



PANVA

Panva Gas Holdings Limited

百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

The **3rd** quarterly report

2003

BOARD OF DIRECTORS

Executive Directors

Mr. Ou Yaping (*Chairman*)
Mr. Chen Wei (*Managing Director*)
Mr. Lai Wen Guang
Mr. Lau Shi Wa
Mr. Li Fujun
Mr. Tang Yui Man, Francis
Mr. Zhang Keyu

Non-executive Directors

Mr. Fok Kin Ning, Canning
Mr. To Chi Keung, Simon (*alternate director to Mr. Fok Kin Ning, Canning*)
Mr. Zheng Dun Xun

Independent Non-executive Directors

Mr. Cheung Hon Kit
Mr. Li Xiao Ru

AUTHORISED REPRESENTATIVES

Mr. Ou Yaping
Mr. Li Fujun

COMPLIANCE OFFICER

Mr. Li Fujun

QUALIFIED ACCOUNTANT

Mr. Chan Wai Chuen, Ricky
MCF, FCCA, AHKSA

COMPANY SECRETARY

Mr. Chan Wai Chuen, Ricky
MCF, FCCA, AHKSA

AUDIT COMMITTEE

Mr. Cheung Hon Kit
Mr. Li Xiao Ru

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

WEBSITES

www.panva-gas.com
www.irasia.com/listco/hk/panvagas

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

HIGHLIGHTS

- For the nine months ended 30 September 2003, the Group's turnover increased to approximately HK\$1,042 million, representing an increase of approximately 37% from the same period last year.
- For the nine months ended 30 September 2003, the Group's gross profit increased to approximately HK\$226 million representing an increase of approximately 44% from the same period last year.
- Net profit increased substantially to approximately HK\$133 million, representing an increase of approximately 77% from the same period last year.

RESULTS

The board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2003, together with the comparative figures of the corresponding periods in 2002, as follows:

| | Notes | Nine months end 30 September 2003 | | Three months ended 30 September 2003 | |
|--|-------|---|---------------------------------|--|---------------------------------|
| | | 2002 HK\$'000 (unaudited) | 2002 HK\$'000 (unaudited) | 2002 HK\$'000 (unaudited) | 2002 HK\$'000 (unaudited) |
| Turnover | | 1,041,852 | 761,255 | 338,862 | 261,915 |
| Cost of sales | | (815,883) | (603,884) | (259,202) | (225,486) |
| Gross profit | | 225,969 | 157,371 | 79,660 | 36,429 |
| Other revenue | | 325 | 804 | 47 | 477 |
| Distribution costs | | (24,678) | (20,428) | (9,053) | (6,923) |
| Administrative expenses | | (37,944) | (38,514) | (13,023) | (11,497) |
| Other operating expenses | | (1,145) | (510) | (558) | (149) |
| Profit from operations | | 162,527 | 98,723 | 57,073 | 18,337 |
| Finance costs | | (6,853) | (2,405) | (3,289) | (849) |
| Investment income | 2 | 2,130 | 1,534 | 1,028 | 486 |
| Profit from ordinary activities before taxation | | 157,804 | 97,852 | 54,812 | 17,974 |
| Taxation | 3 | (3,218) | (570) | (315) | (165) |
| Profit before minority interests | | 154,586 | 97,282 | 54,497 | 17,809 |
| Minority interests | | (21,937) | (22,184) | (4,864) | (3,651) |
| Net profit for the period | | 132,649 | 75,098 | 49,633 | 14,158 |
| Earnings per share | 4 | HK cents | HK cents | HK cents | HK cents |
| Basic | | 21.92 | 12.46 | 8.20 | 2.34 |
| Diluted | | 16.09 | 10.02 | 5.92 | 1.93 |

Notes:

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 of the Company (the "Shares") are listed on the GEM of the Stock Exchange.

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, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations and the sale of LP Gas and natural gas household appliances.

2. Investment Income

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

3. Taxation

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

The tax rate applicable for all 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.

4. Earnings per Share

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

| | Nine months ended | | Three months ended | |
|---|--------------------------|----------------|---------------------------|----------------|
| | 30 September | | 30 September | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Earnings for the purpose of basic earnings per Share | 132,649 | 75,098 | 49,633 | 14,158 |
| Effect of dilutive potential Shares: | | | | |
| Interest on convertible note and convertible bonds | 5,736 | 2,373 | 2,749 | 797 |
| Earnings for the purpose of diluted earnings per Share | <u>138,385</u> | <u>77,471</u> | <u>52,382</u> | <u>14,955</u> |
| | | | | |
| | Nine months ended | | Three months ended | |
| | 30 September | | 30 September | |
| | 2003 | 2002 | 2003 | 2002 |
| | No. of shares | | No. of shares | |
| | ('000) | ('000) | ('000) | ('000) |
| Weighted average number of Shares for the purpose of basic earnings per Share | 605,076 | 602,661 | 605,076 | 605,076 |
| Effect of dilutive potential Shares: | | | | |
| Options | 30,183 | 1,243 | 10,339 | 1,780 |
| Convertible note | 169,491 | 169,491 | 169,491 | 169,491 |
| Convertible bonds | 55,315 | – | 99,569 | – |
| Weighted average number of Shares for the purpose of diluted earnings per Share | <u>860,065</u> | <u>773,395</u> | <u>884,475</u> | <u>776,347</u> |



5. Reserves

| | Share premium reserve <i>HK\$'000</i> | Exchange reserve <i>HK\$'000</i> | Assets revaluation reserve <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | General reserve <i>HK\$'000</i> | Retained earnings <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|---|---------------------------------------|---------------------------------------|---|--------------------------|
| As 1 January 2002 | 55,329 | (107) | 4,973 | 1,101 | 1,212 | 18,640 | 81,148 |
| Exchange difference on translation of overseas operations and net loss not recognized in income statement | - | (293) | - | - | - | - | (293) |
| Arising in the period | - | - | - | 1 | - | - | 1 |
| Issue of Shares | 4,267 | - | - | - | - | - | 4,267 |
| Bonus shares dividend | (10,003) | - | - | - | - | - | (10,003) |
| Transfer | - | - | - | - | 830 | (830) | - |
| Net profit for the year | - | - | - | - | - | 75,098 | 75,098 |
| At 30 September 2002 | <u>49,593</u> | <u>(400)</u> | <u>4,973</u> | <u>1,102</u> | <u>2,042</u> | <u>92,908</u> | <u>150,218</u> |
| At 1 January 2003 | 49,593 | (192) | 4,973 | 1,101 | 2,077 | 150,313 | 207,865 |
| Issue of Shares | - | (1,083) | - | - | - | - | (1,083) |
| Issue expenses on convertible bond | (14,423) | - | - | - | - | - | (14,423) |
| Transfer | - | - | - | - | 658 | (658) | - |
| Net profit for the period | - | - | - | - | - | 132,649 | 132,649 |
| At 30 September 2003 | <u>35,170</u> | <u>(1,275)</u> | <u>4,973</u> | <u>1,101</u> | <u>2,735</u> | <u>282,304</u> | <u>325,008</u> |

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2003.

REVIEW OF OPERATIONS

The PRC economy has resumed its strong growth momentum since June when the Severe Acute Respiratory Syndrome was swiftly and successfully brought under control, giving a powerful lift to the demand for utilities in particular gas. Under these circumstances, the Group's businesses made significant progress with major breakthroughs achieved in market development.

The significant improvement during the third financial quarter contributed to better performance for the nine months ended 30 September as measured against various benchmarks. Compared with the corresponding period last year, the Group's turnover for the nine months ended 30 September increased by 37% to approximately HK\$1,041,852,000, while gross profit increased by 44% to approximately HK\$225,969,000. Net profit increased by 77% to approximately HK\$132,649,000.

Wholesale of LP Gas

Wholesale of LP Gas includes the sale of LP Gas in bulk and sale of LP Gas in cylinders to wholesale customers by means of tank lorries or tank vessels. It remained as a major business of the Group, recording a turnover of approximately HK\$600,014,000 for the nine months ended 30 September 2003, representing a gain of 28% compared with the corresponding period last year.

Retail sales

Included in retail sales are the sale of LP Gas in cylinders to retail customers, provision of piped LP Gas and provision of piped natural gas. For the nine months ended 30 September 2003, retail sales amounted to approximately HK\$238,272,000 representing a growth of 28% from the corresponding period last year. The figures reflected the Group's successful implementation of its development strategy and the growing benefits from its economy-of-scale advantage, which enabled the Group to rapidly increase the number of end-user household customers particularly in the piped gas sector. With the Group's further improvement in internal management, further uncovering of potential customers in existing markets and successful development of new markets, retail sales continued to gain proportion in the Group's total turnover.



REVIEW OF OPERATIONS *(Cont'd)*

Retail sales *(Cont'd)*

Through stronger efforts to develop piped gas projects and the continuous improvement in customer service and management, the Group secured a further increase in market penetration. As at 30 September 2003, the Group's end-user household customers amounted to approximately 1,793,500 households, of which approximately 1,632,000 households were cylinder LP Gas users and approximately 161,500 households were piped Gas Fuel users, representing an increase of approximately 222,000 households and 103,500 households respectively from the corresponding figures as at 30 September 2002. The continued growth in end-user household customers reflected the Group's success in further capitalising on its economy-of-scale advantage to uphold its existing market share and to develop new target markets. It laid a solid foundation for the Group to achieve more favourable results and to generate higher returns for shareholders.

Gas Pipeline Construction

For the nine months ended 30 September 2003, revenue derived from the gas pipeline construction business amounted to approximately HK\$190,751,000, accounting for approximately 18% of the Group's total turnover. The growth of the business was mainly attributable to the adoption of proactive and effective marketing and promotion campaigns, the continued improvement in internal management and the expansion of the market.

ESTABLISHMENT OR ACQUISITION OF NEW PROJECTS

Capitalising on its advantages of having a strong management team and sophisticated operations, as well as a strengthened capital base resulted from the successful issue of convertible bonds, the Group has accelerated its project development in the piped gas sector and the cylinder LP Gas sector, with satisfactory progress made in Sichuan and the eastern and north-eastern PRC regions. Currently, several projects have reached the stage of final discussion, with conclusion of the agreements expected to take place in the fourth financial quarter. The Group has also entered into co-operation arrangements with piped gas operators in a number of PRC cities. Letters of intent have already been signed with some of them and finalisation of details is actively underway. The Group will strive to obtain significant progress in project development during the fourth quarter of this financial year.

ESTABLISHMENT OR ACQUISITION OF NEW PROJECTS (Cont'd)

Shandong Jinan Gas Projects

During the period under review, the Group through its wholly-owned subsidiary Panriver Investments Company Limited ("Panriver Investments") signed an agreement with Jinan Gas Co. Ltd. (濟南市煤氣有限公司) ("Jinan Gas") to form a sino-foreign joint venture in the Jinan city of Shandong province. Panriver Investments will hold a 70% interest in the joint venture company, Jinan Panva LPG Co. Ltd. (濟南百江液化氣有限公司) ("Jinan Panva LPG"), which has a registered capital of RMB60,000,000. The joint venture company is principally engaged in the storage, processing, transportation and sale of LP Gas.

On 2 September 2003, Panriver Investments entered into a framework agreement with Jinan Gas in Hong Kong for developing and operating a gas pipeline network in the western district of the city of Jinan (the "Western District"). On 3 November 2003, a formal agreement, replacing the framework agreement, was signed between Panriver Investments and Jinan Gas to set up a sino-foreign joint venture company, Jinan Panva Gas Co. Ltd. (濟南百江燃氣有限公司) ("Jinan Panva Gas") to undertake the project. Jinan Panva Gas will have a registered capital of RMB100,000,000, of which Panriver Investments and Jinan Gas will have a 51% and a 49% interest respectively. Based on the local government's city planning schedule, the Western District will have a population of 600,000, with 150,000 piped gas connectable households. Jinan Panva Gas will be equipped with state of the art facilities and equipment for the construction of gas pipelines, transportation, storage and supply of Gas Fuel. Jinan Panva Gas has an exclusive right for the piped gas operation in the Western District for a period of 50 years.

On top of the LP Gas project and the Western District piped gas project, Panriver Investments and Jinan Gas are planning to further increase their cooperation by exploring the feasibility of jointly developing piped gas supply for the old town of Jinan, which based on the city planning schedule will have a population of 2,300,000, with a total of approximately 300,000 piped gas connectable households.

Jinan Gas is a PRC state-owned enterprise principally engaged in the storage, transportation, cylinder filling of Gas Fuel. Co-operation with Jinan Gas will enable the Group to effectively develop and swiftly establish a leading position in the LP Gas market in Jinan city and in the Shandong province, and the exclusive right to the piped gas operation in the Western District will provide a solid foundation for the Group to expand its market share of piped gas supply in the Shandong province.



ESTABLISHMENT OR ACQUISITION OF NEW PROJECTS *(Cont'd)*

Shandong Jinan Gas Projects *(Cont'd)*

Being the capital city of Shandong province, Jinan has a large population with relatively higher income, and ranks among the "Top 50" PRC cities in terms of economic strength. It has a total population of approximately 5,690,000, of whom 2,490,000 reside in the city that occupies 176 kilometres. According to the newly published Jinan city planning schedule, it is forecasted that the city of Jinan will develop into a metropolis with a population of 4,600,000 by 2020, and the Hanjiao county of Jinan will have a population of 7,500,000 to 8,000,000 with an urbanisation rate of 75% by 2030. With a growing population and urbanisation, Jinan is expected to see strong gas consumption amid a fast expanding market.

The Jinan gas project will significantly enhance the Group's market competitiveness and act as a springboard for the Group to expand into other northern PRC provinces and cities. It provides good guidance and reference as well as a strong foundation for the Group to foray into the piped gas sector in Jinan and other PRC northern cities. The Directors believe that this strategy will help increase the Group's market share and leverage in the piped gas market of the PRC.

Sichuan Pingchang Gas Project

Located in north-eastern Sichuan Province, the Pingchang county is part of the Bazhong city in the Sichuan province, with a total population of approximately 890,000 and an urban population of approximately 150,000. Under the local government's town planning schedule, Pingchang will be developed into a medium-sized city by 2010 and adorned with the "city" status.

Established in 1998, Pingchang Gas Company (平昌縣燃氣總公司) ("Pingchang Gas") commenced Gas Fuel supply in July 2000. It currently owns long distance gas pipelines at a total length of 54 kilometres, with the main pipeline covering approximately 100 kilometres of the town area. Given that market penetration of Gas Fuel presently accounts for less than 20% in the town area, the development potential is highly significant.

During the period under review, Panriver Investments acquired a 90% interest in Pingchang Gas for a consideration of RMB8,000,000 (approximately HK\$7,483,630) with an exclusive right to natural gas development and operations in Pingchang for a period of 30 years.

FINANCIAL POSITION

As at 30 September 2003, the Group's bank loans and other borrowings amounted to approximately HK\$514,697,000, of which approximately HK\$390,000,000 (approximately US\$50,000,000) arose from the Group's issue of 5-year convertible bonds in April 2003 with Morgan Stanley & Co. International Limited as the lead manager. The borrowings were mainly used to fund expansion in the piped gas business and the LP Gas business and as working capital. The Group ended the period under review with a current ratio of approximately 3.23 times and a gearing ratio (short-term bank loans and other borrowings to equity) of approximately 32%.

Total assets pledged in securing these bank loans have a net book value of approximately HK\$12,763,000 as at 30 September 2003. All bank borrowings are denominated in Renminbi and as the Group's operations are carried out in the PRC, all receipts and payments in relation to the operations are denominated in Renminbi. In addition, the Group's 5-year convertible bonds are denominated in the United States dollars. Currently, no financial instruments are used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK\$423,260,000 as at 30 September 2003 and were mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

CONTINGENT LIABILITIES

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

PROSPECTS

The rapidly developing piped gas market and gradually liberalising regulatory policies in the PRC provide the Group with favourable opportunities and huge room for development. The Directors and management of the Company believe that, by capitalising on the strong growth of the PRC's Gas Fuel sector and the necessity of reform among PRC state-owned enterprises, the Group through smooth implementation of its initiatives will be able to gain more development projects and further expand its customer base. With the further strengthening of the PANVA brand name and the growth in end-user customers, the Group is poised to gain higher growth and generate more favourable returns for shareholders.

PROSPECTS *(Cont'd)*

The Group has already developed an effective business model, with end-user customer service being the core supported by comprehensive operations including the processing, storage, transportation and sale of piped gas and the construction and operation of gas pipeline networks. This provides the Group with a strong position against the ever-growing competition in the market. New project development and piped gas operations in target regions are smoothly progressing in accordance with developed strategic plans. Confronting both favourable opportunities and intensifying competition, the Group will capitalise on its sophisticated management system, strong resources, solid financing capability, quasi-monopoly operating models and the strong support of the PRC local governments, to methodically deploy capital and seize opportunities and to maintain adaptive and sustainable operation dynamics, so as to secure a rapid and healthy development for its businesses. Concrete measures for the implementation of the strategy include the following:

1. Continue developing the piped gas market through equity investments or mergers and acquisitions while capitalising on the Group's strong customer base to expand the wholesale and retail of LP Gas in cylinders;
2. Further strengthening the Group's project development and procurement in the target regions comprising the south-western, eastern and north-eastern PRC regions;
3. Further improving the Group's internal systems for financial and operational management; and
4. Utilising the Panva Management Institute as a platform to accelerate the integration of the Group's new business ventures in terms of corporate culture and structure in order to maximise their returns to shareholders within the shortest timeframe.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' interests or short positions in Shares and in share options

At 30 September 2003, the interests and short positions of the Directors of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) were otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in rule 5.40 of the GEM Listing Rules, were as follows:

| Name of Director | Capacity | Interest in Shares Long positions/(Short positions) | | | Interest in underlying Shares pursuant to share options | Aggregate interest/ (Short positions) | Approximate percentage of the Company's issued share capital |
|------------------------------|--|--|--|--------------------------------|---|--|---|
| | | Personal interest | Corporate interest | Total interest in Shares | | | |
| Mr. Chen Wei | Beneficial owner | 2,160,000 | – | 2,160,000 | 5,040,000 | 7,200,000 | 1.19% |
| Mr. Lai Wen Guang | Beneficial owner | – | – | – | 3,360,000 | 3,360,000 | 0.56% |
| Mr. Lau Shi Wa | Beneficial owner | – | – | – | 1,200,000 | 1,200,000 | 0.20% |
| Mr. Li Fujun | Beneficial owner | 720,000 | – | 720,000 | 2,880,000 | 3,600,000 | 0.59% |
| Mr. Ou Yaping | Beneficial owner and interest of controlled corporation | – | 441,380,062 (38,461,538) <i>(Note 1)</i> | 441,380,062 (38,461,538) | 173,091,525 <i>(Note 2)</i> | 614,471,587 (38,461,538) | 101.55% (6.36%) |
| Mr. Tang Yui Man, Francis | Beneficial owner | 1,440,000 | – | 1,440,000 | 960,000 | 2,400,000 | 0.40% |



DISCLOSURE OF INTERESTS (Cont'd)

Directors' interests or short positions in Shares and in share options (Cont'd)

Notes:

1. The 441,380,062 Shares represent (i) 429,298,462 Shares held by Kenson Investment Limited ("Kenson") (Kenson is a wholly-owned subsidiary of Sinolink Worldwide Holdings Limited ("Sinolink"). 65.5% interests of Sinolink are held by Asia Pacific Promotion Limited ("Asia Pacific"). Mr. Ou is the sole beneficial owner of Asia Pacific). Mr. Ou is deemed by SFO to be interested in these Shares; and (ii) 12,081,600 Shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou.

Kenson is under an obligation to transfer 38,461,538 Shares to Hutchison International Limited ("Hutchison International") upon full exchange of a HK\$125,000,000 redeemable note (the "Note") held by Hutchison International in accordance with the terms and conditions of the Note.

2. The 173,091,525 Shares represent (i) 3,600,000 share options held by Mr. Ou and (ii) convertible note amounting to HK\$100,000,000 held by Supreme All Investments Limited, a wholly owned subsidiary of Sinolink. Such convertible note can be converted into 169,491,525 Shares of the Company on or before 1 April 2004 at a conversion price of HK\$0.59 per Share.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire Shares".

Save as disclosed above, none of the Directors or chief executives or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; (b) were otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in rule 5.40 of the GEM Listing Rules.

DISCLOSURE OF INTERESTS (Cont'd)

Directors' right to acquire Shares

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary Shares in favour of certain Directors, the details of which are as follows:

| Name of Directors | Date of grant | Exercisable period | Exercise price HK\$ | Number of Shares subject to Outstanding Options as at 1 June 2003 | Number of Shares subject to Outstanding Options as at 30 September 2003 | Approximate percentage of the Company's issued share capital |
|------------------------------|----------------------|---------------------------|--------------------------------|--|--|---|
| Mr. Chen Wei | 04.04.2001 | 01.01.2003-03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 04.04.2001 | 01.01.2004-03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 13.11.2001 | 13.11.2002-13.02.2007 | 0.940 | 1,440,000 | 1,440,000 | 0.24% |
| Mr. Lai Wen Guang | 04.04.2001 | 01.01.2003-03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 04.04.2001 | 01.01.2004-03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 13.11.2001 | 13.02.2002-13.02.2007 | 0.940 | 288,000 | 288,000 | 0.05% |
| | 13.11.2001 | 13.05.2002-13.02.2007 | 0.940 | 288,000 | 288,000 | 0.05% |
| | 13.11.2001 | 13.11.2002-13.02.2007 | 0.940 | 384,000 | 384,000 | 0.06% |
| Mr. Lau Shi Wa | 04.04.2001 | 01.01.2003-03.04.2011 | 0.475 | 600,000 | 600,000 | 0.10% |
| | 04.04.2001 | 01.01.2004-03.04.2011 | 0.475 | 600,000 | 600,000 | 0.10% |
| Mr. Li Fujun | 04.04.2001 | 01.01.2003-03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 04.04.2001 | 01.01.2004-03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 13.11.2001 | 13.11.2002-13.02.2007 | 0.940 | 480,000 | 480,000 | 0.08% |
| Mr. Ou Yaping | 04.04.2001 | 01.01.2003-03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 04.04.2001 | 01.01.2004-03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| Mr. Tang Yui Man, Francis | 13.11.2001 | 13.11.2002-13.02.2007 | 0.940 | 960,000 | 960,000 | 0.16% |

No share option was exercised by the above directors to subscribe for Shares in the Company during the period.

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

DISCLOSURE OF INTERESTS (Cont'd)

Directors' right to acquire Shares (Cont'd)

Interests in shares in associated corporations

| Name of Director | Name of associated corporation | Nature of interest | Interest in Shares |
|------------------|--------------------------------|--------------------|--------------------|
| Mr. Ou Yaping | Asia Pacific | Personal | 1 Ordinary share |
| Mr. Ou Yaping | Kenson | Corporate | 1 Ordinary share |

Interest in options to subscribe for shares of associated corporation

| Name of Directors | Name of associated corporation | Date of grant | Exercise period | Exercise price HK\$ | Number of share options held |
|---------------------------|--------------------------------|---------------|-----------------------|---------------------|------------------------------|
| Mr. Chen Wei | Sinolink | 14.03.2002 | 01.09.2002-01.09.2004 | 0.67 | 6,000,000 |
| | | 14.03.2002 | 01.12.2002-01.12.2005 | 0.67 | 6,000,000 |
| Mr. Tang Yui Man, Francis | Sinolink | 14.06.2001 | 01.06.2002-01.06.2005 | 0.41 | 1,650,000 |
| | | 14.06.2001 | 01.06.2003-01.06.2006 | 0.41 | 1,650,000 |
| | | 09.10.2001 | 03.10.2002-03.10.2005 | 0.33 | 2,750,000 |
| | | 14.03.2002 | 01.09.2002-01.09.2004 | 0.67 | 1,900,000 |
| | | 14.03.2002 | 01.12.2002-01.12.2005 | 0.67 | 1,900,000 |

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

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any of its directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2003, the following person(s) or corporations, other than the Directors or chief executives of the Company as disclosed above, had an interest in the Shares and underlying Shares of the Company which were recorded in the register of interests required to be kept by the Company under 336 of the SFO:

Long positions and short positions in Shares and underlying Shares in the Company

| Name of Director | Capacity | Interest in Shares Long positions/(Short positions) | | | Total interest in Shares | Interest in underlying Shares pursuant to share options/ debentures | Aggregate interest/ (Short positions) | Approximate percentage of the Company's issued share capital |
|------------------------------------|---|--|-----------------------|--------------------|--------------------------------|--|--|--|
| | | Personal Interest | Corporate interest | Family interest | | | | |
| Kenson | Beneficial owner | - | 429,298,462 | - | 429,298,462 | 169,491,525 | 598,789,987 | 98.96% |
| | | - | (38,461,538) | - | (38,461,538) | - | (38,461,538) | (6.36%) |
| Sinolink | Interest of controlled corporation | - | 429,298,462 | - | 429,298,462 | 169,491,525 | 598,789,987 | 98.96% |
| | | - | (38,461,538) | - | (38,461,538) | - | (38,461,538) | (6.36%) |
| Asia Pacific | Beneficial owner and interest of controlled corporation | - | 441,380,062 | - | 441,380,062 | 169,491,525 | 610,871,587 | 100.96% |
| | | - | (38,461,538) | - | (38,461,538) | - | (38,461,538) | (6.36%) |
| Mr. Ou Yaping | Beneficial owner and interest of controlled corporation | - | 441,380,062 | - | 441,380,062 | 173,091,525 | 614,471,587 | 101.55% |
| | | - | (38,461,538) | - | (38,461,538) | - | (38,461,538) | (6.36%) |
| Hutchison International Limited | Beneficial owner | - | 38,461,538 | - | 38,461,538 | 38,461,538 | 76,923,076 | 12.71% |
| Hutchison Whampoa Limited | Interest of controlled corporation | - | 38,461,538 | - | 38,461,538 | 38,461,538 | 76,923,076 | 12.71% |
| Cheung Kong (Holdings) Limited | Interest of controlled corporation | - | 38,461,538 | - | 38,461,538 | 38,461,538 | 76,923,076 | 12.71% |
| Mr. Li Ka-shing | Interest of controlled corporation | - | 38,461,538 | - | 38,461,538 | 38,461,538 | 76,923,076 | 12.71% |
| Morgan Stanley | Beneficial owner | - | 12,346,498 | - | 12,346,498 | 21,905,078 | 34,251,576 | 5.66% |



SUBSTANTIAL SHAREHOLDERS (Cont'd)

Long positions and short positions in Shares and underlying Shares in the Company (Cont'd)

Notes:

1. Sinolink is interested in the entire issued share capital of Kenson. Therefore, by virtue of S.310 of Part XV of the SFO, the Shares in which Kenson is shown as being interested are included in and duplicate with interest in the Shares of the Company held by Sinolink and Asia Pacific. Mr. Ou is the sole beneficial shareholder of Asia Pacific. Mr. Ou is deemed under the Part XV of the SFO to have an interest in the Shares held by Kenson.

Kenson is under an obligation to transfer 38,461,538 Shares to Hutchison International upon full exchange of a HK\$125,000,000 redeemable note (the "Note") held by Hutchison International in accordance with the terms and conditions of the Note.

2. Hutchison International is interested in 38,461,538 Shares and in the Note which is exchangeable into existing Shares at the exchange price of HK\$3.25 (subject to adjustment) per Share. Upon full exchange of the Note at the initial exchange price, Hutchison International shall be entitled to another 38,461,538 Shares and is accordingly interested in an aggregate of 76,923,076 Shares.

Hutchison International is a wholly owned subsidiary of Hutchison Whampoa Limited ("Hutchison Whampoa"). By virtue of Part XV of the SFO, Hutchison Whampoa is deemed to be interested in 76,923,076 Shares.

3. Cheung Kong (Holdings) Limited and Mr. Li Ka-shing are deemed to be interested in 76,923,076 Shares held by Hutchison International by virtue of their deemed interest in Hutchison Whampoa.
4. Morgan Stanley is interested in 12,346,498 Shares and in the convertible bonds due 2008 which is exchangeable into existing Shares at the exchange price of HK\$3.9169 (subject to adjustment) per Share. Upon full exchange of the bonds at the initial exchange price, Morgan Stanley shall be entitled to another 21,905,078 Shares and is accordingly interested in an aggregate of 34,251,576 Shares.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 September 2003, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

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 September 2003.

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

None of the Directors or management shareholders of the Company had 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. Li Xiao Ru.

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, 7 November 2003