



**Panva Gas Holdings Limited**

**百江燃氣控股有限公司**

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

The **1<sup>st</sup>** Quarterly Report  
**2005**



## CORPORATE INFORMATION

### Board of Directors

#### **Executive Directors**

Mr. Ou Yaping (*Chairman*)  
Mr. Tang Yui Man Francis (*Vice Chairman*)  
Mr. Chen Wei (*Managing Director*)  
Mr. Li Fujun  
Mr. Shen Lian Jin  
Mr. Zhang Keyu

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

Mr. Fok Kin-ning, Canning  
Mr. To Chi Keung, Simon (*alternate director to Mr. Fok Kin-ning, Canning*)

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

Mr. Cheung Hon Kit  
Mr. Li Xiao Ru  
Mr. Ge Ming

### Authorised Representatives

Mr. Ou Yaping  
Mr. Tang Yui Man Francis

### Compliance Officer

Mr. Li Fujun

### Qualified Accountant

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

### Company Secretary

Mr. Lo Tai On

### Audit Committee

Mr. Cheung Hon Kit  
Mr. Li Xiao Ru  
Mr. Ge Ming

### Registered Office

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

### Head Office and Principal Place of Business

28th Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong  
Telephone : (852) 2851 8425  
Facsimile : (852) 2851 0970  
Stock Code : 8132

### Auditors

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

### Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Hong Kong Branch Share Registrar

Computershare Hong Kong Investor  
Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor  
Services Limited  
Shops 1712 – 1716, 17th Floor  
183 Queen's Road East  
Wanchai  
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

Industrial and Commercial Bank of China  
(Asia) Ltd.  
Hang Seng Bank Limited  
Bank of China, Shenzhen Branch  
Nanyang Commercial Bank Ltd.,  
Hong Kong Branch

### Websites

[www.panva-gas.com](http://www.panva-gas.com)  
[www.irasia.com/listco/hk/panvagas](http://www.irasia.com/listco/hk/panvagas)

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

**HIGHLIGHTS**

- The Group's turnover increased to approximately HK\$468,263,000 representing an increase of 13.87% from the same period last year.
- Gross profit increased to approximately HK\$109,103,000 representing an increase of approximately 35.10% from the same period last year.
- Net profit increased to approximately HK\$58,163,000 representing an increase of approximately 29.82% from the same period last year.

**RESULTS**

The board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2005, together with the comparative figures of the corresponding period in 2004, as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the three months ended 31 March 2005*

		<b>Three months ended 31 March</b>	
		<b>2005</b>	As restated 2004
	<i>Notes</i>	<b>HK\$'000</b> <b>(unaudited)</b>	<b>HK\$'000</b> <b>(unaudited)</b>
Turnover		<b>468,263</b>	411,238
Cost of sales		<b>(359,160)</b>	(330,482)
Gross profit		<b>109,103</b>	80,756
Other revenue		<b>7,428</b>	3,193
Distribution expenses		<b>(11,575)</b>	(9,646)
Administrative expenses		<b>(30,665)</b>	(17,273)
Other operating expenses		<b>(327)</b>	(2,713)
Profit from operations		<b>73,964</b>	54,317
Finance costs		<b>(14,531)</b>	(2,759)
Investment income	2	<b>9,692</b>	839
Loss on fair value adjustment		<b>(323)</b>	–
Profit before taxation		<b>68,802</b>	52,397
Share of results of associates		<b>10,892</b>	–
Taxation	3	<b>79,694</b> <b>(9,684)</b>	52,397 (1,842)
Net profit for the period		<b>70,010</b>	50,555
Dividend		<b>–</b>	–
Attributable to:			
Equity holders of the parent		<b>58,163</b>	44,804
Minority interests		<b>11,847</b>	5,751
		<b>70,010</b>	50,555
Earnings per share (HK cents)			
Basic	4	<b>6.17</b>	4.76
Diluted		<b>5.82</b>	4.40

Notes:

## 1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (Revised) Chapter 22 of the Cayman Islands. The Company's shares (the "Shares") have been listed on the GEM of the Stock Exchange since 20 April 2001.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LP Gas") and natural gas (together "Gas Fuel") in the People's Republic of China ("PRC") including the sale of LP Gas in bulk and in cylinders, the provision of piped LP Gas and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LP Gas and natural gas household appliances.

### a. Statement of compliance

The Hong Kong Institute of Certified Public Accountants ("HKICPA", formerly the Hong Kong Society of Accountants) has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting standards ("HKFRS") with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRS with the requirements of IFRS in all material respects as at 31 December 2004. The accounts have been prepared in accordance with HKFRS issued by the HKICPA, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

### b. Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFR requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated accounts.

*Adoption of HKFRS*

For the financial year commencing 1 January 2005, the Group has adopted all HKFRS in issue pertinent to its operations. The applicable HKFRS are set out below and the 2004 figures have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statement
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim financial reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of HKAS 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 34 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity.
- HKAS 2, 8, 16, 21 and 28 affect certain disclosure of the accounts.
- HKAS 7, 10, 11, 12, 14, 18, 19, 23, 27, 33, 34 and 37 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation less accumulated depreciation.

The adoption of HKFRS 2 has resulted in change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

- amortised on a straight-line basis over a period of not exceeding 20 years; and
- assessed for the impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 January 2003;
- accumulated amortisation as at 31 December 2002 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the year ended 31 December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, investments of the Group were classified into non-trading securities and trading securities, and were stated in the balance sheet at fair value.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables (which include bank deposits and cash and cash equivalents). The classification depends on the purpose for which the investments were held. For debt securities and bank deposits with embedded derivatives for yield enhancement, where the economic characteristics and the risks of such derivatives are not closely related to the bank deposits and debt securities, all such bank deposits, debt securities and the embedded derivatives are designated as financial assets at fair value through profit or loss and with changes in fair value recognized in the profit and loss account. Interest income for financial assets at fair value through profit or loss is included as net realized and unrealized gains/(losses) and interest income of financial assets at fair value through profit or loss.

All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which require retrospective application to prior year comparatives other than:

- HKFRS 2 – retrospective application of all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2004;
- HKFRS 3 – prospectively after 1 January 2003;
- HKAS 39 – prospectively from 1 January 2005.

*Effect of changes in the accounting policies on consolidated profit and loss account*

	HKAS 1#	HKAS 17#	HKFRS 2#	Effect of adopting		Total
				HKAS 38*	HKFRS 32#	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the three months ended 31 March 2004</i>						
Decrease in depreciation	-	8	-	-	-	8
Increase in MI's share of results for the period	-	(5)	-	-	-	(5)
Decrease in amortisation of goodwill	-	-	-	281	-	281
Decrease in amortisation of negative goodwill	-	-	-	(142)	-	(142)
Decrease in negative goodwill arising during the period	-	-	-	(1,549)	-	(1,549)
	-	3	-	(1,410)	-	(1,407)
Increase (decrease) in basic earnings per share (HK cents)	-	-	-	(0.15)	-	(0.15)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the three months ended 31 March 2005</i>						
Increase in staff costs and related expenses	-	-	(5,800)	-	-	(5,800)
Decrease in depreciation	-	8	-	-	-	8
Increase in MI's share of results for the period	-	(5)	-	-	-	(5)
Decrease in amortisation of goodwill	-	-	-	1,083	-	1,083
Decrease in amortisation of negative goodwill	-	-	-	(346)	-	(346)
Decrease in value of guaranteed senior notes	-	-	-	-	30,857	30,857
Increase in negative fair value of derivatives	-	-	-	-	(31,180)	(31,180)
	-	3	(5,800)	737	(323)	(5,383)
Increase (decrease) in basic earnings per share (HK cents)	-	-	(0.62)	0.08	(0.03)	(0.57)

\* adjustments which take effect prospectively from 1 January 2003

^ adjustments which take effect prospectively from 1 January 2005

# adjustments which take effect retrospectively

*Effect of change in accounting policies on consolidated equity*

	Effect of adopting HKFRS 3*					Total HK\$'000
	HKAS 1# HK\$'000	HKAS 17# HK\$'000	HKFRS 2# HK\$'000	HKAS 36* & HKAS 38*	HKFRS 32# & HKAS 39^	
				HK\$'000	HK\$'000	
<b>At 1 January 2004</b>						
<b>Increase (decrease) in equity</b>						
Revaluation reserve	-	(2,683)	-	-	-	(2,683)
Convertible bonds reserve	-	-	-	-	14,651	14,651
Minority Interests	-	(1,133)	-	-	-	(1,133)
Retained earnings	-	1,191	-	18,812	-	20,003
<b>At 31 March 2004</b>						
<b>Increase (decrease) in equity</b>						
Convertible bonds reserve	-	-	-	-	14,651	14,651
Minority Interests	-	(1,128)	-	-	-	(1,128)
Revaluation reserve	-	(2,683)	-	-	-	(2,683)
Retained earnings	-	1,195	-	17,402	-	18,597
<b>At 31 December 2004</b>						
<b>Increase (decrease) in equity</b>						
Employee share-based compensation reserve	-	-	2,733	-	-	2,733
Convertible bonds reserve	-	-	-	-	14,651	14,651
Minority Interests	-	(1,112)	-	-	-	(1,112)
Revaluation reserve	-	(2,683)	-	-	-	(2,683)
Retained earnings	-	1,203	(2,733)	42,082	-	40,552
<b>At 1 January 2005</b>						
<b>Increase (decrease) in equity</b>						
Employee share-based compensation reserve	-	-	2,733	-	-	2,733
Convertible bonds reserve	-	-	-	-	14,651	14,651
Minority Interests	-	(1,112)	-	-	-	(1,112)
Revaluation reserve	-	(2,683)	-	-	-	(2,683)
Retained earnings	-	1,203	(2,733)	42,082	(101,447)	(60,895)
<b>At 31 March 2005</b>						
<b>Increase (decrease) in equity</b>						
Employee share-based compensation reserve	-	-	8,533	-	-	8,533
Convertible bonds reserve	-	-	-	-	14,651	14,651
Minority Interests	-	(1,107)	-	-	-	(1,107)
Revaluation reserve	-	(2,683)	-	-	-	(2,683)
Retained earnings	-	1,207	(8,533)	42,820	(101,770)	(66,276)

\* adjustments which take effect prospectively from 1 January 2003

^ adjustments which take effect prospectively from 1 January 2005

# adjustments which take effect retrospectively

## 2. INVESTMENT INCOME

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

## 3. 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 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 those tax incentives into account.

## 4. EARNINGS PER SHARE

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

	<b>Three months ended 31 March</b>	
	<b>2005</b>	As restated 2004
	<b>HK\$'000</b>	HK\$'000
Earnings for the purpose of basic earnings per share	<b>58,163</b>	44,804
Effect of dilutive potential shares:		
Interest on convertible note	<b>3,400</b>	1,853
Earnings for the purpose of diluted earnings per share	<b><u>61,563</u></b>	<u>46,657</u>

	Three months ended	
	31 March	
	2005	2004
	No. of shares	
Weighted average number of shares for the purpose of basic earnings per share	<b>942,250,891</b>	941,651,891
Effect of dilutive potential shares:		
Options	<b>18,009,038</b>	20,636,622
Convertible Bonds	<b>97,851,116</b>	97,851,116
	<hr/>	<hr/>
Weighted average number of shares for the purpose of diluted earnings per share	<b><u>1,058,111,045</u></b>	<b><u>1,060,139,629</u></b>

## 5. RESERVES

	Share Premium Reserve	Exchange Reserve	Assets Revaluation Reserve	Capital Reserve	General Reserve	Employee Share-based compensation Reserve	Convertible Bonds Reserve	Retained Earning	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004 as previously reported	135,092	(1,277)	4,881	1,101	4,310	-	-	358,037	502,144
Effect of changes in accounting policies	-	-	(2,683)	-	-	-	14,651	20,003	31,971
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2004	135,092	(1,277)	2,198	1,101	4,310	-	14,651	378,040	534,115
Issue of employees share options	-	-	-	-	-	2,733	-	-	2,733
Exchange difference	-	(3,179)	-	-	-	-	-	-	(3,179)
Premium arising on issue of shares	609,277	-	-	-	-	-	-	-	609,277
Expenses incurred in the issue of Shares	(32,032)	-	-	-	-	-	-	-	(32,032)
Transfer	-	-	-	-	1,248	-	-	(1,248)	-
Net profit for the year	-	-	-	-	-	-	-	284,637	284,637
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>712,337</u>	<u>(4,456)</u>	<u>2,198</u>	<u>1,101</u>	<u>5,558</u>	<u>2,733</u>	<u>14,651</u>	<u>661,429</u>	<u>1,395,551</u>
At 31 December 2004 as previously reported	712,337	(4,456)	4,881	1,101	5,558	-	-	620,877	1,340,298
Effect of changes in accounting policies	-	-	(2,683)	-	-	2,733	14,651	40,552	55,253
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004 as previously restated	712,337	(4,456)	2,198	1,101	5,558	2,733	14,651	661,429	1,395,551
Effect of adoption of HKAS 39	-	-	-	-	-	-	-	(101,447)	(101,447)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2005	712,337	(4,456)	2,198	1,101	5,558	2,733	14,651	559,982	1,294,104
Issue of employees share options	-	-	-	-	-	5,800	-	-	5,800
Transfer	-	-	-	-	257	-	-	(257)	-
Net profit for the period	-	-	-	-	-	-	-	58,163	58,163
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	<u>712,337</u>	<u>(4,456)</u>	<u>2,198</u>	<u>1,101</u>	<u>5,815</u>	<u>8,533</u>	<u>14,651</u>	<u>617,888</u>	<u>1,358,067</u>

## INTERIM DIVIDEND

The Board does not declare an interim dividend for the three months ended 31 March 2005.

## REVIEW OF OPERATIONS

During the first quarter of 2005, the PRC economy continued to grow at a pace that was within the targets set by the government's macro-control measures. The PRC would record an 9.5% growth in gross domestic product for the first quarter. As the economy moved forward, structural reforms in the energy sector also gained momentum, with natural gas development receiving strong support from the PRC government as a strategic move to increase the use of clean energy. The favourable economic environment and supportive government policy provided good conditions for the Group to further expand its businesses. At the same time, the Group began to yield more benefits from the integration and reengineering of its newly acquired companies. Hence, both new project development and operating results achieved healthy gains during the quarter under review.

The continued enhancements in operations contributed to the Group's solid growth. Compared with the same period last year, the Group's turnover for the three months ended 31 March 2005 increased by 13.87% to approximately HK\$468,263,000. Gross profit increased by 35.10% to approximately HK\$109,103,000 while net profit rose by 29.82% to approximately HK\$58,163,000.

### Wholesale of LP Gas

Wholesale of LP Gas comprises the sale of LP Gas in bulk and in cylinders to wholesale customers by tank lorries and tank vessels. It remained as one of the Group's principal activities, accounting for approximately 45.73% of the Group's total turnover for the three months ended 31 March 2005. The turnover recorded by this business segment for the period amounted to approximately HK\$214,130,000, which is approximately the same when compared with the same period last year.

### Retail Business

The Group's retail business comprises the direct sale of LP Gas in cylinders and the provision of piped LP Gas and piped natural gas to retail customers. For the three months ended 31 March 2005, turnover derived from the retail business grew by 38.07% to approximately HK\$147,228,000, accounting for approximately 31.44% of the Group's total turnover during the period. Of the retail turnover, direct sale of LP Gas in cylinders accounted for approximately HK\$118,471,000 while provision of piped LP Gas and piped natural gas accounted for approximately HK\$28,757,000, representing an increase of 28.55% and 98.74% respectively from the same period last year.

## REVIEW OF OPERATIONS *(Cont'd)*

### Retail Business *(Cont'd)*

The increase in the retail business of the Group is in line with the Group's policy to secure more end-user household customers resulting in a higher proportion of the Group's turnover, thus contributing a higher gross profit margin. The Group's end-user household customers increased to approximately 2,100,000 as at 31 March 2005.

With the Group's major acquisitions in Changchun and Chengdu completed in the first quarter of 2005, as at 31 March 2005, the Group together with its associated companies covers approximately 2 million connected households end-users for the sale of piped gas.

### Gas Pipeline Development

For the three months ended 31 March 2005, turnover derived from the gas pipeline development business amounted to approximately HK\$92,056,000, accounting for approximately 19.66% of the Group's total turnover, representing an increase of approximately 28.13% when compared to the same period last year.

### New Project Development

While striving to obtain more new projects in the northeastern PRC and Sichuan regions, the Group based on further analysis of the PRC's changing energy landscape and the government's related policy trends, is also examining and negotiating for selective projects in other PRC regions that have good development prospects. During the three months ended 31 March 2005, the Group has made major breakthroughs in discussions concerning a number of new projects.

### Sichuan Jianyang Project

The Group through its wholly-owned subsidiary Panriver Investments Company Limited entered into an acquisition agreement with Jianyang Development Bureau to acquire 100% equity interest in Jianyang Natural Gas Company for a consideration of RMB28,500,000. Upon the completion of the acquisition, Lezhi Panva Gas Co., Ltd., another wholly-owned subsidiary of the Group, will take up a 10% interest in Jianyang Natural Gas Company which will be renamed as Jianyang Panva Gas Company Limited ("Jianyang Panva Gas"). As part of the acquisition, Jianyang Panva Gas will be granted an exclusive right to operate natural gas business in Jianyang city for 30 years.

## **REVIEW OF OPERATIONS** *(Cont'd)*

### **Sichuan Jianyang Project** *(Cont'd)*

Jianyang occupies an area of approximately 2,215 square kilometres, with a population of approximately 1,430,000 and connectable natural gas households of approximately 376,000. Located in the western part of Sichuan Basin, Jianyang is 55 kilometres from Chengdu, the provincial capital of Sichuan, and adjacent to the state-endorsed Chengdu Economic and Technological Development Zone. As such, Jianyang is well positioned to benefit from the eastern and southern developments of Chengdu. Armed with provincial-class tourism, economic and technological development zones, Jianyang is a city with highly promising prospects in the Chengdu Plain Economic Circle. Its prime location, outstanding competitive advantages, strong economic infrastructure and well-integrated strengths provide a favourable market for natural gas development.

Jianyang Panva Gas is principally engaged in the provision of natural gas, with ancillary businesses that include the design and installation of natural gas facilities, the repair and maintenance of natural gas utensils, the retail of natural gas equipment and parts, and the retail of building materials.

### **Financial Position**

The Group continued to enjoy a healthy financial position. As at 31 March 2005, the Group's cash and cash equivalent amounted to approximately HK\$1,471,626,000. The strong cash position enables the Group to undertake new development projects and further expand its operations.

As at 31 March 2005, the Group's bank loans and other borrowings amounted to approximately HK\$1,917,054,000, of which approximately HK\$1,861,316,000 arose from the issue of guaranteed senior notes in September 2004 and 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 period under review with a current ratio of approximately 7.62 times and a gearing ratio of approximately 25% (net debt to equity). With strong free cash flow and sufficient financial resources, the Group is well positioned to further expand its businesses and maintain smooth operations while ensuring the due repayment of its borrowings.

### **Contingent Liabilities**

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

## REVIEW OF OPERATIONS *(Cont'd)*

### Prospects

Energy has become an increasingly critical issue in the PRC's economic development. The PRC government is adopting various macro-control measures to realign and enhance the energy strata and to promote the use of clean energy. At the same time, it is accelerating the reform of urban public utilities and further opening up the energy market. All these developments provide favourable opportunities for the gas fuel industry.

As part of its proven successful strategy, the Group will continue to focus on the parallel expansion of piped gas business and LP Gas business. On the one hand, the Group will continue to make new project developments in Sichuan and the northeastern PRC region to further capitalise on its economies-of-scale advantages. On the other hand, the Group will seek for quality projects in the northern, eastern and southern coastal PRC regions on a selective basis. At the same time, the Group will further enhance the integration of its acquired companies and strengthen their management and cost efficiency while increasing the Group's economies-of-scale advantages and integrated strengths in order to generate higher returns for shareholders.

### Migration

On 3 May 2005, Merrill Lynch (Asia Pacific) Limited acting as the Company's sponsor has, on behalf of the Company, submitted an advance booking form for the possible migration to the Main Board of the Stock Exchange.

### Group Restructuring

On 7 April 2005, the Board was informed by Sinolink Worldwide Holdings Limited ("Sinolink"), the controlling shareholders, that Sinolink agreed to sell and Enerchina Holdings Limited ("Enerchina") agreed to purchase the 58.45% interests in the Company. After completion, Enerchina will become the controlling shareholder of the Company. Enerchina is a subsidiary of Sinolink and is listed on the Main Board of the Stock Exchange.

## OTHER INFORMATION

### Disclosure of Interests

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

At 31 March 2005, 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 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Beneficial owner	Interest in Shares Long positions/(Short positions)		Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest/(Short positions)	Approximate percentage of the Company's issued share capital
		Interest of controlled corporation	Other				
Chen Wei	4,160,000	-	-	4,160,000	8,040,000	12,200,000	1.29%
Cheung Hon Kit	-	-	-	-	800,000	800,000	0.08%
Ge Ming	-	-	-	-	800,000	800,000	0.08%
Li Fujun	1,000,000	-	-	1,000,000	2,600,000	3,600,000	0.38%
Li Xiao Ru	-	-	-	-	800,000	800,000	0.08%
Ou Yaping	-	6,081,600	550,789,987	556,871,587	3,600,000	560,471,587	59.48%
	-	(19,230,769)	-	(19,230,769)	-	(19,230,769)	(2.04%)
				(Note)			
Shen Lian Jin	-	-	-	-	2,300,000	2,300,000	0.24%
Tang Yui Man Francis	5,440,000	-	-	5,440,000	3,960,000	9,400,000	1.00%
Zhang Keyu	-	-	-	-	2,000,000	2,000,000	0.21%

**OTHER INFORMATION** (Cont'd)**Disclosure of Interests** (Cont'd)*Directors' Interests or short positions in Shares and in share options (Cont'd)**Note:*

The 556,871,587 shares represent (i) 381,298,462 shares held by Kenson Investment Limited ("Kenson"), a wholly-owned subsidiary of Sinolink. 58.56% interests of Sinolink are held by Asia Pacific Promotion Limited ("Asia Pacific"). Mr. Ou Yaping is the sole beneficial owner of Asia Pacific. Mr. Ou Yaping 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 Yaping; and (iii) 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. Out of these 556,871,587 shares, 550,789,987 shares had been pledged with Morgan Stanley by Sinolink. These 550,789,987 shares were discharged on 4 May 2005.

Kenson is under an obligation to transfer 19,230,769 shares to Hutchison International Limited ("Hutchison International") upon full exchange of a HK\$62,500,000 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.

**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	Exercised during the period	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
				as at 1.1.2005		as at 31.3.2005	
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	–	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	–	1,800,000	0.19%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000	–	1,440,000	0.15%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	–	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	–	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	–	1,200,000	0.13%

**OTHER INFORMATION** (Cont'd)**Directors' rights to acquire Shares** (Cont'd)

Name of Directors	Date of grant	Exercisable period	Exercise price HK\$	Number of Shares subject to outstanding options	Exercised during the period	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
				as at 1.1.2005		as at 31.3.2005	
Cheung Hon Kit	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	–	320,000	0.03%
Ge Ming	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	–	320,000	0.03%
Li Fujun	04.04.2001	01.01.2003 – 03.04.2011	0.475	920,000	–	920,000	0.10%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,200,000	–	1,200,000	0.13%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	480,000	–	480,000	0.05%
Li Xiao Ru	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	–	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	–	320,000	0.03%
Ou Yaping	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	–	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	–	1,800,000	0.19%
Shen Lian Jin	04.04.2001	01.01.2004 – 03.04.2011	0.475	300,000	–	300,000	0.03%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	–	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	–	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	–	800,000	0.08%
Tang Yui Man Francis	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	–	960,000	0.10%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	–	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	–	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	–	1,200,000	0.13%
Zhang Keyu	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	–	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	–	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	–	800,000	0.08%

**OTHER INFORMATION** (Cont'd)**Directors' rights to acquire Shares** (Cont'd)*Notes:*

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. These options represent personal interest held by the directors as beneficial owner.

**Interests in shares in associated corporations**

Name of Director	Name of associated corporations	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation
		Interest of controlled corporations	Family Interest	Other				
Chen Wei	Sinolink	-	-	-	-	12,000,000	12,000,000	0.51%
Ou Yaping	Sinolink	1,374,222,000 (Note 1)	6,475,920	-	1,380,697,920	-	1,380,697,920	58.83%
	Enerchina	281,101,436	-	1,147,680,775	1,428,782,211 (Note 2)	2,288,000	1,431,070,211	62.47%
Shen Lian Jin	Sinolink	-	-	-	-	3,000,000	3,000,000	0.13%
Tang Yui Man Francis	Sinolink	-	-	-	-	19,000,000	19,000,000	0.81%
	Enerchina	-	-	-	-	22,880,000	22,880,000	1.00%
Zhang Keyu	Sinolink	-	-	-	-	2,000,000	2,000,000	0.09%

*Notes:*

1. 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.
2. The 1,428,782,211 shares in Enerchina represent the aggregate of: (i) the 852,989,402 shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 58.56% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all the shares in which Sinolink is interested); and (ii) the 575,792,809 shares held by Smart Orient Investments Limited ("Smart Orient"). 100% interests of Smart Orient are held by Sinolink. Mr. Ou Yaping is deemed under the SFO to be interested in these shares. Out of these 1,428,782,211 shares, 1,147,680,775 shares had been pledged with Morgan Stanley by Sinolink. These 1,147,680,775 shares were discharged on 4 May 2005.

**OTHER INFORMATION** (Cont'd)**Interests in options to subscribe for shares of associated corporations**

Name of Directors	Name of associated corporations	Date of grant	Exercise period	Exercise Price HK\$	Number of share subject to outstanding options as at 31.3.2005	Approximate percentage of the issued share capital of the associated corporation
Chen Wei	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	3,600,000	0.15%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	3,600,000	0.15%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	4,800,000	0.20%
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	0.10%
Shen Lian Jin	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	900,000	0.04%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	900,000	0.04%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	1,200,000	0.05%
Tang Yui Man Francis	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	5,700,000	0.24%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	5,700,000	0.24%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	7,600,000	0.32%
	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	1.00%
Zhang Keyu	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	600,000	0.03%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	600,000	0.03%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	800,000	0.03%

*Notes:*

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. Those options represent personal interest held by the Directors as beneficial owners.

**OTHER INFORMATION** (Cont'd)**Interests in options to subscribe for shares of associated corporations** (Cont'd)

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 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**SUBSTANTIAL SHAREHOLDERS**

At 31 March 2005, 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 positions in Shares and underlying Shares in the Company

Name of shareholders	Capacity	Interest in shares of the Company Long positions/ (short positions)	Interest in underlying shares pursuant to the Note	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Asia Pacific	Interest of controlled corporation, other and beneficial owner	556,871,587 (19,230,769) (Note 1)	– –	556,871,587 (19,230,769)	59.10% (2.04%)
Sinolink	Other and interest of controlled corporation	550,789,987 (19,230,769) (Note 1)	– –	550,789,987 (19,230,769)	58.45% (2.04%)
Kenson	Other and beneficial owner	381,298,462 (19,230,769) (Note 1)	– –	381,298,462 (19,230,769)	40.47% (2.04%)
Morgan Stanley	Interest of controlled corporation	569,588,277 (11,206,524) (Note 2)	– –	569,588,277 (11,206,524)	60.45% (1.19%)

**SUBSTANTIAL SHAREHOLDERS** (Cont'd)

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

Name of shareholders	Capacity	Interest in shares of the Company Long positions/ (short positions)	Interest in underlying shares pursuant to the Note	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Deutsche Bank Aktiengesellschaft	Beneficial owner	72,475,282	–	72,475,282	7.69%
Hutchison International Limited	Beneficial owner	38,461,538	19,230,769	57,692,307 (Note 3)	6.12%
Hutchison Whampoa Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 (Note 3)	6.12%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustee Company Limited	Trustee	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Lai Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-shing	Interest of controlled corporation and as founder of discretionary trusts	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Value Partners Limited	Investment manager	48,000,000 (Note 5)	–	48,000,000	5.09%
Cheah Cheng Hye	Interest of controlled corporation	48,000,000 (Note 5)	–	48,000,000	5.09%

## SUBSTANTIAL SHAREHOLDERS (Cont'd)

### 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 381,298,462 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 Yaping is the sole beneficial shareholder of Asia Pacific. Mr. Ou Yaping is deemed under Part XV of the SFO to have an interest in the shares held by Kenson. In addition, 169,491,575 shares held by Supreme All, a wholly-owned subsidiary of Sinolink. Therefore, Sinolink is deemed to be interested in 550,780,987 shares and these shares had been pledged with Morgan Stanley. These 550,780,987 shares of the Company were discharged on 4 May 2005.

Kenson is under an obligation to transfer 19,230,769 shares to Hutchison International upon full exchange of the Note held by Hutchison International in accordance with the terms and conditions of the Note.

2. The interests of Morgan Stanley was attributable on account through a number of its wholly owned subsidiaries and non-wholly owned subsidiaries, including, Morgan Stanley International Incorporated (90% control), Morgan Stanley International Incorporated (10% control) and Morgan Stanley Group (Europe) (98.3% control). Out of these 569,588,277 shares, 550,789,987 shares had been pledged by Sinolink. These 550,789,987 shares of the Company were discharged on 4 May 2005.
3. 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 19,230,769 shares and is accordingly interested in an aggregate of 57,692,307 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 57,692,307 shares.

4. 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.

## **SUBSTANTIAL SHAREHOLDERS** *(Cont'd)*

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 is deemed to be interested in the 38,461,538 shares and in the Note representing 19,230,769 underlying shares both held by Hutchison International.

5. These 48,000,000 shares are held by Value Partners Limited, a company which is held by 31.82% by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these shares of the Company.

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 March 2005, 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.

## **COMPETING BUSINESS**

Mr. FOK Kin-ning, Canning, non-executive director of the Company, is also the group managing director of Hutchison Whampoa Limited and the co-chairman of Husky Energy Inc.. The core businesses of Hutchison Whampoa Limited include energy and Husky Energy Inc. is engaged in integrated oil and gas business. Such businesses may compete, or is likely to compete, either directly or indirectly, with the business of the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The audit committee has 3 members comprising 3 independent non-executive directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems, including a general review of the unaudited financial report for the three months ended 31 March 2005. In carrying out this review, the audit committee has obtained explanations from management.

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

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

By Order of the Board  
**CHEN Wei**  
*Managing Director*

Hong Kong, 11 May 2005