



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

(Incorporated in the Cayman Islands with limited liability)

The **2<sup>nd</sup>** Quarterly Report  
**2002**

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors of Panva Gas Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Panva Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## RESULTS

On behalf of the board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to submit to shareholders the Group's half year report.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended 30 June 2002

	Notes	Six months end 30 June		Three months ended 30 June	
		2002	2001	2002	2001
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Turnover	2	<b>499,340</b>	518,417	<b>261,213</b>	255,953
Cost of sales		<b>(378,398)</b>	(483,280)	<b>(200,378)</b>	(234,936)
Gross profit		<b>120,942</b>	35,137	<b>60,835</b>	21,017
Other revenue		<b>327</b>	560	<b>185</b>	544
Distribution costs		<b>(13,504)</b>	(10,230)	<b>(6,876)</b>	(5,227)
Administrative expenses		<b>(27,018)</b>	(14,186)	<b>(13,569)</b>	(8,115)
Other operating expenses		<b>(361)</b>	(591)	<b>(290)</b>	(111)
Profit from operations		<b>80,386</b>	10,690	<b>40,285</b>	8,108
Finance costs		<b>(1,556)</b>	(842)	<b>(799)</b>	(765)
Investment income	3	<b>1,049</b>	2,216	<b>678</b>	1,253
Profit from ordinary activities before taxation		<b>79,879</b>	12,064	<b>40,164</b>	8,596
Taxation	4	<b>(405)</b>	—	<b>(328)</b>	—
Profit before minority interests		<b>79,474</b>	12,064	<b>39,836</b>	8,596
Minority interests		<b>(18,534)</b>	(6,966)	<b>(7,632)</b>	(4,792)
Net profit for the period		<b>60,940</b>	5,098	<b>32,204</b>	3,804
Dividends		—	—	—	—
Profit for the period		<b>60,940</b>	5,098	<b>32,204</b>	3,804
Earnings per share	6	HK cents	HK cents	HK cents	HK cents
- Basic		<b>10.13</b>	0.85	<b>5.34</b>	0.63
- Diluted		<b>8.04</b>	0.76	<b>4.23</b>	0.54

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2002

	Notes	30.6.2002 HK\$'000 (unaudited)	30.6.2001 HK\$'000 (unaudited)
<b>Non-current assets</b>			
Property, plant and equipment		263,414	165,642
Goodwill		21,115	—
Investments in securities		595	1,123
		<u>285,124</u>	<u>166,765</u>
<b>Current assets</b>			
Inventories		46,720	25,899
Trade receivables	7	62,943	17,026
Other receivables, deposits and prepayments		40,817	33,432
Amount due from minority shareholders		3,995	—
Bank balances and cash		161,620	178,944
		<u>316,095</u>	<u>255,301</u>
<b>Current liabilities</b>			
Trade payables	8	36,257	61,326
Other payables and accruals		66,677	35,550
Amounts due to minority shareholders		3,918	15,326
Borrowings	9	2,064	2,245
		<u>108,916</u>	<u>114,447</u>
<b>Net current assets</b>		<u>207,180</u>	<u>140,854</u>
<b>Total assets less current liabilities</b>		<u>492,303</u>	<u>307,619</u>
<b>Non-current liabilities</b>			
Borrowings	9	100,000	100,000
		<u>100,000</u>	<u>100,000</u>
		392,303	207,619
<b>Minority interests</b>		<u>(195,436)</u>	<u>(108,201)</u>
<b>Net assets</b>		<u>196,867</u>	<u>99,418</u>
<b>Capital and reserves</b>			
Share capital	10	60,508	50,000
Reserves	11	136,359	49,418
<b>Shareholders' funds</b>		<u>196,867</u>	<u>99,418</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Six months ended 30.6.2002 HK\$'000 (unaudited)	Six months ended 30.6.2001 HK\$'000 (unaudited)
Net cash inflow from operating activities	54,853	508
Net cash (outflow)/inflow from returns on investments and servicing of finance	(5,124)	3,510
Net cash (outflow) from taxation	(152)	—
Net cash (outflow) from investing activities	<u>(30,757)</u>	<u>(12,521)</u>
Net cash inflow/(outflow) before financing	18,820	(8,503)
Net cash (outflow)/inflow from financing	<u>(73)</u>	<u>32,608</u>
Increase in cash and cash equivalents	18,747	24,105
Cash and bank balances at beginning of the period	142,867	154,839
Effect of foreign exchange rate changes	<u>6</u>	<u>—</u>
Cash and bank balances at end of the period	<u><u>161,620</u></u>	<u><u>178,944</u></u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2002*

### 1. BASIS OF PREPARATION

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) Chapter 22 of the Cayman Islands. The Shares have been listed on GEM operated by the Stock Exchange since 20 April 2001.

Pursuant to a reorganisation scheme 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.

The Group resulting from the 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 *Statement of Standard Accounting Practice 27 Accounting for Group Reconstruction* issued by the Hong Kong Society of Accountants.

Further details of the Reorganisation are set out in the prospectus issued by the Company dated 10 April 2001.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with the *Statement of Standard Accounting Practice 25 "Interim financial reporting"* issued by the Hong Kong Society of Accountants.

The accounting policies adopted are consistent with those prepared followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LP Gas") and natural gas (together "Gas Fuel") in the People's Republic of China ("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. SEGMENTAL INFORMATION

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.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2002 is as follows:

	Sales and Distribution of Gas Fuel and related products	Gas Pipeline Construction	Eliminations	Consolidated
30 June 2002	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>				
External	430,463	68,877	—	499,340
Inter-segment	—	—	—	—
Total Revenue	<u>430,463</u>	<u>68,877</u>	<u>—</u>	<u>499,340</u>
<b>SEGMENT RESULTS</b>				
	<u>33,346</u>	<u>57,368</u>	<u>—</u>	90,714
Other Revenue				326
Unallocated corporate expenses				<u>(10,654)</u>
Profit from operations				<u>80,386</u>
	Sales and Distribution of Gas Fuel and related products	Gas Pipeline Construction	Eliminations	Consolidated
30 June 2001	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>				
External	511,912	6,505	—	518,417
Inter-segment	—	—	—	—
Total Revenue	<u>511,912</u>	<u>6,505</u>	<u>—</u>	<u>518,417</u>
<b>SEGMENT RESULTS</b>				
	<u>12,654</u>	<u>3,441</u>	<u>—</u>	16,095
Other Revenue				399
Unallocated corporate expenses				<u>(5,744)</u>
Profit from operations				<u>10,690</u>

### 3. INVESTMENT INCOME

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

### 4. TAXATION

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

In accordance with the relevant tax rules and regulations in the PRC, Pan River Enterprises (Chang-sha) Co., Ltd. ("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%.

Pan River Gas (China Southwest) Co., Ltd. ("Panva Southwest") (formerly known as Pan River Gas (Guizhou) Co., Ltd.) and Yangzi Petrochemical Baijiang Energy Resources Co, Ltd ("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 31 December 2004.

The tax rate applicable for 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 periods.

### 5. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$8,683,000 (2001: HK\$7,490,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$1,645,000 (2001: Nil) was charged in respect of the Group's goodwill.



## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share and diluted is based on the following data:

	Six months ended 30 June		Three months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Earnings for the purpose of basic earnings per share	<b>60,940</b>	5,098	<b>32,204</b>	3,804
Effect of dilutive potential shares:				
Interest on convertible note	<b>1,488</b>	724	<b>744</b>	362
Earnings for the purpose of diluted earnings per share	<b>62,428</b>	5,822	<b>32,948</b>	4,166
Weighted average number of shares for the purpose of basic earnings per share	<b>601,427</b>	600,000	<b>602,800</b>	600,000
Effect of dilutive potential shares:				
Options	<b>5,138</b>	—	<b>5,965</b>	—
Convertible note	<b>169,491</b>	169,491	<b>169,491</b>	169,491
Weighted average number of shares for the purpose of diluted earnings per share	<b>776,056</b>	769,491	<b>778,256</b>	769,491

The calculation of the basic and diluted earnings per share for the three and six months ended 30 June 2001 is based on the assumption that the Reorganisation had been effective on 1 January 2000.

## 7. 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:

	30.6.2002 HK\$'000	30.6.2001 HK\$'000
0 to 90 days	<b>32,142</b>	13,257
91 to 180 days	<b>28,128</b>	679
181 to 360 days	<b>1,040</b>	1,082
Over 360 days	<b>1,633</b>	2,008
Over 360 days	<b>62,943</b>	17,026

## 8. TRADE PAYABLES

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

	<b>30.6.2002</b>	30.6.2001
	<b>HK\$'000</b>	HK\$'000
0 to 90 days	17,521	55,534
91 to 180 days	8,040	1,703
181 to 360 days	4,889	372
Over 360 days	5,807	3,717
	<u>36,257</u>	<u>61,326</u>

## 9. BORROWINGS

	<b>30.6.2002</b>	30.6.2001
	<b>HK\$'000</b>	HK\$'000
Bank loans (secured)	2,064	2,245
Convertible note	100,000	100,000
	<u>102,064</u>	<u>102,245</u>

The maturity of the above loans is as follows:

On demand or within one year	2,064	2,245
More than two years but not exceeding five years	100,000	100,000
	<u>102,064</u>	102,245
Less: Amount due within one year shown under current liabilities	<u>(2,064)</u>	<u>(2,245)</u>
Non-current portion	<u>100,000</u>	<u>100,000</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\$0.59 per share (adjusted to account for effect of bonus issue of shares). The outstanding unconverted principal amount of the note will be redeemed on 1 April 2004 at par. Interest of 3% is paid per annum.

## 10. SHARE CAPITAL

	<b>30.6.2002</b>	30.6.2001
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
2,000,000,000 shares of HK\$0.10 each	<u><b>200,000</b></u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
605,076,000 shares (2001: 500,000,000 shares) of HK\$0.10 each	<u><b>60,508</b></u>	<u>50,000</u>

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

	<b>No of shares</b>	HK\$'000
At 1 January 2002	500,000,000	50,000
Share options exercised	5,043,000	505
Bonus shares dividend	<u>100,033,000</u>	<u>10,003</u>
At 30 June 2002	<u><b>605,076,000</b></u>	<u><b>60,508</b></u>

*Notes:*

On 26 April 2002, the Company issued 100,033,000 shares of HK\$0.10 each in the Company as bonus issue of shares on the basis of one new share of HK\$0.10 each for every five existing shares held by the shareholders of the Company by the way of capitalising of the sum of HK\$10,003,300 standing to the credit of the share premium account of the Company. The new shares rank pari passu with the existing shares in all respects.

During the period, the subscription rights attached to 165,000 shares and 4,878,000 share options were exercised at the subscription price of HK\$1.13 and HK\$0.94 per share respectively resulting in the issue of 5,043,000 shares of HK\$0.10 each in the Company for a total cash consideration, before expenses, of HK\$4,772,000. The new shares rank pari passu with existing shares in all respects.

## 11. RESERVES

	Share Premium Reserve HK\$'000	Exchange Reserve HK\$'000	Assets Revaluation Reserve HK\$'000	Capital Reserve HK\$'000	General Reserve HK\$'000	Retained Earnings HK\$'000	Total HK\$'000
At 1 January 2001	—	(107)	—	—	802	(12,643)	(11,948)
Profit for the period	—	—	—	—	—	1,294	1,294
At 31 March 2001	—	(107)	—	—	802	(11,349)	(10,654)
Issue of shares	68,250	—	—	—	—	—	68,250
Share issue expense	(12,921)	—	—	—	—	—	(12,921)
Arising in the period	—	—	—	939	—	—	939
Profit for the period	—	—	—	—	—	3,804	3,804
At 30 June 2001	<u>55,329</u>	<u>(107)</u>	<u>—</u>	<u>939</u>	<u>802</u>	<u>(7,545)</u>	<u>49,418</u>
At 1 January 2002	55,329	(107)	4,973	1,101	1,212	18,640	81,148
Issue of shares	170	—	—	—	—	—	170
Arising in the period	—	—	—	1,060	—	—	1,060
Transfer	—	—	—	—	596	(596)	—
Profit for the period	—	—	—	—	—	28,736	28,736
At 31 March 2002	55,499	(107)	4,973	2,161	1,808	46,780	111,114
Bonus shares dividend	(10,003)	—	—	—	—	—	(10,003)
Issue of shares	4,097	—	—	—	—	—	4,097
Exchange reserve on consolidation	—	6	—	—	—	—	6
Arising in the period	—	—	—	(1,059)	—	—	(1,059)
Transfer	—	—	—	—	234	(234)	—
Profit for the period	—	—	—	—	—	32,204	32,204
At 30 June 2002	<u>49,593</u>	<u>(101)</u>	<u>4,973</u>	<u>1,102</u>	<u>2,042</u>	<u>78,750</u>	<u>136,359</u>

## 12. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2002.

## REVIEW OF OPERATIONS

Capitalising on its strong competitive advantages in both resources and customer base, the Group was able to further strengthen and expand its market share in the city piped gas end-user sector in the PRC. For the six months ended 30 June 2002, the Group recorded a turnover of approximately HK\$499,340,000, representing a slight decrease of approximately 3.68% compared to the corresponding period in 2001. The gross profit rose to approximately HK\$120,942,000 for the six months ended 30 June 2002, a substantial increase compared to the HK\$35,137,000 recorded by the Group for the corresponding period last year. The increase in gross profit was mainly attributable to the significant progress of the Group's city piped gas business, the continuous growth of its market share in the retail sector, and the solid increase in the number of end-user customers. Profit attributable to shareholders increased significantly to HK\$60,940,000 representing an increase of approximately 10.9 times from the corresponding period last year.

### *Wholesale of LP Gas*

This business includes the 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\$299,345,000 for the six months ended 30 June 2002, representing a decrease of 22.3% from the corresponding period last year. The decline was mainly caused by reduced sales price in the LP Gas wholesale sector, which on averaged decreased by approximately 28% when compared to the corresponding period last year.

### *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. For the six months ended 30 June 2002, retail sales amounted to approximately HK\$123,592,000, representing an increase of 1% from the corresponding period last year. Of the retail sales amount, approximately HK\$116,506,000 was derived from the sale of LP Gas in cylinders and approximately HK\$7,086,000 from the provision of piped gas (including piped LP Gas and piped natural gas), representing a slight decrease of 4.5% and an increase of 337.1% respectively from the corresponding period last year. Although in monetary terms the changes are not significant, with a decrease in the average selling price of LP Gas when compared to the corresponding period last year, it is a significant increase in terms of volume sold. The figures reflected the Group's success in generating higher returns by expanding the retail business in particular the piped gas business. Due to the successful development of new markets, the increase in market share and the enhancement of internal management efficiency, sales of the piped gas business is now increasingly significant in the Group's total turnover.

### **Gas pipeline construction**

For the six months ended 30 June 2002, revenue from the gas pipeline construction business amounted to approximately HK\$68,877,000, accounting for approximately 13.8% of the Group's total turnover. The increase is mainly contributed by the operations in Ziyang and Pengxi, Sichuan and several existing projects in Nanjing. The higher gross profit margin of the gas pipeline construction business contributed significantly to the improvement in the overall gross profit margin of the Group during the six months ended 30 June 2002.

### **End-user household customers**

Through the continuous efforts in expanding its market share and improving customer services and management, the Group's retail end-user customers increased to approximately 1,376,000 households as at 30 June 2002. Of this amount, approximately 1,325,000 households use gas in cylinders and approximately 51,000 use piped gas, representing an increase of approximately 175,000 households and approximately 31,000 households respectively from 2001 year-end figures. The continuous increase in end-user customers has further demonstrated the economy-of-scale benefits achieved by the Group. By securing a significant market share and developing new markets, the Group has further strengthened the foundation of its retail business. This contributed to the Group's remarkable results and enabled the Group to continue generating favourable returns for shareholders.

### **Progress of gas pipelines development projects**

As a result of the diligent works of the two representative offices in Chengdu and Nanjing, the Group has achieved good progress for the development of new projects. Contracts or letters of intent have been signed with potential business partner in 12 cities and active implementation is under way. It is expected that the projects will achieve the desired results in the coming future.

### **Pengxi natural gas project**

Through its wholly owned subsidiary Pan River Investments Company Limited, the Group signed an agreement with Sichuan Pengxi Natural Gas Company (四川省蓬溪縣天然氣公司) to acquire a 90% interest in this company for a consideration of RMB11,700,000. Prior to the acquisition, Sichuan Pengxi Natural Gas Company was a state-owned gas enterprise incorporated in Pengxi county (蓬溪縣) of Sichuan, the PRC. The acquisition further increased the Group's market share in the piped natural gas sector. The consideration was funded by the Group's internal resources.

Pengxi is a county located in the central region of the Sichuan province. It has a total population of approximately 772,100 and an urban population of approximately 70,000 with an area of approximately 1,251 square kilometres. It has a solid industrial infrastructure, with 117 enterprises engaging in various kinds of manufacturing businesses. The implementation of the “Western Development Policy” is providing a new driving force for the economic development of Pengxi, which in turn will facilitate the Group to expand its market share in Pengxi.

Sichuan Pengxi Natural Gas Company is principally engaged in the provision of natural gas for Pengxi. Apart from owning and managing the gas pipelines in Pengxi, it is also responsible for the maintenance of the pipelines. The pipelines that it has developed total 52.2 kilometres in length. Pursuant to the acquisition agreement, the Pengxi local government has granted an exclusive right to Sichuan Pengxi Natural Gas Company to develop and operate gas pipelines in Pengxi for a period of 50 years.

### **Zunyi LP Gas operation**

Through Panva Southwest, the Group has established a wholly owned subsidiary, Pan River Gas (Zunyi) Co. Ltd (“Zunyi Panva”) in the city of Zunyi (遵義市), Guizhou province. Zunyi Panva is principally engaged in the production, processing, storage, transportation, wholesale and retail of LP Gas, and the construction of city gas pipelines.

Located in northern Guizhou, Zunyi has a total population of approximately 6,000,000 and an urban population of approximately 600,000. There are 170,000 households with an annual consumption of approximately 6,500 tonnes of LP Gas.

The registered capital of Zunyi Panva is RMB4,200,000. The establishment of Zunyi Panva is a clear indication that the Group is expanding its market share in the southwestern PRC market, which the Board believes will be beneficial for the Group to further capitalise on its economy-of-scale benefits and increase its competitive advantages.

## Financial Position

The Group's short term bank and other borrowings decreased slightly from approximately HK\$2,245,000 as at 30 June 2001 to approximately HK\$2,064,000 as at 30 June 2002. Borrowings are mainly used as working capital by some operating subsidiaries in the PRC. The Group ended the period under review with a current ratio of approximately 2.9 times and a gearing (short term bank and other borrowings to equity) of approximately 1.05%.

Total assets pledged in securing these loans have a net book value of approximately HK\$1,806,000 as at 30 June 2002. 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\$161,620,000 as at 30 June 2002 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

There were no material changes to the Group's employees' remuneration policies from that disclosed in the annual report of the Company for the year ended 31 December 2001.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary comparison of the actual business progress for the period from 1 January 2002 to 30 June 2002 (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>	<b>Hefei</b> Negotiation and signing of contract with a local LP Gas operator	<b>Hefei</b> Negotiation commenced but yet to reach an agreement
	<b>Chongqing</b> Negotiation and signing of contract with a local LP Gas operator	<b>Chongqing</b> Negotiation commenced but yet to reach an agreement
		<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 Panva
		<b>Pengxi</b> Acquisition agreement signed and commenced operation
		<b>Chuzhou</b> Joint venture established with local LP Gas operator and commenced operation
	<b>Zunyi</b> Established a wholly-owned subsidiary and commenced operation	

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Cont'd)

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<b>Automobile LP Gas market development</b>	<b>Nanjing</b> Commence building automobile LP Gas filling station	<b>Nanjing</b> 1,400 cubic metres storage tank currently being transformed for automobile LP Gas storage
	<b>Kunming</b> Commence building automobile LP Gas filling station	<b>Kunming</b> Automobile LP Gas business not yet commenced, details not yet finalised
		<b>Ziyang</b> Commenced building automobile compressed natural gas filling station
<b>Market research</b>	Completion of market research on the LP Gas market in Hangzhou	Market research completed
	Completion of market research on the automobile LP Gas market in Changsha	Market research completed
<b>IMPROVING OPERATIONAL EFFICIENCY</b>	Commence the implementation of the Enterprise Resources Planning System	Implementation will commence in the second half of 2002
	Commence the feasibility study on the development of electronic business operation platform	Feasibility study currently being conducted
	Completion of the development of the telephone ordering / payment system in Changsha and Guiyang	The development of the telephone ordering / payment system in Changsha and Guiyang have been completed, however still in negotiation with the local banks on the details of the electronic collection system
<b>BRAND BUILDING</b>	Produce television commercial for broadcasting on local television stations in Changsha, Nanjing, Guiyang, and Kunming	Television commercial completed

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Cont'd)

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
<b>OPERATION FACILITIES</b> (figures cumulative)		
Storage tank capacity (cubic metres)	35,000	26,200
Tank train capacity (tonnes)	3,185	4,050
Tank lorry capacity (tonnes)	355	250
Cylinders truck capacity (tonnes)	380	360
No. of tank train unloading depot	10	10
No. of LP Gas vessel unloading platform	2	1
No. of retail outlets	210	198
No. of piped gas stations	82	28
No. of automobile LP Gas filling stations	5	—
<b>HUMAN RESOURCES DEPLOYMENT</b>		
<b>No. of staff</b>		
Management	150	145
Finance and administration	250	245
Sales and distribution	1,350	1,400
Production, purchase and supply	750	755
Total	2,500	2,545
<b>USE OF PROCEEDS</b>		
Setting up of new joint venture in Changsha	16,000,000	—
Sales and marketing propaganda	1,200,000	500,000
General working capital	—	250,000
	<u>17,200,000</u>	<u>750,000</u>

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

### 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. 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 satisfactory addressed.

### Operational Facilities

*Storage tank facilities* - The variance is mainly due to the expansion of the retail business of 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.

*Tank lorry capacity* - The variance is mainly due to the expansion of the retail business of Changsha Panva is still under negotiation.

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

*Automobile LP Gas filling stations* - The automobile LP Gas business has not yet commenced, however, a 1,400 cubic metres storage tank is currently being transformed for Automobile LP Gas storage.

### PROSPECTS

Against a background of economic uncertainty in the rest of the world, the PRC economy is growing rapidly. Moreover, the PRC government shows a firm commitment to the reform of the PRC state-owned enterprises. These factors are providing favourable opportunities and growth potential for the Group's development.

The PRC government has recently started to vigorously promote the importance and significance of the "West to East Natural Gas Pipelines Project". The PRC gas market in particular the natural gas market is at a stage of rapid development, and city gas investment and development is now a hot topic in the PRC. Hence, we have reason to believe that the Group has a highly promising future.

At present, the penetration rate of city gas supply in the PRC mainland cities is still low. With accelerating urbanisation in the PRC, demand for gas from the PRC urban households will be substantial. Moreover, the PRC government is spending great efforts to encourage and promote the use of natural gas, which contributes to the emerging market for low-stream natural gas consumption. As the Group supplies both natural gas and LP Gas in a variety of ways including the supply in cylinders and through pipelines, the Group will continue to enjoy a strong position regardless of

the changes in the market. With a growing market share and an expanding end-user customer base, the Group will be able to achieve higher returns by further capitalising on its strong assets that include a seasoned management team, sophisticated technology and an established brand name. The Group will continue to adopt a market development model that emphasizes low risk and high growth in order to generate higher returns for shareholders as thanks for their support.

Building on its strong track record, the Group will:

1. Further strengthen its management and operation and accelerate its market penetration;
2. Continue to focus on the development of city gas pipelines, in particular those designated for natural gas usage; and
3. Continue to strengthen the Panva brand name as a cross-regional symbol for high quality and to further increase the Group's number of retail end-user household customers.

With strong competitive advantages in the PRC gas market, the Group will be able to seize the opportunities arising from the PRC's economic growth. The Group will make its best efforts to further enhance its operating results.

#### **DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS**

At 30 June 2002, the interests of the directors and their 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 the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

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

<b>Name of directors</b>	<b>Nature of interests</b>	<b>No. of shares held</b>
Mr. Chen Wei	Personal	2,160,000
Mr. Li Fu Jun	Personal	720,000
Mr. Ou Yaping	Corporate	441,380,062 ( <i>Note</i> )
Mr. Tang Yui Man, Francis	Personal	1,440,000

*Note:*

The 441,380,062 shares represent (i) 429,298,462 shares held by Kenson Investment Limited ("Kenson"), a company incorporated in the British Virgin Islands ("BVI") in which Mr. Ou, through Asia Pacific Promotion Limited ("Asia Pacific"), has an indirect interest of 67.63%. Mr. Ou was deemed (by virtue of SDI Ordinance) to be interested in these shares. (ii) 12,081,600 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 (stated)	Number of shares held/ percentage of equity interest owned by the relevant Group members
Mr. Ou Yaping	Asia Pacific Promotion Limited	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%
Mr. Ou Yaping	Kenson	Corporate (Note 1)	1 ordinary share
Mr. Ou Yaping	Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	Corporate	55%
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	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%

(ii) *Interests in shares in associated corporations (Cont'd)*

Name of director	Name of associated corporation	Nature of interest (stated)	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	28.53%
Mr. Ou Yaping	Shenzhen Fuhuade Electric Power Co., Ltd.	Corporate	30%
Mr. Ou Yaping	Shenzhen Sinolink Enterprises Co. Ltd.	Corporate	80%
Mr. Ou Yaping	Shenzhen Sinolink Property Management Co. Ltd.	Corporate	75%
Mr. Ou Yaping	Silvernet Group Limited	Corporate	29.99%
Mr. Ou Yaping	Sinolink Worldwide Holdings Limited ("Sinolink Worldwide")	Corporate (Note 1)	67.63%
Mr. Ou Yaping	Wuhu Pan River Jiangbei Enterprises Co. Ltd. 蕪湖百江江北能源有限公司	Corporate	51%
Mr. Ou Yaping	Xiangtan Pan River Energy Industry Co. Ltd. 湘潭百江能源實業有限公司	Corporate	55%
Mr. Ou Yaping	Yangzi Petrochemical Baijiang Energy Resources Co. Ltd. 揚子石化百江能源有限公司	Corporate	50% (Note 2)

(ii) *Interests in shares in associated corporations (Cont'd)*

Name of director	Name of associated corporation	Nature of interest (stated)	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	Ziyang Panva Gas Co. Ltd. 資陽百江燃氣有限公司 (Formerly Ziyang Gas Company 資陽燃氣總公司)	Corporate	90%

*Note:*

1. These shares are held by Asia Pacific, a company wholly-owned by Mr. Ou Yaping, Mr. Ou Yaping is deemed (by virtue of the SDI Ordinance) to be interested in these shares.
2. Yangzi Petrochemical Baijiang Energy Resources Co. Ltd. is a subsidiary of the Company because the Company has control over the board of directors.



*(iii) Interests in share options*

Name of directors	Date of granted	Exercisable period	Exercise price HK\$	Number of share option held
Mr. Ou Yaping	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,800,000
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,800,000
Mr. Chen Wei	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,800,000
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,800,000
	13.11.2001	13.11.2001 - 13.02.2011	0.94	1,440,000
Mr. Lai Wen Guang	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,200,000
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,200,000
	13.11.2001	13.02.2002 - 13.02.2007	0.94	288,000
	13.11.2001	13.05.2002 - 13.02.2007	0.94	288,000
	13.11.2001	13.11.2002 - 13.02.2007	0.94	384,000
Mr. Lau Shi Wa	04.04.2001	01.01.2003 - 03.04.2011	0.475	600,000
	04.04.2001	01.01.2004 - 03.04.2011	0.475	600,000
Mr. Li Fujun	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,200,000
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,200,000
	13.11.2001	13.11.2002 - 13.02.2007	0.94	480,000
Mr. Tang Yui Man, Francis	13.11.2001	13.11.2002 - 13.02.2007	0.94	960,000

Save as disclosed above, none of the directors and their respective 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 30 June 2002 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 the GEM of the Stock Exchange, to be notified to the Company and the Stock Exchange.

At no time during the period was the Company, its holding company, 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, in addition to those interests as disclosed above in respect of the directors, 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:

Name	Number of shares	Approximate percentage of share holding (%)
Kenson	429,298,462	70.95
Sinolink Worldwide ( <i>note</i> )	429,298,462	70.95
Asia Pacific ( <i>note</i> )	441,380,062	72.95
Mr. Ou Yaping via Asia Pacific ( <i>note</i> )	441,380,062	72.95

*Notes:*

The shares in which Kenson is shown as being interested are included in and duplicate with interest in the shares held by Sinolink Worldwide 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 30 June 2002.

## 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 30 June 2002.

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 LPG 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 the Group.

### 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 2 members comprising the 2 independent non-executive directors, Mr. Cheung Hon Kit and Mr. Sun Hiu Lu.

### 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 for the period from 1 January 2002 to 30 June 2002, 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.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

By Order of the Board

**Chen Wei**

*Managing Director*

Hong Kong, 13 August 2002

## **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 Director**

Mr. Zheng Dun Xun

### **Independent Non-executive Directors**

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**

Computershare Hong Kong Investor  
Services 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

## **WEBSITE**

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