NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company is Renminbi. The reason for selecting Hong Kong dollars 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 property development and property investment. In prior year, the Group was also engaged in sale and distribution of liquefied petroleum gas and natural gas ("Gas Fuel"), and construction of gas pipelines and supply of electricity. These operations were discontinued in the current year (see note 14).

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 adoption 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 on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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.

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.

Acquisition of additional interests of subsidiaries that do not result in a change in control do not fall within the definition of business combination under HKFRS 3 “Business Combinations”. The excess of the cost of acquisition over the carrying amount of assets and liabilities of the subsidiary is recognised as goodwill.

All inter-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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 “Business Combinations” are recognised at their fair values at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2002

Goodwill arising on an acquisition of subsidiaries for which the agreement date is before 1 January 2002 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 an acquisition prior to 1 January 2002, the Group has discounted amortisation from 1 January 2002 onwards, and such goodwill is tested for impairment annually, and whether there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2002

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the 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 a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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.

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 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.

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

Discount on acquisitions 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.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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)*

Distribution in specie

Distribution in specie is measured at the fair value of the subsidiary's shares distributed. The difference between the carrying amount of the subsidiary's net assets and the fair value is recognised in the profit or loss.

Recognition of revenue

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

Sales of properties

Revenue from the sale of properties is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers. Revenue from sales of properties excludes business tax and other sales related taxes and is after deduction of any trade discounts. Deposits received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as receipts in advance.

Income from outright sales of an entire development project and/or development rights prior to completion and sales of completed properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Sales of electricity supply

Revenue from electricity supply operations is recognised when electricity is supplied.

Gas pipelines construction revenue

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.

Sales of goods

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

Income from property management services

Income from property management services is recognised on provision of services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition of revenue *(Continued)*

Interest income

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

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. Leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Exclusive operating right for city pipeline network

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Stock of properties

Stock of properties includes properties under development and properties held for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs. The properties under development are stated at the lower of cost and net realisable value.

Properties held for sale are classified under current assets and are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is the estimated price at which a property can be realised in the ordinary course of business less related selling expenses.

Inventories

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

Construction contracts

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

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

Impairment (other than goodwill)

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

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

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 at fair value through profit or loss, 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

The Group's financial assets at fair value through profit or loss are mainly classified as investments held for trading. 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 loan receivables, trade and other receivables, amount due from an associate, pledged bank deposits 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 equity 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 profit or loss 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 loans/guaranteed senior notes/exchangeable note

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

Convertible bonds

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

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(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 the issuer, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Other financial liabilities

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

Equity instruments

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

Derivative financial instruments

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

Embedded derivatives

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Share options granted before 7 November 2002
The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted after 7 November 2002
The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to employees *(Continued)*

Share options granted after 7 November 2002 (Continued)

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of 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.

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.

Retirement benefits costs

Payments to defined contribution retirement benefit schemes, state-managed retirement plans and Mandatory Provident Fund Scheme ("MPF 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

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Loan receivables

Note 3 describes that loan receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In making the estimates, management considered detailed procedures are in place to monitor this risk as a significant proportion of the Group's working capital is devoted to loan receivables. In determining whether an allowance for loan receivables is required, the management will take into consideration for the recoverable amount of the underlying assets regarding the loan receivables and the likelihood of collection. Specific allowance is only made for the amount that is unlikely to be collected from the loan receivables. In this regard, the directors of the Company are satisfied that the loan receivables at 31 December 2006 can be fully recoverable and no specific allowances is considered necessary.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include available-for-sale investments, pledged bank deposits, bank balances, loan receivables, trade and other receivables, amount due from an associate, trade and 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.

Market risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate loan receivables (note 25). In relation to these fixed-rate loan receivables, the management will consider hedging significant fair value interest rate risk should the need arise.

Cash flow interest rate risk

Interest rate risk reflects the risk the Group might expose through the impact of rate changes on interest-bearing financial assets. Interest-bearing financial assets are mainly balance with banks which are short term in nature. Interest-bearing financial liabilities are mainly bank loans which are arranged at floating rate, thus exposing the Group to cash flow interest rate risk. The management will consider hedging significant interest rate exposure should the need arise.

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For the year ended 31 December 2006

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

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

- the amount of contingent liabilities disclosed in note 43.

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 and loan receivable 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 on trade and other receivables, with exposure spread over a large number of counterparties and customers. In respect of loan receivable (note 25), the management closely monitors its settlement and recoverability to ensure that adequate impairment losses are recognised for irrecoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group is currently organised into two operating divisions – property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

In the prior year, the Group was also involved in gas fuel business and electricity supplies. These operations were discontinued on 13 April 2006 (see note 14).

Segment information about these businesses is presented below.

For the year ended 31 December 2006

	Continuing operations					Discontinued operations			
	Property development	Property investment	Others	Eliminations	Sub-total	Gas fuel business	Electricity supplies	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER									
External sales	2,239,596	15,282	71,785	–	2,326,663	657,071	345,318	1,002,389	3,329,052
Inter-segment sales	–	–	1,756	(1,756)	–	–	–	–	–
	2,239,596	15,282	73,541	(1,756)	2,326,663	657,071	345,318	1,002,389	3,329,052
RESULT									
Segment result	1,019,838	13,831	37,969	–	1,071,638	48,514	86,928	135,442	1,207,080
Other income					188,105			37,042	225,147
Discount on acquisitions of subsidiaries/additional interest in a subsidiary	–	–	–	–	–	23,920	–	23,920	23,920
Unallocated corporate expenses					(40,939)			(10,793)	(51,732)
Gain on disposal of subsidiaries *(note 39)*					–			277,143	277,143
Loss on deemed disposal of subsidiaries	–	–	–	–	–	(2,105)	–	(2,105)	(2,105)
Increase in fair value of investment properties	–	67,096	–	–	67,096	–	–	–	67,096
Share of results of associates					(135,204)			(176)	(135,380)
Finance costs					–			(72,636)	(72,636)
Changes in fair value of derivative financial instruments *(note 33)*					–			(113,761)	(113,761)
Profit before taxation					1,150,696			274,076	1,424,772
Taxation					(416,480)			(3,040)	(419,520)
Profit for the year					734,216			271,036	1,005,252

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

At 31 December 2006

	Property development	Property investment	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	1,928,231	761,243	5,934	2,695,408
Interest in associates				963,412
Loan receivables				1,328,081
Unallocated corporate assets				598,357
Consolidated total assets				5,585,258
LIABILITIES				
Segment liabilities	542,495	–	12,130	554,625
Borrowings	492,537	–	–	492,537
Unallocated corporate liabilities				391,340
Consolidated total liabilities				1,438,502

Other information

	Continuing operations				Discontinued operations			
	Property development	Property investment	Others	Sub-total	Gas fuel business	Electricity supplies	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	571	–	82	653	451,570	1,929	453,499	454,152
Goodwill additions	–	–	–	–	11,333	–	11,333	11,333
Intangible assets additions	–	–	–	–	102,324	–	102,324	102,324
Depreciation and amortisation	6,818	–	546	7,364	22,788	25,885	48,673	56,037
Release of prepaid lease payments	81	–	–	81	1,263	245	1,508	1,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

For the year ended 31 December 2005

	Continuing operations					Discontinued operations			
	Property development *HK$'000*	Property investment *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Sub-total *HK$'000*	Gas fuel business *HK$'000*	Electricity supplies *HK$'000*	Sub-total *HK$'000*	Consolidated *HK$'000*
TURNOVER									
External sales	1,109,736	11,441	32,944	–	1,154,121	2,324,100	1,292,131	3,616,231	4,770,352
Inter-segment sales	–	–	1,702	(1,702)	–	–	–	–	–
	1,109,736	11,441	34,646	(1,702)	1,154,121	2,324,100	1,292,131	3,616,231	4,770,352
RESULT									
Segment result	315,404	8,660	7,690	–	331,754	580,756	124,918	705,674	1,037,428
Other income					22,119			109,681	131,800
Discount on acquisition of subsidiaries	–	–	–	–	–	15,168	–	15,168	15,168
Unallocated corporate expenses					(91,521)			(179,842)	(271,363)
Gain on partial disposal of subsidiaries	–	–	–	–	–	–	40,794	40,794	40,794
Gain on group restructuring exercise *(note 15)*					–			180,401	180,401
Gain on disposal of available-for-sale investments					206			116,191	116,397
Increase in fair value of investment properties	–	240,778	–	–	240,778	–	–	–	240,778
Share of results of associates	–	–	–	–	–	20,829	–	20,829	20,829
Finance costs					(6,904)			(175,899)	(182,803)
Changes in fair value of derivative financial instruments *(note 33)*					–			(208,127)	(208,127)
Profit before taxation					496,432			624,870	1,121,302
Taxation					(98,972)			(35,064)	(134,036)
Profit for the year					397,460			589,806	987,266

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(A) Business segments *(Continued)*

At 31 December 2005

	Continuing operations				Discontinued operations			
	Property development	Property investment	Others	Sub-total	Gas fuel business	Electricity supplies	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS								
Segment assets	2,215,437	481,756	150,807	2,848,000	3,028,951	2,058,586	5,087,537	7,935,537
Interest in associates	4	–	–	4	465,734	–	465,734	465,738
Loan receivables								348,026
Unallocated corporate assets								3,055,641
Consolidated total assets								11,804,942
LIABILITIES								
Segment liabilities	1,502,379	–	10,290	1,512,669	213,448	196,878	410,326	1,922,995
Borrowings	586,040	–	–	586,040	2,015,305	1,210,441	3,225,746	3,811,786
Unallocated corporate liabilities								713,022
Consolidated total liabilities								6,447,803

Other information

	Continuing operations				Discontinued operations			
	Property development	Property investment	Others	Sub-total	Gas fuel business	Electricity supplies	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	4,870	–	20	4,890	715,906	215,160	931,066	935,956
Goodwill additions	–	–	–	–	60,684	108,010	168,694	168,694
Depreciation and amortisation	9,158	–	582	9,740	63,724	95,016	158,740	168,480
Release of prepaid lease payments	–	–	–	–	1,506	968	2,474	2,474
Impairment loss on goodwill	–	–	–	–	–	6,405	6,405	6,405

(B) Geographical segments

As over 90% of the consolidated turnover, trading results and assets for both years is derived from, or located in, the People's Republic of China (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 comprises of:

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income on:						
– bank deposits	**14,342**	4,966	**10,203**	65,737	**24,545**	70,703
– loan receivables	**170,764**	–	**–**	–	**170,764**	–
Dividend income from unlisted available-for-sale investments	**–**	–	**503**	5,346	**503**	5,346
Gain on disposal of property, plant and equipment, net	**13**	–	**873**	–	**886**	–
Changes in fair value of convertible option of exchangeable note	**–**	7,227	**–**	–	**–**	7,227
Rental income	**–**	158	**–**	–	**–**	158
Gain on fair value changes on investments held for trading	**–**	–	**17,476**	11,949	**17,476**	11,949

8. OTHER EXPENSES

Other expenses mainly comprises of:

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Donations	**–**	434	**2,012**	814	**2,012**	1,248
Loss on disposal of property, plant and equipment, net	**–**	–	**–**	2,444	**–**	2,444
Impairment loss recognised in respect of available-for-sale investments	**–**	50,000	**–**	–	**–**	50,000
Impairment loss recognised in respect of goodwill	**–**	–	**–**	6,405	**–**	6,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest on:						
– bank and other borrowings wholly repayable within five years	**30,749**	34,763	**18,949**	71,673	**49,698**	106,436
– bank and other borrowings not wholly repayable within five years	**886**	–	**–**	–	**886**	–
– convertible bonds	**–**	–	**4,195**	22,782	**4,195**	22,782
– senior notes	**–**	–	**32,702**	132,404	**32,702**	132,404
	31,635	34,763	**55,846**	226,859	**87,481**	261,622
Net interest payable (receivable) on interest rate swaps	**–**	–	**16,790**	(43,988)	**16,790**	(43,988)
	31,635	34,763	**72,636**	182,871	**104,271**	217,634
Less: Amount capitalised to properties under development for sale	**(31,635)**	(31,916)	**–**	–	**(31,635)**	(31,916)
Amount capitalised to construction in progress	**–**	–	**–**	(7,196)	**–**	(7,196)
	–	2,847	**72,636**	175,675	**72,636**	178,522
Bank charges	**–**	4,057	**–**	224	**–**	4,281
	–	6,904	**72,636**	175,899	**72,636**	182,803

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.8% (2005: 4.2%) and nil (2005: 5.3%) to expenditure on qualifying assets in continuing and discontinued operations respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit before taxation has been arrived at after charging:						
Amortisation of intangible assets (included under administrative expenses)	**–**	–	**661**	428	**661**	428
Auditors' remuneration	**1,485**	1,140	**514**	3,154	**1,999**	4,294
Depreciation of property, plant and equipment	**7,364**	9,740	**48,012**	158,312	**55,376**	168,052
Release of prepaid lease payments	**81**	–	**1,508**	2,474	**1,589**	2,474
Operating lease rentals in respect of land and buildings	**6,808**	974	**2,516**	11,318	**9,324**	12,292
Staff costs including directors' remuneration	**50,221**	44,230	**36,320**	102,291	**86,541**	146,521
Share based payments	**12,113**	23,338	**4,847**	17,055	**16,960**	40,393
Total staff cost	**62,334**	67,568	**41,167**	119,346	**103,501**	186,914
Share of tax of associates (included in share of results of associates)	**5,736**	–	**514**	3,573	**6,250**	3,573
and after crediting:						
Rental income, net of outgoings of approximately HK$1,451,000 (2005: HK$2,781,000)	**13,831**	8,660	**–**	–	**13,831**	8,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 7 (2005: 8) directors were as follows:

	Year ended 31 December 2006							
	Mr. Ou Yaping	Mr. Tang Yui Man Francis	Mr. Chen Wei	Mr. Law Sze Lai	Mr. Xin Luo Lin	Mr. Davin Alexander MacKenzie	Mr. Tian Jin	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	313	313	250	876
Other emoluments								
Salaries and other benefits	5,786	2,940	1,160	1,400	–	–	–	11,286
Retirement benefits scheme contributions	48	18	11	29	–	–	–	106
Share-based payments	–	2,585	2,075	584	146	146	187	5,723
Total emoluments	5,834	5,543	3,246	2,013	459	459	437	17,991

	Year ended 31 December 2005								
	Mr. Ou Yaping	Mr. Tang Yui Man Francis	Mr. Chen Wei	Mr. Law Sze Lai	Mr. Xin Luo Lin	Mr. Davin Alexander MacKenzie	Mr. Tian Jin	Mr. Li Zhi Xiang	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	–	–	–	500	500	156	–	1,156
Other emoluments									
Salaries and other benefits	6,280	5,478	3,961	1,600	–	–	–	–	17,319
Retirement benefits scheme contributions	66	36	56	29	–	–	–	–	187
Share-based payments	–	6,432	4,902	1,747	437	500	–	–	14,018
Total emoluments	6,346	11,946	8,919	3,376	937	1,000	156	–	32,680

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other emoluments benefits	**1,297**	3,024
Retirement benefits scheme contributions	**12**	160
	1,309	3,184

During the year, no remunerations was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
The charge comprises:						
PRC Enterprise Income Tax						
– current year	**157,670**	62,855	**3,040**	41,376	**160,710**	104,231
– under(over) provision in respect of prior years	**48**	–	**–**	(6,312)	**48**	(6,312)
PRC land appreciation tax	**6,886**	–	**–**	–	**6,886**	–
	164,604	62,855	**3,040**	35,064	**167,644**	97,919
Deferred taxation *(note 35)*	**251,876**	36,117	**–**	–	**251,876**	36,117
	416,480	98,972	**3,040**	35,064	**419,520**	134,036

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

The tax rates applicable to the PRC subsidiaries range from 15% to 33%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. TAXATION *(Continued)*

PRC land appreciation tax ("LAT") is levied at progressive rate ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures. According to local rules issued by the Shenzhen Government, property developers in Shenzhen are required to file for and pay LAT for sales contracts signed since 1 November 2005. In the opinion of the directors, the Group's property development projects are located in Shenzhen and thus the LAT for the Group has been accrued based on this local statutory requirement.

The management of the Group considers that according to Shefubanhan [2005] No. 93, Shendishuifa [2005] and other relevant tax regulations in Shenzhen, LAT is levied on the profits arising from property development projects and transfer of real estate in Shenzhen levied by entities and individuals with effective from 1 November 2005.

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

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation		
Continuing operations	**1,150,696**	496,432
Discontinued operations	**274,076**	624,870
	1,424,772	1,121,302
Tax at the applicable tax rate of 15% (2005: 33%) *(Note)*	**213,716**	370,030
Tax effect of expenses that are not deductible for tax purposes	**34,634**	172,942
Tax effect of income that is exempted from PRC enterprise income tax and other regions in determining taxable profit	**(101,726)**	(177,952)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provinces	**(4,406)**	(229,619)
Land appreciation tax deductible for calculation of income tax purposes	**(43,706)**	–
Tax effect of share of results of associates	**20,307**	(6,873)
Tax effect of utilisation of tax losses not previously recognised	**(239)**	(243)
Tax effect of tax losses not recognise	**9,521**	12,063
Under(over)provision of taxation in previous years	**48**	(6,312)
	128,149	134,036
Land appreciation tax	**291,371**	–
Taxation for the year	**419,520**	134,036

Note: The tax rate of 15% for the year ended 31 December 2006 (2005: 33%) represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. DISCONTINUED OPERATIONS

On 22 March 2006, the Board of the Company declared a special interim dividend to be satisfied by way of a distribution in specie of shares of Enerchina Holdings Limited ("Enerchina") held by the Company in the proportion of 5 Enerchina shares for every 10 shares held by the shareholders of the Company. Following the distribution in specie on 13 April 2006, whereby bringing the shareholding of the Company in Enerchina from 74.79% to 45.39%, Enerchina became an associate of the Company after the distribution. Accordingly, certain comparative figures were restated so as to reflect the results for the discontinued operations.

	1.1.2006 to 13.4.2006	1.1.2005 to 31.12.2005
	HK$'000	*HK$'000*
Profit for the period/year from discontinued operations is analysed as follows:		
(Loss) profit of gas fuel business and electricity supplies operations for the period/year	**(4,002)**	368,611
Gain on disposal/partial disposal of gas fuel business and electricity supplies operations	**277,143**	40,794
Gain on group restructuring exercise	**–**	180,401
Loss on deemed disposal of subsidiaries	**(2,105)**	–
	271,036	589,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. DISCONTINUED OPERATIONS *(Continued)*

The results of the gas fuel business and electricity supplies operations for the period from 1 January 2006 to 13 April 2006, which have been included in the consolidated income statement were as follows:

	Notes	**1.1.2006 to 13.4.2006** ***HK$'000***	1.1.2005 to 31.12.2005 *HK$'000*
Turnover	6	**1,002,389**	3,616,231
Cost of sales		**(792,270)**	(2,776,348)
Gross profit		**210,119**	839,883
Other income	7	**37,042**	109,680
Discount on acquisition of subsidiaries/ additional interest of a subsidiary		**23,920**	15,169
Distribution costs		**(20,867)**	(56,849)
Administrative expenses		**(60,063)**	(242,594)
Other expenses	8	**(4,540)**	(14,608)
Gain on disposal/partial disposal of subsidiaries	39	**277,143**	40,794
Gain on group restructuring exercise	15	**–**	180,401
Loss on deemed disposal of subsidiaries		**(2,105)**	–
Gain on disposal of available-for-sale investments		**–**	116,191
Share of results of associates		**(176)**	20,829
Changes in fair value of derivative financial instruments	33	**(113,761)**	(208,127)
Finance costs	9	**(72,636)**	(175,899)
Profit before taxation	10	**274,076**	624,870
Taxation	13	**(3,040)**	(35,064)
Profit for the period/year		**271,036**	589,806
Attributable to:			
Equity holders of the Company		**317,905**	385,281
Minority interests		**(46,869)**	204,525
		271,036	589,806

During the period, Enerchina contributed HK$495 million (2005: HK$166 million) to the Group's net operating cash flows, paid HK$493 million (2005: HK$1,157 million) in respect of investing activities and paid HK$106 million (2005: HK$756 million) in respect of financing activities.

The carrying amounts of the assets and liabilities of Enerchina at the date of disposal are disclosed in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

15. GAIN ON GROUP RESTRUCTURING EXERCISE

In prior year, the Group carried out a group restructuring exercise of which the Group disposed of its entire interest of 58.45% in Panva Gas Holdings Limited ("Panva Gas") to a non-wholly owned subsidiary, Enerchina, at a consideration of 2,540,915,880 new shares of Enerchina which was settled by the allotment and issued credited as fully paid to the Group. The effective interest of the Group in Panva Gas decreased from 58.45% to 44.73% immediately after the transaction. A gain of approximately HK$180,401,000 was resulted from the above group restructuring exercise.

16. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2006 interim of HK$0.03 (2005: HK$0.03) per share	**85,713**	70,544
2005 special interim of HK$0.033 (2006: nil) per share	**–**	77,598
2005 final of HK$0.035 (2004: HK$0.03) per share	**99,768**	70,429
Special dividend, by way of a distribution in species of shares of a subsidiary *(note 39)*	**952,884**	–
	1,138,365	218,571

On 22 March 2006, the board declared a special interim dividend by way of a distribution in respect of Enerchina shares held by the Company in proportion of 5 Enerchina shares for every 10 shares held by the shareholders of the Company. A total of 1,422,214,344 Enerchina shares with the aggregate market value worths HK$952,884,000 were distributed to shareholders of the Company on 13 April 2006.

The final dividend of HK$0.035 per share totalling HK$100,232,000 and a bonus issue of one new share of HK$0.10 credited as fully paid for every eight shares held has been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

For continuing and discontinued operations

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

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company	**962,431**	670,909
Effect of dilutive potential shares:		
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	**(127)**	(1,250)
Earnings for the purposes of diluted earnings per share	**962,304**	669,659

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For the year ended 31 December 2006

17. EARNINGS PER SHARE *(Continued)*

For continuing and discontinued operations *(Continued)*

	Number of shares	
	2006	2005
Weighted average number of shares for the purposes of basic earnings per share	**2,831,549,256**	2,360,969,665
Effect of dilutive potential shares: Share options	**37,219,728**	23,816,091
Weighted average number of shares for the purposes of diluted earnings per share	**2,868,768,984**	2,384,785,756

From continuing operations

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

	2006	2005
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company	**962,431**	670,909
Less: Profit for the year attributable to equity holders of the Company from discontinued operations *(note 14)*	**(317,905)**	(385,281)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	**644,526**	285,628

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operations is HK11.23 cents per share (2005: HK16.32 cents per share) and diluted earnings per share for the discontinued operations is HK11.08 cents per share (2005: HK16.10 cents per share), based on the profit for the year attributable to equity holders of the Company from the discontinued operations for basic and diluted earnings per share of HK$317,905,000 (2005: HK$385,281,000) and HK$317,778,000 (2005: HK$384,031,000) respectively. The denominators used are the same as those detailed above for both basic and diluted earnings per share.

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18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Furniture, fixtures and equipment HK$'000	Gas pipelines HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Total HK$'000
COST							
At 1 January 2005	192,962	283,597	53,041	820,420	42,037	1,053,100	2,445,157
Currency realignment	5,475	7,348	1,256	22,280	1,106	29,635	67,100
Additions	24,323	212,893	4,855	471,725	7,729	68,210	789,735
Acquired on acquisition of subsidiaries	35,801	662	989	72,793	3,649	32,327	146,221
Disposals	(11,443)	(2,923)	(1,521)	(233)	(3,339)	(11,327)	(30,786)
Reclassification	5,881	(436,000)	(2,835)	19,883	–	413,071	–
Transfer from stock of properties	3,580	–	–	–	–	–	3,580
At 31 December 2005	256,579	65,577	55,785	1,406,868	51,182	1,585,016	3,421,007
Currency realignment	2,179	–	1,280	–	348	–	3,807
Additions	7,482	1,915	826	53,074	3,054	13,793	80,144
Acquired on acquisition of subsidiaries	87,557	203	3,082	229,981	6,470	46,715	374,008
Disposals	(9,768)	–	(1,206)	(6,955)	(2,624)	(724)	(21,277)
Disposed of on disposal of subsidiaries	(288,928)	(67,695)	(20,572)	(1,682,968)	(46,923)	(1,644,800)	(3,751,886)
Transfer from stock of properties	3,048	–	–	–	–	–	3,048
At 31 December 2006	58,149	–	39,195	–	11,507	–	108,851
DEPRECIATION AND AMORTISATION							
At 1 January 2005	25,598	–	29,957	32,269	16,732	49,358	153,914
Currency realignment	996	–	762	1,260	494	4,590	8,102
Provided for the year	12,180	–	4,995	43,445	6,282	101,150	168,052
Eliminated on disposals	(14)	–	(875)	(6)	(1,398)	(1,653)	(3,946)
Reclassification	239	–	297	580	–	(1,116)	–
At 31 December 2005	38,999	–	35,136	77,548	22,110	152,329	326,122
Currency realignment	628	–	1,047	–	160	–	1,835
Provided for the year	4,835	–	4,842	13,713	3,193	28,793	55,376
Eliminated on disposals	(1,302)	–	(153)	–	(1,996)	(14)	(3,465)
Eliminated on disposal of subsidiaries	(17,400)	–	(8,255)	(91,261)	(16,661)	(181,108)	(314,685)
At 31 December 2006	25,760	–	32,617	–	6,806	–	65,183
CARRYING VALUES							
At 31 December 2006	32,389	–	6,578	–	4,701	–	43,668
At 31 December 2005	217,580	65,577	20,649	1,329,320	29,072	1,432,687	3,094,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

The carrying amount of the Group's leasehold land buildings comprises properties situated in the PRC held under:

	2006	2005
	HK$'000	*HK$'000*
Long leases	**32,289**	34,834
Medium-term leases	**–**	182,746
	32,289	217,580

The above item of property, plant and equipment are depreciated on a straight line basis after taking into account of their estimated residual value, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease and 50 years
Furniture, fixtures and equipment	18% to 40%
Gas pipelines	3%
Motor vehicles	6% to 30%
Plant and machinery	6% to 30%

19. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term leases	**–**	125,782
Long leases	**4,959**	–
	4,959	125,782
Analysed for reporting purposes:		
Non-current assets	**4,876**	122,088
Current assets	**83**	3,694
	4,959	125,782

20. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2005	–
Transfer from stock of properties	240,978
Increase in fair value of investment properties	240,778
At 31 December 2005	481,756
Exchange realignment	17,736
Transfer from stock of properties	194,655
Increase in fair value of investment properties	67,096
At 31 December 2006	761,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

20. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, an independent qualified professional valuers not connected with the Group. The valuation, which conforms to the "First Edition of The HKIS Valuation Standards on Properties" published by Hong Kong Institute of Surveyors, was arrived at by considering the capitalised income to be derived from the properties and by reference to sales evidence as available on the market.

Stock of property is transfer to an investment property when commencement of an operating lease to another party. The difference between the fair value of the property at balance sheet date and its previous carrying amount are recognised in profit or loss.

The investment properties are held under long leases and are situated in the PRC.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

At 31 December 2006, the Group's investment properties with a value of HK$338,806,000 (2005: nil) were pledged to secure general banking facilities granted to the Group.

21. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2005	10,035
Currency realignment	260
At 31 December 2005	10,295
Acquired on acquisition of subsidiaries	102,324
Disposed of on disposal of subsidiaries	(112,619)
At 31 December 2006	–
AMORTISATION	
At 1 January 2005	875
Currency realignment	23
Provide for the year	428
At 31 December 2005	1,326
Provide for the year	661
Eliminated on disposal of subsidiaries	(1,987)
At 31 December 2006	–
CARRYING VALUES	
At 31 December 2006	–
At 31 December 2005	8,969

The intangible assets represented the Group's exclusive operating right for city pipeline network.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

22. GOODWILL

	HK$'000
COST	
At 1 January 2005	252,849
Currency realignment	291
Arising on acquisition of subsidiaries *(note 38(c))*	37,040
Arising on acquisition of additional interest in subsidiaries	123,000
Eliminated on partial disposal of interest in subsidiaries	(9,698)
At 31 December 2005	403,482
Arising on acquisition of subsidiaries *(note 38(a))*	11,333
Eliminated on deemed disposal of interest in subsidiaries	(169)
Eliminated on disposal of interest in subsidiaries	(414,646)
At 31 December 2006	–
IMPAIRMENT	
At 1 January 2005	–
Impairment loss recognised for the year	6,405
At 31 December 2005	6,405
Eliminated on disposal of subsidiaries	(6,405)
At 31 December 2006	–
CARRYING VALUES	
At 31 December 2006	–
At 31 December 2005	397,077

23. INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in Hong Kong	**989,401**	–
Unlisted	**4**	340,522
Share of post-acquisition results and reserves	**(25,993)**	125,216
	963,412	465,738
Fair value of listed investments	**1,340,750**	–

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For the year ended 31 December 2006

23. INTERESTS 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 form of business structure	Principal place of operation	Percentage of equity interest attributable to the Group	Principal activities
Enerchina	Bermuda – limited liability company	PRC	45.39%	Supply of electricity, sale and distribution of gas fuel and construction of gas pipelines
Rockefeller Group Asia Pacific, Inc.	BVI – limited liability company	Hong Kong	49%	Investment holding
Shanghai Rockefeller Group d' Bund Master Development Co., Ltd.	PRC – equity interest venture	PRC	44.57%	Property development

Note:

The above list of associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or from a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, results in particulars of excessive length.

Included in the cost of investment is associates is goodwill of HK$37,254,000 (2005: HK$84,917,000) arising on acquisitions of associates. Details of movements of goodwill are as follows:

	HK$'000
COST	
At 1 January 2005	35,418
Arising from acquisition	49,499
At 31 December 2005	84,917
Eliminated on disposal	(84,917)
Transfer upon the change of status from subsidiaries to associates	37,254
At 31 December 2006	37,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. INTERESTS IN ASSOCIATES *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Total assets	**10,120,416**	2,363,744
Total liabilities	**(6,584,458)**	(1,586,270)
	3,535,958	777,474
Revenue	**2,801,779**	1,425,295
(Loss) profit for the year	**(311,713)**	44,139

24. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares in Hong Kong, at cost	**75,000**	75,000
Unlisted shares in the PRC, at cost	**1,990**	189,805
Club debentures, at cost	**1,011**	2,496
	78,001	267,301
Less: Impairment loss recognised	**(75,000)**	(75,000)
	3,001	192,301

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

25. LOAN RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Shareholder's loan receivable		
Principal *(note)*	**1,230,884**	323,567
Interest receivable	**170,763**	–
Long-term receivable	**–**	24,459
	1,401,647	348,026
Less: Loss allocated in excess of cost of investment	**(73,566)**	–
	1,328,081	348,026

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For the year ended 31 December 2006

25. LOAN RECEIVABLES *(Continued)*

Note:

The amount represents shareholder's loan receivable from the Group's associate, Rockefeller Group Asia Pacific, Inc. ("RGAP"), for financing a property development project in Shanghai, which carries simple interest rate at 20% per annum on the total agreed financing amount of US$169 million (equivalent to approximately HK$1,310 million) and forms part of the net investment of the Group in RGAP. The amount is unsecured and not repayable in the foreseeable future.

The fair value of the Group's loan receivables as at the balance sheet, determined based on the present value of the estimated future cash flows discounted using the prevailing rate at the balance sheet date approximates to the amount of the receivables of HK$1,401,647,000 (2005: HK$348,026,000).

26. STOCK OF PROPERTIES

	2006	2005
	HK$'000	*HK$'000*
Properties under development	**413,933**	2,337,278
Stock of properties held for sale	**1,505,242**	13,067
	1,919,175	2,350,345

Stock of properties were stated at cost. Included in the stock of properties is interest capitalised of HK$152,590,000 (2005: HK$156,748,000).

The stock of properties were located in the PRC under long leases. Properties under development which are expected to be recovered in more than twelve months after the balance sheet date are classified under current asset as it is expected to be realised in the Group's normal operating cycle.

27. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Gas fuel	**–**	27,852
Fuel oil	**–**	125,023
Consumable stores	**–**	39,126
	–	192,001

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28. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing average credit terms ranging from 0 to 180 days to its customers. Included in trade and other receivables are trade receivables of HK$1,216,000 (2005: HK$651,495,000), the aged analysis of which is as follows:

	2006	2005
	HK$'000	*HK$'000*
Trade debtors	**1,216**	651,495
Other receivables	**39,722**	904,439
	40,938	1,555,934
Aged:		
0 to 90 days	**653**	645,366
91 to 180 days	**163**	1,054
181 to 360 days	**306**	1,815
over 360 days	**94**	3,260
	1,216	651,495

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

29. INVESTMENTS HELD FOR TRADING

	2006	2005
	HK$'000	*HK$'000*
Investments held for trading, at fair value		
Listed shares in PRC or Hong Kong	**–**	9,938
Managed funds	**–**	144,561
	–	154,499

The fair values of the above held for trading investments were determined based on the quoted market bid prices of underlying securities available on the relevant exchanges.

30. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates which range from 0.72% to 3.65%.

The fair values of the Group's bank balances and cash at 31 December 2006 approximate to their carrying amounts.

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31. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$386,389,000 (2005: HK$319,014,000), the aged analysis of which is as follows:

	2006	2005
	HK$'000	*HK$'000*
Aged:		
0 to 90 days	**357,951**	285,304
91 to 180 days	**14,700**	11,626
181 to 360 days	**2,209**	2,990
over 360 days	**11,529**	19,094
	386,389	319,014

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

32. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts were unsecured, interest free and fully repaid during the year.

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2006	2005
	HK$'000	*HK$'000*
Fair value hedges – interest rate swaps *(note a)*	**–**	327,680
Conversion option under exchangeable note *(note b)*	**–**	5,290
	–	332,970

Notes:

(a) The fair value hedge related to the interest rate swaps arrangements entered by the Group to minimise its exposure to fair value changes of its fixed-rate Untied States Dollar bank borrowings by swapping a proportion of the fixed-rate borrowings from fixed rates to floating rates. 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%

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33. DERIVATIVE FINANCIAL INSTRUMENTS

Notes: (Continued)

(a) *(Continued)*

* 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 for equivalent instruments at the balance sheet date. Changes in the fair value of interest rate swaps during the year ended 31 December 2005 of HK$208,127,000 have been recognised in the consolidated income statement.

Enerchina became an associate of the Company after the distribution in specie on 13 April 2006 and thus derivative financial instruments of interest rate swaps arrangement attributable to Enerchina sub-group has been deconsolidated from the Group's consolidated balance sheet upon the change of status of Enerchina from a subsidiary to an associate. The changes in fair value of HK$113,761,000 by reference to the market prices quoted from financial institutions for equivalent instruments at 13 April 2006 have been recognised in the consolidated income statement.

(b) The exchangeable note with principal amount of HK$62,500,000 was issued on 30 October 2004 by a subsidiary of the Company which was subsequently transferred to Enerchina sub-group under the group restructure exercise in 2005. The exchangeable note can be exchangeable into shares of Panva Gas Holdings Limited ("Panva Gas"), a subsidiary of the Company, which is also listed on the Stock Exchange, 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 the note holder. The fair value of the conversion option derivative was calculated using the Black-Scholes pricing model.

Enerchina became an associate of the Company after the distribution in specie on 13 April 2006 and thus derivative financial instruments of conversion option under exchangeable note attributable to Enerchina sub-group has been deconsolidated from the Group's consolidated balance sheet upon the change of status of Enerchina from a subsidiary to an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans – secured	**492,537**	777,815
Bank loans – unsecured	–	959,936
Other loans – unsecured	–	96,758
Exchangeable note *(note a)*	–	61,235
Convertible bonds *(note b)*	–	362,116
Guaranteed senior notes *(note c)*	–	1,553,926
	492,537	3,811,786
Carrying amount repayable:		
On demand or within one year	**154,229**	1,188,708
More than one year but not exceeding two years	**159,204**	303,437
More than two years but not exceeding five years	**149,254**	800,030
More than five years	**29,850**	1,519,611
	492,537	3,811,786
Less: Amount due within one year shown under current liabilities	**(154,229)**	(1,188,708)
Amount due after one year	**338,308**	2,623,078

Notes:

(a) The exchangeable note with principal of HK$62,500,000 was issued on 30 October 2004 by a subsidiary of the Company which was subsequently transferred to Enerchina a sub-group under the group restructure exercise in 2005. The exchangeable note will 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 the note holder. Interest is payable at 2% per annum. The effective interest rate of the exchangeable note is 3.23%. The fair value of the conversion option was calculated using the Black-Scholes pricing model.

Enerchina became an associate of the Company after the distribution in specie on 13 April 2006 and thus exchangeable note attributable to Enerchina sub-group has been deconsolidated from the Group's consolidated balance sheet upon the change of status of Enerchina from a subsidiary to an associate.

(b) The Enerchina sub-group issued the 2% convertible bonds of US$50,000,000 on 23 April 2003. 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 Luxembourg Stock Exchange. The conversion price at which each share shall be issued upon conversion is HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares) subject to adjustment for, subdivision on consolidation of shares, bonus issues, rights issues and other dilutive event. The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48%.

The convertible bonds which were issued by Enerchina sub-group have been excluded from the Group's consolidated balance sheet upon Enerchina became an associate of the Company on 13 April 2006.

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34. BORROWINGS *(Continued)*

Notes: (Continued)

(c) The Enerchina sub-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 the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%.

The guarantee senior notes which were issued by Enerchina sub-group have been excluded from the Group's consolidated balance sheet upon Enerchina became an associate of the Company on 13 April 2006.

(d) The bank and other loans are mainly carried at floating interest rate at a range of 5.8% to 6.4% per annum.

The fair values of the Group's bank loans 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.

35. DEFERRED TAXATION

	Revaluation surplus	Land appreciation tax	Intangible assets	Other temporary difference	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note)*	*HK$'000*
At 1 January 2005	–	–	–	–	–
Charge to consolidated income statement	36,117	–	–	–	36,117
At 31 December 2005 and 1 January 2006	36,117	–	–	–	36,117
Charge to consolidated income statement	10,064	284,485	–	(42,673)	251,876
Acquisitions of subsidiaries	–	–	34,740	–	34,740
Disposal of subsidiaries	–	–	(34,740)	–	(34,740)
At 31 December 2006	46,181	284,485	–	(42,673)	287,993

Note: The amount represents temporary difference arising from land appreciation tax deductible for calculation of income tax purpose.

At the balance sheet date, the Group has estimated unused tax losses of HK$88,795,000 (2005: HK$176,993,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$18,688,000 (2005: nil) that will be expired within five years. The remaining unrecognised tax losses may be carried forward indefinitely.

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36. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Shares of HK$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	4,800,000,000	480,000
Issued and fully paid:		
At 1 January 2005	2,333,452,240	233,345
Issue of shares on placing and subscription arrangements	280,000,000	28,000
Issue of shares on the exercise of share options	21,460,000	2,146
At 31 December 2005	2,634,912,240	263,491
Issue of shares on placing and subscription arrangements	189,456,448	18,946
Issue of shares on the exercise of share options	39,400,000	3,940
At 31 December 2006	2,863,768,688	286,377

Changes in the share capital of the Company during the year ended 31 December 2005 are as follows:

(a) Pursuant to a placing and subscription agreement entered by the Company on 9 December 2005, the Company allotted and issued 280,000,000 new shares of HK$0.10 each at subscription price of HK$1.95 per share to independent investors.

(b) The Company allotted and issued a total of 6,400,000 and 15,060,000 shares of HK$0.10 each for cash at the exercise prices of HK$0.56 and HK$0.76 per share respectively as a result of the exercise of share option.

Changes in the share capital of the Company during the current year are as follows:

(c) Pursuant to a placing and subscription agreement entered by the Company on 25 January 2006, the Company allotted and issued 189,456,448 new shares of HK$0.10 each at subscription price of HK$2.34 per share to independent investors.

(d) The Company allotted and issued a total of 6,360,000 and 33,040,000 shares of HK$0.10 each for cash at the exercise prices of HK$0.76 and HK$1.126 per share respectively as a result of share option.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

37. RESERVES

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The 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, which are not available for distribution.

The capital reserve represents the deemed contribution arising from waiver of loan from the minority shareholders of the subsidiaries.

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For the year ended 31 December 2006

38. ACQUISITION OF SUBSIDIARIES

The summary of the acquisition of subsidiaries, the net assets acquired in the transaction and the goodwill or discount arising on acquisition are as follows:

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

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	268,102	–	268,102
Prepaid lease payments	42,951	–	42,951
Intangible assets	–	65,154	65,154
Inventories	18,711	–	18,711
Trade and other receivables	15,534	–	15,534
Amounts due from minority shareholders	7,650	–	7,650
Bank balances and cash	76,252	–	76,252
Trade and other payables	(118,903)	–	(118,903)
Amounts due to minority shareholders	(1,831)	–	(1,831)
Borrowings	(107,510)	–	(107,510)
Deferred taxation	(973)	(21,501)	(22,474)
Net assets acquired	199,983	43,653	243,636
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			(15,678)
			182,583
Satisfied by:			
Cash			163,923
Transfer from available-for-sale investments			18,660
			182,583
Net cash outflow arising on acquisition:			
Cash consideration			163,923
Bank balances and cash acquired			(76,252)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			87,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	Acquiree's carrying amount before acquisition	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Property, plant and equipment	105,906	–	105,906
Prepaid lease payments	8,342	–	8,342
Intangible assets	–	37,170	37,170
Inventories	3,510	–	3,510
Trade and other receivables	60,955	–	60,955
Bank balances and cash	821	–	821
Trade and other payables	(105,693)	–	(105,693)
Borrowings	(3,604)	–	(3,604)
Deferred taxation	–	(12,266)	(12,266)
Net assets acquired	70,237	24,904	95,141
Minority interests			(5,649)
Discount on acquisition			(3,742)
			85,750
Satisfied by:			
Cash			85,750
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			(821)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			84,929

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

The discount on the above acquisitions of HK$19,420,000 is attributable to the acquisitions of a 61.67% equity interest in Qiqihar Panva and a 100% equity interest in Beike Lan Guang Group. The discount on acquisitions 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

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

The subsidiaries acquired by Enerchina sub-group during the period were under the Group's discontinued operations in gas fuel business which contributed HK$41,020,000 to the Group's turnover and loss of HK$2,924,000 to the Group's profit before taxation in discontinued operations for the period between the date of acquisition and 13 April 2006 (date of discontinuation of the Group's gas fuel business).

If the acquisition had been completed on 1 January 2006, total group revenue from discontinued operations for the period from 1 January 2006 to 13 April 2006 would have been HK$1,010,165,000, and profit for the period from discontinued operations would have been HK$265,642,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group in discontinued operations 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 related to the exclusive operating rights for city pipeline networks, have been determined by reference to professional valuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) In 2005, the Enerchina sub-group acquired a 70%, 70%, 100% and 80% of the registered capital of Beijing Zhonglian of East Engineering and Project Management Consultant Services Co., Ltd., Pengshan Panva Gas Co., Ltd., Jianyang Panva Gas Co., Ltd. and Benxi Panva Gas Co., Ltd., respectively, for an aggregate consideration of HK$133,364,000. The acquisitions have been accounted for using the acquisition method of accounting. The aggregate amount of goodwill arising as a result of the acquisitions was HK$37,040,000.

	2005
	HK$'000
Net assets acquired:	
Property, plant and equipment	146,221
Prepaid lease payments	45,115
Available-for-sale investments	3,977
Inventories	2,366
Trade and other receivables	37,245
Bank balances and cash	23,786
Trade and other payables	(55,138)
Taxation	(516)
Borrowings	(80,259)
	122,797
Minority interests	(26,473)
Goodwill	37,040
	133,364
Satisfied by:	
Cash	133,364
Net cash outflow arising on acquisition:	
Cash consideration	(133,364)
Bank balances and cash acquired	23,786
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	(109,578)

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

The subsidiaries acquired during the year ended 31 December 2005 contributed HK$224,313,000 to the Group's turnover and HK$95,851,000 to the Group's profit before taxation.

If the acquisitions made during the year ended 31 December 2005 had been completed on 1 January 2005, total group revenue for the year ended 31 December 2005 would have been HK$4,803,220,000, and profit for the year ended 31 December 2005 would have been HK$1,055,325,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2005, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

39. DISPOSAL OF SUBSIDIARIES

As referred to in note 14, the Company's shareholding in Enerchina sub-group decreased from 74.79% to 45.39% following the distribution in specie on 13 April 2006. Enerchina became an associate of the Company. The net assets of Enerchina at the date of disposal of shareholding were as follows:

	Notes	13.4.2006 HK$'000
Property, plant and equipment		3,437,201
Prepaid lease payments		177,922
Intangible assets		110,632
Goodwill		346,856
Interests in associates		645,571
Available-for-sale investments		172,630
Pledged bank deposits		282,727
Loan receivables		24,459
Inventories		217,780
Trade and other receivables		1,225,118
Investments held for trading		171,975
Bank balances and cash		1,232,408
Trade and other payables		(863,700)
Amounts due to minority shareholders		(29,920)
Taxation		(81,774)
Deferred taxation		(34,740)
Borrowings		(3,311,120)
Derivatives financial instruments		(431,413)
Net assets disposed of		3,292,612
Equity component of convertible bonds of a listed subsidiary of Enerchina		(48,350)
Equity component of share option reserve of Enerchina and its listed subsidiary		(25,563)
Minority interests		(1,606,354)
Attributable goodwill		61,385
		1,673,730
Transferred to interests in associates	23	(989,401)
		684,329
Translation reserve realised		(8,588)
		675,741
Gain on disposal	14	277,143
Total consideration		952,884
Satisfied by:		
Special interim dividend in specie	16	952,884
Net cash outflow arising on disposal:		
Bank balances and cash disposed of		(1,232,408)

The impact of Enerchina on the Group's results and cash flows in the current and prior periods is disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

40. RELATED PARTY TRANSACTIONS

Save as disclosed in note 25, the Group had the following transactions with related parties during the year.

Name of related party	**Nature of transaction**	*Notes*	**2006** **HK$'000**	2005 *HK$'000*
RGAP	Interest income on shareholder's loan	*a*	170,764	–
Shanghai Rockefeller Group d' Bund Master Development Co., Ltd. ("Shanghai Rockefeller")	Project management fee income	*a*	28,378	–
Skillful Assets Limited	Rental expenses	*b*	996	996
Enerchina	Office expenses paid	*c*	948	–
Panva Gas Holdings Limited ("Panva Gas")	Office expenses paid	*c*	976	–
Mr. Chen Wei	Sales of properties	*d*	4,587	–
Powerjoy Limited	Sales of properties	*e*	9,321	–
Ms Law Ling	Sales of properties	*f*	4,914	–
Ms Law Sze	Sales of properties	*f*	4,900	–
Mr. Lu Yungang	Sales of properties	*g*	2,779	–
Plot Holdings Limited	Sales of properties	*h*	5,557	–

Notes:

(a) RGAP and Shanghai Rockefeller are associates of the Group.

(b) A company controlled by Mr. Ou Yaping, a director of the Company and of which Mr. Ou Yaping is also a director.

(c) Enerchina and Panva Gas have become associates of the Group since 13 April 2006.

(d) Mr. Chen is an executive director of the Company.

(e) Powerjoy Limited is a company owned by Mr. Xiang Ya Bo and his spouse Ms. Wu Hang Wa. Mr. Xiang Ya Bo is an executive director of Enerchina.

(f) Ms Law Ling and Ms Law Sze are the daughters of Mr. Law Sze Lai, an executive director of the Company.

(g) Mr. Lu Yungang is an independent non-executive director of Enerchina.

(h) Plot Holdings Limited, a company owned by Mr. Ou Yafei, the brother of Mr. Ou Yaping, the director of the Company.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

41. SHARE OPTIONS

The Company's share option schemes were adopted pursuant to the resolutions passed on 11 May 1998 (the "Sinolink Old Scheme") and on 24 May 2002 (the "Sinolink New Scheme") for providing incentives to directors and eligible employees and unless otherwise cancelled or amended. The Sinolink New Scheme will expire on 23 May 2012. The Sinolink Old Scheme was terminated on 24 May 2002. Under the Sinolink Old Scheme and the Sinolink New Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

Movements of the Company's share options held by employees (including directors) during the year were as follows:

	Number of share options				
Option type	**Outstanding at beginning of year**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at end of year**
For the year ended 31 December 2006	112,840,000	7,800,000	(39,400,000)	(3,150,000)	78,090,000
Exercisable at the end of the year					74,040,000
Weighted average exercise price	1.097	2.042	1.067	2.334	1.159
For the year ended 31 December 2005	31,250,000	104,800,000	(21,460,000)	(1,750,000)	112,840,000
Exercisable at the end of the year					72,660,000
Weighted average exercise price	0.719	1.126	0.700	0.969	1.097

Details of share options granted during the year are as follows:

	2006	2005
Exercisable period	**31.12.2006 to 24.05.2012**	31.12.2005 to 24.05.2012
Exercise price	**HK$1.410 – HK$2.485**	HK$1.126
Aggregate proceeds if shares are issued	**HK$15,928,000**	HK$118,005,000

Details of share options exercised during the year are as follows:

	2006	2005
Exercisable period	**01.06.2004 to 24.05.2012**	01.06.2004 to 31.05.2008
Exercise price	**HK$0.76 to HK$1.126**	HK$0.56 to HK$0.76
Aggregate issue proceeds	**HK$42,036,000**	HK$15,029,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

41. SHARE OPTIONS *(Continued)*

The weighted average share price at the date of exercise for share options during the year was at a range of HK$1.42 to HK$2.75. During the year ended 31 December 2005, the weighted average share price of the Company at the dates of exercise of the share options was at a range of HK$1.12 to HK$2.05 per share.

During the year, options were granted on 22 January 2006, 24 February 2006 and 30 June 2006. The estimated fair values of the options granted on the date is HK$0.67, HK$0.55 and HK$0.50 per option respectively. During the year ended 31 December 2005, options were granted on 13 January 2005. The estimated fair values of the options granted on the date was HK$0.31 per option.

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

	2006	2005
Weighted average share price	**HK$1.964**	HK$1.140
Weighted average exercise price	**HK$2.042**	HK$1.126
Expected volatility	**39% – 46%**	50% p.a.
Expected life	**4.5 years**	4.5 years
Risk free rate	**4.043% – 4.691% p.a.**	2.62% p.a.
Expected dividend yield	**3.43% – 3.92% p.a.**	4.93% p.a.

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years.

The Group recognised total expenses of HK$16,960,000 (2005: HK$40,393,000) for the year ended 31 December 2006 in relation to share options granted by the Company and its listed subsidiaries.

The number of share options granted expected to vest has been reduced to reflect historical experience of forfeiture of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted. At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

42. RETIREMENT BENEFITS SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 7 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made.

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made contributions to the retirement benefits schemes amounted to HK$6,340,000 (2005: HK$7,958,000).

43. CONTINGENT LIABILITIES

	2006	2005
	HK$'000	*HK$'000*
Guarantees given to banks for the mortgage loans arranged for the purchasers of the Group's properties	**165,565**	703,997

No financial liabilities were recorded as, in the opinion of the directors, the fair values of the financial guarantee contracts were not significant during both years.

44. COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Commitments in respect of properties under development:		
– contracted for but not provided in the consolidated financial statements	**486,767**	594,269
– authorised but not contracted for	**273,329**	–
Committed funding to an associate in respect of a property redevelopment project	**91,869**	1,132,715

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45. OPERATING LEASE COMMITMENTS

The Group as lessor

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**12,235**	10,352
In the second to fifth year inclusive	**45,859**	39,141
Over five years	**82,332**	78,680
	140,426	128,173

The properties held have committed tenants for periods up to fifteen years after the balance sheet date.

The Group as lessee

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,600**	34,013
In the second to fifth years inclusive	**216**	11,992
Over five years	**–**	13,424
	4,816	59,429

Operating lease payments represent rental payable by the Group for certain of its office properties.

Leases are negotiated for terms ranging from one to five years.

46. PLEDGE OF ASSETS

At 31 December 2006, bank deposits of HK$20,607,000 (2005: HK$285,145,000), land held under long leases included in stock of properties under development with carrying amount of HK$264,716,000 (2005: HK$253,851,000) and investment properties with an aggregate carrying amount of HK$338,806,000 (2005: nil) were pledged to banks to secure general banking facilities granted to the Group. The development expenditures incurred for the stock of properties under pledge amounted to HK$149,217,000 (2005: HK$67,597,000). In addition, at 31 December 2005, other property, plant and equipment with an aggregate carrying amount of approximately HK$852,295,000 (2006: nil) were also pledged to banks to secure general banking facilities granted to the Group. The pledged bank deposits carry at prevailing market interest rate. The fair values of pledged bank deposits at 31 December 2006 approximate to their carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

47. LIST OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Executive Choice Investment Limited	BVI	US$1	100%	–	Investment holding
Firstline Investment Limited	BVI	US$1	–	100%	Investment holding
Knatwood Limited	BVI	US$1	–	100%	Investment holding
Leader Faith International Limited	BVI	US$1	100%	–	Investment holding
Link Capital Investments Limited	BVI	US$50,000	–	100%	Investment holding
Ocean Diamond Limited	BVI	US$50,000	–	100%	Investment holding
Shenzhen Mangrove West Coast Property Development Co. Ltd. 深圳紅樹西岸地產發展有限公司	PRC – Sino-foreign equity joint venture	RMB200,000,000	–	87%	Property development
Shenzhen Sinolink Property Management Co., Ltd. 深圳百仕達物業管理有限公司	PRC – Foreign equity joint venture	RMB2,000,000	–	82.80%	Property management
Sinolink International Investment (Group) Limited	BVI	US$1	–	100%	Investment holding
Sinolink LPG Development Limited	BVI	US$1	–	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

47. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Sinolink Petrochemical Investment Limited	BVI	US$1	–	100%	Investment holding
Sinolink Progressive Limited	BVI	US$47,207	100%	–	Investment holding
Sinolink Properties Agent Limited 百仕達物業代理有限公司	Hong Kong	HK$10,000	–	100%	Property agent
Sinolink Properties Limited 百仕達地產有限公司	PRC – Foreign equity joint venture	RMB375,000,000	–	80%	Property development
Sinolink Shanghai Investment Ltd.	BVI	US$1	100%	–	Investment holding
Sinolink Worldwide (HK) Company Limited 香港百仕達有限公司	Hong Kong	HK$10,000,000	–	100%	Investment holding
Smart Orient Investments Limited	BVI	US$1	100%	–	Investment holding

Except for the investment holding companies which have no definite place of operation, all the above subsidiaries operate principally in their respective place of incorporation/establishment.

None of the subsidiaries had issued any debt securities at the end of the year.