highest paid individuals of the Group included four directors (2005: three directors) of the Company. Details of their emoluments are included above.

The emoluments of the remaining highest paid individuals for the year are set out as follows:

	2006 HK\$'000	2005 HK\$'000
Employees		
Salaries and other benefits	1,480	3,224
Contributions to retirement benefit scheme contributions	9	40
	1,489	3,264

Their emoluments are within the following band:

	2006 Number of employee	2005 Number of employees
Nil to HK\$1,000,000	-	1
HK\$1,000,001 to HK\$2,000,000	1	-
HK\$2,000,001 to HK\$3,000,000	-	1
	1	2

During the year, no emoluments were 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 emoluments during the year.



Notes to the consolidated financial statements

For the year ended 31 December 2006

13. TAXATION

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	17,888	37,252
– under(over)provision in prior years	1,203	(3,424)
	19,091	33,828
Deferred tax credit (<i>note 30</i>)	(1,212)	–
	17,879	33,828

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the relevant entities incurred tax losses in both years. The tax rate applicable for all PRC subsidiaries ranges from 15% to 33%.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%.

Details of deferred taxation are set out in note 30.



Notes to the consolidated financial statements

For the year ended 31 December 2006

13. TAXATION (continued)

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

	2006 HK\$'000	2005 HK\$'000
(Loss) profit before taxation	<u>(149,566)</u>	<u>318,609</u>
Tax (credit) charge at applicable income tax rate (note)	(49,357)	105,141
Tax effect of expenses not deductible for tax purpose	126,389	74,169
Tax effect of income that is not taxable in determining taxable profit	(39,010)	(68,189)
Tax effect of share of results of associates	4,509	(2,119)
Tax effect of tax losses not recognised	18,368	15,243
Effect of tax exemption granted to PRC subsidiaries	(17,408)	(29,822)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	(5,440)	(18,036)
Effect of different tax rates of subsidiaries operating in different provinces	(20,948)	(38,992)
Tax effect of utilisation of tax losses previously not recognised	(427)	(135)
Under(over)provision of taxation in prior years	1,203	(3,424)
Others	<u>-</u>	<u>(8)</u>
Taxation for the year	<u>17,879</u>	<u>33,828</u>

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

14. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Dividend recognised as distribution during the year:		
2005 final of HK1.0 cent (2004: HK3.5 cents) per share	48,376	80,183
2005 interim of HK1.0 cent (2006: nil) per share	<u>-</u>	48,376
2005 special interim of HK1.0 cent (2006: nil) per share	<u>-</u>	48,376
	<u>48,376</u>	<u>176,935</u>

No final dividend was proposed for the year ended 31 December 2006.



Notes to the consolidated financial statements

For the year ended 31 December 2006

15. (LOSS) EARNINGS PER SHARE

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	<u>(79,621)</u>	<u>190,958</u>
Number of shares		
	2006	2005
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>4,837,595,552</u>	3,915,742,543
Effect of dilutive share options	<u>-</u>	<u>38,252,578</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>4,837,595,552</u>	<u>3,953,995,121</u>

No diluted loss per share has been presented for the year ended 31 December 2006 because the potential ordinary shares in issue during the year would result in a decrease in loss per share.



Notes to the consolidated financial statements

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Leasehold improvement	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Construction in progress	Gas pipelines	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1 January 2005	85,924	1,031	2,583	986,060	4,402	247,587	-	1,327,587
Currency realignment	4,070	73	337	29,636	923	7,349	22,280	64,668
Acquired on acquisition of subsidiaries	91,950	3,561	7,514	145,517	21,429	31,654	1,012,356	1,313,981
Additions	21,712	21	2,682	65,152	3,544	203,571	320,002	616,684
Disposals	(11,443)	-	(912)	(11,300)	(2,493)	(2,904)	(233)	(29,285)
Reclassification	5,318	(2,879)	(979)	(4,566)	-	-	3,106	-
Transfer	562	-	-	418,660	-	(423,388)	4,166	-
At 31 December 2005	198,093	1,807	11,225	1,629,159	27,805	63,869	1,361,677	3,293,635
Currency realignment	11,214	-	677	64,148	1,808	2,395	60,981	141,223
Acquired on acquisition of subsidiaries	98,178	-	3,877	73,356	9,165	1,190	282,994	468,760
Additions	48,418	-	13,646	35,205	30,564	25,881	164,577	318,291
Disposals	(7,180)	(1,159)	(1,854)	(3,875)	(8,346)	-	(18,091)	(40,505)
Transfer	-	-	-	-	-	(56,457)	56,457	-
At 31 December 2006	348,723	648	27,571	1,797,993	60,996	36,878	1,908,595	4,181,404
DEPRECIATION								
At 1 January 2005	9,423	86	615	95,159	1,842	-	-	107,125
Currency realignment	493	4	131	4,590	403	-	1,260	6,881
Provided for the year	5,207	605	1,081	97,612	3,242	-	30,523	138,270
Eliminated on disposals	(14)	-	(375)	(1,652)	(846)	-	(6)	(2,893)
Reclassification	238	(148)	(50)	(620)	-	-	580	-
At 31 December 2005	15,347	547	1,402	195,089	4,641	-	32,357	249,383
Currency realignment	1,228	-	350	10,663	838	-	4,176	17,255
Provided for the year	18,637	612	7,023	85,411	12,897	-	66,472	191,052
Eliminated on disposals	(727)	(783)	(655)	(1,111)	(5,231)	-	(85)	(8,592)
At 31 December 2006	34,485	376	8,120	290,052	13,145	-	102,920	449,098
CARRYING VALUES								
At 31 December 2006	<u>314,238</u>	<u>272</u>	<u>19,451</u>	<u>1,507,941</u>	<u>47,851</u>	<u>36,878</u>	<u>1,805,675</u>	<u>3,732,306</u>
At 31 December 2005	<u>182,746</u>	<u>1,260</u>	<u>9,823</u>	<u>1,434,070</u>	<u>23,164</u>	<u>63,869</u>	<u>1,329,320</u>	<u>3,044,252</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

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

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

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

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

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006 HK\$'000	2005 HK\$'000
Leasehold land outside Hong Kong with medium-term leases	195,335	125,782
Analysed for reporting purposes:		
Non-current portion	189,730	122,088
Current portion	5,605	3,694
	195,335	125,782



Notes to the consolidated financial statements

For the year ended 31 December 2006

18. INTANGIBLE ASSETS

	HK\$'000
COST	
At 1 January 2005	–
Currency realignment	260
Acquired on acquisition of subsidiaries (note 34)	<u>9,132</u>
At 31 December 2005	9,392
Currency realignment	5,012
Acquired on acquisition of subsidiaries (note 34)	<u>126,750</u>
At 31 December 2006	<u>141,154</u>
AMORTISATION	
At 1 January 2005	–
Currency realignment	23
Provided for the year	<u>400</u>
At 31 December 2005	423
Currency realignment	97
Provided for the year	<u>4,107</u>
At 31 December 2006	<u>4,627</u>
CARRYING VALUES	
At 31 December 2006	<u><u>136,527</u></u>
At 31 December 2005	<u><u>8,969</u></u>

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



Notes to the consolidated financial statements

For the year ended 31 December 2006

19. GOODWILL

	HK\$'000
COST	
At 1 January 2005	223,629
Arising on acquisition of subsidiaries (<i>note 34</i>)	1,586,342
Arising on acquisition of additional interest in subsidiaries	122,999
Currency realignment	292
	<hr/>
At 31 December 2005	1,933,262
Arising on acquisition of subsidiaries (<i>note 34</i>)	12,737
Eliminated on deemed disposal of interest in subsidiaries	(25,921)
Currency realignment	491
	<hr/>
At 31 December 2006	<u>1,920,569</u>
IMPAIRMENT	
At 1 January 2005	–
Impairment loss recognised for the year	(6,405)
	<hr/>
At 31 December 2005 and 31 December 2006	<u>(6,405)</u>
CARRYING VALUES	
At 31 December 2006	<u><u>1,914,164</u></u>
At 31 December 2005	<u><u>1,926,857</u></u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2006 HK\$'000	2005 HK\$'000
Electricity supplies	316,580	316,580
Gas fuel business	1,597,584	1,610,277
Others	6,405	6,405
	<hr/>	<hr/>
	1,920,569	1,933,262
Impairment loss recognised - others	(6,405)	(6,405)
	<hr/>	<hr/>
	<u><u>1,914,164</u></u>	<u><u>1,926,857</u></u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

19. GOODWILL *(continued)*

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 5 years and extrapolates cash flows for the following 15 years based on an estimated steady growth rate of 3% and 3% – 5% for electricity supplies and gas fuel business respectively. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 12%.

During the year ended 31 December 2005, the Group recognised an impairment loss of HK\$6,405,000 (2006: nil) in relation to goodwill arising in acquisition of Beijing Zhonglian Far East Engineering & Project Management Consulting Service Co., Ltd. in respect of the keen competition of the market.

20. 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



Notes to the consolidated financial statements

For the year ended 31 December 2006

20. INTEREST IN ASSOCIATES *(continued)*

Details of the Group's principal associates as at 31 December 2006 are as follows:

Name of associate	Place of establishment and operation	Percentage of equity interest attributable to the Group	Principal activities
Changchun Gas Holdings Limited 長春燃氣控股有限公司	PRC – Sino-foreign equity joint venture	48%	Provision and distribution of natural gas, coal gas, LP Gas, metallurgical coke and coke oil
Foshan Panva Gas Co., Ltd. 佛山市燃氣集團有限公司	PRC – Sino-foreign equity joint venture	45%	Provision of LP Gas, natural gas and related services and gas pipeline construction
Shangdong Panva Gas Co., Ltd. 山東百江燃氣有限公司	PRC – Sino-foreign equity joint venture	48%	Provision of LP Gas, 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	909,199
(Loss) profit for the year	(27,377)	13,723



Notes to the consolidated financial statements

For the year ended 31 December 2006

21. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK\$'000	2005 HK\$'000
Unlisted shares in the PRC, at cost	171,511	189,805
Club debentures, at cost	1,486	1,486
	172,997	191,291
Less: Impairment	(983)	–
	172,014	191,291

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.

In 2005, the Group disposed of certain unlisted shares with carrying amount of HK\$163,019,000, which had been carried at cost less impairment before the disposal. A gain on disposal of HK\$114,471,000 has been recognised in profit or loss for the year ended 31 December 2005.

During the year ended 31 December 2006, an impairment loss of HK\$983,000 on certain of its unlisted shares in the PRC was recognised by reference to the recoverable amount of the investment.

22. INVESTMENTS HELD FOR TRADING

	2006 HK\$'000	2005 HK\$'000
Investments held for trading, at fair value		
Listed shares in PRC or Hong Kong	11,555	9,938
Unit funds	83,399	144,561
	94,954	154,499

The fair values of the above held for trading investments relating to listed shares and managed funds are determined based on the quoted market bid prices of underlying securities available on the relevant exchanges and market value provided by the financial institutions respectively.



Notes to the consolidated financial statements

For the year ended 31 December 2006

23. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Fuel oil	135,862	125,023
Gas fuel	25,005	27,852
Consumables	71,732	39,014
	<hr/> 232,599 <hr/>	<hr/> 191,889 <hr/>

24. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

An analysis of the balance of trade and other receivables, deposits and prepayments is as follows:

	2006 HK\$'000	2005 HK\$'000
Trade receivables	218,769	650,186
Other receivables, deposits and prepayments	479,675	757,027
	<hr/> 698,444 <hr/>	<hr/> 1,407,213 <hr/>

The fair values of the Group's trade and other receivables at the balance sheet date approximate to their carrying amounts.

At 31 December 2006, included in other receivables is amount receivable of HK\$24,459,000 (2005: nil) bearing interest ranging from 0.25% to 3.00% per annum (also see note 9).

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

	2006 HK\$'000	2005 HK\$'000
0 – 90 days	152,029	644,463
91 – 180 days	62,970	696
181 – 360 days	3,682	1,815
Over 360 days	88	3,212
	<hr/> 218,769 <hr/>	<hr/> 650,186 <hr/>

The Group allows an average credit period ranging from 0 – 90 days to its customers.



Notes to the consolidated financial statements

For the year ended 31 December 2006

25. AMOUNT DUE FROM AN ASSOCIATE, AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY/ LOANS FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

Amount due from an associate and amounts due from minority shareholders of a subsidiary are unsecured, interest free and repayable within one year from the balance sheet date.

Loans from minority shareholders of a subsidiary are unsecured, interest free and repayable on demand.

The fair values of the above amounts at the balance sheet date approximate to their carrying amounts.

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits carry interest at variable rate ranging from 0.72% to 1.15% per annum. The fair value of the pledged bank deposits at 31 December 2006 approximates to its carrying amount.

Bank balances carry interest at variable rate ranging from 1.85% to 5.33% per annum. The fair values of the bank balances and cash at 31 December 2006 approximate to their carrying amounts.

27. TRADE, NOTES AND OTHER PAYABLES

Included in trade, notes and other payables are trade payables of HK\$258,019,000 (2005: HK\$301,299,000), the aged analysis of which is as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 90 days	184,242	282,518
91 – 180 days	33,199	9,797
181 – 360 days	13,954	2,785
Over 360 days	26,624	6,199
	<u>258,019</u>	<u>301,299</u>

The fair values of the Group's trade, notes and other payables at the balance sheet date approximate to their carrying amounts.



Notes to the consolidated financial statements

For the year ended 31 December 2006

28. BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Borrowings comprise the following:		
Bank loans – secured	507,042	633,860
Bank loans – unsecured	520,050	535,509
Other loans – unsecured	119,823	79,100
Exchangeable note (<i>note a</i>)	–	61,235
Convertible bonds (<i>note b</i>)	349,506	362,116
Guaranteed senior notes (<i>note c</i>)	1,606,720	1,613,126
	<u>3,103,141</u>	<u>3,284,946</u>
The maturity of the above borrowings is as follows:		
On demand or within one year	602,042	602,668
More than one year but not more than two years	567,795	303,437
More than two years but not more than three years	191,573	586,946
More than three years but more than four years	107,908	146,383
More than four years but not more than five years	17,281	66,701
More than five years	1,616,542	1,578,811
	<u>3,103,141</u>	<u>3,284,946</u>
Less: Amount due within one year shown under current liabilities	<u>(602,042)</u>	<u>(602,668)</u>
Amount due after one year	<u>2,501,099</u>	<u>2,682,278</u>

Notes:

- (a) The exchangeable note of HK\$62,500,000 was issued on 30 October 2004 by a subsidiary of the Company which was acquired during 2005. The exchangeable note can be exchangeable into shares of Panva Gas Holdings Limited ("Panva Gas") from the date of issue up to the second anniversary of the date of issue on 30 October 2006 at par at the discretion of note holder. Interest is payable at 2% per annum. The effective interest rate of the exchangeable note is 3.23%. The exchangeable note was fully repaid during the year ended 31 December 2006.



Notes to the consolidated financial statements

For the year ended 31 December 2006

28. BORROWINGS (continued)

Notes: (continued)

- (b) The convertible bonds of US\$50,000,000 were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of Panva Gas on or after 7 June 2003 and up to 9 April 2008. The convertible bonds were listed on the Luxemburg Stock Exchange. The conversion price at which each share shall be issued upon conversion was HK\$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for, subsidiaries 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 Panva Gas.
- (c) 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, Panva Gas 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 Panva Gas'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).
- (d) The bank and other loans carry fixed interest, 6 month London Interbank Offered Rate or 5-year PRC bank interest at a range of 2.0% – 8.0% (2005: 2.0% – 4.8%) per annum.

The fair values of the Group's bank and other borrowings except to those disclosed above, approximate to their carrying amounts calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

At 31 December 2006, bank deposits of HK\$20,038,000 (2005: HK\$40,326,000), and property, plant and equipment with an aggregate carrying amount of HK\$750,579,000 (2005: HK\$852,295,000) were pledged to banks to secure general banking facilities granted to the Group.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 HK\$'000	2005 HK\$'000
Fair value hedges - interest rate swaps (note a)	-	327,680
Conversion option under exchangeable note (note b)	-	5,290
	<hr/>	<hr/>
	-	332,970
	<hr/> <hr/>	<hr/> <hr/>



Notes to the consolidated financial statements

For the year ended 31 December 2006

29. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Notes:

(a) Fair value hedges

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 of HK\$191,205,000 have been recognised in the consolidated income statement during the year ended 31 December 2005.

At 31 December 2005, bank deposits of HK\$202,916,000 were pledged to banks to secure interest rate swaps.

During the year ended 31 December 2006, the Group early terminated the interest rate swaps arrangement and 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 at the time of termination.

- (b) The exchangeable note of HK\$62,500,000 was issued on 30 October 2004 by a subsidiary of the Company which was acquired during 2005. The exchangeable note can be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue on 30 October 2006 at par at the discretion of note holder. The fair value of the derivative was calculated using the Black-Scholes pricing model. The derivative was measured at fair value at each balance sheet date. Upon the repayment of exchangeable note during the year, the gain in changes in fair value of these conversion option was recognised in the consolidated income statement.



Notes to the consolidated financial statements

For the year ended 31 December 2006

30. DEFERRED TAXATION

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

	Intangible assets	
	2006 HK\$'000	2005 HK\$'000
Acquired on acquisition of subsidiaries during the year (note 34)	42,801	–
Currency realignment	1,551	–
Credited to the consolidated income statement during the year (note 13)	(1,212)	–
At end of the year	<u>43,140</u>	<u>–</u>

Deferred tax asset has not been recognised in the consolidated financial statements in respect of the estimated tax losses of approximately HK\$169,910,000 (2005: HK\$128,470,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK\$60,177,000 (2005: HK\$60,177,000) that may be carried forward indefinitely. The remaining unrecognised tax losses will be expired within five years.

31. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year	7,500,000,000	5,000,000,000	75,000	50,000
Increase in authorised share capital (note a)	–	2,500,000,000	–	25,000
At end of the year	<u>7,500,000,000</u>	<u>7,500,000,000</u>	<u>75,000</u>	<u>75,000</u>
Issued and fully paid:				
At beginning of the year	4,837,583,112	2,290,933,904	48,376	22,909
Issue of shares (note a)	–	2,540,915,880	–	25,409
Exercise of share options (note b)	1,333,333	5,733,328	14	58
Repurchase of shares (note c)	(9,063,000)	–	(91)	–
At end of year	<u>4,829,853,445</u>	<u>4,837,583,112</u>	<u>48,299</u>	<u>48,376</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

31. SHARE CAPITAL *(continued)*

Notes:

- (a) Pursuant to a resolution passed at the special general meeting held on 2 June 2005, the share capital of the Company was changed as follows:
- The authorised share capital of the Company was increased from HK\$50,000,000 to HK\$75,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK\$0.01 each.
 - The issue of 2,540,915,880 ordinary shares of HK\$0.01 each of the Company at HK\$0.91 per share for the acquisition of the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All Investments Limited ("Supreme All") from Sinolink. Kenson and Supreme All both hold equity interests in Panva Gas.
- (b) During the year ended 31 December 2006, the Company allotted and issued a total of 1,333,333 shares of HK\$0.01 each for cash at an exercise price of HK\$0.44 per share as a result of the exercise of share options.
- (c) During the year ended 31 December 2006, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each	Price per share HK\$	Aggregate consideration paid HK\$'000
December 2006	9,063,000	0.67	6,073

The above shares were cancelled upon repurchase. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

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

32. SHARE OPTION SCHEMES

Share option scheme of the Company

The Company has a share option scheme (the "1993 Scheme") under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries, to subscribe for shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme is the higher of the nominal value of the shares and 80 per cent of the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant and option.



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES (continued)

Share option scheme of the Company (continued)

Pursuant to an ordinary resolution passed on the special general meeting held on 24 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years. The Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. The exercise price is the highest of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the share of the Company.

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year ended 31 December 2006 and 2005:

Option scheme	Number of the share options						
	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2006	Vested at the end of the year
	2002 Scheme	90,978,672	6,000,000	(1,333,333)	(9,000,000)	-	86,645,339
Weighted average exercise price	HK\$0.51	HK\$0.64	HK\$0.46	HK\$0.57	N/A	HK\$0.51	HK\$0.51

Option scheme	Number of the share options						
	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Forfeited during the year	Cancelled during the year	Outstanding at 31.12.2005	Vested at the end of the year
	1993 Scheme	26,250,000	-	-	(26,250,000)	-	-
2002 Scheme	88,812,000	15,000,000	(5,733,328)	(5,000,000)	(2,100,000)	90,978,672	73,111,987
	115,062,000	15,000,000	(5,733,328)	(31,250,000)	(2,100,000)	90,978,672	73,111,987
Weighted average exercise price	HK\$0.47	HK\$0.83	HK\$0.44	HK\$0.53	HK\$0.44	HK\$0.51	HK\$0.52



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(continued)*

Share option scheme of the Company *(continued)*

The weighted average closing price of the Company's shares immediately before the date of exercise of 1,333,333 options on 14 December 2006 was HK\$0.56.

The weighted average price of the Company's shares at the date of exercise of 1,333,333 options on 14 December 2006 was HK\$0.56.

Had all the outstanding vested share options been fully exercised on 31 December 2006, the Company would have received cash proceeds of HK\$42,791,000 (2005: HK\$38,157,000).

Details of specific categories of options are as follows:

Option scheme	Date of grant	Vesting proportion	Exercisable period	Exercise price
2002 Scheme	9.6.2004	64%	9.6.2004 – 8.6.2014	0.44
		14%	9.6.2005 – 8.6.2014	0.44
		11%	9.6.2006 – 8.6.2014	0.44
		11%	9.12.2006 – 8.6.2014	0.44
	20.10.2004	100%	20.10.2005 – 19.10.2015	0.50
	20.12.2005	100%	20.12.2005 – 7.12.2015	0.83
	30.6.2006	33%	30.6.2007 – 24.5.2012	0.46
		33%	30.6.2008 – 24.5.2012	0.46
		34%	31.12.2008 – 24.5.2012	0.46

During the year, options were granted on 30 June 2006. The estimated fair value of the options granted on the date was HK\$0.47. In 2005, options were granted on 20 December 2005. The estimated fair value of the options granted on that date was HK\$0.80.

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	30 June 2006	20 December 2005
Weighted average share price	HK\$0.47	HK\$0.80
Weighted average exercise price	HK\$0.46	HK\$0.83
Expected volatility	41%	38%
Expected life	4.5 – 5 years	10 years
Risk free rate	4.43%	4.18%
Expected dividend yield	2.13%	6.88%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediate preceding the grant date.

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



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme of Panva Gas

Panva Gas's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "2001 Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to Panva Gas's 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 2001 Scheme, the Board of Directors of Panva Gas may grant options to its eligible employees, including executive directors of Panva Gas or any of its subsidiaries, to subscribe for shares in Panva Gas.

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

The 2005 GEM Share Option Scheme has replaced the 2001 Scheme that there will be no options granted under the 2001 Scheme in the future but the options granted shall continue to be valid and exercisable during its life in accordance with their terms of issue. The provision of the 2001 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 of Panva Gas, which shall not 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\$1 per option.



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme of Panva Gas *(continued)*

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

	Number of share options					
	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2006	Vested at the end of the year
Pre-GEM Listing options	11,970,000	-	(2,710,000)	-	9,260,000	9,260,000
2001 options	6,799,000	-	(4,529,000)	(300,000)	1,970,000	1,970,000
2004 options	21,200,000	-	(930,000)	(800,000)	19,470,000	11,310,000
2006 options	-	5,000,000	-	-	5,000,000	-
	<u>39,969,000</u>	<u>5,000,000</u>	<u>(8,169,000)</u>	<u>(1,100,000)</u>	<u>35,700,000</u>	<u>22,540,000</u>
Weighted average exercise price	<u>HK\$2.159</u>	<u>HK\$2.810</u>	<u>HK\$1.077</u>	<u>HK\$2.802</u>	<u>HK\$2.477</u>	<u>HK\$2.033</u>

	Number of share options					
	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2005	Vested at the end of the year
Pre-GEM Listing options	13,870,000	-	-	(1,900,000)	11,970,000	11,970,000
2001 options	8,569,000	-	-	(1,770,000)	6,799,000	6,799,000
2004 options	21,200,000	-	-	-	21,200,000	6,360,000
	<u>43,639,000</u>	<u>-</u>	<u>-</u>	<u>(3,670,000)</u>	<u>39,969,000</u>	<u>25,129,000</u>
Weighted average exercise price	<u>HK\$2.036</u>	<u>-</u>	<u>-</u>	<u>HK\$0.699</u>	<u>HK\$2.159</u>	<u>HK\$1.366</u>

The weighted average closing price of Panva Gas'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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme of Panva Gas *(continued)*

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	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	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	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%

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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(continued)*

Share Option Scheme of Panva Gas *(continued)*

The Group recognised total expenses of HK\$12,168,000 (2005: HK\$7,017,000) related to equity-settled share-based payment transactions during the year.

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.

33. 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.



Notes to the consolidated financial statements

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34. ACQUISITION OF SUBSIDIARIES

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 approximately HK\$183 million.

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u>199,983</u>	<u>43,653</u>	243,636
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			(15,678)
			<u>182,583</u>
Satisfied by:			
Cash consideration			163,923
Transfer from available-for-sale investments			18,660
			<u>182,583</u>
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			<u>87,671</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES *(continued)*

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 approximately HK\$86 million.

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u>70,237</u>	<u>24,904</u>	95,141
Minority interests			(5,649)
Discount on acquisition			<u>(3,742)</u>
			<u>85,750</u>
Satisfied by:			
Cash consideration			<u>85,750</u>
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			<u>(821)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>84,929</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES (continued)

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

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
Taxation	(43)	–	(43)
Borrowings	(4,463)	–	(4,463)
Deferred taxation	–	(8,061)	(8,061)
	<u>68,078</u>	<u>16,365</u>	<u>84,443</u>
Minority interests			(8,444)
Discount on acquisition			<u>(4,665)</u>
			<u>71,334</u>
Satisfied by:			
Cash consideration			51,330
Other payables			<u>20,004</u>
			<u>71,334</u>
Net cash outflow arising on acquisition:			
Cash consideration			51,330
Bank balances and cash acquired			<u>(161)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>51,169</u>



Notes to the consolidated financial statements

For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES *(continued)*

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\$25 million. The Group controls more than half of its board of directors of Hangzhou Panva and accordingly Hangzhou Panva was regarded as a subsidiary.

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u>46,453</u>	<u>–</u>	<u>46,453</u>
Minority interests			(23,226)
Goodwill			<u>1,404</u>
			<u>24,631</u>
Satisfied by:			
Cash consideration			<u>24,631</u>
Net cash outflow arising on acquisition:			
Cash consideration			24,631
Bank balances and cash acquired			<u>(7,059)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>17,572</u>

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.



Notes to the consolidated financial statements

For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES *(continued)*

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\$314 million to the Group's turnover and a profit of HK\$29 million to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total group turnover for the year would have been approximately HK\$3,808 million and loss for the year would have been approximately HK\$100 million. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations 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 valuations.

During the year ended 31 December 2005, the Group acquired 100% equity interest of Kenson and Supreme All, 80% of the registered capital of Benxi Panva and 70% of the registered capital of Beijing Zhonglian for aggregate cash and share consideration of approximately HK\$2,399 million. Kenson and Supreme All together hold 58.45% interests in Panva Gas. The consideration for the acquisition of Kenson and Supreme All was calculated with reference to the market value of the share of Panva Gas on 2 June 2005. The details of the acquisition of Kenson and Supreme All are set out in the circular of the Company dated 17 May 2005. These transactions have been accounted for by the purchase method of accounting.



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For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES *(continued)*

	Kenson, Supreme All and Panva Gas	Benxi Panva	Beijing Zhonglian
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	1,219,695	93,836	450
Prepaid lease payments	45,509	36,500	–
Interest in associates	439,926	–	–
Intangible assets	9,132	–	–
Available-for-sale investments	215,248	3,977	–
Pledged bank deposits	136,568	–	–
Bank balances and cash	1,344,219	15,341	7,598
Inventories	59,240	1,833	–
Trade and other receivables	721,640	18,448	3,260
Trade and other payables	(278,641)	(18,639)	(3,383)
Taxation	(52,389)	–	–
Borrowings*	(2,034,631)	(68,255)	–
Derivative financial instruments	(122,281)	–	–
	<u>1,703,235</u>	<u>83,041</u>	<u>7,925</u>
Net assets acquired			
Minority interests	(962,266)	(16,608)	(2,377)
Goodwill arising on acquisition	1,571,265	8,672	6,405
	<u>2,312,234</u>	<u>75,105</u>	<u>11,953</u>
Total consideration:			
Satisfied by cash	–	75,105	11,953
Satisfied by issue of shares	2,312,234	–	–
	<u>2,312,234</u>	<u>75,105</u>	<u>11,953</u>
Net cash (inflow) outflow arising on acquisition			
Cash consideration	–	75,105	11,953
Bank balances and cash acquired	(1,344,219)	(15,341)	(7,598)
	<u>(1,344,219)</u>	<u>(15,341)</u>	<u>(7,598)</u>
Net cash (inflow) outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(1,344,219)</u>	<u>59,764</u>	<u>4,355</u>

* The acquiree's carrying amount of net assets immediate before acquisition approximates to its fair value except for the fair value adjustment of increasing the guaranteed senior notes issued by Panva Gas of approximately HK\$59 million.



Notes to the consolidated financial statements

For the year ended 31 December 2006

34. ACQUISITION OF SUBSIDIARIES *(continued)*

The goodwill arising on the acquisition of Panva Gas, Benxi Panva and Beijing Zhonglian is attributable to the anticipated profitability of sales and distribution of gas fuel and related products and the gas pipeline construction operations and consulting services respectively.

From 13 June 2005 to 11 July 2005, the Group further acquired 2.12% equity interest of Panva Gas for cash consideration of approximately HK\$62 million. The increase in goodwill and decrease in minority interests arising on the further acquisition amounted to approximately HK\$30 million and HK\$32 million respectively.

On 23 June 2005, the Group further acquired the 30% equity interest of Shenzhen Fuhuade Electric Power Co., Ltd. ("Shenzhen Fuhuade"), for a cash consideration of approximately HK\$234 million. Upon completion of the acquisition, Shenzhen Fuhuade became an indirect wholly owned subsidiary of the Company. The increase in goodwill arising from this further acquisition amounted to approximately HK\$93 million.

Panva Gas contributed HK\$1,528 million revenue and HK\$134 million to the Group's profit before tax for the period between the date of acquisition and 31 December 2005.

Benxi Panva and Beijing Zhonglian have no material contribution to the Group's turnover and profit before tax for the period between the date of acquisition and 31 December 2005.

If the acquisition had been completed on 1 January 2005, total Group revenue for the year would have been approximately HK\$3,616 million and profit for the year ended 31 December 2005 attributable to equity holders of the Company would have been approximately HK\$282 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.



Notes to the consolidated financial statements

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35. CONTINGENT LIABILITIES

- (i) In August 2003, a supplier filed an application of arbitration against Shenzhen Fuhuade, a subsidiary of the Company in respect of a claim for extra contract sum due to the additional work involved during the installation of the new generating units. The extra contract sum claimed, together with interest thereon, amounts to approximately HK\$28,015,000 (2005: HK\$28,015,000). Shenzhen Fuhuade has instructed a firm of lawyers to act on its behalf in respect of the arbitration. Although the arbitration was terminated by the court during the year, the supplier filed an appeal against it. Shenzhen Fuhuade was strongly resisting this claim and, accordingly, no provision for the amount claimed has been made by the Group as at 31 December 2005 and 2006.

- (ii) During the year ended 31 December 2005, the Company disposed of its 41% equity interest in Xin Hua to a third party ("the Buyer") (see note 9). A portion of the consideration in respect of such disposal of approximately HK\$24,459,000 was paid into the accounts of an escrow agent ("Escrow Agent") and shall be released to the Company on 31 March 2007, unless the Escrow Agent shall before such date receive a certificate from the Buyer of its objection to release such amount and request such amount to be released back to the Buyer.

The Company and the Escrow Agent have received such certificate dated 7 March 2007 from the Buyer and a claim against the sellers (including the Company) of US\$12,226,000. Under the equity transfer agreement, the maximum liability of the Company shall not exceed 37.3% of the relevant damage or its portion of escrow money of US\$3,196,000 (equivalent to approximately HK\$24,459,000), whichever is lower.

The Company has sent to the Escrow Agent a certificate objecting the transfer of the escrow money to the Buyer, and has sent to the Buyer a notice that the Company is disputing the Buyer's claim. The Company was in the process of gathering further details of the Buyer's claim. The Company did not see any grounds for withholding its portion of escrow money on the maturity date and, accordingly, the management takes the view that no contingency arises for which a provision is required to be made nor no allowance is required to be made to the amount receivable included in the consolidated financial statements as at 31 December 2006.



Notes to the consolidated financial statements

For the year ended 31 December 2006

36. OPERATING LEASE ARRANGEMENT

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

	2006 HK\$'000	2005 HK\$'000
Within one year	7,789	5,109
In the second to fifth year inclusive	18,479	10,251
Over five years	36,411	13,424
	62,679	28,784

Leases are negotiated for terms up to 20 years.

37. CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	44,529	142,030
– unpaid capital contribution to investment projects	–	146,533
	44,529	288,563

38. RETIREMENT BENEFIT SCHEMES

In December 2000, the Group enrolled all non-PRC employees in a Mandatory Provident Fund ("MPF") Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the consolidated income statement represents contributions paid and payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

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.

During the year ended 31 December 2006, the total expense recognised in the consolidated income statement are HK\$18,695,000 (2005: HK\$5,621,000).



Notes to the consolidated financial statements

For the year ended 31 December 2006

39. RELATED PARTY TRANSACTIONS

During the year, the Group paid office expenses of HK\$1,924,000 (2005: HK\$1,266,000) to Sinolink. The office expense is determined with reference to actual costs incurred.

Details of balances with related parties and other transactions with related parties are also set out in other notes to the consolidated financial statements.

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

40. POST BALANCE SHEET EVENT

On 4 December 2006, Panva Gas entered into a sale and purchase agreement (the "Agreement") with Hong Kong and China Gas (China) Company Limited ("HK&CG (China)"), a wholly owned subsidiary of Hong Kong and China Gas Company Limited ("HKCG"). Pursuant to the Agreement, Panva Gas has conditionally agreed to purchase from HK&CG (China) the entire issued share capital of certain companies which hold, collectively, equity interests varying from 27% to 100% in ten PRC companies engaging in the operation of piped gas assets and related business in the PRC and to purchase and take assignment of the outstanding loans due from these to be acquired companies to HK&CG (China) or its associates as at the completion subject to the terms and conditions of the Agreement. In consideration for the above Transaction, Panva Gas has agreed to allot and issue 772,911,729 ordinary shares of HK\$0.10 each in the capital of Panva Gas, each credited as fully paid, to HK&CG (China). Upon the completion of the above transactions, the shareholding of the Company in Panva Gas will be diluted. Accordingly, Panva Gas will cease to be a subsidiary and become an associate of the Company.

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 special general meeting of the Company held on 15 February 2007 and the shareholders of Panva Gas pursuant to the ordinary resolutions passed at the extraordinary general meeting of Panva Gas held on the same date.

The above transactions were completed on 1 March 2007. Immediately upon completion, HK&CG (China) owns approximately 43.97% of the issued share capital of Panva Gas and becomes the single largest shareholder of Panva Gas.

The Group is in the process of finalising the relevant financial information of these certain companies, and accordingly, the financial impact of the above transactions to the Group is not disclosed.



Notes to the consolidated financial statements

For the year ended 31 December 2006

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Electricity supplies division					
Ace Energy Holdings Limited	British Virgin Islands ("BVI") – Limited liability company	US\$1	100	–	Investment holding
Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Ltd. 北京中聯遠東工程管理諮詢有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	–	70	Management services and technical consultancy
Enerchina Investments Limited	BVI – Limited liability company	US\$1	100	–	Investment holding
Enerchina Oil and Petrochemical Company Limited	BVI – Limited liability company	HK\$2	100	–	Procurement of fuel oil
Enerchina Resources Limited	Hong Kong – Limited liability company	HK\$2	100	–	Provision of management services
Goodunited Holdings Limited	BVI – Limited liability company	US\$1	–	100	Investment holding
Hanka Limited	Hong Kong – Limited liability company	HK\$2	50	50	Holding of club membership
Kenson Investment Limited	BVI – Limited liability company	US\$1	100	–	Investment holding
Rado International Limited	BVI – Limited liability company	US\$1	100	–	Investment holding



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Electricity supplies division <i>(continued)</i>					
Roxy Link Limited	BVI – Limited liability company	HK\$2	–	100	Investment holding
Shenzhen Fuhuade Electric Power Co., Ltd. 深圳福華德電力有限公司	PRC – Sino-foreign equity joint venture	RMB224,500,000	–	100	Electricity supplies
Sinolink Electric Power Company Limited 百仕達電力有限公司	Hong Kong – Limited liability company	HK\$2 ordinary shares and \$100,000 non-voting deferred shares	–	100	Investment holding
Sinolink Industrial Limited	BVI – Limited liability company	US\$50,001	100	–	Investment holding
Supreme All Investments Limited	BVI – Limited liability company	US\$1	100	–	Investment holding
Gas fuel business division					
Benxi Panva Gas Co., Ltd.* 本溪百江燃氣有限公司	PRC – Limited liability company	RMB97,824,900	–	47.64	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	–	59.56	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	–	35.73	Wholesaling and retailing of LPG



Notes to the consolidated financial statements

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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division (continued)					
Chaoyang Panva Gas Co., Ltd.* 朝陽百江燃氣有限公司	PRC – Limited liability company	RMB89,248,000	–	53.60	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	–	35.73	Wholesaling and retailing of LPG
China Overlink Holdings Co., Limited*	BVI – Limited liability company	US\$1	–	59.56	Investment holding
China Pan River Group Ltd.*	BVI – Limited liability company	US\$12,821	–	59.56	Investment holding
Dayi Panva Gas Co., Ltd.* 大邑百江燃氣有限公司	PRC – Limited liability company	RMB3,300,000	–	59.56	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	–	53.60	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	–	29.78	Wholesale and retailing of LPG
Jiayang Panva Gas Co., Ltd.* 簡陽百江燃氣有限公司	PRC – Limited liability company	RMB1,790,000	–	59.56	Provision of natural gas and related services and gas pipeline construction



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division <i>(continued)</i>					
Jinan Panva Gas Co., Ltd.* 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	–	30.37	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	–	41.69	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	–	59.56	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	–	32.76	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	–	59.56	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	–	50.62	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	–	50.03	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	–	32.76	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	–	35.73	Wholesaling and retailing of LPG



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division (continued)					
Pan River Gas (China Southwest Co., Ltd.* ("Southwest Panva") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	–	29.84	Wholesaling and retailing of LPG
Pan River Gas (Zunyi) Co., Ltd.* 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	–	29.84	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	–	59.56	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	–	35.73	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	–	16.99 (note a)	Wholesaling and retailing of LPG
Panva Gas Holdings Ltd. ("Panva Gas") 百江燃氣控股有限公司	Cayman Islands	HK\$95,830,334	–	59.56	Investment holding
Panva LPG Investment Holdings Ltd.* 百江液化氣投資控股有限公司	BVI – Limited liability company	US\$10,000,000	–	59.56	Investment holding
Pengshan Panva Gas Co., Ltd.* 彭山百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	–	41.69	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	–	53.60	Provision of natural gas and related services and gas pipeline construction



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division <i>(continued)</i>					
Pingchang Panva Gas Co., Ltd.* 平昌百江燃氣有限公司	PRC – Limited liability company	RMB4,900,000	–	53.60	Provision of natural gas and related services and
Qiqihar Panva Gas Co., Ltd.* 齊齊哈爾百江燃氣有限公司	PRC – Limited liability company	RMB80,000,000	–	36.73	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	–	47.65	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	–	59.56	Provision of natural gas and related services and gas pipeline construction
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd.* 四川省資陽恆源壓縮天然氣有限公司	PRC – Limited liability company	RMB800,000	–	39.66	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	–	59.56	Investment holding
Sinolink LPG Investment Limited*	BVI – Limited liability company	US\$1	–	59.56	Investment holding



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division (continued)					
Sinolink Power Investment Limited*	BVI – Limited liability company	US\$1	–	59.56	Investment holding
Tieling Panva Gas Co., Ltd.* 鐵嶺百江燃氣有限公司	PRC – Limited liability company	RMB49,210,000	–	47.65	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	–	59.26	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	–	35.73	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	–	16.38 (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	–	35.73	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	–	29.78	Wholesaling and retailing of LPG
Yuechi Panva Gas Co., Ltd.* 岳池百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	–	53.60	Provision of natural gas and related services and gas pipeline construction



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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Gas fuel business division <i>(continued)</i>					
Zhongjiang Panva Gas Co., Ltd.* 中江百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	–	59.56	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	–	32.76	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	–	53.60	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	–	59.56	Investment holding

* Non-wholly owned subsidiaries of the Company held indirectly through Panva Gas.

Notes:

- a. Southwest Panva holds a 56.94% equity interest.
- b. Yangzi Panva holds a 55% equity interest.

Except for Panva Gas, none of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.