



Panva Gas Holdings Limited
百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report

2003

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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.

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Corporate Information

Board of Directors

Executive Directors

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

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 and 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

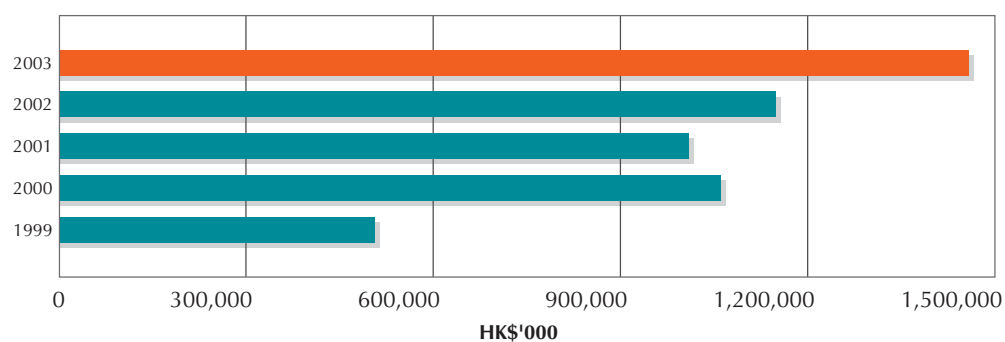
www.panva-gas.com
www.irasia.com/listco/hk/panvagas

Financial Highlights

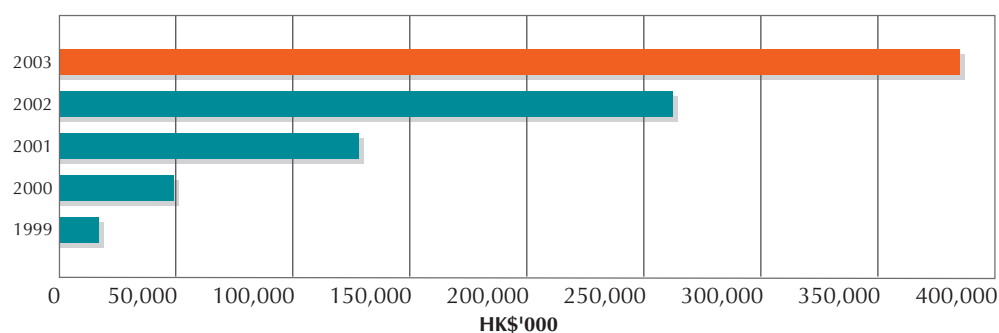
	2003 HK\$'000	2002 HK\$'000	Increase
Turnover	1,457,632	1,150,322	27%
Gross Profit	384,343	261,895	47%
Net Profit	209,074	132,538	58%
Shareholders' funds	580,054	268,373	116%
Total Assets	1,435,987	735,540	95%

	2003 HK Cents	2002 HK Cents	Increase
Earnings per share	33.97	21.97	55%
Net Asset Value per share	74.45	44.35	68%

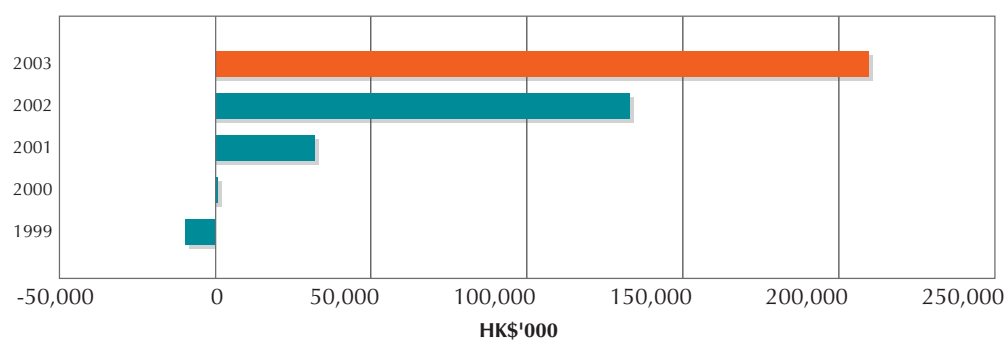
Turnover



Gross Profit

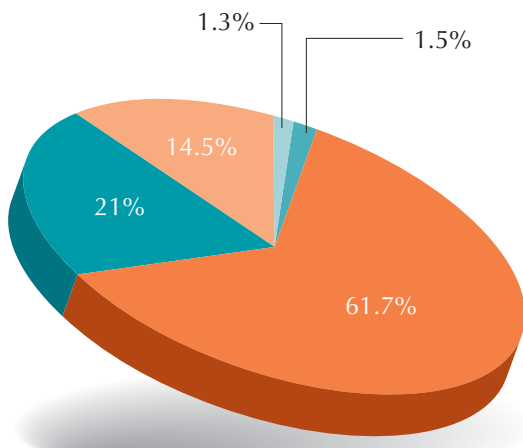


Net Profit

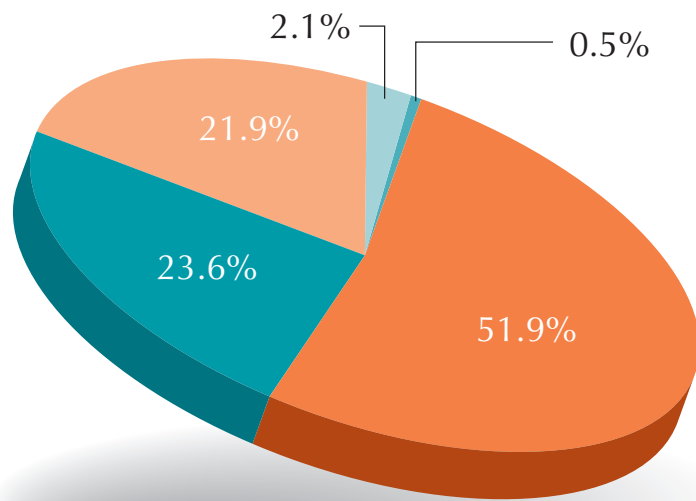


Financial Highlights

Turnover Breakdown



2002

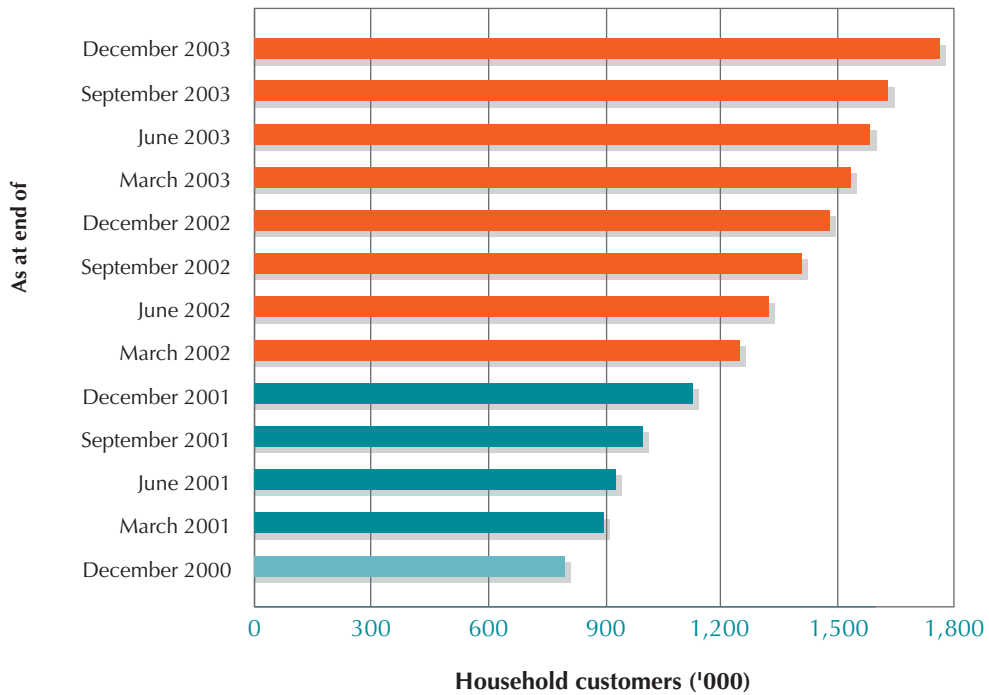


2003

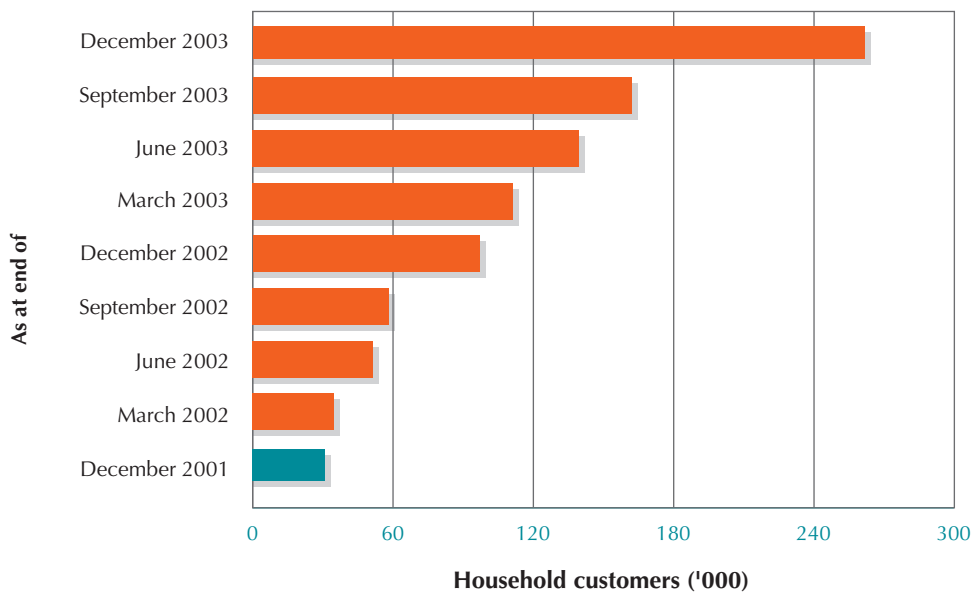
- Wholesale of LP Gas
- Provision of Piped Gas
- LP Gas Retail Sales
- Sales of LP Gas Equipment
- Pipeline Construction

Financial Highlights

Cylinder gas user



Piped gas user



Financial Highlights

Financial Summary

	For the year ended 31 December				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
RESULTS					
Turnover	<u>507,876</u>	<u>1,059,729</u>	<u>1,008,335</u>	<u>1,150,322</u>	<u>1,457,632</u>
(Loss) profit before taxation	(13,038)	6,483	68,499	178,303	274,134
Taxation	<u>–</u>	<u>(342)</u>	<u>–</u>	<u>(8,545)</u>	<u>(22,875)</u>
(Loss) profit before minority interests	(13,038)	6,141	68,499	169,758	251,259
Minority interests	<u>3,252</u>	<u>(5,313)</u>	<u>(36,806)</u>	<u>(37,220)</u>	<u>(42,185)</u>
Net (loss) profit for the year	<u>(9,786)</u>	<u>828</u>	<u>31,693</u>	<u>132,538</u>	<u>209,074</u>
(Losses) earnings per share (HK cents)					
Basic	(2.02)	0.17	5.59	21.97	33.97
Diluted	<u>N/A</u>	<u>N/A</u>	<u>4.89</u>	<u>17.44</u>	<u>30.36</u>

	As at 31 December		2003 HK\$'000
	2001 HK\$'000	2002 HK\$'000	
ASSETS AND LIABILITIES			
Total assets	529,972	735,540	1,435,987
Total liabilities	(216,721)	(251,499)	(591,296)
Minority interest	<u>(182,103)</u>	<u>(215,668)</u>	<u>(264,637)</u>
Shareholders' deficits	<u>131,148</u>	<u>268,373</u>	<u>580,054</u>

Notes:

- The results for the two years ended 31 December 2000 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 two years ended 31 December 2000 have been extracted from the Company's prospectus dated 10 April 2001.
- The Company was incorporated in the Cayman Islands under the Laws of Cayman Islands on 16 November 2000. Accordingly, only the balance sheets for the Group that have been prepared over the past three years are presented above.

Chairman's Statement



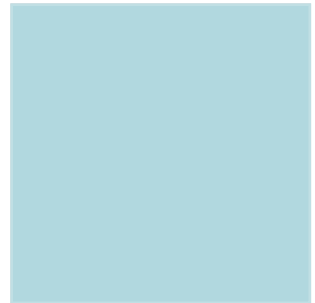
Mr. Ou Yaping
Chairman

The board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") is pleased to announce that the Group recorded remarkable results for the year ended 31 December 2003.

The year 2003 was a highly rewarding year for the Group. With its gas fuel operations achieving encouraging results in project and business developments on the strong foundation built in previous years, the Group has gained strong endorsement in the capital market and enlarged the shareholder base of the Group.

Development of the PRC Gas Sector

Both challenges and opportunities abounded in the gas fuel sector of the People's Republic of China (the "PRC") in 2003. On the macro side, the PRC economy encountered some pressure during the first half of the year. However, this had not shaken its foundations, and the PRC economy continued to grow at a solid and coherent momentum. According to the latest figures published by the State Statistical Bureau, the PRC's gross domestic product grew by 9.1% in 2003, well exceeding the target growth rate of 7%. Such a remarkable achievement caught the eyes around the world and won wide acclaim from the international community. Driven by the strong economic growth and the ending of natural monopolies in the utility market, the PRC's energy sector marched into a new stage of rapid development. Notwithstanding its role as a major energy consumer of the world, the PRC has remained hostage to its ill-structured energy strata as highlighted by the low proportion of clean energy in the primary fuel categories. Aware of the problems, the PRC government has included the structural reform of its energy strata and environmental and ecological protections in its state development plans, as part of the means to achieve a sustainable economic growth over the medium to long term. A series of related policies and measures have been introduced, providing a strong support for the Group's medium and long-term developments in the PRC's gas fuel sector.

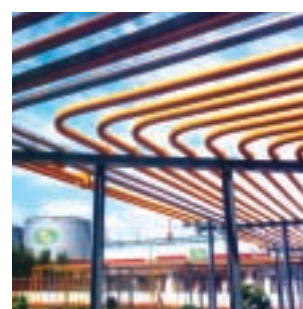


Natural Gas and City Pipelines

The battle against environmental pollution has topped the PRC government's agenda for securing a sustainable economic growth. This central policy, together with the strong increase in demand for clean energy arising from the PRC's rapid economic growth, have led to high enthusiasm across the country to accelerate natural gas development. As such, the piped natural gas market has entered into a stage of fast growth. A nationwide development framework for piped natural gas is taking shape in the PRC, comprising the "five major pipelines" that connect the eastern, western, southern, northern and central parts of the country. The "eastern pipeline", to be completed in 2004, will supply natural gas mainly to the southern Zhejiang province and Shanghai. The "western pipeline" will transmit natural gas from Talimu and Sebei to Henan, Anhui, Jiangsu, Zhejiang and Shanghai, boasting an annual supply capacity of 12 billion cubic metres. The Kuche-Tabei region will be the major supplier for the western pipeline under the "West to East Natural Gas Pipelines Project" which is expected to be completed on schedule. The "southern pipeline" includes liquefied natural gas projects in Guangdong and Fujian and is making solid progress. The "northern pipeline" is intended for bringing natural gas from Russia, with its main pipeline connecting Siberia and Tongzhou in the eastern suburb of Beijing, and an ancillary pipeline extending to Shandong. The "central pipeline" will tap the natural gas in Sichuan Basin and Shanxi-Gansu-Ningxia provinces and bring it to the Sichuan-Chongqing regions and the Yunnan-Guizhou areas in the southwest. With an annual production of close to 10 billion cubic metres of natural gas, the Sichuan Basin has become a major supplier for the regions, and is joining hands with the Shanxi-Gansu-Ningxia provinces to vigorously expand the coverage of destinations.

In the next 10 to 20 years, the development and employment of natural gas in the PRC will move into a new era in which both demand and supply will grow substantially. The need to realign the energy structure and the fact that the market for natural gas is no longer confined to the vicinity of the output locations, making the swift development of gas pipelines a practical necessity. Following the completion of its main pipeline, the "West to East Natural Gas Pipelines Project" began to transmit gas in the second half of 2003. Along with the progress seen in other major gas projects, a giant gas-supply artery is taking shape in the PRC that will eventually connect the country's eastern and western regions as well as its southern and northern coastal cities.

As initial steps to seize the opportunities from the rapid development of the PRC's natural gas industry, the Group has been focusing on the development of piped gas supply in the southwestern, eastern, southern and northern regions of the PRC. Led by an experienced management team, the Group reinforced its competitive



strength and secured a good number of city natural gas projects in these regions in 2003.

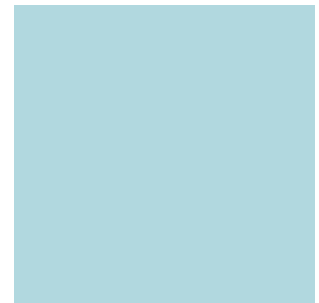
Liquefied Petroleum Gas Market

While natural gas development gained great traction in 2003, the consumption and production of liquefied petroleum gas ("LP Gas") in the PRC continued to grow annually in double digits. On the consumption side, demand for LP Gas increased to more than 18 million tonnes from 2002's 16 million tonnes, and is expected to reach 20 million tonnes by 2005. LP Gas production grew by nearly 37% between 2000 and 2003. With the commencement of gas transmission from the "West to East Natural Gas Pipelines Project", competition has gradually intensified in the PRC's natural gas market. Given the special characteristics of natural gas supply in the PRC, competition is expected to be in cities along the major gas pipelines and in major cities with strong growth potential in fuel consumption. Moreover, taking the overall energy structure of the PRC into account, the Group believes that LP Gas – with its clean and environmentally friendly nature, high burning power and cost efficient value – will continue to play a major role in the PRC's energy strata. The fact that LP Gas operation requires a relatively small amount of initial capital outlay also makes it an attractive investment. In light of the above factors, LP Gas still has large room for profit and market growth, and represents a new area of growth in the PRC's energy sector.

Being a major LP Gas supplier in the PRC, the Group has been capitalising on its quality services, strong logistics and professional management to quickly expand in the LP Gas market. Such efforts yielded encouraging results in 2003, as reflected by the Group's further forays into the retail and wholesale sectors of domestic and industrial LP Gas consumption, and its success in securing a reliable supply of cylinder and piped LP Gas. As a result, the Group was able to reduce cost and improve margin for its LP Gas business during 2003.

Actively Participating in the Transformation of State-Owned Gas Enterprises

The PRC's state-owned enterprises have been undertaking large-scale reforms. This is particularly the case in the public utility sector. Major municipal governments are speeding up the process to open their gas fuel markets and initiate talks with foreign investors on joint venture



Chairman's Statement

opportunities. At the same time, in order to stay competition and reduce debts, many state-owned gas enterprises are taking active steps to improve productivity and profitability. As a result, more PRC cities are privatising their utilities or inviting professional overseas investors to become shareholders; local governments are providing incentives to investors and transform themselves from operators to regulators in utility sector as part of their plans to revamp their city administration. Under these circumstances, the Group, with years of experience, and a strong track record, and solid reputation in transforming state-owned enterprises, is poised to benefit from such opportunities.

During the course of participating in the transformation of state-owned gas enterprises, the Group adheres to the principle of "providing comprehensive solution package to the local governments, the staff and the customers". Through the successful acquisitions and transformations of state-owned gas enterprises, the Group has strengthened its core competitiveness, achieved integration synergy, and gained local government support. The Group has therefore gained access to more business opportunities and maintained its leading position in the PRC's gas fuel sector. The PANVA brand has become a strong franchise in the PRC's gas fuel sector.

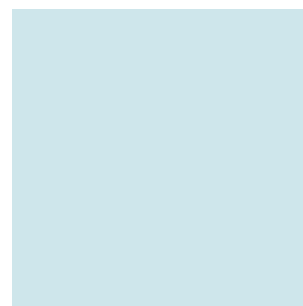
Business Development

During 2003, the Group has largely completed its business and project development plans laid down in 2002. In the first half of 2003, the Group acquired interests in two gas enterprises located in Chizhou of the Anhui province and Lezhi of the Sichuan province respectively, laying a solid foundation for the Group's further expansion in geographical and end-user coverage. In the second half, the Group completed acquisitions in Pingchang and Dayi of the Sichuan province, Jinan of the Shandong province, and Foshan of the Guangdong province, providing valuable additions to the Group's existing projects.

The Group's operations and development projects now extend across 8 provinces, covering the eastern, central, southern, southwestern and northeastern regions of the PRC:

Eastern Region

The Group has developed 8 projects in 5 cities of the Jiangsu, Anhui and Shandong provinces in the eastern PRC region. The project holding companies are making progress with a wide range of gas fuel operations covering the wholesale of LP Gas, the retail of LP Gas in cylinders, and piped gas supply. These companies have formulated strategic plans to further expand their markets and strengthen the PANVA brand name by capitalising on the rich resources in the eastern region and the abundant opportunities available for project development.



Central Region

The Group has secured 7 projects in the central PRC region with Hunan as the strategic base, engaging mainly in the retail and wholesale of LP Gas in cylinders and in bulk. The project holding companies have developed strong competitive advantages in the central PRC region and established solid foundations for their further expansion. The Group plans to use Hunan as the focal point to radiate expansion into other provinces and cities in the central PRC region, in order to further reinforce its leading position and extend its market territory.

Southwestern Region

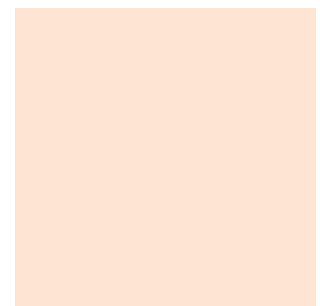
The Group has developed 9 projects in the Sichuan, Guizhou and Yunnan provinces of the PRC. Rich in natural gas resources, Sichuan will be a major area for the Group's piped natural gas operations. Moreover, the Group signed framework agreements with the local governments or gas fuel operators in a number of cities in Sichuan during 2003, some of which are expected to be converted into formal contracts in 2004, further enhance the Group's market leader position in the gas fuel sector of the southwestern region.

Southern Region

The southern region of the PRC comprises some of the country's most economically developed provinces such as Guangdong, Fujian and Hainan. These provinces, known for their abundant resources, high per capita income and prospering economies, are the locations designated by the state government for a number of major energy projects. The Group has given due regard to the PRC's strategic plan on energy development, and finalised a project in Foshan, Guangdong in late 2003, which will be used as a platform to further expand in the southern PRC region. The Group is taking active measures to achieve such expansion within a short timeframe in order to establish a large and integrated gas fuel operation in the southern PRC region.

Northeastern Region

The northeastern PRC region is an important base of the country's traditional industries and possesses strong industrial infrastructure and economic strength. The PRC's new leadership has promulgated a series of incentive measures to revitalise the northeastern PRC economy. Hence, it is expected that the northeastern PRC region will see rapid economic growth in the future, which will prompt a fast development of the energy



Chairman's Statement

sector in particular the gas fuel segments. Moreover, the "Russia Southbound Gas Project", whose final phase is under discussion, will provide an additional boost to gas fuel development in this region. The Group has made the northeastern PRC a near-term strategic focus, and has commenced market development in the region. Apart from letters of intent signed with the local governments of Harbin and Benxi, the Group is also holding discussions with a number of gas fuel operators in the northeastern PRC region. The Group plans to acquire a number of projects in the region in the coming years.

Prospects

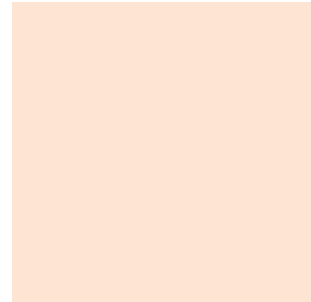
Looking ahead, the Group is determined to seize more opportunities and maintain a strong growth momentum for its gas fuel businesses. Moreover, the Group will further strengthen its leadership position in LP Gas distribution, increase its penetration in the city piped natural gas market, and expedite growth through mergers and acquisitions. Internally, the Group will continue to improve its corporate governance, accumulating industrial resources and management knowhow, and enhancing core competency. The ultimate objective of these strategic plans is to continue maximizing shareholders' returns.

Appreciation

Last but not least, I would like to take this opportunity to thank our board members, customers and business associates for their continual support, and our staff for their diligence and contribution during the past year. I would also like to thank our shareholders and management members for their loyal acquaintance with the Group through all these years.

Ou Yaping
Chairman

Hong Kong, 15 March 2004



Managing Director's Report



Mr. Chen Wei
Managing Director

During the year, the Group continued to gain ground for its natural gas business by securing further penetration in the city piped gas market and attaining significant improvements in operation. At the same time, the Group made further progress in the retail and wholesale of LP Gas in cylinders and in bulk. All in all, the Group's major businesses achieved strong performances during the year under review.

Review of Operations

For the year ended 31 December 2003, the Group's turnover amounted to approximately HK\$1,457,632,000, representing an increase of approximately 27% over last year, while the gross profit margin rose to 26% against 2002's 23%. Profit attributable to shareholders amounted to approximately HK\$209,074,000, representing a substantial increase of approximately 58%. The increase in net profit was mainly attributable to the continued strengthening in management and operation, the further unleashing of internal potentiality, and the active market development strategies. By enhancing their services and management, the underlying businesses were able to gain a solid increase in market share, which contributed favourably to the Group's profit growth.

Wholesale of LP Gas

Wholesale of LP Gas remained as one of the Group's principal activities in 2003, recording a turnover of approximately HK\$756,264,000 that was 6.48% higher than last year. The business accounted for approximately 51.88% of the Group's total turnover in 2003, a reflection of its significant role being one of the Group's major sources of income. The business comprises sales of LP Gas in bulk and in cylinders to wholesale customers by tank lorries or tank vessels.

Retail of LP Gas in cylinder

During the year, the Group continued to take active measures to reinforce and expand its retail sales of LP Gas in cylinders and achieved satisfactory results. Turnover generated by the retail business grew by 42.16% to approximately HK\$343,738,000, accounting for approximately 23.58% of the Group's total turnover in 2003. The retail business has been gaining proportion in the Group's turnover mix and contributing favourably to the Group's profit. Included



Managing Director's Report

in retail sales are the direct sale of LP Gas in cylinders to retail customers. By capitalising on its economy-of-scale benefits, the retail business further increased its market share and expanded its revenue base.

As at 31 December 2003, the Group had approximately 1,762,000 households of end-user customers for its retail sale of LP Gas in cylinders, an increase of approximately 282,000 households over the corresponding figure at 31 December 2002. The continued growth in end-user household customers can be attributed to the higher market shares captured by the Group in target segments, the enhancement in customer service and the strengthening of customer base. It also reflected the Group's success in leveraging on its brand prestige and economy-of-scale benefits to grow into the PRC's largest gas fuel supplier and service provider with the largest number of customers.

Sale of Piped Gas

During 2003, the Group secured a significant increase in market share for its piped gas business comprising the direct sales of piped LP Gas and piped natural gas to end-user households. Turnover of the business increased by 106.48% to approximately HK\$30,379,000, accounting for approximately 2.08% of the Group's aggregate turnover derived from the gas fuel businesses for 2003.

As at 31 December 2003, the Group had approximately 261,800 households of end-user customers for its sale of piped gas, an increase of approximately 164,800 households over the corresponding figure at 31 December 2002.

Gas Pipeline Development

The Group's gas pipeline development business includes mainly the construction and maintenance of piped gas stations and networks and direct connection of gas pipelines to end-user households for which the Group receives a connection fee. For the year ended 31 December 2003, the Group received an aggregate of approximately HK\$319,760,000 in connection fee, an increase of approximately 92.07% over last year. The amount accounted for approximately 21.94% of the Group's total turnover in 2003, compared to approximately 14.47% last year.

The gas pipeline development business not only commands a higher gross profit margin, but also provides a stable source of revenue for the Group as the connection fees received are used for the further expansion of the pipelines to increase penetration and expand the customer base. As such, the Group has made it a long-term core business and has taken measures to safeguard its existing customer base and to secure new customers. The paramount aim is to ensure that both domestic and industrial users can enjoy a reliable supply of clean and safe energy in a convenient manner.

Managing Director's Report

Acquisition of New Projects

During 2003, by capitalising on its strong financial resources, brand name, solid reputation and core competitive advantages, the Group gained cooperation of business partners in a number of target cities, which enabled the Group to stay competitive and seized a number of new project opportunities. The year saw the Group achieving further progress in the Sichuan province and the southern, eastern and northeastern regions of the PRC, gaining access to a number of promising projects. The Group signed formal contracts on 7 of them, comprising the ones in Chizhou, the Anhui province; Lezhi and Pingchang, the Sichuan province; Jinan, the Shandong province; and Foshan, the Guangdong province. These projects are related to the distribution of LP Gas and gas pipeline development. Moreover, the Group entered into framework agreements or memorandum of understanding with gas fuel operators in 5 cities including Harbin, the Heilongjiang province; Yibin, Jianyang and Yuechi, the Sichuan province; and Benxi, the Liaoning province. In January 2004, the Group signed a formal contract for the project in Yuechi, the Sichuan province. Currently, the Group is engaged in discussions concerning 15 new projects, some of which are expected to be concluded within this year.

Sichuan Lezhi Gas Project

During the year, the Group through its wholly-owned subsidiary Panriver Investments Company Limited ("Panriver Investments") signed an agreement with the local government of the Lezhi county in Sichuan province to acquire the entire issued capital of Sichuan Lezhi Gas Company (whose name was subsequently changed to Lezhi Panva Gas Co., Ltd.) for a consideration of RMB14,800,000. Pursuant to the agreement, the Group was granted an exclusive right to develop piped natural gas operation in Lezhi for 50 years. As a result of the acquisition, the Group has further increased its market share and strengthened its competitiveness in the piped natural gas sector in Sichuan, which significantly enhanced the Group's economy-of-scale benefits and competitive advantages.

Located in the middle part of the Sichuan Basin, Lezhi county occupies an area of approximately 1,424.5 square kilometres with a population of approximately 869,000 and a completed gas pipelines of approximately 90.8 kilometres in length. Compared to other cities in Sichuan that use natural gas as a domestic fuel, Lezhi has a relatively low ratio of natural gas penetration, which accounts for only 27% of the total households in the entire central city area. Approximately 230,000 connectable households are on the target board, providing huge room for natural gas development. Lezhi also offers good prospects for the development of industrial natural gas supply.



Anhui Chizhou Gas Project

During the year, the Group through Panriver Investments signed an agreement with Anhui Chizhou Gas Company Limited to form a Sino-foreign joint venture in the Chizhou city of Anhui province. Panriver Investments holds a 60% interest in the joint venture company, Chizhou Panva Gas Co., Ltd. ("Chizhou Panva Gas"), which has a registered capital of RMB20,000,000.

Chizhou Panva Gas is principally engaged in the production, distribution, infrastructure development, supply and sale of natural gas and LP Gas in Chizhou, with an exclusive right to develop natural gas operation in the city for 50 years. It is developing a pipeline in Chizhou at a length of 16 kilometres, which will supply LP Gas until natural gas is accessible by the end of 2005.

Located in the southern part of Anhui, with the Yangtze River to its north, Chizhou occupies an area of approximately 8,271 square kilometres with a total population of approximately 1,530,000. At present, only 20% of the households in the central area of Chizhou have access to natural gas, and approximately 400,000 households fall under the future connectable category, which underline the huge room for development. Chizhou is also an eco-tourism city situated between Huangshan and Jiuhuashan, and its well-developed catering industry has a strong demand for gas fuel. Moreover, Chizhou has a solid industrial infrastructure with an industrial park under construction, and some industrial enterprises in Huangshan are intending to get natural gas supply from Chizhou, which make the prospects of the Chizhou gas sector even more promising. The aggregate consumption of natural gas in Chizhou alone is expected to reach 260,000,000 cubic metres by 2010. By securing the Chizhou project, the Group has demonstrated that it is further expanding its market share in the Yangtze River coastal area and accelerating its development in the piped natural gas supply sector.

Sichuan Pingchang Gas Project

During the year, the Group through Panriver Investments acquired a 90% interest in Sichuan Pingchang Gas Company which subsequently changed its name to Pingchang Panva Gas Co., Ltd. ("Pingchang Panva") in the Pingchang county of Sichuan province for a consideration of RMB8,000,000. Pingchang Panva has been granted an exclusive right to natural gas development and operation in Pingchang for a period of 30 years.

Located in northeastern Sichuan, Pingchang county is part of the Bazhong city in the Sichuan province with a total population of approximately 890,000. Currently, piped natural gas has a less than 20% penetration in Pingchang, hence the room for further development is huge. Under the local government's town planning schedule, Pingchang will be developed into a medium-sized city by 2010 and adorned with "city" status.

Managing Director's Report

Shandong Jinan LP Gas Project

During the year, the Group through Panriver Investments signed an agreement with Shandong Jinan Gas Co. Ltd. ("Jinan Gas") to set up a Sino-foreign joint venture in the Jinan city of Shandong province. Panriver Investments holds a 70% interest in the joint venture company, Jinan Panva LPG Co. Ltd. ("Jinan Panva LPG"), which has a registered capital of RMB60,000,000. Jinan Panva LPG is principally engaged in the storage, processing, transportation and sale of LP Gas. Jinan Panva LPG is finalising its asset appraisal and other preparation works for its incorporation.

Shandong Jinan Piped Gas Project

During the year, Panriver Investments entered into a framework agreement in Hong Kong with Jinan Gas for developing and operating a gas pipeline network in the western part of the city of Jinan (the "Western District"). In November 2003, a formal agreement, which replaced 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. ("Jinan Panva Gas") to undertake the project. Jinan Panva Gas has a registered capital of RMB100,000,000, of which Panriver Investments and Jinan Gas have a 51% and 49% interest respectively. Jinan Panva Gas has obtained approval for incorporation and has been granted business licences by the local authorities.

Based on the local government's city planning schedule, the Western District will have a population of 600,000, with 150,000 connectable households for piped gas. Jinan Panva Gas will be equipped with state of the art facilities and equipment for the construction of gas pipelines, and the 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.

The two Jinan gas projects have significantly enhanced the Group's market competitiveness and provided a springboard for the Group to further expand into other northern PRC provinces and cities. They represent good guidance and reference as well as strong stepping-stones for the Group to foray into the 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 gas market of the PRC.

Foshan Gas Project

During the year, the Group through Panriver Investments and Sinolink Power Investment Limited ("Sinolink Power"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Foshan Construction and Transportation Assets Management Company Limited ("Foshan CTAM"), pursuant to which the Group acquired an aggregate of 45% equity interest in Foshan Gas Company ("Foshan Gas") from Foshan CTAM for a total consideration of RMB75,400,000.



Managing Director's Report

Located in the southern-central part of the Guangdong province, Foshan occupies an area of approximately 3,813.64 square kilometres with a population of approximately 3,358,500. It recorded a gross domestic product ("GDP") of approximately RMB117,000,000,000 in 2002, which accounted for approximately 10% of the total GDP of the Guangdong province for the year. Both LP Gas in cylinders and piped gas are available in Foshan. However, piped gas is currently accessible to only 27% of Foshan's households, which represents huge room for development.

Guangdong is a relatively well-developed province of the PRC. A natural gas terminal is under development in the Shenzhen city of Guangdong, which upon completion is expected to bring significant benefits to the development of natural gas supply in Guangdong. The Foshan project laid a strong foothold for the Group to further develop the gas market in Guangdong and the PRC southern region.

Sichuan Dayi Gas Project

During the year, the Group through Panriver Investments entered into a share transfer agreement with the Finance Bureau of Dayi County, pursuant to which Panriver Investments agreed to acquire the entire equity interest of Dayi Gas Company and 50 years of exclusive operation rights in respect of the supply of natural gas in the Dayi county for a consideration of RMB13,000,000.

Dayi is a county of Sichuan, the PRC province that is rich in natural resources. Located near the city of Chengdu, the provincial capital of Sichuan, Dayi commands favourable geographical advantages. It occupies an area of approximately 1,548 square kilometres and has a population of approximately 500,000, with connectable natural gas household users of approximately 130,000 households. The local government of Dayi plans to accelerate the development of Dayi and grows it into the "backyard garden" of Chengdu, which provides favourable prospects for the supply of natural gas to both domestic and industrial users in the county. By securing the Dayi project, the Group has further strengthened its position in the gas fuel market of Sichuan and facilitated its further penetration into this strategically important marketplace.

Corporate Culture

During 2003, the Group continued to promote and strengthen its corporate values of "Tranquility, Stability, and Creativity" and to infuse these values into the Group's daily operations and staff's conduct. These efforts have generated a strong team spirit and common beliefs among the Group's staff members who become more positive and proactive in carrying out their duties, and brought forward creative ideas to the benefit of the Group's long-term development.

Managing Director's Report

Enhancements in Product Quality and Safety

During the year, as part of the means to further enhance the know-how and safety standards of its gas operations, the Group established a "Safety Engineering Division" in Nanjing and devised a master plan for its projects on the development and utilisation of advanced technology. Moreover, the Group pioneered the use of bar codes on its gas cylinders during the year and obtained approval from government authorities to use trademark colours to distinguish its gas cylinders. The Group also established a "Physics and Chemistry Research Laboratory" in Nanjing as a further means to ensure the quality of its gas fuel products. These measures are expected to give the Group further technological advantages and contribute to the stronger standing of PANVA brand products.

Panva Management Institute

In July 2003, the Group established the Panva Management Institute in Nanjing, a facility that serves the multi purposes of providing staff training, hosting talks on professional subjects, organising cultural and educational activities, and nurturing talents for the Group. Its establishment not only reflects the Group's strong emphasis on professional management and its solid approach in realising the aim, but also represents the Group's long-term strategy of equipping itself with a strong pool of talents for its future development. It provides a strong platform for the Group to further promote its corporate culture and enhance its management expertise. The Institute is now operating at full steam and providing a number of training programmes for the Group's staff.

Headed by Mr. Chen Wei, the Managing Director of the Company, the integrated Panva Management Institute provides training on various subjects, including professional know-how, management and administration expertise, technical skills, sales and marketing techniques and corporate culture development. Its lecturers comprise local and overseas experts in the gas fuel industry, reputed professors from high schools and universities, and distinguished management members of the Group. Apart from offering systematic and integrated training programmes, the Institute also organises special workshops for the Group's staff. The Panva Management Institute marked a major step of the Group on its way to become the best gas fuel enterprise in the PRC. It also strengthened the Group's corporate identity as a "trustworthy expert" in the PRC's gas fuel market.



Managing Director's Report

Standard & Poor's Rating

The Group's rapid development has caught the attention of international gas operators and institutional investors. In April 2003, the Group was assigned a "BB+" foreign currency corporate credit rating and a stable outlook by international credit agency Standard & Poor's, which reflected the Group's leading position in the LP Gas and piped gas markets in the PRC, and its sound financial status. The Group was the first GEM-listed company awarded a credit rating by the authoritative agency, giving proof to the Group's overall strength and reflecting a strong recognition of the Group's years of solid and rapid development. The rating provided strong and additional support for the Group to further develop the gas fuel market and enhanced the Group's brand name in the PRC.

Issue of Convertible Bonds

In order to take advantage of the expected accelerating growth in the PRC's gas fuel market, the Group has been undertaking a further number of projects in more target regions in the PRC, which requires additional funding resources. In April 2003, the Group successfully issued convertible bonds at an aggregate principal amount of US\$50,000,000 (approximately HK\$390,000,000) on the Luxembourg Stock Exchange. The issue was arranged by Morgan Stanley & Co. International Limited ("Morgan Stanley") acting as the lead manager. Out of the net proceeds, approximately 70% and 20% respectively were used to fund expansion in the piped gas business and the LP Gas business, whereas the remaining 10% was used as working capital. The successful fund-raising exercise has greatly facilitated the Group's further expansion in market share, and once again demonstrated the strong recognition of international investors on the Group's prospects.

Placing and Subscription of Shares

In December 2003, the Group's parent company Sinolink Worldwide Holdings Limited ("Sinolink") placed 155,200,000 existing shares of the Company (the "Shares") through Morgan Stanley and Merrill Lynch Far East Limited to independent investors at HK\$4.00 per Share and subscribed for the same number of new Shares issued by the Company at the same price per Share, which was completed in January 2004. The placing was well received in the capital market and was participated by a number of institutional investors, which further strengthened the relationships of the Group with the investing community, whereas the subscription raised more than US\$80,000,000 (approximately HK\$620,000,000) for the Company. As a result of the placing and the subscription, the Company's shareholder base and capital base were broadened, which enhanced the Group's profile in the capital market and strengthened its financial position. The Group intends to apply the majority of the net proceeds from the subscription to fund the expansion of its piped gas business in the future.

Managing Director's Report

Contingent Liabilities

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

Financial Position

The Group maintained a healthy financial position throughout the year 2003. As at 31 December 2003, the Group's cash and cash equivalents amounted to approximately HK\$356,809,000, which excluded the net proceeds of approximately HK\$589,000,000 from the placing of the Company's new Shares in January 2004. The Group's cash and cash equivalents are mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

The Group's bank loans and other borrowings amounted to approximately HK\$411,090,000, of which approximately HK\$372,016,000 arose from the Group's issue of 5-year convertible bonds in April 2003. 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 year under review with a current ratio of approximately 3.79 times and a gearing ratio of approximately 71%. If the 5-year convertible bonds were not taken into account, the Group's gearing ratio would be approximately 7%. With strong financial resources, the Group is well poised to seize new development projects while maintaining a smooth operation for its businesses.

Total assets pledged in securing these banks loans had a net book value of approximately HK\$43,963,000 as at 31 December 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.

Panriver Investments has been granted credit lines at an aggregate amount of approximately RMB6,000,000,000 by the Bank of China, Shenzhen Branch. With the two fund raising exercises made in 2003, the Group raised an aggregate of approximately US\$130,000,000, which reflected the confidence of international investors and banks on the Group's current and future business prospects and laid a solid foundation for the Group's future financing arrangements.

Employees and Remuneration Policies

As at 31 December 2003, the Group had 2,995 full time employees, an increase of 16% from one year ago. Approximately 99% of the Group's full time employees are located in the PRC. The Group remunerates its employees based on individual's performance and capability. On top of promotion opportunities and other incentives, the Group also provides its staff with various training opportunities. The Group has also developed a systematic staff development programme to facilitate the Group's further advancement in technology and management.



Managing Director's Report

Prospects

The next two decades are likely to see the PRC economy maintaining a strong growth momentum. By providing strong support to the energy sector and making it a priority of state development, the PRC government aims to bring forward a transformation of the country's energy strata with an emphasis on "high efficiency, economical values, environmentally friendliness, and safety". In order to seize the huge opportunities arising from these developments, the Group will strengthen its efforts in the following areas:

- The Group will further expand the business territories, market shares and end-user customer bases of its existing gas fuel operations by further improving their management and service standards in order to capitalise on the business opportunities arising from the development of the PRC's energy sector.
- The Group will accelerate its market expansion in the Sichuan province and the eastern, southern and northeastern regions of the PRC through mergers and acquisitions for which significant opportunities are available as a result of the reforms being pursued by state-owned gas enterprises.
- The Group will further improve its service and technology levels and join hands with the PRC local governments to help enhance the business practices and safety standards in the LP Gas market.
- The Group will further strengthen its internal management through the introduction of standardised management systems and stronger control on investment policies and capital deployments, in order to generate solid and satisfactory returns for shareholders in the years to come.

Appreciation

On behalf of the Board, I would like to express our gratitude to the Group's staff for their devoted efforts and diligence during the year.

By Order of the Board

Chen Wei

Managing Director

Hong Kong, 15 March 2004

Directors and Officers

Executive Directors



Mr. Ou Yaping, aged 42, is the chairman, founder and the ultimate controlling shareholder of the Company. He is also the chairman of Sinolink. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in 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 over 18 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Company. He has been an executive director since November 2000.

Mr. Chen Wei, aged 42, is the 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 in the PRC. He was previously employed by a number of other large organizations and has over 18 years of experience in engineering business administration, market development and management. Mr. Chen joined the Sinolink Group in February 1992 and is responsible for the overall business development, management and strategic planning of the Company. He has been an executive director since January 2001.



Mr. Li Fujun, aged 41, is an executive director of the Company. 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 10 years of experience in project evaluation and strategic planning, investment analysis and engineering work, as well as project management and investment. Mr. Li joined the Sinolink Group in May 1994 and is responsible for strategic planning, investment and management of the gas fuel business of the Company. He has been an executive director since January 2001.

Mr. Zhang Keyu, aged 45, is an executive director of the Company. Graduated from the South Western University of Finance and Economics in the PRC, Mr. Zhang has 27 years of experience working in the PRC government sector and in investment management. He joined the Company in April 2003, and is responsible for the development and management of the Company's natural gas pipeline projects in the PRC. He has been an executive director since May 2003.



Mr. Tang Yui Man, Francis, aged 41, is an executive director of the Company. Mr. Tang is also the chief executive officer and an executive director of Sinolink. He graduated with a Bachelor's 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. He joined the Sinolink Group in March 1998 and is responsible for corporate planning, strategic development and financial planning and management of the Company. He has been an executive director since November 2001.

Directors and Officers



Mr. Lai Wen Guang, aged 41, is an executive director of the Company. He holds a Diploma from China Social University. Mr. Lai has 18 years of experience in 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 the gas fuel business of the Company. He has been an executive director since January 2001.

Mr. Lau Shi Wa, aged 42, is an executive director of the Company. 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 15 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 of the Company. He has been an executive director since January 2001.



Non-executive Directors

Mr. Fok Kin-ning, Canning, aged 52, is a non-executive director of the Company. Mr. Fok holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants. He is the group managing director of Hutchison Whampoa Limited, the chairman of Hutchison Telecommunications (Australia) Limited, Hutchison Harbour Ring Limited, Hutchison Global Communications Holdings Limited and Partner Communications Company Ltd. and the co-chairman of Husky Energy Inc. He is also the deputy chairman of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited and a director of Cheung Kong (Holdings) Limited. Mr. Fok has been a non-executive director since December 2002.

Mr. To Chi Keung, Simon, aged 52, is an alternate director to Mr. Fok Kin-ning, Canning. He holds a First Class honors degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. Mr. To is currently the managing director of Hutchison Whampoa (China) Limited. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of Industrial Project Division and was appointed managing director in the following year. He has close to 30 years of management experience. Mr. To has been an alternate director to Mr. Fok since December 2002.

Mr. Zheng Dunxun, aged 67, is a non-executive director of the Company. Mr. Zheng graduated from the Beijing Foreign Trade Institute. Mr. Zheng previously served in various positions including as an officer, division chief, chief representative to Japan, vice president and president of China National Chemicals Import & Export Corporation (SINOCEM). He was also appointed as a member of China Council for the Promotion of International Trade and vice-chairman of China International Trade Association. At present, he is a member of the Economics Committee under this organization. Mr. Zhang is also an executive director of Titan (Holdings) Limited. He has been a non-executive director since February 2001.

Directors and Officers

Independent Non-executive Directors

Mr. Cheung Hon Kit, aged 50, is an independent non-executive director of the Company. Mr. Cheung has over 26 years of experience in the real estate development, property business and corporate finance. Mr. Cheung graduated from the University of London with a bachelor of arts degree. He has worked in key executive positions 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 managing director of Wing On Travel (Holdings) Limited. He is also a director of Hanny Holdings Ltd, Cyber On-Air Group Company Ltd. and Skynet (International Group) Holdings Limited. He has been an independent non-executive director since January 2001.

Mr. Li Xiao Ru, aged 47, is an independent non-executive director of the Company. He was educated in Shanghai Foreign Language University in the PRC and received his Bachelor of Arts from Columbia University, the USA and Jurist Doctor from New York University, the USA. Prior to joining Morrison & Forester, he worked at major international law firms in both New York and Hong Kong and became a partner at Morrison & Forester's Hong Kong office in 2003. He was the managing director of Hong Kong Construction (Holdings) Limited, a listed company in Hong Kong during the period from March 1998 to July 2001. Mr. Li is also an independent non-executive director of China HealthCare Holdings Limited, Jilin Chemical Industrial Co. Ltd and Great Wall Technology Co. Ltd. He has been an independent non-executive director since April 2003.

Compliance Officer

Mr. Li Fujun, aged 41, is an executive director of the Company.

Chief Financial Officer and Company Secretary

Mr. Chan Wai Chuen, Ricky, *MCF, CPA, FCCA, AHKSA*, aged 34, is the Chief Financial Officer 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 2003 to 31 December 2003 (the "Review Period").

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period and reason(s) for the discrepancy (if applicable)
Business Development		
Business operation coverage	Guizhou, Hunan, Anhui, Jiangsu, Yunnan and Chongqing	Guizhou, Hunan, Anhui, Jiangsu, Yunnan, Sichuan and Guangdong
Setting up operating subsidiary	Hangzhou Negotiation and signing of contract with a local LP Gas operator.	Hangzhou Negotiation is being held with a local LP Gas operator.
	Tibet Negotiation with a local LP Gas operator.	Tibet Development in Tibet has been temporarily shelved due to immature conditions for gas operations there.
Automobile LP Gas market development	Kunming Continue building automobile LP Gas filling stations and completed stations begin operation.	Kunming Research completed on the automobile LP Gas market in Kunming, which shows that conditions are not yet mature for large-scale development of such operations in Kunming.
	Changsha Continue building automobile LP Gas filling stations and completed stations begin operation.	Changsha Research shows that conditions are not yet mature for large-scale development of such operations in Changsha.
Market research	Completion of market research on the LP Gas market in Chengdu.	Market research completed on Chengdu, which concludes that piped natural gas has more favourable prospects than LP Gas in the area.

Comparison of Business Objectives with Actual Business Progress

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period and reason(s) for the discrepancy (if applicable)
Improving Operational Efficiency	Completion of the Enterprise Resources Planning System.	Completed
	Completion of the overall LP Gas procurement plan for year 2004.	Completed
Brand Building	Distribute new marketing pamphlets and continue to advertise on television	Completed
Operation Facilities (figures cumulative)	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Storage tank capacity (cubic metres)	45,000	37,636
Tank train capacity (tonnes)	5,600	4,050
Tank lorry capacity (tonnes)	600	450
Cylinders truck capacity (tonnes)	480	430
No. of tank train unloading depot	13	10
No. of LPG vessel unloading platform	2	2
No. of retail outlets	250	310
No. of piped gas stations	202	82
No. of automobile filling stations	45	5

Comparison of Business Objectives with Actual Business Progress

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Human Resources Development		
No. of staff		
Management	250	205
Finance and administration	350	310
Sales and distribution	1,850	1,500
Production, purchase and supply	1,050	980
	<hr/>	<hr/>
Total	<u>3,500</u>	<u>2,995</u>
Use of Proceeds		
	HK\$	HK\$
Setting up of a new joint venture in Changsha	16,000,000	–
Setting up of a new joint venture in Jinan	–	16,000,000
Sales and marketing propaganda	1,200,000	1,200,000
	<hr/>	<hr/>
Total	<u>17,200,000</u>	<u>17,200,000</u>

Notes:

1. The Group has been focusing on the development of city piped gas business. As such, the number of piped gas stations, which are mainly used for small district gas distribution, has recorded a smaller increase than scheduled.
2. Most of the objectives set out in the Prospectus have been met.

Variations Between the Business Objectives as set out in the Prospectus and the Actual Business Progress for the Review Period

The Changsha Project

On 10 September 2003, the Company announced that the Changsha project will not go ahead in the near future as the Company was unable to agree on terms such as the types and quality of the fixed assets or existing employees to be retained with the potential joint venture partner and it was decided that in the best interests of the Company, the money initially set aside for the Changsha project was used as the partial funding for the establishment of the Jinan LP Gas project.

Operational Facilities

Storage tank facilities – The variance is mainly due to the expansion of the retail business in Changsha Panva has been replaced by the Jinan LP Gas project but the Jinan LP Gas company has not yet been established as at 31 December 2003.

Tank train capacity – The variance is mainly due to the expansion of the retail business in Changsha Panva has been replaced by the Jinan LP Gas project but the Jinan LP Gas company has not yet been established as at 31 December 2003.

Tank lorry capacity – The variance is mainly due to the expansion of the retail business in Changsha Panva has been replaced by the Jinan LP Gas project but the Jinan LP Gas company has not yet been established as at 31 December 2003.

Piped gas stations – The variance is mainly due to the expansion of the retail business in Changsha Panva has been replaced by the Jinan LP Gas project but the Jinan LP Gas company has not yet been established as at 31 December 2003.

Automobile LP Gas filling stations – The automobile LP Gas business has not yet commenced, as most of the markets under study by the Group are not yet mature for large-scale development of such operations.

Report of the Directors

The directors present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2003.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 43 of the annual report.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

Financial Summary

A summary of the results of the Group for each of the five years ended 31 December 2003 is set out on page 6 of the annual report.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Company and the Group is set out in note 12 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.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Ou Yaping (*Chairman*)

Mr. Chen Wei (*Managing Director*)

Mr. Li Fujun

Mr. Zhang Keyu

(appointed on 29 May 2003)

Mr. Tang Yui Man, Francis

Mr. Lai Wen Guang

Mr. Lau Shi Wa

Non-executive directors:

Mr. Fok Kin-ning, Canning

Mr. To Chi Keung, Simon

(alternative director to Fok Kin-ning, Canning)

Mr. Zheng Duxun

Report of the Directors

Independent non-executive directors:

Mr. Cheung Hon Kit

Mr. Li Xiao Ru

(appointed on 24 April 2003)

Mr. Sun Hiu Lu

(retired on 24 April 2003)

In accordance with the provisions of the Company's Articles of Association, Messrs. Lai Wen Guang, Lau Shi Wa, Zhang Keyu, Zheng Dunxun and Li Xiao Ru shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election, except for Messrs. Lai Wen Guang, Lau Shi Wa, Zhang Dunxun, who do not 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 2003.

No Director has any existing or proposed service contract 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).

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

At 31 December 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 require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO); or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Interest in shares			Interest in underlying shares pursuant to share options	Aggregate interest/ (Short positions)	Approximate percentage of the Company's issued share capital
	Beneficial owner	Long positions/(Short positions) of controlled corporation	Total interest in shares			
Chen Wei	4,160,000	–	4,160,000	5,040,000	9,200,000	1.18%
Lai Wen Guang	–	–	–	3,360,000	3,360,000	0.43%
Lau Shi Wa	–	–	–	1,200,000	1,200,000	0.15%
Li Fujun	720,000	–	720,000	2,880,000	3,600,000	0.46%
Ou Yaping	–	604,871,587	604,871,587	3,600,000	608,471,587	78.10%
	–	(38,461,538)	(38,461,538)	–	(38,461,538)	(4.94%)
		(Note 1)				
Tang Yui Man, Francis	5,440,000	–	5,440,000	960,000	6,400,000	0.82%

Report of the Directors

Notes:

1. The 604,871,587 Shares represent (i) 429,298,462 Shares held by Kenson Investment Limited (“Kenson”). 65.44% 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 under the SFO to be interested in these Shares; (ii) 6,081,600 Shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou; and 169,491,525 Shares held by Supreme All Investments Limited (“Supreme All”). 100% interests of Supreme All are held by Sinolink. Mr. Ou is deemed under the SFO to be interested in these Shares.

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.

Details of the directors’ interests in share options granted by the Company are set out under the heading “Directors’ rights to acquire Shares” below.

Report of the Directors

Directors' rights 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 31 December 2003	Approximate percentage of the Company's issued share capital
Chen Wei	04.04.2001	01.01.2003-03.04.2011	0.475	1,800,000	0.23%
	04.04.2001	01.01.2004-03.04.2011	0.475	1,800,000	0.23%
	13.11.2001	13.11.2002-13.02.2007	0.94	1,440,000	0.19%
Lai Wen Guang	04.04.2001	01.01.2003-03.04.2011	0.475	1,200,000	0.15%
	04.04.2001	01.01.2004-03.04.2011	0.475	1,200,000	0.15%
	13.11.2001	13.02.2002-13.02.2007	0.94	288,000	0.04%
	13.11.2001	13.05.2002-13.02.2007	0.94	288,000	0.04%
	13.11.2001	13.11.2002-13.02.2007	0.94	384,000	0.05%
Lau Shi Wa	04.04.2001	01.01.2003-03.04.2011	0.475	600,000	0.08%
	04.04.2001	01.01.2004-03.04.2011	0.475	600,000	0.08%
Li Fujun	04.04.2001	01.01.2003-03.04.2011	0.475	1,200,000	0.15%
	04.04.2001	01.01.2004-03.04.2011	0.475	1,200,000	0.15%
	13.11.2001	13.11.2002-13.02.2007	0.94	480,000	0.06%
Ou Yaping	04.04.2001	01.01.2003-03.04.2011	0.475	1,800,000	0.23%
	04.04.2001	01.01.2004-03.04.2011	0.475	1,800,000	0.23%
Tang Yui Man, Francis	13.11.2001	13.11.2002-13.02.2007	0.94	960,000	0.12%

No share option was exercised by the above Directors to subscribe for Shares in the Company during the year ended 31 December 2003.

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

Report of the Directors

Interests in shares in associated corporations

Name of Director	Name of associated corporation	Interest of controlled corporation	Beneficial owner	Capacities		Aggregate Interest	Approximate percentage of the issued share capital of associated corporation
				Held by spouse			
Ou Yaping	Sinolink	1,245,185,000 (Note)	–	5,396,600		1,250,581,600	65.44%
	Enerchina Holdings Limited	257,039,515 (Note)	–	–		257,039,515	33.70%
	Asia Pacific	–	1	–		1	100%
	Supreme All	1	–	–		1	100%

Note: These shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping, Chairman of the Company.

Interests 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
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
Tang Yui Man, Francis	Sinolink	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 date of grant until the commencement of the exercise period.

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 require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO; or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Report of the Directors

Substantial Shareholders

At 31 December 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 Section 336 of the SFO:

Long positions and short position in shares and underlying shares in the Company

Name of shareholders	Beneficial owner	Interest in shares Long positions/(Short positions)			Interest in underlying shares pursuant to share options/debentures	Aggregate interest/(short positions)	Approximate percentage of the Company's issued share capital
		Held by controlled corporation	Held by trust	Total interest in shares			
Kenson	429,298,462 (38,461,538)	- -	- -	429,298,462 (38,461,538)	- -	429,298,462 (38,461,538)	55.10% (4.94%)
Sinolink	- -	598,789,987 (38,461,538)	- -	598,789,987 (38,461,538)	- -	598,789,987 (38,461,538)	76.86% (4.94%)
Asia Pacific	- -	604,871,587 (38,461,538)	- -	604,871,587 (38,461,538)	- -	604,871,587 (38,461,538)	77.64% (4.94%)
Ou Yaping	- -	604,871,587 (38,461,538)	- -	604,871,587 (38,461,538)	3,600,000 -	608,471,587 (38,461,538)	78.10% (4.97%)
Hutchison International Limited	38,461,538	-	-	38,461,538	38,461,538	76,923,076	9.87%
Hutchison Whampoa Limited	-	38,461,538	-	38,461,538	38,461,538	76,923,076	9.87%
Cheung Kong (Holdings) Limited	-	38,461,538	-	38,461,538	38,461,538	76,923,076	9.87%
Li Ka-Shing Unity Trustee Company Limited	-	-	38,461,538 (as trustee)	38,461,538	38,461,538	76,923,076	9.87%
Li Ka-Shing Unity Trustcorp Limited	-	-	38,461,538 (as trustee and beneficiary of a trust)	38,461,538	38,461,538	76,923,076	9.87%
Li Ka-Shing Unity Trustee Corporation Limited	-	-	38,461,538	38,461,538	38,461,538	76,923,076	9.87%
Li Ka-shing	-	38,461,538 (also as founder of discretionary trusts)	-	38,461,538	38,461,538	76,923,076	9.87%

Report of the Directors

Notes:

1. Sinolink is interested in the entire issued share capital of Kenson. Therefore, by virtue of Section 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 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 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. Certain subsidiaries of Cheung Kong (Holdings) Limited ("Cheung Kong") are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa.

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-Shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-Shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and Cheung Kong are all deemed to be interested in the 38,461,538 Shares and the Note representing 38,461,538 underlying Shares both held by Hutchison International.

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 31 December 2003 Date, 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.

Report of the Directors

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 in 2002 at an exercise price of HK\$0.57, being the issue price of the Company's shares on listing on GEM. The exercise price was subsequently adjusted to HK\$0.475 upon capitalisation of shares in 2002. 50% of the Pre-Listing Options are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The Pre-Listing Options are exercisable on an accumulative basis until the expiry date on 3 April 2011. The Pre-Listing Options were granted to recognise the past and present contributions of the grantees to the Group.

At 31 December 2003, the outstanding number of shares in respect of which options had been granted under the Pre-Listing Share Option Scheme was 20,640,000 (2002: 23,440,000), representing 2.65% (2002: 3.87%) of the shares of the Company in issue at that date.

(b) Share Option Scheme

Pursuant to a share option scheme approved by the resolution 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 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 Scheme will terminate on 3 April 2011.

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 2003, the outstanding number of shares in respect of which options had been granted under the Scheme was 10,824,000 (2002: 13,704,000), representing 1.39% (2002: 2.26%) of the shares of the Company in issue at that date.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option.

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

The following table discloses movements in the Company's share options during the year.

	Option type	Outstanding at 1.1.2003	Exercised during year	Lapsed during year	Outstanding at 31.12.2003
<i>Category 1: Directors</i>					
Chen Wei	Pre-Listing Options	3,600,000	–	–	3,600,000
	2001	1,440,000	–	–	1,440,000
Lai Wen Guang	Pre-Listing Options	2,400,000	–	–	2,400,000
	2001	960,000	–	–	960,000
Lau Shi Wa	Pre-Listing Options	1,200,000	–	–	1,200,000
Li Fujun	Pre-Listing Options	2,400,000	–	–	2,400,000
	2001	480,000	–	–	480,000
Ou Yaping	Pre-Listing Options	3,600,000	–	–	3,600,000
Tang Yui Man, Francis	2001	960,000	–	–	960,000
Total Directors		<u>17,040,000</u>	<u>–</u>	<u>–</u>	<u>17,040,000</u>
<i>Category 2: Employees</i>					
	Option type	Outstanding at 1.1.2003	Exercised during year	Lapsed during year	Outstanding at 31.12.2003
	Pre-Listing Options	10,240,000	–	2,800,000	7,440,000
	2001	9,864,000	–	2,880,000	6,984,000
Total Employees		<u>20,104,000</u>	<u>–</u>	<u>5,680,000</u>	<u>14,424,000</u>

Report of the Directors

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
Pre-Listing Options	04.04.2001	01.01.2003 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
2001	13.11.2001	13.02.2002 – 13.02.2007	0.94
	13.11.2001	13.05.2002 – 13.02.2007	0.94
	13.11.2001	13.11.2002 – 13.02.2007	0.94

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

Arrangements to Purchase Shares or Debentures

Other than the share options 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 28 to the financial statements, there are 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.

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 2003.

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

Report of the Directors

Competing Interests

None of the directors or management shareholders of the Company had 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 less than 30% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 76.65% of its operating costs for the year. Purchases from the largest supplier accounted for about 57.88% 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 2003.

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 review and supervision of the Company's financial reporting process and internal control systems. The audit committee has two members comprising two independent non-executive directors, Mr. Cheung Hon Kit and Mr. Li Xiao Ru.

During the year, the audit committee held four meetings and performed the following duties:

1. reviewed and commented on the Company's draft financial reports.
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 donations amounting to HK\$14,000.

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 throughout the year, 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.

Report of the Directors

Pre-emptive Rights

There are no provisions 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 year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

Auditors

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

On behalf of the Board

Chen Wei

Managing Director

Hong Kong, 15 March 2004

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 43 to 80 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, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 15 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4	1,457,632	1,150,322
Cost of sales		(1,073,289)	(888,427)
Gross profit		384,343	261,895
Other operating income	5	4,218	2,752
Distribution expenses		(35,541)	(27,015)
Administrative expenses		(67,248)	(54,295)
Other operating expenses	6	(1,134)	(1,818)
Profit from operations	7	284,638	181,519
Loss on disposal of subsidiaries		(788)	–
Gain on partial disposal of a subsidiary		541	–
Finance costs	8	(10,257)	(3,216)
Profit before taxation		274,134	178,303
Taxation	10	(22,875)	(8,545)
Profit before minority interests		251,259	169,758
Minority interests		(42,185)	(37,220)
Net profit for the year		209,074	132,538
		HK cents	HK cents
Earnings per share			
Basic	11	33.97	21.97
Diluted	11	30.36	17.44

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	12	615,788	371,987
Intangible asset	14	9,662	–
Goodwill	15	13,954	14,744
Negative goodwill	16	(18,022)	(9,366)
Investments in securities	17	7,906	939
		629,288	378,304
Current assets			
Inventories	18	36,374	22,986
Trade receivables	19	183,859	93,386
Other receivables, deposits and prepayments		218,411	101,364
Amounts due from minority shareholders	20	11,246	41,276
Bank balances and cash		356,809	98,224
		806,699	357,236
Current liabilities			
Trade payables	21	79,062	89,341
Other payables and accruals		68,709	16,725
Taxation		29,021	7,317
Amounts due to minority shareholders	20	3,414	23,517
Borrowings	22	32,526	14,599
		212,732	151,499
Net current assets		593,967	205,737
Total assets less current liabilities		1,223,255	584,041
Non-current liability			
Borrowings	22	378,564	100,000
		844,691	484,041
Minority interests		(264,637)	(215,668)
Net assets		580,054	268,373
Capital and reserves			
Share capital	23	77,910	60,508
Reserves	24	502,144	207,865
Shareholders' funds		580,054	268,373

The financial statements on pages 43 to 80 were approved and authorised for issue by the Board of Directors on 15 March 2004 and are signed on its behalf by:

Chen Wei
Director

Li Fujun
Director

Balance Sheet of Panva Gas Holdings Limited

At 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	12	10	–
Investments in subsidiaries	13	64,100	64,100
		64,110	64,100
Current assets			
Other receivables, deposits and prepayments		1,633	1,063
Amounts due from subsidiaries	13	296,372	128,447
Bank balances and cash		197,758	6,060
		495,763	135,570
Current liabilities			
Accrued charges		3,203	3,612
Net current assets		492,560	131,958
Total assets less current liabilities		556,670	196,058
Non-current liabilities			
Borrowings	22	372,016	100,000
Net assets		184,654	96,058
Capital and reserves			
Share capital	23	77,910	60,508
Reserves	24	106,744	35,550
		184,654	96,058

Chen Wei
Director

Li Fujun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Asset revaluation reserves HK\$'000	Capital reserve HK\$'000	General reserves HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1 January 2002	50,000	55,329	(107)	4,973	1,101	1,212	18,640	131,148
Exchange difference on translation of overseas operations and net loss not recognised in income statement	-	-	(85)	-	-	-	-	(85)
Issue of shares	505	4,267	-	-	-	-	-	4,772
Bonus issue	10,003	(10,003)	-	-	-	-	-	-
Transfer	-	-	-	-	-	865	(865)	-
Net profit for the year	-	-	-	-	-	-	132,538	132,538
At 1 January 2003	60,508	49,593	(192)	4,973	1,101	2,077	150,313	268,373
Issue of shares on conversion of convertible note	16,949	-	-	-	-	-	-	16,949
Issue of shares on conversion of convertible bonds	453	-	-	-	-	-	-	453
Addition during the year	-	-	-	-	-	883	-	883
Expenses incurred in connection with issue of convertible bonds	-	(14,833)	-	-	-	-	-	(14,833)
Disposal of subsidiaries	-	-	-	(92)	-	-	-	(92)
Premium arising on issue of shares	-	100,332	-	-	-	-	-	100,332
Exchange difference on translation of overseas operations and net loss not recognised in income statement	-	-	(1,085)	-	-	-	-	(1,085)
Transfer	-	-	-	-	-	1,350	(1,350)	-
Net profit for the year	-	-	-	-	-	-	209,074	209,074
At 31 December 2003	<u>77,910</u>	<u>135,092</u>	<u>(1,277)</u>	<u>4,881</u>	<u>1,101</u>	<u>4,310</u>	<u>358,037</u>	<u>580,054</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Profit before taxation		274,134	178,303
Adjustments for:			
Depreciation		21,553	19,125
Loss on disposal of property, plant and equipment		889	1,009
Loss on disposal of subsidiaries		788	–
Gain on partial disposal of a subsidiary		(541)	–
Amortisation of goodwill		790	790
Amortisation of intangible asset		373	–
Negative goodwill released to income		(428)	(119)
Interest income		(3,303)	(1,806)
Interest expenses		10,176	3,170
		<hr/>	<hr/>
Operating cash flows before movements in working capital		304,431	200,472
Increase in trade receivables		(90,237)	(25,922)
(Increase) decrease in inventories		(11,410)	3,161
Increase in other receivables, deposits and prepayments		(91,842)	(42,172)
Decrease (Increase) in amounts due from minority shareholders		30,030	(37,217)
(Decrease) increase in trade payables		(11,295)	66,987
Decrease in other payables and accruals		(2,856)	(106,727)
		<hr/>	<hr/>
Cash generated from operations		126,821	58,582
Income taxes paid		(1,171)	(1,228)
Interest paid		(10,695)	(1,623)
		<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES		114,955	55,731
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Interest received		3,222	2,545
Purchase of property, plant and equipment		(190,505)	(98,113)
Proceeds from sale of property, plant and equipment		5,283	1,851
Purchase of investments in securities		(5,144)	–
Redemption of PRC bonds		187	–
Purchase of intangible asset		(10,035)	–
Partial disposal of a subsidiary		1,852	–
Partial acquisition of a subsidiary		(994)	–
Disposal of subsidiaries	25	(3)	–
Acquisition of subsidiaries (net cash and cash equivalents acquired)	26	(15,173)	(33,322)
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		(211,310)	(127,039)
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	–	4,772
Proceeds from issue of convertible bonds	389,750	–
Bond issue expense	(14,833)	–
	<hr/>	<hr/>
Net proceeds from subscription monies	374,917	4,772
New bank loans raised	26,146	12,161
Repayment of bank and other loans	(32,251)	(1,496)
Dividends paid by a subsidiary to minority shareholder	(4,319)	(5,313)
(Repayment to) advance from minority shareholders	(20,103)	16,250
Contribution from minority shareholders	11,635	376
	<hr/>	<hr/>
CASH FROM FINANCING ACTIVITIES	356,025	26,750
	<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	259,670	(44,558)
BANK BALANCES AND CASH AT BEGINNING OF YEAR	98,224	142,867
EFFECT ON FOREIGN EXCHANGE RATES CHANGES	(1,085)	(85)
	<hr/>	<hr/>
BANK BALANCES AND CASH AT THE END OF YEAR	356,809	98,224
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited. Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands ("BVI").

The principal activities of the Group are sale and distribution of Liquefied Petroleum Gas ("LP Gas") and natural gas 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. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
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In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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:

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (collectively the “Group”).

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 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.

Negative goodwill

Negative goodwill represents the excess of the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

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 the Group can control the composition of the board of directors.

Notes to the Financial Statements

For the year ended 31 December 2003

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.

Revenue recognition

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 terms of the respective leases.

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

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

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.

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 rates per annum:

Leasehold land	Over the unexpired term of the lease or over the term of the equity joint venture, whichever 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%
Gas pipelines	3%

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 a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment – *continued*

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 SSAP.

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.

Exclusive operating right for city pipeline network

Exclusive operating right for city pipeline network is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating right is capitalised and amortised on a straight-line basis over the estimated useful life of 20 years. The amortisation period and amortisation method are reviewed annually at each financial year and for appropriateness.

Inventories

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

Construction contracts

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

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

Convertible note

A 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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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 ("MPF Scheme") in Hong Kong and the state – sponsored retirement plan for its employees in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group has currently divided its operations into two business segments, namely sale and distribution of gas fuel and related products and gas pipeline construction. The principal activities of the business segments are as follows:

Sale and distribution of gas fuel and related products	–	Sale of LP Gas in bulk and in cylinders, provision of piped LP Gas and natural gas, and sale of LP Gas and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipelines

An analysis of the Group's turnover and contribution to profit from operations for the year ended 31 December 2003 is as follows:

	Sale and distribution of gas fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
31 December 2003			
REVENUE			
External	1,137,872	319,760	1,457,632
SEGMENT RESULTS	67,201	224,866	292,067
Other operating income			4,218
Unallocated corporate expenses			(11,647)
Profit from operations			284,638
Loss on disposal of subsidiaries			(788)
Gain on partial disposal of a subsidiary			541
Finance costs			(10,257)
Profit before taxation			274,134
Taxation			(22,875)
Profit before minority interests			251,259
Minority interests			(42,185)
Net profit for the year			209,074

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

Business segments – *continued*

	Sale and distribution of gas fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
31 December 2002			
REVENUE			
External	<u>983,840</u>	<u>166,482</u>	<u>1,150,322</u>
SEGMENT RESULTS	<u>55,791</u>	<u>128,338</u>	184,129
Other operating income			2,752
Unallocated corporate expenses			<u>(5,362)</u>
Profit from operations			181,519
Finance costs			<u>(3,216)</u>
Profit before taxation			178,303
Taxation			<u>(8,545)</u>
Profit before minority interests			169,758
Minority interests			<u>(37,220)</u>
Net profit for the year			<u>132,538</u>

As over 90% of the assets of the Group are attributable to sale and distribution of gas fuel and related products, an analysis of segment assets and liabilities is not presented.

Geographical segments

The Group's operations are situated in the PRC and its revenue was derived principally from there. Accordingly no geographical segment information is presented.

Notes to the Financial Statements

For the year ended 31 December 2003

5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Interest on bank deposits	3,303	1,806
Negative goodwill released to income	428	119
Sundry income	487	827
	<u>4,218</u>	<u>2,752</u>

6. OTHER OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Loss on disposal of property, plant and equipment	889	1,009
Sundries	245	809
	<u>1,134</u>	<u>1,818</u>

7. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,392	1,077
Staff costs		
Directors' fees	–	–
Directors' emoluments (<i>Note 9</i>)	3,580	3,238
Staff costs, excluding directors' emoluments	30,717	30,614
Retirement benefits scheme contributions, excluding directors' emoluments	3,751	4,508
	<u>38,048</u>	<u>38,360</u>
Amortisation of intangible asset (included in administrative expenses)	373	–
Amortisation of goodwill (included in administrative expenses)	790	790
Depreciation	21,553	19,125
Operating lease rentals in respect of property, plant and equipment	<u>7,593</u>	<u>3,834</u>

Notes to the Financial Statements

For the year ended 31 December 2003

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expenses on bank and other loans and convertible note and bonds wholly repayable within five years	10,176	3,170
Bank charges	81	46
	<u>10,257</u>	<u>3,216</u>

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' emoluments:		
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	–	–
	<u>–</u>	<u>–</u>
Other emoluments (executive directors):		
Salaries and other benefits	3,189	2,897
Bonus	300	250
Retirement benefits scheme contributions	91	91
	<u>3,580</u>	<u>3,238</u>
Total emoluments	<u>3,580</u>	<u>3,238</u>

For the year ended 31 December 2003, salaries and other benefits paid to the four executive directors were HK\$1,739,000, HK\$707,000, HK\$505,000 and HK\$238,000 respectively; bonus paid to the four executive directors were HK\$300,000, nil, nil and nil respectively; and retirement benefits scheme contributions paid to the four executive directors were HK\$42,000, HK\$19,000, HK\$30,000 and nil respectively.

For the year ended 31 December 2002, salaries and other benefits paid to the three executive directors were HK\$1,715,000, HK\$704,000 and HK\$478,000 respectively; bonus paid to the three executive directors were HK\$200,000, HK\$30,000 and HK\$20,000 respectively; and retirement benefits scheme contributions paid to the three executive directors were HK\$42,000, HK\$30,000 and HK\$19,000 respectively.

Notes to the Financial Statements

For the year ended 31 December 2003

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

Employees' emoluments:

Of the five highest paid individuals four (2002: three) are directors of the Company. The emoluments of the remaining one (2002: two) individual are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	<u><u>603</u></u>	<u><u>326</u></u>

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

	Number of employees	
	2003	2002
Up to HK\$1,000,000	<u><u>1</u></u>	<u><u>2</u></u>

Notes to the Financial Statements

For the year ended 31 December 2003

10. TAXATION

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

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

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

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

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	<u>274,134</u>	<u>178,303</u>
Tax at the applicable tax rate of 33% (2002: 33%)	90,464	58,840
Tax effect of tax losses not recognised	5,371	2,086
Tax effect of expenses not deductible for tax purpose	7,391	5,517
Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit	(58,444)	(45,815)
Effect of different tax rates of subsidiaries entitled to 50% reduction in PRC enterprise income tax rates and operating in different provinces	<u>(21,907)</u>	<u>(12,083)</u>
Tax expense	<u>22,875</u>	<u>8,545</u>

At the balance sheet date, the Group has unused tax losses of HK\$44,704,000 (2002: HK\$28,430,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Out of the unrecognised tax losses, HK\$1,400,000 (2002: nil) has been expired. The remaining unrecognised tax losses of HK\$43,304,000 (2002: HK\$28,430,000) will expire within five years from the date of origination.

Notes to the Financial Statements

For the year ended 31 December 2003

11. EARNINGS PER SHARE

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Profit for the year	<u>209,074</u>	<u>132,538</u>
Earnings for the purposes of basic earnings per share	209,074	132,538
Effect of dilutive potential ordinary shares:		
Interest on convertible note	–	3,000
Interest on convertible bonds	<u>5,408</u>	<u>–</u>
Earnings for the purposes of diluted earnings per share	<u><u>214,482</u></u>	<u><u>135,538</u></u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	615,401,000	603,272,000
Effect of dilutive potential ordinary shares:		
Options	25,884,000	4,197,000
Convertible note	–	169,492,000
Convertible bonds	<u>65,234,000</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>706,519,000</u></u>	<u><u>776,961,000</u></u>

Notes to the Financial Statements

For the year ended 31 December 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Leasehold improvements HK\$'000	Construction in progress HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Gas pipelines HK\$'000	Total HK\$'000
THE GROUP								
COST OR VALUATION								
At 1 January 2003	75,607	18	12,238	147,309	5,036	26,084	157,011	423,303
Acquired on acquisition of subsidiaries	5,988	–	46,518	1,376	245	200	28,527	82,854
Disposed on disposal of subsidiaries	(1,130)	(18)	–	(925)	(24)	(242)	–	(2,339)
Additions	6,791	2,806	30,317	4,696	3,616	5,770	136,509	190,505
Disposals	–	–	(4,044)	(111)	(71)	(4,775)	(2)	(9,003)
Transfer	3,559	–	(30,977)	2,687	210	85	24,436	–
At 31 December 2003	<u>90,815</u>	<u>2,806</u>	<u>54,052</u>	<u>155,032</u>	<u>9,012</u>	<u>27,122</u>	<u>346,481</u>	<u>685,320</u>
Comprising:								
At cost	–	2,806	54,052	155,032	9,012	27,122	346,481	594,505
At valuation 31 December 2003	<u>90,815</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>90,815</u>
	<u>90,815</u>	<u>2,806</u>	<u>54,052</u>	<u>155,032</u>	<u>9,012</u>	<u>27,122</u>	<u>346,481</u>	<u>685,320</u>
DEPRECIATION								
At 1 January 2003	4,946	6	–	28,849	2,004	10,398	5,113	51,316
Disposed on disposal of subsidiaries	(131)	(5)	–	(274)	(20)	(76)	–	(506)
Provided for the year	2,502	21	–	8,093	923	3,224	6,790	21,553
Eliminated on disposal	–	–	–	(10)	(18)	(2,803)	–	(2,831)
At 31 December 2003	<u>7,317</u>	<u>22</u>	<u>–</u>	<u>36,658</u>	<u>2,889</u>	<u>10,743</u>	<u>11,903</u>	<u>69,532</u>
NET BOOK VALUES								
At 31 December 2003	<u>83,498</u>	<u>2,784</u>	<u>54,052</u>	<u>118,374</u>	<u>6,123</u>	<u>16,379</u>	<u>334,578</u>	<u>615,788</u>
At 31 December 2002	<u>70,661</u>	<u>12</u>	<u>12,238</u>	<u>118,460</u>	<u>3,032</u>	<u>15,686</u>	<u>151,898</u>	<u>371,987</u>

Notes to the Financial Statements

For the year ended 31 December 2003

12. 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 open 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 2003 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\$78,160,000 (2002: HK\$66,322,000).

The Group had pledged property, plant and equipment with a net book value of approximately HK\$43,963,000 (2002: HK\$8,135,000) to secure banking facilities granted to the Group.

	Plant and equipment HK\$'000
THE COMPANY	
COST	
Additions during the year and at 31 December 2003	13
DEPRECIATION	
Provided for the year and at 31 December 2003	(3)
NET BOOK VALUE	
At 31 December 2003	<u>10</u>

13. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY 2003 & 2002 HK\$'000
Unlisted shares	<u>64,100</u>

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 2003 are set out in note 35.

Notes to the Financial Statements

For the year ended 31 December 2003

14. INTANGIBLE ASSET

	THE GROUP Exclusive operating right for city pipeline network HK\$'000
COST	
Acquired during the year and at 31 December 2003	10,035
AMORTISATION	
Charge for the year and at 31 December 2003	(373)
NET BOOK VALUE	
At 31 December 2003	<u>9,662</u>

The Group's exclusive operating right for city pipeline network was purchased from third parties.

The exclusive operating right is amortised on a straight line basis over 20 years.

15. GOODWILL

	THE GROUP 2003 HK\$'000
COST	
At 1 January and 31 December 2003	<u>15,801</u>
AMORTISATION	
At 1 January 2003	1,057
Charge for the year	790
At 31 December 2003	<u>1,847</u>
NET BOOK VALUE	
At 31 December 2003	<u>13,954</u>
At 31 December 2002	<u>14,744</u>

The amortisation period adopted for goodwill is 20 years.

Notes to the Financial Statements

For the year ended 31 December 2003

16. NEGATIVE GOODWILL

	THE GROUP
	2003
	HK\$'000
GROSS AMOUNT	
At 1 January 2003	9,485
Arising on acquisition during the year	6,954
Arising on acquisition of additional interest in a subsidiary	2,130
	<hr/>
At 31 December 2003	18,569
	<hr/>
RELEASED TO INCOME	
At 1 January 2003	119
Released during the year	428
	<hr/>
At 31 December 2003	547
	<hr/>
CARRYING AMOUNT	
At 31 December 2003	18,022
	<hr/> <hr/>
At 31 December 2002	9,366
	<hr/> <hr/>

The negative goodwill in 2002 arose on the Group's acquisition of Weiyuan Panva Gas Co., Ltd.. At the date of acquisition, HK\$9,485,000 of negative goodwill was identified.

The negative goodwill in 2003 arose from the Group's acquisition of Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd.. At the date of acquisition, HK\$1,195,000 and HK\$5,759,000 of negative goodwill was identified.

The negative goodwill in 2003 arose on the acquisition of an additional interest in Chenzhou Pan River Gas Industry Co., Ltd..

The negative goodwill is released to income on a straight-line basis over 30 years, being the remaining weighted average useful life of the depreciable assets acquired.

Notes to the Financial Statements

For the year ended 31 December 2003

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares in the PRC, at cost	7,906	752
PRC bonds, at cost	–	187
	<u>7,906</u>	<u>939</u>

18. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
COST		
Finished goods	23,442	11,512
Consumables	12,932	11,474
	<u>36,374</u>	<u>22,986</u>

19. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 90 days to its customers.

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 to 90 days	132,853	84,343
91 to 180 days	46,872	4,373
181 to 360 days	2,430	1,607
Over 360 days	1,704	3,063
	<u>183,859</u>	<u>93,386</u>

20. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current:		
Amounts due from minority shareholders	11,246	41,276
Amounts due to minority shareholders	3,414	23,517
	<u>14,660</u>	<u>64,793</u>

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

Notes to the Financial Statements

For the year ended 31 December 2003

21. TRADE PAYABLES

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

	THE GROUP	
	2003	2002
0 to 90 days	72,702	80,940
91 to 180 days	1,133	115
181 to 360 days	763	64
Over 360 days	4,464	8,222
	<u>79,062</u>	<u>89,341</u>

22. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans (secured)	32,863	2,438	–	–
Bank loans (unsecured)	5,239	12,161	–	–
Other loans (unsecured)	972	–	–	–
Convertible note	–	100,000	–	100,000
Convertible bonds	372,016	–	372,016	–
	<u>411,090</u>	<u>114,599</u>	<u>372,016</u>	<u>100,000</u>
The maturity of the above loans is as follows:				
On demand or within one year	32,526	14,599	–	–
More than one year but not exceeding two years	3,929	100,000	–	–
More than two years but not exceeding five years	374,635	–	372,016	100,000
	<u>411,090</u>	<u>114,599</u>	<u>372,016</u>	<u>100,000</u>
Less: Amount due within one year shown under current liabilities	(32,526)	(14,599)	–	–
Non-current portion	<u>378,564</u>	<u>100,000</u>	<u>372,016</u>	<u>100,000</u>

The interest rate paid on both bank and other loans during the year was based on prevailing market rates.

The convertible note was fully converted to shares of the Company. Please refer to Note 23 for details.

Notes to the Financial Statements

For the year ended 31 December 2003

22. BORROWINGS – continued

The convertible bonds were issued on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The conversion price at which each share shall be issued upon conversion shall be HK\$3.804 per share (adjusted to account for the effect of issue of the additional new shares). The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum.

23. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Authorised:				
Shares of HK\$0.1 each				
Balance as at 1 January and as at 31 December	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
Balance as at 1 January	605,076,000	500,000,000	60,508	50,000
Share options exercised	–	5,043,000	–	505
Bonus issue	–	100,033,000	–	10,003
Issued on conversion of convertible note	169,491,525	–	16,949	–
Issued on conversion of convertible bonds	4,530,366	–	453	–
Balance as at 31 December	<u>779,097,891</u>	<u>605,076,000</u>	<u>77,910</u>	<u>60,508</u>

On 26 April 2002, the Company issued 100,033,000 shares of HK\$0.1 each in the Company as a bonus issue of shares on the basis of one new share of HK\$0.1 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.

During 2002, the subscription rights attached to 165,000 shares and 4,878,000 share options were exercised at the subscription prices of HK\$1.13 and HK\$0.94 per share respectively resulting in the issue of 5,043,000 shares of HK\$0.1 each in the Company for a total cash consideration, before expenses, of HK\$4,772,000.

On 5 December 2003, the Company issued 169,491,525 shares of HK\$0.1 each in the Company upon conversion of HK\$100,000,000 convertible note by the noteholder at a conversion price of HK\$0.59.

During the year, 4,530,366 shares of HK\$0.1 each in the Company were issued for a total consideration of HK\$17,744,000 to the convertible bondholders at the conversion price of HK\$3.9169.

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

Notes to the Financial Statements

For the year ended 31 December 2003

24. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	General reserves HK\$'000	Asset revaluation reserves HK\$'000	Retained profit HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2002	55,329	(107)	1,101	1,212	4,973	18,640	81,148
Exchange difference on translation of overseas operations and net loss not recognised in income statement	–	(85)	–	–	–	–	(85)
Premium arising on issue of shares	4,267	–	–	–	–	–	4,267
Bonus issue	(10,003)	–	–	–	–	–	(10,003)
Transfer	–	–	–	865	–	(865)	–
Net profit for the year	–	–	–	–	–	132,538	132,538
At 1 January 2003	49,593	(192)	1,101	2,077	4,973	150,313	207,865
Addition during the year	–	–	–	883	–	–	883
Exchange difference on translation of overseas operations and net loss not recognised in income statement	–	(1,085)	–	–	–	–	(1,085)
Premium arising on issue of shares	100,332	–	–	–	–	–	100,332
Expenses incurred in connection with the issue of convertible bonds	(14,833)	–	–	–	–	–	(14,833)
Disposal of subsidiaries	–	–	–	–	(92)	–	(92)
Transfer	–	–	–	1,350	–	(1,350)	–
Net profit for the year	–	–	–	–	–	209,074	209,074
At 31 December 2003	<u>135,092</u>	<u>(1,277)</u>	<u>1,101</u>	<u>4,310</u>	<u>4,881</u>	<u>358,037</u>	<u>502,144</u>

Notes to the Financial Statements

For the year ended 31 December 2003

24. RESERVES – continued

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2002	55,329	(4,416)	50,913
Premium arising on issue of shares	4,267	–	4,267
Bonus issue	(10,003)	–	(10,003)
Net loss for the year	–	(9,627)	(9,627)
	<hr/>	<hr/>	<hr/>
At 1 January 2003	49,593	(14,043)	35,550
Premium arising on issue of shares	100,332	–	100,332
Expenses incurred in connection with the issue of convertible bonds	(14,833)	–	(14,833)
Net loss for the year	–	(14,305)	(14,305)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>135,092</u>	<u>(28,348)</u>	<u>106,744</u>

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

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, net of accumulated losses of the Company, of HK\$106,744,000 (2002: HK\$35,550,000).

Notes to the Financial Statements

For the year ended 31 December 2003

25. DISPOSAL OF SUBSIDIARIES

In December 2003, the Group disposed of two subsidiaries, Nanling Pan River LPG Co., Ltd. ("Nanling Pan River") and Wuhu Pan River Jiangbei Enterprises Co., Ltd. ("Jiangbei Pan River"). The net assets of Nanling Pan River and Jiangbei Pan River at the date of disposal and at 31 December 2003 were as follows:

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	1,833	–
Inventories	114	–
Trade receivables	52	–
Bank balances and cash	3	–
Other receivables, deposits and prepayments	94	–
Trade payables	(1,061)	–
Other payables and accruals	(16)	–
Minority interests	(139)	–
Asset revaluation reserves	(92)	–
	788	–
Loss on disposal	(788)	–
Total consideration	–	–
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	3	–

Notes to the Financial Statements

For the year ended 31 December 2003

26. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100%, and 90% of the registered capital of Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd.. Both acquisitions have been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisitions was HK\$1,195,000 and HK\$5,759,000, respectively.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	82,854	77,729
Other investments	2,010	344
Inventories	2,092	126
Trade receivables	288	782
Other receivables, deposits and prepayments	24,188	1,386
Bank and cash balances	543	1,033
Trade payables	(2,077)	(3,119)
Other payables and accruals	(51,634)	(34,960)
Short term borrowings	(4,902)	(660)
Long term borrowings	(25,678)	–
Minority interests	(1,273)	(1,282)
	26,411	41,379
Goodwill	–	2,461
Negative goodwill	(6,954)	(9,485)
Total consideration	<u>19,457</u>	<u>34,355</u>
Satisfied by		
Cash paid	15,716	34,355
Payable	3,741	–
	<u>19,457</u>	<u>34,355</u>
Net cash outflow arising on acquisition:		
Cash consideration	(15,716)	(34,355)
Bank balances and cash acquired	543	1,033
	<u>(15,173)</u>	<u>(33,322)</u>

The subsidiaries acquired during the year contributed HK\$79,027,000 to the Group's turnover, and HK\$63,966,000 to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31 December 2003

27. MAJOR NON-CASH TRANSACTION

On 5 December 2003, the Company issued 169,492,000 shares of HK\$0.1 each in the Company upon exercise of HK\$100,000,000 convertible note held by Supreme All Investments Limited ("Supreme All"), a wholly-owned subsidiary of Sinolink Worldwide Holdings Limited ("Sinolink"). The new shares rank pari passu with the existing shares in all aspects.

28. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2003 HK\$'000	2002 HK\$'000
Sinolink (Note a)	Licence fee expense (Note d)	374	374
Shenzhen Sinolink Enterprises Co., Limited (Note b)	Rental expense (Note d)	380	370
Supreme All (Note c)	Convertible note interest (Note e)	<u>2,811</u>	<u>3,000</u>

Notes:

- (a) Mr. Ou Yaping, a director and shareholder of the Company, has direct beneficial interest in this company.
- (b) It is a fellow subsidiary of the Company, of which Mr. Ou Yaping is a director.
- (c) It is a wholly-owned subsidiary of Sinolink.
- (d) Licence fee expense and rental expense were determined by the directors based on the directors' estimates of fair market value.
- (e) Interest of 3% is payable per annum.

29. CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2003.

Notes to the Financial Statements

For the year ended 31 December 2003

30. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	4,088	4,558	–	170
In the second to fifth years inclusive	12,602	9,602	–	–
Over five years	18,719	20,724	–	–
	<u>35,409</u>	<u>34,884</u>	<u>–</u>	<u>170</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for terms up to 30 years.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Commitments for the interest in subsidiaries – contracted for but not provided in the financial statements	<u>186,361</u>	<u>87,618</u>

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

Notes to the Financial Statements

For the year ended 31 December 2003

32. SHARE OPTIONS

The Company's Pre-Listing Share Option Scheme (the "Pre-Listing Options") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees which, unless otherwise cancelled or amended, will expire on 3 April 2011. Under the Pre-Listing Option Scheme and the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, and any of its subsidiaries, to subscribe for shares in the Company.

Movements of the share options during the year were as follows:

	Outstanding at beginning of year		Exercised during the year	Granted during the year	Lapsed during the year	Outstanding at end of year
	Before adjustment	After adjustment				
For the year ended 31 December 2003	<u>37,144,000</u>	<u>37,144,000</u>	<u>–</u>	<u>–</u>	<u>5,680,000</u>	<u>31,464,000</u>
For the year ended 31 December 2002	<u>36,550,000</u>	<u>43,620,000</u>	<u>5,076,000</u>	<u>–</u>	<u>1,400,000</u>	<u>37,144,000</u>

When the share options are exercised and new shares are issued, the share capital is increased by the nominal value of the new shares issued and the share premium account is increased by the remainder of the proceeds. No charge is recognised in the income statement in respect of the value of share options granted. Had all the outstanding share options been fully exercised on 31 December 2003, the Company would have received HK\$19,979,000 in proceeds. Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
Pre-Listing	04.04.2001	01.01.2003 – 03.04.2011	0.475
Options	04.04.2001	01.01.2004 – 03.04.2011	0.475
2001	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940

The number of share options outstanding at the beginning of 2002 and the exercise prices have been adjusted to reflect the effect of the bonus share dividend issued during 2002. The market values of the shares on the dates of exercise of the share options were HK\$1.66, HK\$2.10 and HK\$4.05 respectively.

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

Notes to the Financial Statements

For the year ended 31 December 2003

33. RETIREMENT BENEFITS SCHEME

The Group companies operating in the PRC participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The 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 plan contributions paid for the year ended 31 December 2003 amounted to approximately HK\$3,740,000 (2002: HK\$4,407,000).

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

The retirement benefits scheme contributions arising from the MPF Scheme charged to the 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\$102,000 (2002: HK\$192,000).

34. POST BALANCE SHEET EVENTS

- (a) In January 2004, the Company issued 155,200,000 new shares of HK\$0.1 each in the Company at the subscription price of HK\$4 per share to Kenson.
- (b) In January 2004, the Company signed the formal agreement with the Municipal Government of the municipality of Yuechi, Sichuan Province of the PRC for the acquisition of a 90% interest in Yuechi Natural Gas Company at a consideration of HK\$34,612,000.

Notes to the Financial Statements

For the year ended 31 December 2003

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2003 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Directly-owned subsidiary</i>				
China Pan River Group Ltd.	BVI – Limited liability company	12,821 shares of US\$1	100%	Investment holding
<i>Indirectly- owned subsidiaries</i>				
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	60%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI – Limited liability company	1 share of US\$1	100%	Investment holding
Chizhou Panva Gas Co., Ltd. 池州百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	The provision of LP Gas and related services and gas pipeline construction
Chuzhou YPC & Panva Energy Co., Ltd. 滁州揚子百江能源有限公司	PRC – Sino-foreign equity joint venture	RMB1,000,000	30% (Note 1)	Wholesaling and retailing of LP Gas
Lezhi Panva Gas Co., Ltd. 樂至百江燃氣有限公司	PRC – Limited liability company	RMB14,800,000	100%	The provision of natural gas and related services and gas pipeline construction
Jinan Panva Gas Co., Ltd. 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	51%	The provision of LP Gas, natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2003

35. PARTICULARS OF SUBSIDIARIES – continued

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Indirectly-owned subsidiaries – continued</i>				
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$1,010,000	77.95%	The provision of LP Gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd. 平昌百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	90%	The provision of natural gas and related services and gas pipeline construction
Panriver Investments Company Limited 百江投資有限公司	PRC – Limited liability company	US\$30,000,000	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 2)	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
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. ("Panva Southwest") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2003

35. PARTICULARS OF SUBSIDIARIES – continued

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Indirectly-owned subsidiaries – continued</i>				
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB3,590,000	90%	The provision of natural gas and related services and gas pipeline construction
Singkong Investments Limited 盛港投資有限公司	Hong Kong – Limited liability company	10,000 ordinary shares of HK\$1 each	100%	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	1 share of US\$1	100%	Investment holding
Sinolink Power Investment Limited	BVI – Limited liability company	1 share of US\$1	100%	Investment holding
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC – Limited liability company	RMB5,000,000	99.5%	The provision of natural gas and related services and gas pipeline construction
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
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. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US\$7,230,000	50% (Note 3)	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2003

35. PARTICULARS OF SUBSIDIARIES – *continued*

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
<i>Indirectly- owned subsidiaries – continued</i>				
Yangzhou YPC & Panva Gas Co., Ltd. ("Yangzhou YPC") 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	27.5% (Note 4)	Wholesaling and retailing of LP Gas
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司	PRC – Limited liability company	RMB9,890,000	90%	The provision of natural gas and related services and gas pipeline construction
Zunyi Pan River Gas Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	50.10%	Wholesaling and retailing of LP Gas

Notes:

1. Yangzi Panva holds a 60% equity interest.
2. Panva Southwest holds a 56.94% equity interest.
3. Yangzi Panva is a subsidiary of the Group because the Group has control over the board of directors.
4. Yangzi Panva holds a 55% equity interest.

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

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 Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Wednesday, 21 April 2004 at 3:30 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 2003;
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:

- (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) 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

Notice of Annual General Meeting

Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution 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).”

5. 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;
- (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 and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

Notice of Annual General Meeting

(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. "

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

"**THAT** conditional upon the passing of resolutions no. 4 and 5 set out in the notice convening this meeting, the unconditional general mandate granted to the Directors 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. 4 set out in the notice convening this meeting 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. 5 set out in the notice convening this meeting, 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."

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

"**THAT** pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 30 March 2001, approval be and is hereby generally and unconditionally granted for "refreshing" the 10 per cent. limit under the Share Option Scheme provided that (i) the total number of shares of HK\$0.10 each in share capital of the Company which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as "refreshed" hereby shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution; and (ii) options previously granted under the Share Option Scheme and any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option schemes of the Company) shall not be counted for the purpose of calculating the 10 per cent. limit as "refreshed" hereby."

Notice of Annual General Meeting

8. to transact any other business if necessary.

By Order of the Board
Panva Gas Holdings Limited
Chan Wai Chuen, Ricky
Company Secretary

Hong Kong, 29 March, 2004

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 Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.