

**Panva Gas Holdings Limited**  
**百江燃氣控股有限公司**

(incorporated in the Cayman Islands with limited liability)



**2001**

**Annual Report**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Ou Yaping  
Mr. Chen Wei  
Mr. Lai Wen Guang  
Mr. Lau Shi Wa  
Mr. Li Fujun  
Mr. Tang Yui Man, Francis

#### Non-executive Directors

Mr. Zheng Dun Xun

#### Independent Non-executive Director

Mr. Cheung Hon Kit  
Mr. Sun Hiu Lu

### COMPLIANCE OFFICER

Mr. Li Fujun

### QUALIFIED ACCOUNTANT

Mr. Yu Man To, Gerald, *MBA*  
*CPA(Aust.) AHKSA*

### COMPANY SECRETARY

Mr. Yu Man To, Gerald, *MBA*  
*CPA(Aust.) AHKSA*

### AUDIT COMMITTEE

Mr. Cheung Hon Kit  
Mr. Sun Hiu Lu

### REGISTERED OFFICE

Ugland House  
P. O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

### AUDITORS

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International  
(Cayman) Ltd.  
Butterfield House  
Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited  
Room 1901-1905, 19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### LEGAL ADVISERS

*(As to Hong Kong Law)*  
Woo, Kwan, Lee & Lo

*(As to Cayman Islands Law)*  
Maples and Calder Asia

*(As to the PRC Law)*

Haiwen & Partners

### PRINCIPAL BANKERS

Hang Seng Bank Limited  
Nanyang Commercial Bank Ltd.,  
Hong Kong Branch  
Bank of China, Shenzhen Branch  
The Industrial & Commercial Bank of  
China, Hunan Branch  
Nanjing City Commercial Bank, Nanjing

### WEBSITES:

[www.panva-gas.com](http://www.panva-gas.com)

## CHAIRMAN'S STATEMENT

On behalf of Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present to shareholders the Group's first annual report since its listing on GEM.

Year 2001 was a significant year and a year of outstanding performance for the Group.

The Company's shares (the "Shares") were listed on GEM on 20 April 2001 through a placing of 95,000,000 new shares. The capital market responded favourably to the listing, as reflected by the share price performance. The net proceeds arising from the placing amounted to approximately HK\$41,229,000. The listing not only increased the Group's financial stability but also increased its business development opportunities.

The Group's turnover was approximately HK\$1,008,335,000, which is in line with that of last year. Profit attributable to shareholders increased substantially to approximately HK\$31,693,000. Earnings per share were 6.71 cents compared to 0.20 cents in 2000.

### Review of the Environment

Realising that a reduction in environmental pollution can significantly benefit economic growth, the People's Republic of China (the "PRC") government has initiated an ongoing strategy to protect the environment while catering for people's livelihoods. This involves timely policies and measures to restructure and enhance the energy sector, to speed up the development of premium energy, and to encourage end-users to switch to quality energy. In the urban areas, clean and efficient energy products such as LP Gas and natural gas are replacing coal and petrol as the major energy sources for transportation and domestic use. All these have brought great opportunities for the Group's businesses and facilitated its developments.

Moreover, with the economic growth and improvement in living standards in recent years, the PRC citizens can now afford more expensive quality energy products such as oil, gas and electricity, and become more discriminating in their choice of products in the market. This has further benefited the Group's business development in the PRC. Building on a solid customer base and capitalising on a growing market, the Group enjoys huge growth potential in the PRC market.

During 2001, the PRC's "West to East Natural Gas Pipelines Project" proceeded at great speed, leading to a significant growth in the natural gas market and an increase in upper-stream production and transportation. As the PRC government is further speeding up the Project in 2002 while local cities are expanding their urban infrastructure developments, the Group will be able to strengthen its foundations to sustain a solid growth in its PRC operations.



## CHAIRMAN'S STATEMENT

Under the PRC government's planning, year 2001 and the subsequent years will be a period of rapid urbanisation in the country. This will generate a strong demand for infrastructural facilities and provide a powerful impetus to the growth of relevant industries such as housing, transportation, water and gas supply. Among them, the housing and transportation industries will be significant driving forces to most other industries and the related sectors. In addition, the increase in urbanisation will lead directly to changes in income distribution and consumption habits. Presently, most urban households in the PRC have met the basic needs of clothing and food and certain appliances. They are now heading towards better housing, transportation and living standards. In the coming years, a new round of consumption focusing on home and vehicle purchases will emerge and grow rapidly, which will be a major driving force to the growth of various industries. It is expected that the construction and real estate industries will grow at a rate at least five percentage points higher than the national GDP growth.

Given this background, the demand of PRC citizens for gas, in particular piped gas, will markedly increase along the anticipated strong growth in home purchase and replacement. This expected scenario fully matches with the Group's development strategy of focusing on gas pipelines construction in the coming years. Moreover, increasing industrial and commercial activities will ensure the continuing growth of gas demand from these sectors and will benefit the Group, which is further expanding its gas businesses in these sectors.

The PRC is taking active measures to restructure its regional economies. For instance, the PRC's government is promoting the development of the south-western region of the PRC with the aim of enhancing its economic growth. To capitalise on this trend, the Group has increased the share capital of Pan River Gas (China Southwest) Co., Ltd. ("Panva Southwest") and established Panva Gas (Yunnan) Co., Ltd. ("Yunnan Panva") in 2001. The Group believes that its projects in the western region will continue to enable the Group to enjoy good returns.

### Gas Resources

In 2001, the PRC government carried out the second round of oil and gas assessment, which confirmed the rich resources of natural gas in the country. It is estimated that a total of 38,000 billion cubic metres of natural gas is available in 69 basins and regions, with 2,000 billion cubic metres being confirmed. Regions that are estimated to possess natural gas resources of more than 1,000 billion cubic metres include Talimu, Sichuan, Shanxi-Gansu-Ningxia, Donghai, Bohaiwan, Yinggewan, southeast Hainan, Zhujiangkou, Zhungeer and

Chaidamu. Given the enormous size of these reserves, the PRC will eventually be among the major country in natural gas resources. This will further strengthen the foundations of the development in down low-stream natural gas market and related production industries. However, the current annual output of natural gas in the PRC only amounts to 27 billion cubic metres and accounts for a mere 3% in one-off-use energy resources.



## CHAIRMAN'S STATEMENT

Despite the forecast output level of 50 billion to 60 billion cubic metres in year 2005, it is still much lower than the average output amount in Asia or the world. This situation creates tremendous opportunities for the Group in developing gas related businesses along the main pipelines of natural gas supply in the PRC.

### Prospects

I believe that the Company is entering a period of high growth. Equipped with a proficient management team, high quality assets generating a stable income, a renowned reputation and a respected brand name, the Company should enjoy a higher return than its trade counterparts.

With a strong cash balance of over HK\$143 million that can be used to fund future expansion, the Group will continue to focus on the enhancement of its LP Gas operations and natural gas operations, including infrastructural development, sale and distribution, transportation and storage, and related services. The Group will also, if necessary, participate in acquisitions and mergers to swiftly expand its market share. Given the continuous rise in the living standards in the PRC, the PRC government's commitment to environmental protection and the use of green energy sources, the Group will be able to capitalise on its competitive advantages to generate higher returns to shareholders.

### Appreciation

I wish to express my sincere thanks and gratitude to the other Board members and all staff for the outstanding results achieved during the year.



**Ou Yaping**

*Chairman*

Hong Kong, 22 March 2002

## MANAGING DIRECTOR'S REPORT

The strategy of the Group has gradually been reflected in the financial results of the Group in 2001.

### Review of Operations

For the year ended 31 December 2001, the Group recorded a turnover of approximately HK\$1,008,335,000, representing a slight decrease of approximately 4.85% from the previous year. The gross profit margin increased significantly from 4.59% in 2000 to 12.68% in 2001. The increase in gross profit margin was mainly attributable to the increase in the proportion of the retail business of the Group which commands a higher gross profit margin than the wholesale operation. Profit attributable to shareholders increased significantly to approximately HK\$31,693,000 from approximately HK\$828,000 last year.

### Group Structure

During the year, the Group underwent a reorganisation to rationalise the Group structure by rolling the operating subsidiaries in the PRC into the Group's wholly-owned PRC incorporated investment holding company, Panriver Investments Company Limited ("Panriver Investments").

The Group added two new operating subsidiaries during the year, namely Yunnan Panva and Ziyang Gas Company. One other operating subsidiary in Nanjing is currently being established. During the year, Pan River Gas (Guizhou) Co., Ltd. increased its registered capital and changed its name into Panva Southwest.

### THE GROUP'S MAIN AREA OF OPERATION





## MANAGING DIRECTOR'S REPORT

### *Panva Southwest*

Panva Southwest, a Sino-foreign equity joint venture which is indirectly owned as to 50.1% by the Company, increased its registered capital from RMB16,000,000 (equivalent to approximately HK\$14,967,259) to RMB57,500,000 (equivalent to approximately HK\$53,788,587). The Board believes that Panva Southwest is ideally positioned to utilise the scale economy and strengthen the Group's competitive advantage by strategically managing the development in the south-western region of the PRC. Yunnan Panva is under the direct management of Panva Southwest.

### *Yunnan Panva*

The Group through Panva Southwest entered into a joint venture agreement with two independent third parties to set up Yunnan Panva, a Sino-foreign equity joint venture in Kunming, Yunnan Province in the PRC, to engage in the sale and distribution of LP Gas and LP Gas related products. The capital contribution of Panva Southwest was RMB33,500,000 (equivalent to approximately HK\$31,337,699) representing approximately 56.94% of the registered capital of Yunnan Panva.

To facilitate the contribution of the amount of RMB33,500,000 to Yunnan Panva, Panva Southwest increased its registered capital and as a result the Company contributed approximately RMB20,000,000 (equivalent to approximately HK\$18,709,073) to the capital of Panva Southwest pro-rata to its percentage of attributable interests in Panva Southwest and the other joint venture partner of Panva Southwest contributed RMB20,000,000 (equivalent to approximately HK\$18,709,073) to the capital of Panva Southwest. Out of the Company's contribution of RMB20,000,000 (equivalent to approximately HK\$18,709,073), approximately HK\$18,000,000 was funded by the net proceeds from the placing of 95,000,000 Shares pursuant to the prospectus of the Company dated 10 April 2001 (the "Prospectus") and the remaining balance in the amount of approximately HK\$709,073 was funded by internal resources of the Group.

### *Ziyang Gas Company*

During the year, the Group officially commenced the provision of natural gas and natural gas related products and services by acquiring 90% equity interest in Ziyang Gas Company, a reformed state-owned enterprise established in the city of Ziyang (資陽市), Sichuan Province in the PRC. Total consideration for the acquisition was RMB15,000,000 (equivalent to approximately HK\$14,031,805) which was funded by internal resources of the Group.

Ziyang is located approximately 90 Kilometres southeast of Chengdu in the Sichuan Province of the PRC covering an area of approximately 8,000 square kilometres. The city has a population of 4.9 million with an urban population of approximately 200,000. The penetration rate of natural gas pipeline is only 30% in urban area, and 1.5% for the entire city.

Ziyang Gas Company is principally engaged in the provision of natural gas to the city of Ziyang and is also responsible for the construction, maintenance, ownership and operation of the city pipeline network of Ziyang. The total length of the pipeline under construction is approximately 328 km. As part of the acquisition, the government of Ziyang has granted a 50-year exclusive operation rights to Ziyang Gas Company.

## MANAGING DIRECTOR'S REPORT

### *Gaochun Joint Venture*

The Group through Panriver Investments and Nanjing Panva LPG Company Ltd. ("Nanjing Panva"), a 55% indirectly owned subsidiary of the Company, entered into an agreement with the local government of Gaochun (高淳縣). Gaochun is a suburb of the city of Nanjing in the Jiangsu province in the PRC with a population of approximately 430,000 covering an area of approximately 802 square kilometres with an urban population of approximately 110,000. In accordance with the terms of the agreement, Panriver Investments and Nanjing Panva are to establish a Sino-foreign equity joint venture in Gaochun ("Gaochun Panva") with its principal business being the exclusive development, construction, ownership and operation of gas pipelines in Gaochun. The registered capital and total investment of the joint venture is US\$1,010,000 (equivalent to approximately HK\$7,807,300) with Panriver Investments holding 51% of the registered capital and Nanjing Panva holding the remaining 49%. The local government of Gaochun will grant Gaochun Panva certain benefits such as exclusive operation, tax relieves, and so on.

### **Wholesale of LP Gas**

Included in wholesale of LP Gas are sale of LP Gas in bulk and sale of LP Gas in cylinders to wholesale customers. Wholesale of LP Gas is the Group's main business activity recording a turnover of approximately HK\$796,241,000, representing a decrease of approximately 17.21% from the turnover of approximately HK\$961,751,000 recorded last year. This is mainly due to 揚子石油化工股份有限公司 ("Yangzi Petrochemical"), the supplier of LP Gas to a subsidiary of the Company, namely Yangzi Petrochemical Baijiang Energy Co., Ltd. ("Yangzi Panva") is required to undergo a major maintenance overhaul scheduled once every two years in July 2001. As a result, LP Gas available for sale was reduced affecting the turnover of the Group. In view of this, Yangzi Panva arranged to source LP Gas from other suppliers, however, the pricing was not more favourable than Yangzi Petrochemical hence Yangzi Panva reduced its overall purchase.

Sale of LP Gas in cylinders to wholesale customers is supplemental to the Group's retail business as it provides a revenue source by utilizing the Group's cylinders filling facilities.



### **Retail Sales**

Included in retail sales are sale of LP Gas in cylinders to retail customers, the provision of piped LP Gas, and the provision of piped natural gas. During the year, the Group made significant efforts to expand its retail business. For the year ended 31 December 2001, retail sales amounted to approximately HK\$189,687,000, representing a significant increase of approximately 98.85% from last year. Nanjing Panva, an operating subsidiary of the Company which commenced operations in October 2000, accounted for most of the increase.

The Group's end-user household customers are now estimated to be over 1,150,000 households, an increase of approximately 43.75% when compared to last year. The

increase is a reflection of the Group's commitment to expand its retail operations by strengthening its customer management and the continuous improvement of customer services.

Although the provision of piped LP Gas and piped natural gas accounted for less than 1% of total turnover in 2001, it has increased substantially when compared to previous year. Together with the sale of LP Gas in cylinders to retail customers, the provision of piped gas will be the main focus of expansion for the Group in the coming years.

### **Gas Pipeline Construction**

During the year, the Group commenced the provision of gas pipelines construction for end-user customers in support of the piped gas provision business. Through the construction of piped gas stations, main pipelines and branch gas pipeline networks, the Group is able to supply LP Gas directly into the homes of the end-user customers. Gas pipelines construction works are usually contracted with property developers or property management companies for which the Group receives a one-off connection fee in the range of between RMB2,000 to RMB3,200 for each household connected.

For the year ended 31 December 2001, revenue received from the gas pipeline construction business amounted to approximately HK\$10,191,000, accounting for approximately 1% of total turnover.

The Group has established a "Piped Gas Task Force" to centralise the management, planning, evaluation, development and control of the gas pipelines construction operations of the Group. Since its establishment, the Piped Gas Task Force has completed detailed studies on the piped gas markets in the Jiangsu, Zhejiang, Shangdong, and Sichuan provinces. The Group has commenced the feasibility evaluation of possible piped gas development projects and has commenced discussions with certain local operators on the possible business partnerships in some of these areas. The Group intends to devote significant effort on the expansion of the gas pipeline construction business in the coming years.

### **Land Acquisition**

The government allocated land currently occupied by Yangzi Panva's LP Gas storage station was acquired from the land authorities during the year for a total consideration of approximately RMB12,922,000 (equivalent to approximately HK\$12,088,000) which was funded by internal resources of the Group.

### **Financial Position**

The Group's short term bank and other borrowings increased slightly from approximately HK\$2,713,000 in 2000 to approximately HK\$3,274,000 in 2001. Borrowings are mainly used as working capital by some operating subsidiaries in the PRC. The Group ended the year with a current ratio of approximately 2.55 times and a gearing (short term bank and other borrowings to equity) of approximately 2.50%.

## MANAGING DIRECTOR'S REPORT

Total assets pledged in securing these loans have a net book value of approximately HK\$8,337,000 as at 31 December 2001. All borrowings are denominated in RMB and as the operation of the Group is carried out in the PRC, all receipts and payments in relation to operation is denominated in RMB. In this respect the Group is not exposed to any foreign exchange exposure risk. No financial instruments were used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK\$142,867,000 as at 31 December 2001 and are mostly denominated in RMB, Hong Kong dollars and US dollars.

### **Contingent Liabilities**

The Group has no material contingent liabilities as at the balance sheet date.

### **Employees and Remuneration Policies**

As at 31 December 2001, the Group had 2,433 full time employees, of which approximately 99% are located in the PRC.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. Other benefits, such as medical and retirement benefits, are also provided.

### **Prospects**

Given the continuing strong growth of the PRC economy, which proved to be the world's rare bright spot in the past year, we have reason to believe that the PRC's energy and environmental protection sectors will continue to benefit from such favourable environment and continue to develop rapidly. Hence, the management is highly confident about the Group's prospects. The remarkable performance of the Group's businesses during the year has convinced the Board that the existing projects will continue to flourish in a strong manner.

Building on established solid foundations, the Group will further expand the LP Gas and related businesses, strengthen its corporate management and improve its development planning, with the ultimate objective of generating satisfactory returns for shareholders. The Group will focus on further increasing its solid retail customer base by concentrating on the development of gas pipelines construction projects and the natural gas operations.

Looking ahead, the Group will strive to accomplish the following plans:

- Given the enormous market potential in south-western PRC and the established policy of the PRC government to develop the region, the Group will expedite its penetration into this market through Panva Southwest and Yunnan Panva. By further increasing its market share in the gas market and developing gas-related projects, in particular city natural gas pipeline projects through equity investment or

acquisitions, the Group can benefit from the expected rapid economic development of the western region. With the "West to East Natural Gas Pipelines Project" moving in full steam, natural gas will account for an increasingly higher share of the PRC's energy market. Hence, the Group has increased its pace in the preparation works for the development of the south-western and eastern regions. These include project investigations, assessments and negotiations as well as the strengthening of related human and capital resources to ensure that the launch of the projects meets or exceeds the target.

- The Group will ensure that all its operating subsidiaries have clear operation targets and detailed development plans and will closely monitor their implementations. It will capitalise on its organisational advantages to exercise overall control on allocation of resources. Consolidation and rationalisation measures will be introduced to the Hunan joint ventures covering capital and human resources management, marketing and purchasing in order to maximise the Group's economy-of-scale benefits from operating in the Hunan region. The Group will also adopt a standard management system throughout its subsidiaries, in particular a unified financial management system with appropriate auditing and control measures. By strengthening the management of the subsidiaries' finance and responsible staff, the Group will be able to reinforce the solid foundation already established. As for brand and retail services management, the Group will revise its retail services manual to adopt unified standards on product quality and service quality. At the same time, the Group will increase its human resources management efforts which will include the development of an effective evaluation and incentive system, the implementation of various training programmes and systematic recruitment drives. Through these measures, the Group aims to further develop the end-user retail market and increase its market share. By having a higher influence and leverage in the marketplace, the Group will be able to sustain a continued growth in its profitability.

### **Appreciation**

On behalf of the Board, I would like to express our gratitude to all staff for their devoted efforts and hard work during the year.

By Order of the Board

**Chen Wei**

*Managing Director*

Hong Kong, 22 March 2002

## DIRECTORS AND OFFICERS

### DIRECTORS

#### Executive Directors



Mr. Ou Yaping, aged 40, the chairman, founder and ultimate controlling shareholder of the Company. He is also the chairman and managing director of Sinolink Worldwide Holdings Limited (“Sinolink”). He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC and is also the vice chairman of the board and a part-time professor of that institute. He was previously employed by a number of trading companies and investment companies in the PRC and Hong Kong and is presently a director of China Merchants Bank of the PRC. Mr. Ou has 16 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Group.



Mr. Chen Wei, aged 40, managing director of the Company. He is also an executive director of Sinolink. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC. He was previously employed by a number of other large organisations and has over 16 years of experience in the engineering business administration, market development and management. Mr. Chen joined the Sinolink Group in February 1992 and is responsible for the operation and administration of the power generation business and the gas fuel business.



Mr. Lai Wen Guang, aged 39, deputy managing director of the Company. He holds a Diploma from China Social University. Mr. Lai has 16 years of experience in the trading, investment and management in the oil and gas fuel business. He joined the Sinolink Group in July 1997 and is responsible for the development of gas fuel.



Mr. Lau Shi Wa, aged 40, executive director. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology and a Master of Engineering Management degree from China Metallurgy University. He has 14 years of experience. He joined the Sinolink Group in January 1996 and is responsible for the management and market development of the gas fuel business.

## DIRECTORS AND OFFICERS

Mr. Li Fujun, aged 39, executive director. He holds a Bachelor of Engineering degree from Tsinghua University and a Master of Economics degree from the University of International Business and Economics. He has 9 years of experience in project evaluation and strategic planning, investment analysis, engineering work, as well as project management and investment. Mr. Li joined the Sinolink Group in May 1994 and is responsible for the strategic planning, investment and management of the gas fuel.



Mr. Tang Yui Man, Francis, aged 39, executive director. Mr. Tang is also executive director of Sinolink. He graduated with a Bachelor degree in computer studies from the University of Victoria in Canada and with a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang is a qualified accountant in the United States and has numerous years of experience in management, accounting and finance. Mr. Tang is responsible for corporate planning, strategic development and financial planning and management of the Company.



### **Non-executive Directors**

Mr. Zheng Dunxun, aged 64, graduated from Beijing Foreign Trade Institute. Mr. Zheng previously served as an officer, division chief, chief representative to Japan, vice president and president of China National Chemicals Import & Export Corporation (SINOCHEM). He was also appointed as a member of China Council for the Promotion of International Trade, vice chairman of China International Trade Association and vice chairman of the board of First Pacific Bank Limited. At present, he is a member of the Economy Committee under this organisation. Mr. Zheng is also vice chairman of the board of Sinochem Hong Kong (Holdings) Co., Ltd.. He has been a non-executive director since February 2001.

### **Independent non-executive Directors**

Mr. Cheung Hon Kit, aged 48, has over 24 years experience in the real estate development, property business and corporate finance. Mr. Cheung graduated from the University of London with a Bachelor Degree (Hons.) in Arts. He has worked in key executive position in various leading property companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and Paul Y.-ITC Construction Holdings Limited and the executive vice chairman of China Land Group Limited. He is also a director of Hanny Holdings Ltd, Asean Resources Holdings Limited, hkcyber.com (Holdings) Ltd, Billybala Holdings Limited, Companion Building Material International Holdings Limited and Skynet (International Group) Holdings Limited. He has been an independent non-executive director since January 2001.

## **DIRECTORS AND OFFICERS**

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Mr. Sun Hiu Lu, aged 46, graduated from the Faculty of Trade Economy in the People's University of Beijing and holds a bachelor degree in Economy. He has been the director of Mark Victory International Limited and Sinogrowth Investment Limited since 1996. Mr. Sun has many years of experience in investment and corporate management. Mr. Sun has been the chairman of Hong Kong pharmaceutical Holdings Limited since June 1999. He been an independent non-executive director since January 2001.

### **COMPLIANCE OFFICER**

Mr. Li Fujun, aged 39, is an executive director of the Company.

### **QUALIFIED ACCOUNTANT AND COMPANY SECRETARY**

Mr. Yu Man To, Gerald, *MBA, CPA (Aust) AHKSA*, aged 35, is the financial controller and company secretary of the Company.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary comparison of the actual business progress for the period from 1 July 2001 to 31 December 2001 (the "Review Period").

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<b>BUSINESS DEVELOPMENT</b>		
<b>Business operation coverage</b>	Guizhou Hunan Anhui Jiangsu Yunnan	Guizhou Hunan Anhui Jiangsu Yunnan Sichuan
<b>Setting up operating subsidiary</b>	<p><b>Kunming</b> Joint venture operation begins</p> <p><b>Changsha</b> The enlarged retail business in Changsha commences operation</p> <p><b>Chongqing</b> Negotiation with a local LP Gas operator</p>	<p><b>Kunming</b> Joint venture operation begins</p> <p><b>Changsha</b> Currently in discussion with a local LP Gas operator on details of the joint venture agreement to expand the retail business of Changsha</p> <p><b>Chongqing</b> Negotiation commenced with several potential operators</p> <p><b>Ziyang, Sichuan</b> Acquisition agreement signed and commenced operation</p> <p><b>Gaochun, Nanjing</b> Joint venture agreement signed</p>

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<b>Market research</b>	Completion of market research on the LP Gas market in Wuhan and Chongqing	Market research completed on Wuhan and Chongqing
	Completion of market research on the LP Gas automobile market in Kunming	Market research completed on Kunming
<b>IMPROVING OPERATIONAL EFFICIENCY</b>	Completion of the feasibility study on the implementing an Enterprise Resources Planning System	The feasibility study was completed during the Review Period
	Completion of the overall procurement plan for the year 2002	Procurement plan for the year 2002 completed
	Commence the negotiation and development of a telephone ordering / payment system in Changsha and Guiyang	Negotiation commenced
	Completion of the centralisation and computerisation of the customer database at operating subsidiaries level	Out of the 15 operating subsidiaries of the Group, 12 have implemented computerised customer database
<b>BRAND BUILDING</b>	Advertise in local newspaper in major cities	Advertisements were made in some cities

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<b>OPERATION FACILITIES</b>		
<b>(figures cumulative)</b>		
Storage tank capacity (cubic metres)	32,000	26,000
Tank train capacity (tonnes)	2,450	4,050
Tank lorry capacity (tonnes)	295	250
Cylinders truck capacity (tonnes)	350	360
No. of tank train unloading depot	10	10
No. of LP Gas vessel unloading platform	2	1
No. of retail outlets	190	198
No. of piped gas stations	56	28
No. of automobile LP Gas filling stations	—	—
<b>HUMAN RESOURCES</b>		
<b>DEPLOYMENT</b>		
<b>No. of staff</b>		
Management	115	130
Finance and administration	230	238
Sales and distribution	1,240	1,315
Production, purchase and supply	715	750
Total	2,300	2,433
<b>USE OF PROCEEDS</b>		
Setting up of new joint venture in Kunming	—	18,000,000
Setting up of new joint venture in Changsha	16,000,000	
Sales and marketing propaganda	1,100,000	250,000
General working capital	2,000,000	2,200,000
	<u>19,100,000</u>	<u>20,450,000</u>

## VARIANCES BETWEEN THE BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS AND THE ACTUAL BUSINESS PROGRESS FOR THE REVIEW PERIOD

### **The Kunming Project**

The proceeds in setting up of a joint venture in Kunming was intended to be used in the first half of the year, however as the joint venture agreement was signed on 1 July 2001, the use of proceeds was shifted to the second half of the year.

### **The Changsha Project**

The Group has been negotiating on the details of the possible expansion of the retail market in Changsha with a potential joint venture partner for the past several months. Major issues, such as the types and quality of the fixed assets, existing employees to be retained, and so on, are still being negotiated. The Group plans to continue with the negotiation, and hope to complete the negotiation as soon as possible ensuring that all issues are satisfactorily addressed.

### **Operational Facilities**

*Storage tank facilities* — The variance is mainly due to the expansion of the retail business of Pan River Enterprises (Chang-sha) Co., Ltd. (“Changsha Panva”) is still under negotiation.

*Tank train capacity* — The additional tank trains were acquired for the expanding operation of the south-western region of the PRC, providing a stable supply for Yunnan Panva and Panva Southwest.

*Piped gas stations* — The variance is mainly due to the expansion of the retail business of Changsha Panva is still under negotiation.

The directors present their first annual report and the audited financial statements of the Company from 16 November 2000 (date of incorporation) to 31 December 2001 and of the Group for the year ended 31 December 2001.

### **Corporate reorganisation**

The Company was incorporated in the Cayman Islands with limited liability on 16 November 2000 under the name of Panva Holdings Limited. With the approval of the Registrar of Companies in Cayman Islands, the Company's name was changed to Panva Gas Holdings Limited with effect from 22 March 2001.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group on 4 April 2001. Details of the group reorganisation are set out in note 1 to the financial statements.

The shares of the Company were listed on GEM with effect from 20 April 2001.

### **Principal activities**

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 36 to the financial statements.

### **Results and appropriations**

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 33 of the annual report.

The directors do not propose the payment of a final cash dividend and the profit for the year ended 31 December 2001 will be retained.

The directors propose a bonus issue of shares, credited as fully paid by way of capitalisation of part of the Company's share premium account, on the basis of one share for every five existing shares held by the shareholders of the Company, conditional on Shareholders' approval at the annual general meeting on 22 April 2002, the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the bonus shares.

### **Financial summary**

A summary of the results of the Group for each of the four years ended 31 December 2001 is set out on page 67 of the annual report.

### **Property, plant and equipment**

The Group's leasehold land and buildings were revalued at 31 January 2001. The revaluation resulted in a deficit and a surplus over book values amounting to HK\$1,851,000 and HK\$7,488,000 respectively, which has been debited directly to the consolidated income statement and credited directly to the properties revaluation reserve.

## REPORT OF THE DIRECTORS

### **Property, plant and equipment** *(continued)*

Details of this and other movements during the year in the property, plant and equipment of the Group is set out in note 13 to the financial statements.

### **Share capital**

Details of movements during the year in the authorised and issued share capital of the Company are set out in note 23 to the financial statements.

### **Reserves**

Details of movements during the year in the reserves of the Group and of the Company are set out in note 24 to the financial statements.

### **Directors**

The directors of the Company since its date of incorporation and up to the date of this report were:

#### **Executive Directors:**

Mr. Ou Yaping ( <i>Chairman</i> )	(appointed on 16 November 2000)
Mr. Chen Wei ( <i>Managing Director</i> )	(appointed on 8 January 2001)
Mr. Lai Wen Guang	(appointed on 8 January 2001)
Mr. Lau Shi Wa	(appointed on 8 January 2001)
Mr. Li Fujun	(appointed on 8 January 2001)
Mr. Tang Yui Man, Francis	(appointed on 12 November 2001)

#### **Non-executive Directors:**

Mr. Zheng Dunxun	(appointed on 20 February 2001)
Mr. Cheung Hon Kit	(appointed on 8 January 2001)
Mr. Sun Hiu Lu	(appointed on 8 January 2001)
Mr. Yim Chun Leung	(appointed on 8 January 2001 and resigned on 1 March 2002)

In accordance with the provisions of the Company's Articles of Association, apart from the managing director, all the directors will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Each of the independent non-executive directors was appointed for a period commencing from his appointment date to the annual general meeting for the year ended 31 December 2001.

### **Directors** *(continued)*

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is of three years duration commencing on 1 April 2001 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of three years;
- (ii) the monthly salary for each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun for the period from 1 April 2001 to 31 March 2004 shall be HK\$100,000, HK\$46,600 and HK\$34,000 respectively, such salary to be reviewed annually by the board of directors based on the results and performance of the Company. For the period from 1 April 2004, the salary of each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun shall be determined by the board of directors;
- (iii) each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun is entitled to such management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items ("Net Profits") as the board of directors may approve provided that the aggregate amount of management bonuses payable to all executive directors in respect of any financial year of the Group shall not exceed 5% of the Net Profits for the relevant financial year; and
- (iv) each such director shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of directors regarding the amount of annual salary and management bonus payable to himself.

Save as disclosed herein, none of the directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## REPORT OF THE DIRECTORS

### Directors' interests in shares and share options

As at 31 December 2001, the interests of the directors of the Company and their respective associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (i) Interests in shares of the Company

Name of director	Nature of interests	No. of shares held
Mr. Ou Yaping	Corporate	399,868,000 ( <i>Note</i> )

*Note:* The 399,868,000 shares represent (i) 389,800,000 shares held by Kenson Investment Limited ("Kenson"), a company incorporated in the BVI in which Mr. Ou, through Asia Pacific Promotion Limited ("Asia Pacific"), has an indirect interest of 66.42%. Mr. Ou was deemed (by virtue of SDI Ordinance) to be interested in these shares. (ii) 10,068,000 shares held by Asia Pacific which is legally and beneficially owned by Mr. Ou.

#### (ii) Interests in shares in associated corporations

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant group members
Mr. Ou Yaping	Kenson	Corporate ( <i>Note 1</i> )	1 ordinary share
Mr. Ou Yaping	Sinolink	Corporate ( <i>Note 1</i> )	1,115,989,000 ordinary shares
Mr. Ou Yaping	Asia Pacific	Personal	1 ordinary share
Mr. Ou Yaping	Chenzhou Pan River Gas Industry Co. Ltd. 郴州百江燃氣實業有限公司	Corporate	55%



### Directors' interests in shares and share options *(continued)*

#### (ii) Interests in shares in associated corporations *(continued)*

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant group members
Mr. Ou Yaping	China Overlink Holdings Co. Limited	Corporate	1 share of US\$1 each
Mr. Ou Yaping	Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	Corporate	55%
Mr. Ou Yaping	Pan River Enterprise (Changde) Co. Ltd. 常德百江能源實業有限公司	Corporate	85%
Mr. Ou Yaping	Pan River Enterprises (Chang-Sha) Co. Ltd. 長沙百江能源實業有限公司	Corporate	60%
Mr. Ou Yaping	Pan River Enterprises (Hengyang) Co. Ltd. 衡陽百江能源實業有限公司	Corporate	84%
Mr. Ou Yaping	Pan River Enterprises (Wuhu) Co. Ltd. 蕪湖百江能源實業有限公司	Corporate	55%
Mr. Ou Yaping	Pan River Investments Company Limited 百江投資有限公司	Corporate	100%

## REPORT OF THE DIRECTORS

### Directors' interests in shares and share options *(continued)*

#### (ii) Interests in shares in associated corporations *(continued)*

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant group members
Mr. Ou Yaping	Pan River Gas (China Southwest) Co. Ltd. 百江西南燃氣有限公司 (formerly known as Pan River Gas (Guizhou) Co. Ltd. 貴州百江燃氣有限公司)	Corporate	50.1%
Mr. Ou Yaping	Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	Corporate	56.94%
Mr. Ou Yaping	Singkong Investments Limited	Corporate	100%
Mr. Ou Yaping	Sinolink International Investment (Group) Limited	Corporate	1 share of US\$1 each
Mr. Ou Yaping	Sinolink LPG Investment Limited	Corporate	1 share of US\$1 each
Mr. Ou Yaping	Sinolink Power Investment Limited	Corporate	1 share of US\$1 each
Mr. Ou Yaping	Wuhu Pan River Enterprises Jiangbei Co. Ltd. 蕪湖百江江北能源有限公司	Corporate	51%
Mr. Ou Yaping	Nanling Pan River LPG Co. Ltd. 南陵百江液化氣有限責任公司	Corporate	55%
Mr. Ou Yaping	Xiangtan Pan River Energy 湘潭百江能源實業有限公司	Corporate	55%

## REPORT OF THE DIRECTORS

### Directors' interests in shares and share options *(continued)*

#### (ii) Interests in shares in associated corporations *(continued)*

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant group members
Mr. Ou Yaping	Yiyang Pan River Enterprises Co. Ltd. 益陽百江能源實業有限公司	Corporate	60%
Mr. Ou Yaping	Yongzhou Pan River Enterprises Co. Ltd. 永州百江能源實業有限公司	Corporate	60%
Mr. Ou Yaping	Yangzi Petrochemical Baijiang Energy Resources Co. Ltd. 揚子石化百江能源有限公司	Corporate	50% <i>(Note 2)</i>
Mr. Ou Yaping	Ziyang Gas Company 資陽燃氣總公司	Corporate	90%

*Note:*

- These shares are held by Kenson in which Mr. Ou Yaping, through Asia Pacific, a company wholly-owned by Mr. Ou Yaping, and Sinolink a company in which Asia Pacific holds approximately 66.42%, holds more than 50%. Therefore, Mr. Ou Yaping is deemed (by virtue of the SDI Ordinance) to be interested in these shares.
- Yangzi Petrochemical Baijiang Energy Resources Co. Ltd. is a subsidiary of the Company because the Company has control over the board of directors.

## REPORT OF THE DIRECTORS

### Directors' interests in shares and share options *(continued)*

#### (iii) Interests in share options

Name of director	Date of grant	Exercisable period	Exercise price HK\$	Number of share options held
Mr. Ou Yaping	04.04.2001	01.01.2003 - 03.04.2011	0.57	1,500,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	1,500,000
Mr. Chen Wei	04.04.2001	01.01.2003 - 03.04.2011	0.57	1,500,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	1,500,000
	13.11.2001	13.02.2002 - 13.02.2007	1.13	900,000
	13.11.2001	13.05.2002 - 13.02.2007	1.13	900,000
	13.11.2001	13.11.2001- 13.02.2007	1.13	1,200,000
Mr. Lai Wen Guang	04.04.2001	01.01.2003 - 03.04.2011	0.57	1,000,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	1,000,000
	13.11.2001	13.02.2002 - 13.02.2007	1.13	240,000
	13.11.2001	13.05.2002 - 13.02.2007	1.13	240,000
	13.11.2001	13.11.2002 - 13.02.2007	1.13	320,000
Mr. Lau Shi Wa	04.04.2001	01.01.2003 - 03.04.2011	0.57	500,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	500,000
Mr. Li Fujun	04.04.2001	01.01.2003 - 03.04.2011	0.57	1,000,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	1,000,000
	13.11.2001	13.02.2002 - 13.02.2007	1.13	300,000
	13.11.2001	13.05.2002 - 13.02.2007	1.13	300,000
	13.11.2001	13.11.2002 - 13.02.2007	1.13	400,000
Mr. Tang Yui Man, Francis	13.11.2001	13.02.2002 - 13.02.2007	1.13	600,000
	13.11.2001	13.05.2002 - 13.02.2007	1.13	600,000
	13.11.2001	13.11.2002 - 13.02.2007	1.13	800,000
Mr. Yim Chun Leung	04.04.2001	01.01.2003 - 03.04.2011	0.57	500,000
	04.04.2001	01.01.2004 - 03.04.2011	0.57	500,000

Save as disclosed above, none of the directors and their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register as at 31 December 2001 maintained under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange.

### **Directors' interests in shares and share options** *(continued)*

At no time during the year was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

### **Share options**

#### (a) Pre-Listing Share Option Scheme

Pursuant to a Pre-Listing Share Option Scheme approved by resolutions of the sole shareholder of the Company dated 4 April 2001, share options (the "Pre-Listing Options") were granted during the year at an exercise price of HK\$0.57, the issue price of the Company's shares on listing on GEM. 50% of the Pre-Listing Options are exercisable from 1 January 2003 with the remaining 50% exercisable on 1 January 2004. The Pre-Listing Options are exercisable on accumulative basis until the expiry date on 3 April 2011. The Pre-Listing Options were granted to recognised the past and present contributions of the grantees to the Group.

At 31 December 2001, the outstanding number of shares in respect of which options had been granted under the Pre-Listing Share Option Scheme was 20,900,000, representing 4.18% of the shares of the Company in issue at that date.

#### (b) Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the sole shareholder of the Company dated 4 April 2001 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

At 31 December 2001, the outstanding number of shares in respect of which options had been granted under the Scheme was 15,650,000, representing 3.13% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Pre-Listing Share Option Scheme and the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

## REPORT OF THE DIRECTORS

### Share options *(continued)*

A consideration of HK\$1 is payable on the grant of an option.

The directors believe that any statement regarding the value of options as at the year end will not be meaningful to shareholders, taking into account the unique business nature of the Group and its potential for future expansion and that comparable data required for calculation of the value of the options will not be representative of the Group.

No charge is recognised in the income statement in respect of the value of share options granted during the year.

A summary of the movements during the year in the ordinary share options granted are as follows:

#### (a) Pre-Listing Options

	Number of share options			
	Outstanding at 1.1.2001	Granted during the year	Lapsed during the year	Outstanding at 31.12.2001
Directors	—	12,000,000	—	12,000,000
Employees	—	11,400,000	(2,500,000)	8,950,000
	—	23,400,000	(2,500,000)	20,900,000

#### (b) 2001

	Number of share options			
	Outstanding at 1.1.2001	Granted during the year	Lapsed during the year	Outstanding at 31.12.2001
Directors	—	6,800,000	—	6,800,000
Employees	—	8,850,000	—	8,850,000
	—	15,650,000	—	15,650,000

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
Pre-Listing Options	04.04.2001	20 months	01.01.2003-03.04.2011	HK\$0.57
	04.04.2001	32 months	01.01.2004-03.04.2011	HK\$0.57
2001	13.11.2001	3 months	13.02.2002-13.02.2007	HK\$1.13
	13.11.2001	6 months	13.05.2002-13.02.2007	HK\$1.13
	13.11.2001	12 months	13.11.2002-13.02.2007	HK\$1.13

### Arrangements to purchase shares or debentures

Other than the issue of shares of the Company pursuant to the group reorganisation mentioned above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Directors' interests in contracts of significance

Other than as disclosed in note 30 to the financial statements, there is no contracts of significance to, which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Connected transactions

There were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

### Substantial shareholders

As at 31 December 2001, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company directly or indirectly according to the register of substantial shareholders required to be maintained under section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares</b>	<b>Approximate percentage of holding (per cent)</b>
Kenson	389,800,000	77.96
Sinolink ( <i>Note</i> )	389,800,000	77.96
Asia Pacific ( <i>Note</i> )	399,866,960	79.97
Mr. Ou Yaping via Asia Pacific ( <i>Note</i> )	399,866,960	79.97

*Note:*

The shares in which Kenson is shown as being interested are included in and duplicate with interest in the Shares held by Sinolink and Asia Pacific.

Mr. Ou is the sole beneficial shareholder of Asia Pacific. Mr. Ou is deemed under the SDI Ordinance to have an interest in the Shares held by Kenson.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2001.

## REPORT OF THE DIRECTORS

### **Sponsor's interests**

None of the Company's sponsor, Tai Fook Capital Limited ("the Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2001.

Pursuant to the agreement dated 9 April 2001 entered into between the Company and the Sponsor, the Sponsor will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 20 April 2001 to 31 December 2003.

### **Competing interests**

Mr. ZHENG Dunxun, non-executive director of the Company, is also a director Sinochem Hong Kong (Holdings) Co., Ltd. ("Sinochem"). The business of Sinochem consists of LP Gas related business, which may compete indirectly with a part of the business of the Group.

Save as disclosed in this section, none of the directors or management shareholders of the Company have any interest in any business, which may compete with the business of the Group.

### **Major customers and suppliers**

During the year, the five largest customers of the Group accounted for about 90.43% of the turnover of the Group and the largest customer accounted for about 23.86% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 97.81% of its operating costs for the year. Purchases from the single largest supplier accounted for about 46.76% of its operating costs.

Save as disclosed above, none of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 December 2001.

All transactions between the Group and its customers were carried out on normal commercial terms.



### **Audit committee**

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee has 3 members comprising 2 independent non-executive directors, Mr. Cheung Hon Kit and Mr. Sun Hiu Lu and a non-executive director, Mr. Yim Chun Leung. As Mr. Yim resigned as the non-executive director on 1 March 2002, the audit committee now comprises of two members.

During the year, the audit committee held one meeting and performed the following duties:

1. reviewed and commented on the Company's draft interim financial report.
2. met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

### **Donations**

During the year, the Group made other donations amounting to HK\$18,709.

### **Board practices and procedures**

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM of the Stock Exchange on 20 April 2001, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

### **Pre-emptive rights**

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### **Purchase, sale or redemption of the company's listed securities**

During the period from 20 April 2001, the date of the listing of the Company on GEM, to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

### **Auditors**

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the year. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors.

On behalf of the Board

**Chen Wei**

*Managing Director*

22 March 2002

## REPORT OF THE AUDITORS

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

#### **TO THE MEMBERS OF PANVA GAS HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 33 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended.

Hong Kong, 22 March 2002

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Turnover	4	<b>1,008,335</b>	1,059,729
Cost of sales		<b>(880,502)</b>	(1,011,052)
Gross profit		<b>127,833</b>	48,677
Other revenue	5	<b>1,959</b>	487
Distribution expenses		<b>(21,845)</b>	(19,335)
Administrative expenses		<b>(38,259)</b>	(25,610)
Other operating expenses	6	<b>(3,018)</b>	(847)
Profit from operations	7	<b>66,670</b>	3,372
Gain on disposal of a subsidiary		<b>283</b>	—
Finance costs	8	<b>(2,571)</b>	(319)
Investment income	9	<b>4,117</b>	3,430
Profit before taxation		<b>68,499</b>	6,483
Taxation	11	<b>—</b>	(342)
Profit before minority interests		<b>68,499</b>	6,141
Minority interests		<b>(36,806)</b>	(5,313)
Net profit for the year		<b>31,693</b>	828
		<b>HK cents</b>	HK cents
Earnings per share			
Basic	12	<b>6.71</b>	0.20
Diluted	12	<b>5.54</b>	N/A

## CONSOLIDATED BALANCE SHEET

At 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	218,130	160,713
Goodwill	15	13,073	—
Investments in securities	16	595	1,123
		<u>231,798</u>	<u>161,836</u>
<b>Current assets</b>			
Inventories	17	26,021	14,581
Trade receivables	18	66,682	10,569
Other receivables, deposits and prepayments		58,545	14,207
Amount due from minority shareholders	19	4,059	—
Bank balances and cash		142,867	154,839
		<u>298,174</u>	<u>194,196</u>
<b>Current liabilities</b>			
Trade payables	20	19,235	37,272
Other payables and accruals		86,945	29,625
Amounts due to minority shareholders	19	7,267	24,213
Borrowings	21	3,274	2,713
		<u>116,721</u>	<u>93,823</u>
<b>Net current assets</b>		<u>181,453</u>	<u>100,373</u>
<b>Total assets less current liabilities</b>		<b>413,251</b>	262,209
<b>Non-current liabilities</b>			
Amount due to a minority shareholder	19	—	9,355
Amount due to immediate holding company	22	—	163,367
Borrowings	21	100,000	—
		<u>100,000</u>	<u>172,722</u>
		<b>313,251</b>	89,487
<b>Minority interests</b>		<u>(182,103)</u>	<u>(101,435)</u>
<b>Net assets (liabilities)</b>		<u><b>131,148</b></u>	<u>(11,948)</u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2001

	<i>Notes</i>	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
<b>Capital and reserves</b>			
Share capital	23	<b>50,000</b>	—
Reserves	24	<b>81,148</b>	(11,948)
<b>Shareholders' funds (deficits)</b>		<b>131,148</b>	(11,948)

The financial statements on pages 33 to 66 were approved and authorised for issue by the board of directors on 22 March 2002 and are signed on its behalf by:

**Chen Wei**  
*Director*

**Li Fujun**  
*Director*

## BALANCE SHEET

At 31 December 2001

	<i>Notes</i>	<b>2001 HK\$'000</b>
<b>Non-current assets</b>		
Investments in subsidiaries	14	<u>64,100</u>
<b>Current assets</b>		
Other receivables, deposits and prepayments		133
Amount due from subsidiaries	14	104,079
Bank balances and cash		<u>34,076</u>
		<u>138,288</u>
<b>Current liabilities</b>		
Accrued charges		<u>1,475</u>
<b>Net current assets</b>		<u>136,813</u>
<b>Total assets less current liabilities</b>		<b>200,913</b>
<b>Non-current liabilities</b>		
Borrowings	21	<u>100,000</u>
<b>Net assets</b>		<u><u>100,913</u></u>
<b>Capital and reserves</b>		
Share capital	23	50,000
Reserves	24	<u>50,913</u>
		<u><u>100,913</u></u>

**Chen Wei**  
*Director*

**Li Fujun**  
*Director*

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2001

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Gain on revaluation of land and buildings	<b>4,973</b>	—
Exchange differences arising on translation of overseas operations not recognised in the income statement	—	(273)
Net profit for the year	<b>31,693</b>	828
Total recognised gains	<b>36,666</b>	555

## COMBINED CASH FLOW STATEMENT

For the year ended 31 December 2001

	NOTES	2001 HK\$'000	2000 HK\$'000
<b>Net cash (outflow) inflow from operating activities</b>	25	<b>(22,865)</b>	26,045
<b>Returns on investments and servicing of finance</b>			
Interest paid		(1,731)	(237)
Interest received		5,168	1,612
Dividends paid by a subsidiary to minority shareholders		(3,357)	(1,871)
<b>Net cash inflow (outflow) from returns on investments and servicing of finance</b>		<b>80</b>	(496)
<b>Taxation</b>			
Tax paid in jurisdiction outside Hong Kong		—	(34)
<b>Tax paid</b>		<b>—</b>	(34)
<b>Investing activities</b>			
Purchase of property, plant and equipment		(44,130)	(61,293)
Proceeds from sale of property, plant and equipment		1,051	1,344
Proceeds from disposal of investments		1,673	—
Disposal of a subsidiary	26	(34)	—
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	27	(7,048)	—
<b>Net cash outflow from investing activities</b>		<b>(48,488)</b>	(59,949)
<b>Net cash outflow before financing</b>		<b>(71,273)</b>	(34,434)
<b>Financing</b>	28		
Proceeds from placing		54,150	—
Placing expenses		(12,921)	—
Net proceeds from subscription monies		41,229	—
New loans raised		561	2,713
Advances from immediate holding company		733	62,657
(Repayment to) advance from minority shareholders		(26,301)	19,619
Contribution from minority shareholders		43,079	21,052
<b>Cash inflow from financing</b>		<b>59,301</b>	106,041
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(11,972)</b>	71,607
<b>Bank Balances and cash at beginning of year</b>		<b>154,839</b>	83,499
<b>Effect on foreign exchanges rates changes</b>		<b>—</b>	(267)
<b>Bank balances and cash at the end of year</b>		<b>142,867</b>	154,839



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's Shares have been listed on GEM operated by the Stock Exchange since 20 April 2001.

Pursuant to a reorganisation to rationalise the Group structure in preparation for the listing of the Shares on GEM (the "Reorganisation"), the Company acquired the entire issued share capital of China Pan River Group Limited, the then holding company of the subsidiaries included in the Reorganisation, and became the holding company of the Group on 4 April 2001. Details of the reorganisation were set out in the prospectus issued by the Company, dated 20 April 2001.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with the Statements of Standard Accounting Practice ("SSAP") 27 Accounting for Group Reconstructions issued by the Hong Kong Society of Accountants.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of LP Gas in the PRC including the sale of LP Gas in bulk and in cylinders, the provision of piped LP Gas and natural gas, construction of gas pipelines, and the sale of LP Gas and natural gas household appliances.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAP. Adoption of these Standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised Standards has resulted in the following change to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

### **Operating lease commitments**

In accordance with SSAP 14 (Revised) Leases which has introduced some amendments to the basis of accounting for operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior year adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Investments in joint ventures**

A joint venture is treated as a subsidiary if, under the joint venture control, the Group holds more than half of the joint venture Company's registered capital or the Group can control the composition of the board of directors.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Revenue recognition**

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

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

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

Gas pipelines construction 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 period. 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.

### **Operating leases**

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases.

Rentals payable in respect of operating leases are charged to income statement on a straight-line basis over the term of the respective lease.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **Property, plant and equipment**

Upon the listing of the Company's shares in the GEM of the Stock Exchange, the Group changed its accounting policies for its land and buildings, which were stated at cost to valuation at the end of each year.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Property, plant and equipment** *(continued)*

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rate per annum:

Leasehold land	Over the unexpired term of the lease or over the term of equity joint venture control which is shorter
Buildings	3% to 6%
Leasehold improvement	15%
Plant and equipment	6% to 10%
Furniture, fixtures and equipment	18% to 20%
Motor vehicles	6% to 18%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### **Construction in progress**

Construction in progress, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction works are transferred to property, plant and equipment.

#### **Impairment**

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. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment in securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all cost of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

### **Construction contracts**

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

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

### **Convertible note**

Convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Foreign currencies

Transactions in currencies other than Hong Kong Dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollar and which operate in the PRC and overseas are translated at the rates prevailing on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme in Hong Kong and state - sponsored retirement plan for its employees in the PRC.

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods provided to outside customers during the year, net of discounts and returns, value-added tax and sales tax.

As the Group is engaged only in the sale and distribution of LP Gas and over 90% of the consolidated turnover and trading results of the Group for the year is derived from the PRC, an analysis of the consolidated turnover and trading results of the Group by business and geographical location is not presented and over 90% of the assets of the Group are based in the PRC.

### 5. OTHER REVENUE

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Dividend income from unlisted investment	—	94
Exchange gain	<b>123</b>	70
Insurance claimed	<b>233</b>	—
Sundry income	<b>1,603</b>	323
	<hr/> <b>1,959</b> <hr/>	<hr/> 487 <hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 6. OTHER OPERATING EXPENSES

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Deficit on revaluation of property, plant and equipment	<b>1,851</b>	—
Donations	<b>19</b>	—
Loss on disposal of property, plant and equipment	<b>174</b>	186
Impairment loss in investment cost of Pan River Sanpeng LPG Co., Ltd.	<b>—</b>	500
Sundries	<b>974</b>	161
	<b>3,018</b>	847

### 7. PROFIT FROM OPERATIONS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	<b>981</b>	582
Staff costs		
Directors' fee	<b>—</b>	—
Directors' emoluments	<b>1,993</b>	1,523
Staff costs, excluding directors' emoluments	<b>28,936</b>	17,809
Retirement benefits scheme contributions	<b>3,449</b>	1,084
	<b>34,378</b>	20,416
Amortisation of goodwill (included in administrative expenses)	<b>267</b>	—
Depreciation	<b>16,088</b>	11,451
Operating lease rentals in respect of property, plant and equipment	<b>4,730</b>	2,164

### 8. FINANCE COSTS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Interest expenses on bank, other loans and convertible note wholly repayable within five years	<b>2,488</b>	158
Bank charges	<b>83</b>	161
	<b>2,571</b>	319

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 9. INVESTMENT INCOME

Investment income represents the interest earned on bank deposits of the Group.

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' emoluments:		
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	—	—
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>
Other emoluments (executive directors):		
Salaries and other benefits	1,993	1,523
Bonus	—	—
Retirement benefits scheme contributions	—	—
	<hr/>	<hr/>
Total emoluments	<b>1,993</b>	1,523
	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 December 2001, salaries and other benefits paid to the four executive directors were HK\$932,000, HK\$722,000, HK\$320,000 and HK\$19,000 respectively.

For the year ended 31 December 2000, salaries and other benefits paid to the three executive directors were HK\$853,000, HK\$430,000 and HK\$240,000 respectively.

Employees' emoluments:

Of the five highest paid individuals include three (2000: three) directors of the Company. The emoluments of the remaining two (2000: two) individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	<b>895</b>	788
	<hr/> <hr/>	<hr/> <hr/>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

The emoluments of the remaining highest paid individuals were within the following bands:

	<b>Number of employees</b>	
	<b>2001</b>	2000
Up to HK\$1,000,000	2	2

### 11. TAXATION

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

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Profits tax for the subsidiaries in the PRC	—	342

In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from its first profitable year of operations, followed by a 50% reduction from the third to fifth years.

Changsha Panva was exempted from income tax for the two years from 1 January 1998 to 31 December 1999 and is taxable at a concessionary tax rate of 12% for the three years from 1 January 2000 to 31 December 2002. Thereafter, the income tax rate applicable to Changsha Panva will be 24%.

China Southwest and Yangzi Panva are exempted from income tax for the two years from 1 January 2000 to 31 December 2001 and is taxable at concessionary tax rates of 12% and 16.5% respectively for the three years ending on 31 December 2004.

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

Deferred taxation has not been provided for in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the assumption that the Reorganisation had been effective on 1 January 2000 on the following data:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Profit for the year	<b>31,693</b>	<b>828</b>
Earnings for the purposes of basic earnings per share	<b>31,693</b>	
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	<b>2,235</b>	
Earnings for the purposes of diluted earnings per share	<b>33,928</b>	

	THE GROUP	
	2001	2000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>472,335,000</b>	<b>405,000,000</b>
Effect of dilutive potential ordinary shares:		
Convertible loan notes	<b>140,351,000</b>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>612,686,000</b>	

There were no potential dilutive ordinary shares in existence for the year ended 31 December 2000 and therefore, no diluted earnings per share is presented.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

## 13. PROPERTY, PLANT AND EQUIPMENT

	<b>Medium term leasehold land and buildings in the PRC HK\$'000</b>	<b>Leasehold improvements HK\$'000</b>	<b>Construction in progress HK\$'000</b>	<b>Plant and equipment HK\$'000</b>	<b>Furniture and fixtures HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
<b>THE GROUP</b>							
COST OR VALUATION							
At 1 January 2001	27,869	18	4,780	122,844	3,203	22,444	181,158
Acquired on acquisition of a subsidiary	4,520	—	19,574	298	—	124	24,516
Disposed on disposal of a subsidiary	(948)	—	—	(383)	(66)	(424)	(1,821)
Additions	25,448	—	2,424	12,281	1,241	4,737	46,131
Disposals	—	—	(523)	(10)	(21)	(2,226)	(2,780)
Net surplus on revaluation	4,022	—	—	—	—	—	4,022
Transfer	—	—	(2,732)	2,732	—	—	—
At 31 December 2001	<u>60,911</u>	<u>18</u>	<u>23,523</u>	<u>137,762</u>	<u>4,357</u>	<u>24,655</u>	<u>251,226</u>
Comprising:							
At cost	—	18	23,523	137,762	4,357	24,655	190,315
At valuation 31 December 2001	<u>60,911</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60,911</u>
	<u>60,911</u>	<u>18</u>	<u>23,523</u>	<u>137,762</u>	<u>4,357</u>	<u>24,655</u>	<u>251,226</u>
DEPRECIATION							
At 1 January 2001	2,478	2	—	11,480	678	5,807	20,445
Acquired on acquisition of a subsidiary	—	—	—	—	—	—	—
Disposed on disposal of a subsidiary	(114)	—	—	(49)	(26)	(78)	(267)
Provided for the year	2,122	2	—	9,732	633	3,599	16,088
Eliminated on disposal	—	—	—	(2)	(10)	(1,543)	(1,555)
Eliminated on revaluation	(1,615)	—	—	—	—	—	(1,615)
At 31 December 2001	<u>2,871</u>	<u>4</u>	<u>—</u>	<u>21,161</u>	<u>1,275</u>	<u>7,785</u>	<u>33,096</u>
NET BOOK VALUES							
At 31 December 2001	<u>58,040</u>	<u>14</u>	<u>23,523</u>	<u>116,601</u>	<u>3,082</u>	<u>16,870</u>	<u>218,130</u>
At 31 December 2000	<u>25,391</u>	<u>16</u>	<u>4,780</u>	<u>111,364</u>	<u>2,525</u>	<u>16,637</u>	<u>160,713</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis. Messrs. DTZ Debenham Tie Leung Limited are not connected with the Group.

No professional valuation of the leasehold land and buildings was carried out at 31 December 2001 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the Leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK\$52,523,000 (2000: HK\$25,391,000).

The Group had pledged property, plant and equipment with net book value of approximately HK\$8,337,000 (2000: HK\$8,954,000) to secure banking facilities granted to the Group (note 31).

### 14. INVESTMENTS IN SUBSIDIARIES/AMOUNT DUE FROM SUBSIDIARIES

	<b>THE COMPANY</b>
	<b>2001</b>
	<b>HK\$'000</b>
Unlisted shares	<b>64,100</b>

The carrying value of the unlisted share is based on the book values of the underlying net assets of the subsidiaries at the time they became members of the Group under the Group Reorganisation on 4 April 2001.

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries at 31 December 2001 are set out in note 36.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 15. GOODWILL

	<b>THE GROUP</b>
	<b>2001</b>
	<b>HK\$'000</b>
<b>Cost</b>	
Arising on acquisition during the year and at 31 December 2001	<b>13,340</b>
<b>Amortisation</b>	
Provided for the year and at 31 December 2001	<b>267</b>
	<hr/>
<b>Net book value</b>	
At 31 December 2001	<b>13,073</b>
	<hr/> <hr/>

The amortisation period adopted for goodwill is 20 years.

### 16. INVESTMENTS IN SECURITIES

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares in the PRC, at cost	<b>408</b>	1,123
PRC bonds, at cost	<b>187</b>	—
	<hr/>	<hr/>
	<b>595</b>	1,123
	<hr/> <hr/>	<hr/> <hr/>

### 17. INVENTORIES

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
<b>COST</b>		
Finished goods	<b>20,077</b>	12,674
Consumables	<b>5,944</b>	1,907
	<hr/>	<hr/>
	<b>26,021</b>	14,581
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 18. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 30 days to its customers.

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

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 to 90 days	63,553	5,594
91 to 180 days	576	—
181 to 360 days	247	—
Over 360 days	2,306	4,975
	<u>66,682</u>	<u>10,569</u>

### 19. AMOUNT DUE FROM/TO MINORITY SHAREHOLDERS

	2001	2000
	HK\$'000	HK\$'000
Current:		
Amounts due from minority shareholders	4,059	—
Amounts due to minority shareholders	7,267	24,213
Non-current:		
Amounts due to a minority shareholder	—	9,355
	<u>—</u>	<u>9,355</u>

The balances are unsecured, interest free and repayable on demand.

### 20. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 to 90 days	11,983	37,272
91 to 180 days	2,324	—
181 to 360 days	3,277	—
Over 360 days	1,651	—
	<u>19,235</u>	<u>37,272</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 21. BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank loans (secured)	2,713	2,713	—	—
Other loans	561	—	—	—
Convertible note	100,000	—	100,000	—
	<u>103,274</u>	<u>2,713</u>	<u>100,000</u>	<u>—</u>
The maturity of the above loans is as follows:				
On demand or within one year	3,274	2,713	—	—
More than two years but not exceeding five years	100,000	—	100,000	—
	<u>103,274</u>	<u>2,713</u>	<u>100,000</u>	<u>—</u>
Less: Amount due within one year shown under current liabilities	(3,274)	(2,713)	—	—
Non-current portion	<u>100,000</u>	<u>—</u>	<u>100,000</u>	<u>—</u>

The convertible loan note was issued on 4 April 2001. The note is convertible into shares of the Company from the date of issue up to the third anniversary of the date of issuance. The price at which each share shall be issued upon conversion shall be HK\$0.7125 per share. The outstanding unconverted principal amount of the note will be redeemed on 1 April 2004 at par. Interest of 3% is paid per annum. Details of the convertible note are set out in Appendix III to the Prospectus.

### 22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The balance represents current account with the immediate holding company, Sinolink Worldwide Holdings Limited, which is unsecured, interest free and repayable on demand. (Pursuant to the Group Reorganisation, Sinolink Worldwide Holdings Limited became an intermediate holding company of the Group). Of the amount due, an amount of HK\$64,100,000 has been capitalised at the time of the group reorganisation on 4 April 2001 as investment in the Company and the remaining balance was converted into an unsecured 3% redeemable convertible note due 2004 (See note 21).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 23. SHARE CAPITAL

	No. of shares	HK\$'000
Authorised:		
Shares of HK\$0.10 each		
— on incorporation	1,000,000	100
— increased during the period	<u>1,999,000,000</u>	<u>199,900</u>
Balance as at 31 December	<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:		
Allotted and issued nil paid on incorporation	1	—
Issued in consideration for the acquisition of the issued share capital of China Pan River Group Limited	104,999,999	10,500
Issued by capitalisation of the share premium account	300,000,000	30,000
Issued on placing of new shares	<u>95,000,000</u>	<u>9,500</u>
Balance as at 31 December	<u><u>500,000,000</u></u>	<u><u>50,000</u></u>

*Notes:*

The Company was incorporated on 16 November 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On 10 January 2001, one share was allotted and issued nil paid to the initial subscriber.

Pursuant to the resolution passed by the Sole Shareholder on 4 April 2001:

- (a) the authorised share capital was increased from HK\$100,000 to HK\$200,000,000 by creation of additional 1,999,000,000 shares of HK\$0.1 each.
- (b) the Company allotted and issued 104,999,999 shares for the acquisition of the entire issued share capital of China Pan River Group Limited pursuant to the Reorganisation as stated in note 1.
- (c) the Company allotted and issued a total of 300,000,000 shares credited as fully paid at par to Kenson by way of capitalisation of the sum of HK\$30,000,000 standing to the credit of the share premium account of the Company.

On 17 April 2001, the Company placed 95,000,000 shares of HK\$0.10 each to the institutional investors, at a price of HK\$0.57 per share and the directors were authorized to allot and issued the new shares in connection with the Placing.

As the Company was incorporated on 16 November 2000 and became the holding company of the Group on 4 April 2001. There was no issued share capital of the Company as at 31 December 2000. The share capital shown on the consolidated balance sheet as at 31 December 2000 represented the aggregate share capital of the companies comprising the Group before the Group Reorganisation.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 23. SHARE CAPITAL *(continued)*

The Company intends to use the net proceeds from the new issue of shares on setting up of new subsidiaries in Changsha for the purpose of expanding the Group's LP Gas retail business in that region, setting up a new operating subsidiary in Kunming to further expand the geographic coverage of the Group's LP Gas operation, sales and marketing and media propaganda, as well as the Group's general working capital.

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

### 24. RESERVES

	Exchange reserve	Share premium	Capital reserve	General reserves	Asset revaluation reserves	(Accumulated losses) Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
At 1 January 2000	166	—	—	802	—	(13,471)	(12,503)
Exchange reserve on consolidation	(273)	—	—	—	—	—	(273)
Net profit for the year	—	—	—	—	—	828	828
At 31 December 2000 and 1 January 2001	(107)	—	—	802	—	(12,643)	(11,948)
Arising in the year	—	—	1,101	—	—	—	1,101
Premium arising on the Group Reorganisation	—	53,600	—	—	—	—	53,600
Reduction on capitalisation of shares	—	(30,000)	—	—	—	—	(30,000)
Premium arising on issue of shares by means of placing	—	44,650	—	—	—	—	44,650
Expenses incurred in connection with the issue of shares	—	(12,921)	—	—	—	—	(12,921)
Surplus on revaluation	—	—	—	—	4,973	—	4,973
Transfer	—	—	—	410	—	(410)	—
Net profit for the year	—	—	—	—	—	31,693	31,693
At 31 December 2001	<u>(107)</u>	<u>55,329</u>	<u>1,101</u>	<u>1,212</u>	<u>4,973</u>	<u>18,640</u>	<u>81,148</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 24. RESERVES (continued)

	<b>Share premium</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
<b>THE COMPANY</b>			
At 16 November 2000	—	—	—
Premium arising on the Group Reorganisation	53,600	—	53,600
Premium arising on issue of shares by means of placing Capitalisation issue of shares	(30,000)	—	(30,000)
Premium arising on issue of shares by means of placing	44,650	—	44,650
Expenses incurred in connection with the issue of shares	(12,921)	—	(12,921)
Net loss for the year	—	(4,416)	(4,416)
Dividends	—	—	—
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2001	<u>55,329</u>	<u>(4,416)</u>	<u>50,913</u>

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

Capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium and retained profits of the Company, which amounted to of HK\$50,913,000 (2000: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>68,499</b>	6,483
Interest income	<b>(4,117)</b>	(3,430)
Interest expense	<b>2,488</b>	157
Depreciation	<b>16,088</b>	11,451
Loss on disposal of property, plant and equipment	<b>174</b>	186
Deficit on revaluation of property, plant and equipment	<b>1,851</b>	—
Gain on disposal of a subsidiary	<b>(283)</b>	—
Gain on disposal of investments	<b>(363)</b>	—
Amortisation of goodwill	<b>267</b>	—
Increase in inventories	<b>(9,430)</b>	(5,172)
(Increase) decrease in trade receivables	<b>(56,166)</b>	7,596
Increase in other receivable deposits and prepayments	<b>(42,543)</b>	(1,450)
(Increase) decrease in amounts due from minority shareholders	<b>(4,059)</b>	242
(Decrease) increase in trade creditors	<b>(20,122)</b>	3,227
Increase in other creditors and accruals	<b>24,851</b>	6,755
	<hr/>	<hr/>
<b>Net cash (outflow) inflow from operating activities</b>	<b>(22,865)</b>	26,045
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 26. DISPOSAL OF A SUBSIDIARY

Net assets disposed of:

	<b>2001</b> <b>HK\$'000</b>
Property, plant and equipment	<b>1,554</b>
Inventories	<b>134</b>
Trade receivables	<b>109</b>
Bank balances and cash	<b>34</b>
Other receivables, deposits and prepayments	<b>60</b>
Trade payables	<b>(260)</b>
Other payables and accruals	<b>(708)</b>
Minority interests	<b>(706)</b>
	<hr/>
	<b>217</b>
Write back of impairment loss made in prior year	<b>(500)</b>
Gain on disposal	<b>283</b>
	<hr/>
Total consideration	<b>—</b>
	<hr/>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	<b>(34)</b>
	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 27. ACQUISITION OF A SUBSIDIARY

Net assets acquired:

Net assets acquired:

Property, plant and equipment

Other investment

Inventories

Trade receivables

Other receivables, deposits and prepayments

Bank and cash balances

Trade payables

Other payables and accruals

Minority interests

Goodwill

Total consideration

Satisfied by cash

Net cash outflow arising on acquisition:

Cash consideration

Bank balances and cash acquired

**2001**  
**HK\$'000**

**24,516**

**782**

**2,144**

**55**

**2,536**

**6,984**

**(2,345)**

**(32,421)**

**(1,559)**

**692**

**13,340**

**14,032**

**14,032**

**(14,032)**

**6,984**

**7,048**

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Share capital and premium</b>	<b>Amount due to immediate holding company</b>	<b>Amount due to minority Shareholder</b>	<b>Bank and other borrowings</b>	<b>Minority interests</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	—	100,710	13,949	—	77,481
Net cash inflow from financing	—	62,657	—	2,713	21,052
Advance from minority shareholders	—	—	19,619	—	—
Dividend paid by a subsidiary to minority shareholders	—	—	—	—	(1,871)
Other movements not including cash	—	—	—	—	(545)
Share of exchange reserve	—	—	—	—	5
Minority's share of profit for the year	—	—	—	—	5,313
At 31 December 2000 and 1 January 2001	—	163,367	33,568	2,713	101,435
Net cash inflow from financing	41,229	733	—	—	43,079
New bank loans raised	—	—	—	561	—
Repayment to a minority Shareholder	—	—	(26,301)	—	—
Dividend payable by a subsidiary to minority shareholders	—	—	—	—	(3,357)
Shares issued in consideration for the acquisition of the issued share capital of China Pan River Group Limited	64,100	(64,100)	—	—	—
Issue of convertible note	—	(100,000)	—	100,000	—
Effect on acquisition of a subsidiary	—	—	—	—	1,559
Effect on disposal of a subsidiary	—	—	—	—	(706)
Other movements not in cluding cash	—	—	—	—	(127)
Share of reserves	—	—	—	—	3,414
Minority's share of profit for the year	—	—	—	—	36,806
At 31 December 2001	<u>105,329</u>	<u>—</u>	<u>7,267</u>	<u>103,274</u>	<u>182,103</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 29. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, a minority shareholder has contributed HK\$2,001,000 to the Group in the form of property, plant and equipment.
- (b) On 4 April 2001, the Company issued a total of 300,000,000 new ordinary shares of HK\$0.1 each. The sum of HK\$30,000,000 was capitalised from the amount standing to the credit of the share premium account of the Company.

### 30. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2001 HK\$'000	2000 HK\$'000
Sinolink Worldwide Holdings Limited ( <i>Note a</i> )	Licence fee expense	339	—
Shenzhen Sinolink Enterprises Co. Limited ( <i>Note b</i> )	Rental expense ( <i>Note c</i> )	279	—

Notes:

- (a) Mr. Ou Yaping, a director and shareholder of the Company, has direct beneficial interest in this company.
- (b) A company controlled by Mr. Ou Yaping of which Mr. Ou Yaping is a director.
- (c) Rental expense was determined by the directors based on the directors' estimates of fair market value.

### 31. PLEDGE OF ASSETS

The Group has pledged its property, plant and equipment having a net book value of approximately HK\$8,337,000 (2000: HK\$8,954,000) to secure general banking facilities granted to the subsidiaries of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 32. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2001.

On 28 October 2000, a legal claim in the amount of approximately RMB1,658,000 has been brought against a subsidiary of the Company, Pan River Enterprises (Wuhu) Co., Ltd. by Wuhu Sanpeng LPG Chemical and Energy Co., Ltd., the joint venture partner of Wuhu Pan River Sanpeng LPG Co., Ltd. ("Wuhu Sanpeng"), for losses on breaching the joint venture agreement between them. The litigation has been concluded upon winding up of Wuhu Sanpeng on 24 September 2001.

### 33. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	1,156	218	150	—
In the second to fifth years inclusive	531	1,247	—	—
Over five years	30,061	29,966	—	—
	<u>31,748</u>	<u>31,431</u>	<u>150</u>	<u>—</u>

Operating leases are negotiated for terms up to 30 years.

### 34. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Commitments for the interest in subsidiaries		
— contracted for but not provided in the financial statements	88,591	—
Commitments for the acquisition of property, plant and equipment		
— contracted for but not provided in the financial statements	—	671
	<u>88,591</u>	<u>671</u>

The Company had no capital commitment at the balance sheet date.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 35. RETIREMENT BENEFITS SCHEME

The Group companies operating in the PRC have participated in defined contribution retirement schemes organized 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 Company is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2001 amounted to approximately HK\$3,388,000 (2000: HK\$1,084,000).

During the year, the Group has joined a Mandatory Provident Fund scheme ("MPF Scheme") for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made retirement benefits scheme contributions amounting to HK\$61,000 (2000: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2001 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capita/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<b>Directly- owned subsidiaries</b>				
China Pan River Group Ltd.,	BVI	1 share of US\$1 each	100%	Investment holding
<b>Indirectly- owned subsidiaries</b>				
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC — Sino-foreign equity joint venture	RMB9,000,000	55%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI	1 share of US\$1	100%	Investment holding
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC — Sino-foreign equity joint venture	RMB11,000,000	55%	Wholesaling and retailing of LP Gas
Nanling Pan River LPG Co., Ltd. 南陵百江液化氣有限責任公司	PRC — Limited liability company	RMB2,000,000	30.25% (Note 2)	Wholesaling and retailing of LP Gas
Panriver Investments Company Limited 百江投資有限公司	PRC — Limited liability company	US\$30,000,000 (Note 1)	100%	Investment holding
Panva Gas (Yunnan) Co. Ltd. 雲南百江燃氣有限公司	PRC — Limited liability company	RMB58,840,000	28.53% (Note 3)	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changsha) Co., Ltd. 長沙百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 36. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capita/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<b>Indirectly- owned subsidiaries</b> <i>(continued)</i>				
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas
Pan River Gas (China Southwest) Co. Ltd. 百江西南燃氣有限公司 (formerly known as Pan River Gas (Guizhou) Co., Ltd. 貴州百江燃氣有限公司)	PRC — Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas
Singkong Investments Limited 盛港投資有限公司	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Investment holding
Sinolink International Investment (Group) Limited	BVI	1 share of US\$1	100%	Investment holding
Sinolink LPG Investment Limited	BVI	1 share of US\$1	100%	Investment holding
Sinolink Power Investment Limited	BVI	1 share of US\$1	100%	Investment holding
Wuhu Pan River Jiangbei Enterprises Co., Ltd. 蕪湖百江江能源有限責任 有限公司	PRC — Limited liability company	RMB500,000	28.05% <i>(Note 4)</i>	Wholesaling and retailing of LP Gas
Xiangtan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB10,000,000	55%	Wholesaling and retailing of LP Gas

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

### 36. PARTICULARS OF SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capita/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<b>Indirectly- owned subsidiaries (continued)</b>				
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yongzhou Pan River Enterprises Co., Ltd. 永州百江能源實業有限公司	PRC — Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. 揚子石化百江能源有限公司	PRC — Sino-foreign equity joint venture	US\$7,230,000	50% (Note 5)	Wholesaling and retailing of LP Gas
Ziyang Gas Company 資陽燃氣總公司	PRC — Limited liability company	RMB1,953,279	90%	Provision of piped natural gas and related services

Note:

- Panriver Investments Company Limited is a wholly owned enterprise with a tenure of 50 years. At the date of this report, Panriver Investments Company Limited has outstanding unpaid registered capital contribution of US\$20,000,000 which needs to be paid by 9 March 2003.
- Pan River Enterprise (Wuhu) Co., Ltd. holds 55% equity interest therein.
- Pan River Gas (China Southwest) Co., Ltd. 56.94% equity interest therein.
- Pan River Enterprise (Wuhu) Co., Ltd. holds 51% equity interest therein.
- Yangzi Panva is a subsidiary of the Group because the Group has control over the board of directors.

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

## FINANCIAL SUMMARY

	<b>For the year ended 31 December</b>			
	1988	1999	2000	<b>2001</b>
	HK\$'000	HK\$'000	HK\$'000	<b>HK\$'000</b>
<b>RESULTS</b>				
Turnover	<u>281,547</u>	<u>507,876</u>	<u>1,059,729</u>	<b><u>1,008,335</u></b>
(Loss) profit before taxation	(462)	(13,038)	6,483	<b>68,499</b>
Taxation	<u>—</u>	<u>—</u>	<u>(342)</u>	<u>—</u>
(Loss) profit before minority interests	(462)	(13,038)	6,141	<b>68,499</b>
Minority interests	<u>(1,887)</u>	<u>3,252</u>	<u>(5,313)</u>	<b><u>(36,806)</u></b>
Net (loss) profit for the year	<b><u>(2,349)</u></b>	<b><u>(9,786)</u></b>	<b><u>828</u></b>	<b><u>31,693</u></b>
<b>(Losses) earnings per share (HK cents)</b>				
Basic	(0.58)	(2.42)	0.20	<b>6.71</b>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<b><u>5.54</u></b>

	<b>As at 31 December</b>	
	2000	<b>2001</b>
	HK\$'000	<b>HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>		
Total assets	356,032	<b>529,972</b>
Total liabilities	(266,545)	<b>(216,721)</b>
Minority interests	<u>(101,435)</u>	<b><u>(182,103)</u></b>
Shareholders' deficits	<u>(11,948)</u>	<b><u>131,148</u></b>

*Notes:*

1. The results for the four years ended 31 December 2001 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the three years ended 31 December 2000 have been extracted from the Company's prospectus dated 10 April 2001.
2. The results for the year ended 31 December 2001 have been extracted from the audited consolidated income statement as set out on page 33 of the financial statements.
3. The Company was incorporated in Cayman Islands under the Laws of Cayman Islands on 16 November 2000. Accordingly, the only balance sheets for the Group that have been prepared over the past two years are those set out on page 34 of the financial statements.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting (“Annual General Meeting”) of the shareholders of Panva Gas Holdings Limited (“the Company”) will be held at Chater I-II, Basement 1, The Ritz-Carlton Hotel, 3 Connaught Road Central, Hong Kong on 22 April 2002 at 2:00 p.m. for the following purposes:

1. to receive and consider the audited financial statements and the reports of the directors of the Company (“Directors”) and auditors for the year ended 31 December 2001;
2. to re-elect Directors and to authorize the board of directors to fix their remuneration;
3. to re-appoint auditors and to authorise the Directors to fix their remuneration;
4. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant listing of and permission to deal in the Bonus Shares (as hereinafter defined):

- (a) upon the recommendation of the Directors, the necessary sum be capitalised from the amount standing to the credit of the share premium account of the Company and the Directors be and are hereby authorised to apply such sum in paying up in full at par sufficient shares of HK\$0.10 each in the capital of the Company (“Bonus Shares”) to be allotted and distributed, credited as fully paid, to and amongst the shareholders of the Company whose names appear on the register of members of the Company on 22 April 2002 (“Record Date”) on the basis of one Bonus Share for every five existing shares of HK\$0.10 each in the capital of the Company then held by them respectively;
- (b) the shares to be issued pursuant to this resolution shall, subject to the Memorandum and Articles of Association of the Company, rank *pari passu* in all respects with the shares of HK\$0.10 each in the capital of the Company in issue on the Record Date, except that they will not rank for the bonus issue of shares mentioned in this resolution;
- (c) No fractional shares shall be allotted and distributed, but shares representing fractional entitlements shall be aggregated and issued to a nominee to be named by the Directors and such shares shall at such time at the nominee thinks fit be sold and the net proceeds shall be retained for the benefit of the Company;

## NOTICE OF ANNUAL GENERAL MEETING

- (d) the Directors be and are hereby authorised to do all acts and things as may be necessary and expedient in connection with the allotment and issue of the Bonus Shares, including but not limited to determining the amount to be capitalised out of share premium account and the number of Bonus Shares to be allotted and distributed in the manner referred to in paragraph (a) of this resolution.”
5. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**“THAT:**

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to allot, issue and deal with additional shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal

## NOTICE OF ANNUAL GENERAL MEETING

amount of the share capital of the Company in issue as at the date of the passing of this resolution as enlarged by the Bonus Shares and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (d) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

6. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

**"THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("Securities and Futures Commission") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;



## NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution as enlarged by the Bonus Shares and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
  - (c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and
    - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."
7. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"**THAT** conditional upon resolutions no. 5 and 6 above being passed, the unconditional general mandate granted to the Directors of the Company to allot, issue and deal with additional shares and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to resolution no. 5 above be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 6 above, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of the said resolution as enlarged by the Bonus Shares."

By Order of the Board  
**Panva Gas Holdings Limited**  
**Yu Man To, Gerald**  
*Company Secretary*

Hong Kong, 26 March 2002

## NOTICE OF ANNUAL GENERAL MEETING

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*Principal place of business:*

Room 2501-2502,  
Vicwood Plaza,  
199 Des Voeux Road Central  
Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the member so desires.
3. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be deposited with the principal place of business of the Company at Room 2501-2502, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.