# Panva Gas Holdings Limited

# 百江燃氣控股有限公司*

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

# PLACING

Sponsor

TAI FOOK CAPITAL LIMITED

Joint Lead Managers

TAI FOOK SECURITIES COMPANY LIMITED

CU SECURITIES LIMITED

* For identification only

**IMPORTANT**

***If you are in any doubt*** *about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.*

# PANVA GAS HOLDINGS LIMITED
# 百江燃氣控股有限公司*

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

## LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

## PLACING

| | | |
|---|---|---|
| **Number of Placing Shares** | **:** | **95,000,000** |
| | | **(subject to Over-allotment Option)** |
| **Issue Price** | **:** | **$0.57 per Share** |
| **Nominal value** | **:** | **$0.10 each** |
| **Stock code** | **:** | **8132** |

**Sponsor**

**TAI FOOK CAPITAL LIMITED**

**Joint Lead Managers**

**TAI FOOK SECURITIES COMPANY LIMITED**

**CU SECURITIES LIMITED**

**Co-Managers**

**Luen Fat Securities Company Limited**

**Peace Town Securities Limited**

**Young Champion Securities Limited**

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A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

* *For identification only*

10th April, 2001

# 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 of the Stock Exchange 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.

# EXPECTED TIMETABLE

Allocation to placees on .................................... Tuesday, 17th April, 2001

Announcement of the results of the Placing
to be published on the GEM website on .................. Wednesday, 18th April, 2001

Share certificates available on or before *(Note 2)* ............ Wednesday, 18th April, 2001

Dealings in the Shares on GEM
to commence on ........................................ Friday, 20th April, 2001

For details of the structure of the Placing, including conditions, see the section headed "Structure of the Placing" on pages 126 to 128 of this prospectus.

*Notes:*

1. All times refer to Hong Kong local time.

2. All Placing Shares will be delivered through CCASS and accordingly, the share certificates for the Placing Shares are expected to be deposited into CCASS on or about Wednesday, 18th April, 2001 for credit to the respective CCASS participants' stock accounts designated by the Underwriters, the placees or their agents, as the case may be, before dealings in the Shares on GEM are to commence. No temporary documents of title will be issued.

3. Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure of the Placing" of this prospectus.

4. Further announcements will be made in the event of any changes to the above expected timetable.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, Tai Fook Capital, any of their respective directors, or any other person involved in the Placing.*

# CONTENTS

# CONTENTS

*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" on pages 20 to 29 of this prospectus. You should read that section carefully before you decide to invest in the Company.*

## BUSINESS

The Group is principally engaged in the sale and distribution of LPG in Hunan, Anhui and Jiangsu provinces along the Yangzi River and in Guizhou province of the southwestern regions of the PRC. The Group's main activities include the sale of LPG in bulk and in cylinders, the provision of piped gas, and the sale of LPG household appliances. The Group's other operating activities include the storage and filling of LPG, the management and operation of storage facilities and transportation facilities for supporting the Group's LPG operations.

The sale of LPG in bulk has been a major revenue source for the Group and its turnover amounted to approximately $268.4 million, $440.5 million and $914.3 million which accounted for approximately 95.34%, 86.73% and 86.28% of the Group's total turnover respectively for the three years ended 31st December, 2000. The majority of the Group's bulk sale customers are LPG retail operators and industrial users in the PRC. The bulk sale process begins with the Group obtaining LPG supplies from various petrochemical enterprises and importers. The Group's suppliers transport LPG to the Group's storage stations by railway, roadway or waterway. The Group then delivers LPG in tanks by railway and road to its customers. However, in some cases, the Group allows customers to take delivery of LPG directly from the suppliers. The bulk order size ranges from 5 tonnes to 500 tonnes of LPG per transaction.

The Group is also engaged in the sale of LPG pressurised in cylinders to retail and wholesale customers in the PRC. For the three years ended 31st December, 2000, the sale of LPG in cylinders to retail customers amounted to approximately $11.4 million, $36.9 million and $94.7 million and accounted for approximately 4.05%, 7.26%, 8.94% of the Group's total turnover respectively, whilst the sale of LPG in cylinders to wholesale customers amounted to approximately $1.4 million, $29.0 million and $47.5 million and accounted for approximately 0.50%, 5.71%, 4.48% of the Group's total turnover respectively. The sale of LPG in cylinders to retail customers is mainly carried out at the Group's 156 retail outlets situated in Hunan, Anhui, Jiangsu and Guizhou provinces in the PRC. Retail customers can either attend the retail outlets and exchange their empty cylinders for filled ones after paying the prescribed charges, or telephone the Group's call centre for the delivery of filled cylinders. For the sale of LPG in cylinders to wholesale customers, the Group arranges for those wholesale customers to deliver empty cylinders to the Group's LPG storage stations for refilling. The filled cylinders are then transported back to those wholesale customers by trucks.

The Group also provides piped gas within housing estates in Changsha, Chenzhou and Nanjing. Piped gas is supplied to household users through a network of gas supply pipelines installed within individual housing estates connecting household users to gas stations. The provision of piped gas which commenced in 1999 amounted to approximately $0.1 million and $0.6 million and accounted for approximately 0.02% and 0.06% of the Group's total turnover for the two years ended 31st December, 2000 respectively.

The Group is also engaged in the sale of LPG household appliances such as cooking appliances and LPG pressurisors. Users can purchase LPG appliances at the Group's retail outlets. The sales turnover resulting from the sales of LPG equipment and appliances amounted to approximately $0.3 million, $1.4 million and $2.6 million and accounted for approximately 0.11%, 0.28% and 0.24% of the Group's total turnover for the three years ended 31st December, 2000 respectively.

The Group also maintains various operational facilities to support its business operations. The Group currently operates storage facilities, LPG filling facilities, transportation facilities and various machineries and equipment such as gas pumps and gas mixing machines. As at 31st December, 2000, the Group invested approximately $122.8 million in these operational facilities.

The Group's LPG business was originally founded by Mr. Ou in early 1998. Mr. Ou set up China PANVA as the investment vehicle for his LPG business in January 1998. Mr. Ou's first LPG operating company, Changsha PANVA was incorporated in the PRC on 16th January, 1998 and was then owned as to 60% by Mr. Ou, through Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, and as to 40% by China Petrochemical Group Changling Refinery Co., Ltd. (中國石化集團長嶺煉油化工有限責任公司). Since then, other operating subsidiaries comprising the Group were established, each covering a specific geographical region. In order to develop effectively a LPG retail sales network and to maintain market exposure and coverage, each of these operating subsidiaries also operates a number of retail outlets within its region. In May 1998, the Group established its own trademark logo and brand name, "PANVA". At present, all of the Group's operations are carried out under the "PANVA" brand.

In February 1999, in order to diversify its revenue base, Sinolink acquired from Mr. Ou the entire issued share capital of China PANVA and the shareholders' loan owing from China PANVA to Mr. Ou. Leveraging on the rich experience and extensive business contacts accumulated by the Sinolink Group through years of engaging in the petrochemical product business, the Group has formed operating subsidiaries with domestic refineries and transportation companies situated in provinces of Hunan, Anhui and Jiangsu along the Yangzi River.

The Group's principal areas of operation are the middle and upper part of the Yangzi River region and the southwestern region of the PRC including provinces of Jiangsu, Anhui, Hunan and Guizhou. In these regions, the Group currently conducts its LPG business through 13 operating subsidiaries namely:

- Changsha PANVA;
- Wuhu PANVA;
- Guizhou PANVA;
- Yangzi PANVA;
- Xiangtan PANVA;
- Chenzhou PANVA;
- Yiyang PANVA;
- Changde PANVA;
- Hengyang PANVA;
- Yongzhou PANVA;
- Nanling PANVA;
- Wuhu Jiangbei PANVA; and
- Nanjing PANVA.

## STRENGTHS OF THE GROUP

The Directors believe that the Group possesses the following competitive strengths:

- the Group possesses a management team with relevant expertise and experience;
- the Group maintains well-established relationships with industry partners and state-owned enterprises in the LPG industry;
- the Group possesses a well-recognised brand name in areas in which it distributes LPG;
- the Group enjoys a steady and stable supply of LPG through entering into supply and purchase agreements with LPG suppliers;
- the Group possesses a retail customer base in the PRC of more than 800,000 registered customers (including approximately 450,000 customers registered with Nanjing PANVA) out of which more than 85% are active customers, each on average purchasing no less than 120kg of LPG which is equivalent to 8 cylinders of 15kg each in weight from the Group annually; and
- the Group possesses efficient regional fulfillment networks to ensure timely delivery of LPG to customers.

## BUSINESS OBJECTIVES AND FUTURE PLANS AND PROSPECTS

### Mission

The Group will extensively promote the use of LPG in regions along the Yangzi River, and other areas in the PRC, thereby helping to reduce pollution and create a better living environment for people. The Group will strive to apply and enforce strict safety standards with the aim of ensuring the absolute safety of each stage involved in the distribution process of LPG. The Group seeks to establish a unified national distribution network for its retail business, to create economies of scale in the Group's LPG retail operations and a professional and reputable image in the provision of the Group's services of superior standard.

## Business objectives

With the rapid growth of the PRC's economy, the PRC government has become more and more aware of the importance of establishing facilities to protect and preserve the environment. This provides excellent business opportunities for businesses directly and indirectly involved in reducing environmental pollution. The Directors believe that with the Group's experience and knowledge gained from its operational history, the Group is well-positioned to benefit from the foreseeable trend of the LPG industry in the PRC.

The Group has formulated its overall business objectives as follows:

1. To further develop LPG retailing for household and commercial users and also for automobiles.

2. To seek LPG industry enterprises with established government connections as business partners to further expand the Group's LPG geographical coverage.

3. To improve operational efficiency and increasing awareness for product safety.

4. To further develop the provision of piped gas.

5. To build "PANVA" as a national brand for the Group's products and services.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the net proceeds from the Placing will strengthen the Group's capital base and will provide funding for achieving the Group's business objectives.

The net proceeds of the Placing, after deducting related expenses, are estimated to amount to approximately $42 million (on the basis that the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, the net proceeds will increase to approximately $47 million. It is presently intended that the net proceeds will be applied as follows:

- as to approximately $16 million of the net proceeds will be used on setting up a new operating subsidiary in Changsha for the purpose of expanding the Group's LPG retail business in that region;

- as to approximately $18 million of the net proceeds will be used on setting up a new operating subsidiary in Kunming to further expand the geographic coverage of the Group's LPG operation;

- as to approximately $4 million of the net proceeds will be used on sales and marketing, and media propaganda;

- as to approximately $4 million of the net proceeds will be used as the Group's general working capital; and

- in the event that the Over-allotment Option is exercised, the additional net proceeds will be reserved for additional working capital of the Group.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with financial institutions. If for any reason the proceeds are not utilized as described above or are reallocated, the Company will issue an announcement in accordance with the GEM Listing Rules.

## CORPORATE REORGANISATION

The Reorganisation in preparation for its listing is described in Appendix V to this prospectus. The shareholding structure of the Company immediately after the Placing, the Capitalisation Issue and the Distribution, but before any exercise of the Over-allotment Option or any options granted under the Share Option Schemes or the exercise of conversion rights attached to the Convertible Note, the Initial Management Shareholders and other shareholders (other than Initial Management Shareholders and shareholders who acquire Shares in the Placing) in the Company upon listing are expected to be as follows:

| **Name of Shareholder** | *Note* | **No. of Shares** | **Date of entry** | **Percentage of issued Shares %** | **Total cost per Share approximately ($)** | **Total investment approximately ($)** |
|---|---|---|---|---|---|---|
| *Initial Management Shareholders:* | *1* | | | | | |
| Kenson | *2* | 389,800,000 | 12th February, 1999 | 77.96 | N/A | N/A |
| Sinolink | *2* | 389,800,000 | 12th February, 1999 | 77.96 | 0.192 *(note 5)* | 74,683,411 *(note 5)* |
| Mr. Ou | *3* | 10,066,960 | 18th April, 2001 | 2.01 | N/A | N/A |
| Asia Pacific Promotion | *3* | 10,066,960 | 18th April, 2001 | 2.01 | N/A | N/A |
| *Other Shareholders:* | | | | | | |
| Other Qualifying Shareholders of Sinolink | *4* | 5,133,040 | 18th April, 2001 | 1.03 | N/A | N/A |

*N/A: Not applicable*

*Notes:*

1. Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Sponsor, the Company and the Underwriters that it/he will not dispose of (nor enter into agreement to dispose of) any of its or his direct or indirect interests in the Relevant Securities of the Company during the First Relevant Lock-up Period. Each of the Initial Management Shareholders has also undertaken with the Company, the Sponsor, the Underwriters and the Stock Exchange that it/he will not during the Second Relevant Lock-up Period dispose of (nor enter into agreement to dispose of) any Relevant Securities if such disposal would result in its/his ceasing to have control over 35% of the voting rights at general meetings of the Company. Kenson and Asia Pacific Promotion will place in escrow during the First Relevant Lock-up Period the Relevant Securities held by it in the Company and will continue to place in escrow during the Second Relevant Lock-up Period such number of Relevant Securities which would together represent not less than 35% of the total issued share capital of the Company from time to time.

2. The Shares comprise Shares issued to Kenson, a wholly-owned subsidiary of Sinolink, pursuant to the Reorganisation as set out in the section headed “Corporate Reorganisation” in Appendix V and also pursuant to the Capitalisation Issue. Accordingly, Sinolink’s shareholding in the Company is wholly attributable to Kenson’s shareholding in the Company. As at the Latest Practicable Date, Mr. Ou, through Asia Pacific Promotion, is interested in approximately 66.23% of the issued share capital of Sinolink.

3. Conditional on the Placing having become unconditional, Kenson will transfer a total of 10,066,960 Shares to Sinolink for its transfer to Asia Pacific Promotion pursuant to the Distribution. Asia Pacific Promotion is beneficially owned by Mr. Ou.

4. Conditional on the Placing having become unconditional, Kenson will transfer a total of 5,133,040 Shares to Sinolink for its transfer to the other Qualifying Shareholders of Sinolink pursuant to the Distribution. Conditional on the Placing having become unconditional, the Shares are expected to be transferred by Sinolink to other Qualifying Shareholders pursuant to the Distribution on 18th April, 2001, which Qualifying Shareholders do not include any Directors or their respective Associates.

5. Total investment by Sinolink in the Group represents (i) the total consideration of $55,183,411 paid by Sinolink to Mr. Ou to acquire the entire issued share capital of China PANVA and the shareholders’ loan owing by China PANVA to Mr. Ou of approximately $44.6 million, and (ii) the amount of approximately $64,100,000 capitalised by Sinolink pursuant to the Reorganisation.

   Total cost per Share represents the total investment by Sinolink as stated above divided by the 389,800,000 Shares issued to Kenson, a wholly-owned subsidiary of Sinolink.

## RESTRICTIONS ON DISPOSAL OF SHARES

The following persons are considered as "Initial Management Shareholders" (which term has the meaning ascribed to it in the GEM Listing Rules) of the Company which are subject to the following restrictions on disposal:

| Name of Shareholder | No. of Shares subject to the First Relevant Lock-up Period | Percentage holding of the issued Shares in the First Relevant Lock-up Period % | No. of Shares subject to the Second Relevant Lock-up Period | Percentage holding of the issued Shares in the Second Relevant Lock-up Period % |
|---|---|---|---|---|
| *Initial Management Shareholders: (note 1)* | | | | |
| Kenson *(note 3)* | 389,800,000 | 77.96 | 175,000,000 *(note 2)* | 35.00 |
| Sinolink | 389,800,000 | 77.96 | 175,000,000 | 35.00 |
| Mr. Ou *(note 4)* | 10,066,960 | 2.01 | N/A | N/A |
| Asia Pacific Promotion *(note 4)* | 10,066,960 | 2.01 | N/A | N/A |

*N/A: Not applicable*

*Notes:*

1. Each of the Initial Management Shareholders has undertaken with the Stock Exchange, the Sponsor, the Company and the Underwriters that it/he will not dispose of (nor enter into agreement to dispose of) any of its or his direct or indirect interest in the Relevant Securities during the First Relevant Lock-up Period and has further undertaken with the Company, the Sponsor, the Underwriters and the Stock Exchange that it/he will not dispose during the Second Relevant Lock-up Period (nor enter into agreement to dispose of) any Relevant Securities if such disposal would result in its/his ceasing to have control over 35% of the voting rights at general meetings of the Company. Kenson and Asia Pacific Promotion will place in escrow during the First Relevant Lock-up Period the Relevant Securities held by it in the Company and will continue to place in escrow during the Second Relevant Lock-up Period such number of Relevant Securities which would together represent not less than 35% of the total issued share capital of the Company from time to time.

2. The number of Shares subject to the non-disposal undertakings during the Second Relevant Lock-up Period shall not be less than 35% of the issued share capital of the Company from time to time.

3. Kenson has undertaken with the Company, the Sponsor, the Underwriters and the Stock Exchange that it will not dispose of (nor enter into agreement to dispose of) its interest in the Company during the First Relevant Lock-up Period and will not during the Second Relevant Lock-up Period dispose of (nor enter into agreement to dispose of) its interest in the Relevant Securities if immediately afterwards it will be beneficially interested in less than 35% of the issued share capital of the Company from time to time. In addition, Sinolink has undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that it will not for a period of 12 months from the Listing Date dispose of (or enter into any agreement to dispose of) its direct or indirect interest in Kenson if such disposal would result in its holding less than 35% of the voting rights at general meetings of the Company.

4. Conditional on the Placing having become unconditional, Kenson will transfer a total of 10,066,960 Shares to Sinolink for its transfer to Asia Pacific Promotion pursuant to the Distribution. Asia Pacific Promotion is beneficially owned by Mr. Ou.

## PLACING STATISTICS

| | |
|---|---|
| Number of Placing Shares[(1)] | 95,000,000 Shares |
| Number of Shares after the Placing and the Capitalisation Issue[(2)] | 500,000,000 Shares |
| Issue Price | $0.57 |
| Market capitalisation [(3)] | $285 million |
| Adjusted net tangible asset value per Share[(4)] | $0.193 |

*Notes:*

(1) This represents the number of Shares to be initially offered under the Placing without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

(2) This represents the number of Shares expected to be in issue immediately following the completion of the Placing, the Capitalisation Issue and the Distribution without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option, the exercise of options to be granted under the Share Option Schemes or the exercise of the conversion rights attached to the Convertible Note or any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix V to this prospectus or otherwise.

(3) The market capitalisation is calculated on the basis of 500,000,000 Shares as calculated in (2) above.

(4) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under the section headed “Adjusted net tangible assets” in the section headed “Financial Information” in this prospectus and the 500,000,000 Shares as calculated in (2) above. This takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the exercise of options to be granted under the Share Option Schemes or the exercise of the conversion rights attached to the Convertible Note or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix V to this prospectus or otherwise.

## TRADING RECORD

The following is a summary of the combined results of the Group for each of the three years ended 31st December, 2000. The summary has been prepared on the basis that the existing structure of the Group had been in place throughout the three years ended 31st December, 2000 and should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

| | **Year ended 31st December,** | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| Turnover *(Note 1)* | 281,547 | 507,876 | 1,059,729 |
| Cost of sales | (259,536) | (491,076) | (1,011,052) |
| Gross profit | 22,011 | 16,800 | 48,677 |
| Other revenue | 121 | 859 | 487 |
| *Less:* Distribution expenses | (4,836) | (10,140) | (19,335) |
| Administrative expenses | (15,651) | (20,481) | (25,796) |
| Other operating expenses | (224) | (247) | (661) |
| Profit (loss) from operations | 1,421 | (13,209) | 3,372 |
| Finance costs | (2,317) | (339) | (319) |
| Investment income | 434 | 510 | 3,430 |
| (Loss) profit from ordinary activities before taxation | (462) | (13,038) | 6,483 |
| Taxation | – | – | (342) |
| (Loss) profit before minority interests | (462) | (13,038) | 6,141 |
| Minority interests | (1,887) | 3,252 | (5,313) |
| Net (loss) profit for the year | (2,349) | (9,786) | 828 |
| (Loss) earnings per share (cents) *(Note 2)* | (0.58) | (2.42) | 0.20 |

*Notes:*

1. Turnover represents revenue from the sale of LPG, the provision of piped gas and the sale of LPG household appliances during the year, net of discounts and returns, value added tax and sales tax.

   The value added tax and sales tax are charged at the rate of 17% and 5.05% respectively.

2. The calculation of the (loss) earnings per Share for the three years ended 31st December, 2001 is based on the combined (loss) profit for each of the relevant periods and on the 405,000,000 Shares in issue during those periods on the assumption that the Reorganisation had been effective on 1st January, 1998.

During the three years ended 31st December, 2000, the Group has borrowed funds from the Company's intermediate holding company, Sinolink and the minority shareholders where no interest expenses were charged on these balances. Had these balances been interest bearing, the Directors believe that the combined results of the Group after taxation for the 3 years ended 31st December, 2000 would have been decreased by the following notional amounts:

| | Year ended 31st December, | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| (Loss) profit for the year as set out above | (2,349) | (9,786) | 828 |
| Notional adjustments: | | | |
| Interest expense on amount due to intermediate holding company *(Note 1)* | – | (1,020) | (2,996) |
| Interest expense on amounts due to minority shareholders *(Note 2)* | (20) | (256) | (756) |
| | (20) | (1,276) | (3,752) |
| Adjusted loss for the year | (2,369) | (11,062) | (2,924) |

*Notes:*

1. Notional interest expense is calculated at 3% per annum, being the same rate as the Convertible Note as described in Appendix III to this prospectus, on the portion of advances which are not capitalised on the Reorganisation.

2. Notional interest expense is calculated at a rate equivalent to the PRC short term bank loan rate, i.e. 6% per annum.

**LPG sales statistics for the three years ended 31st December, 2000**

| **1998** | **Total LPG sales** | **Sale of LPG in bulk** | **Sale of LPG cylinders to retail customers** | **Sale of LPG cylinders to wholesale customers** | **Provision of piped gas** | **Sale of LPG appliances** |
|---|---|---|---|---|---|---|
| Turnover | $281.5m | $268.4m | $11.4m | $1.4m | $0 | $0.3m |
| % of total sales | 100% | 95.34% | 4.05% | 0.50% | 0% | 0.11% |
| **1999** | | | | | | |
| Turnover | $507.9m | $440.5m | $36.9m | $29.0m | $0.1m | $1.4m |
| % of total sales | 100% | 86.73% | 7.26% | 5.71% | 0.02% | 0.28% |
| **2000** | | | | | | |
| Turnover | $1,059.7m | $914.3m | $94.7m | $47.5m | $0.6m | $2.6m |
| % of total sales | 100% | 86.28% | 8.94% | 4.48% | 0.06% | 0.24% |

## RISK FACTORS

### Risks relating to the Group

- History of losses since incorporation, net liabilities and financial support from Sinolink
- Regional expansion
- Licences and certificates
- Industry-related accidents
- Dependence on LPG suppliers
- Ownership and/or the right to use the properties on or adjacent to which LPG storage stations, LPG pipelines, tank train unloading depots, LPG vessel unloading platform, and retail outlets are situated
- Risk regarding operating subsidiaries
- Price control

### Risks relating to GEM

- The Growth Enterprise Market

### Risks relating to the industry

- Market volatility
- Substitutes
- Competition
- Statistics

### Risks relating to the Group's strategies and future operations

- The Group may not be able to implement its strategies successfully for future growth
- High piped gas start-up cost

### Risk relating to PRC's oil and gas industry

### Risks relating to the Shares of the Company

- An active trading market for the Shares may not be developed and their market price may be subject to volatility
- The shareholders' equity interests in the Company may be diluted in the future

### Risk relating to the PRC

- Political issues and economic issues
- Currency conversion and exchange rate risks
- Legal framework

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

| | |
|---|---|
| "Acquisition" | the purchase by Sinolink from Mr. Ou of the entire issued share capital of China PANVA and the shareholders' loan owing from China PANVA to Mr. Ou pursuant to and on the terms of the Acquisition Agreement |
| "Acquisition Agreement" | the conditional agreement dated 13th January, 1999 entered into between Sinolink and Mr. Ou in connection with the Acquisition |
| "Asia Pacific Promotion" | Asia Pacific Promotion Limited, a company incorporated in the British Virgin Islands, information of which is set out under the section headed "Substantial and Initial Management Shareholders" |
| "Associate" | has the meaning ascribed thereto in the GEM Listing Rules |
| "Capitalisation Issue" | the issue of Shares to be made upon capitalisation of certain sums outstanding to the credit of the share premium account of the Company referred to in the paragraph headed "Resolution passed by the sole shareholder of the Company" in Appendix V to this prospectus |
| "CCASS" | the Central Clearing and Settlement System established and operated by Hongkong Clearing |
| "Changde PANVA" | Pan River Enterprises (Changde) Co., Ltd.(Note 1) (常德百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 85% interest |
| "Changsha PANVA" | Pan River Enterprises (Chang-Sha) Co., Ltd.(Note 1) (長沙百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 60% interest |
| "Chenzhou PANVA" | Chenzhou Pan River Gas Industry Co., Ltd.(Note 1) (郴州百江燃氣實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 55% interest |

*Note 1:* *The English name of this company is only an English translation of the corresponding official Chinese name.*

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| "China PANVA" | China Pan River Group Ltd., a wholly-owned subsidiary of the Company |
| "Companies Law" | the Companies Law (2000 Revision) of the Cayman Islands |
| "Companies Ordinance" | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| "Company" | Panva Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability |
| "Conversion Shares" | Shares to be issued by the Company on the conversion of the Convertible Note (in whole or in part) in accordance with the terms and conditions of the Convertible Note |
| "Convertible Note" | the $100 million at 3% per annum redeemable convertible note due on 1st April, 2004 issued by the Company to Supreme, the principal terms of which are set out in Appendix III to this prospectus |
| "Delivery Date" | 18th April, 2001, being the date on which the share certificates of the Company are available for despatch |
| "Director(s)" | the director(s) of the Company |
| "Distribution" | the distribution by Sinolink by way of dividend in specie of 15,200,000 Shares to the Qualifying Shareholders on the basis of 20 Shares for every 2,000 Sinolink Shares held on the Record Date |
| "First Relevant Lock-up Period" | the period of 6 months from the Listing Date |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Group" | the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company |
| "Guizhou PANVA" | Pan River Gas (Guizhou) Co., Ltd.(Note 1) (貴州百江燃氣有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 50.1% interest |

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| "Hengyang PANVA" | Pan River Enterprises (Hengyang) Co., Ltd.[Note 1] (衡陽百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 84% interest |
| "HK GAAP" | Hong Kong Generally Accepted Accounting Principles |
| "Hongkong Clearing" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "Initial Management Shareholders" | Sinolink, Kenson, Mr. Ou and Asia Pacific Promotion |
| "Issue Price" | the price of $0.57 per Placing Share |
| "Kenson" | Kenson Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Sinolink |
| "Latest Practicable Date" | 4th April, 2001, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus |
| "Listing Date" | the date on which trading in the Shares may commence on GEM |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange |
| "Main Board" | the securities market operated by the Stock Exchange under the Listing Rules prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM |
| "Mr. Ou" | Mr. Ou Yaping, the chairman and executive director of the Company and chairman and controlling shareholder of Sinolink |

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| "Nanjing PANVA" | Nanjing Panva LPG Ltd.[Note 1] (南京百江液化氣有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 55% interest |
| "Nanling PANVA" | Nanling Pan River LPG Ltd.[Note 1] (南陵百江液化氣有限責任公司), a PRC domestic limited company established in the PRC, in which the Company indirectly holds a 30.25% interest |
| "Over-allotment Option" | the option granted by the Company to Tai Fook Securities to require the Company to allot and issue up to an aggregate of 9,500,000 New Shares, representing 10% of the number of the Placing Shares initially being offered under the Placing, at the Issue Price |
| "Over-allotment Shares" | up to an aggregate of 9,500,000 New Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option |
| "Placing" or "Placement" | the conditional placing of the Placing Shares as further described in the section headed "Structure of the Placing" of this prospectus |
| "Placing Shares" or "New Shares" | the 95,000,000 new Shares being conditionally placed by the Underwriters under the Placing together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option |
| "PRC" | the People's Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| "PRC GAAP" | the PRC Generally Accepted Accounting Principles |
| "Pre-Listing Share Option Plan" | the pre-listing share option plan, the principal terms of which are summarised in the paragraph headed "Share Options – Summary of the terms of the Pre-Listing Share Option Plan" in Appendix V to this prospectus |
| "Qualifying Shareholders" | holders of Sinolink Shares whose names appear on the register of members of Sinolink at the close of business on the Record Date |

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| "Record Date" | 12th April, 2001, being the record date for ascertaining the shareholders of Sinolink who are entitled to the Distribution |
| "Relevant Securities" | has the meaning ascribed thereto in Rule 13.15 of the GEM Listing Rules |
| "Reorganisation" | the reorganisation of the companies now comprising the Group, details of which are set out in the paragraph headed "Corporate Reorganisation" in Appendix V to this prospectus |
| "SDI Ordinance" | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| "Second Relevant Lock-up Period" | the period of 6 months from the expiry of the First Relevant Lock-up Period |
| "Securities Ordinance" | Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| "SFC" | Securities and Futures Commission of Hong Kong |
| "Share(s)" | share(s) of $0.10 each in the share capital of the Company |
| "Shareholders" | the shareholders of the Company |
| "Share Option Scheme" | the share option scheme conditionally adopted by the Group on 4th April, 2001 the principal terms of which are summarised in the paragraph headed "Share Options – Summary of the terms of the Share Option Scheme" in Appendix V to this prospectus |
| "Share Option Schemes" | the Pre-Listing Share Option Plan and the Share Option Scheme |
| "Singkong Investments Limited" | an indirect wholly-owned subsidiary of China PANVA, a company incorporated in Hong Kong with limited liability |
| "Sinolink" | Sinolink Worldwide Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board |
| "Sinolink Group" | Sinolink and its subsidiaries, other than the Group |
| "Sinolink Shares" | share(s) of $0.10 each in the share capital of Sinolink |

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| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiaries" | as defined under section 2 of the Companies Ordinance |
| "Supreme" | Supreme All Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Sinolink |
| "Tai Fook Capital" or "Sponsor" | Tai Fook Capital Limited, an investment adviser registered under the Securities Ordinance and a GEM approved sponsor |
| "Tai Fook Securities" | Tai Fook Securities Company Limited, a dealer registered under the Securities Ordinance |
| "Underwriters" | Tai Fook Securities, CU Securities Limited, Luen Fat Securities Company Limited, Peace Town Securities Limited and Young Champion Securities Limited |
| "Underwriting Agreement" | the placing and underwriting agreement dated 9th April, 2001 entered into between the Company, the Initial Management Shareholders, the executive Directors, the Sponsor and the Underwriters relating to the Placing, brief particulars of which are summarised in the section headed "Underwriting" of this prospectus |
| "Wuhu Jiangbei PANVA" | Wuhu Pan River Jiangbei Enterprises Co., Ltd.(Note 1) (蕪湖百江江北能源有限公司), a PRC domestic limited company established in the PRC, in which the Company indirectly holds a 28.05% interest |
| "Wuhu PANVA" | Pan River Enterprises (Wuhu) Co., Ltd.(Note 1) (蕪湖百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 55% interest |
| "Wuhu Sanpeng PANVA" | Wuhu Pan River Sanpeng LPG Co., Ltd.(Note 1) (蕪湖百江三朋液化氣有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 30.25% interest |
| "Xiangtan PANVA" | Xiangtan Pan River Energy Industry Co., Ltd.(Note 1) (湘潭百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 55% interest |

*Note 1:* *The English name of this company is only an English translation of the corresponding official Chinese name.*

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| "Yangzi PANVA" | Yangzi Petrochemical Baijiang Energy Resources Co., Ltd.(Note 1) (揚子石化百江能源有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 50% interest |
| "Yiyang PANVA" | Yiyang Pan River Enterprises Co., Ltd.(Note 1) (益陽百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 60% interest |
| "Yongzhou PANVA" | Yongzhou Pan River Enterprises Co., Ltd.(Note 1) (永州百江能源實業有限公司), a sino-foreign equity joint venture company established in the PRC, in which the Company indirectly holds a 60% interest |
| "$" or "cents" | Hong Kong dollars and cents, the lawful currency of Hong Kong |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "$m^3$" | cubic metres |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "%" | per cent. |

*Note 1: The English name of this company is only an English translation of the corresponding official Chinese name.*

# GLOSSARY OF TERMS

## TECHNICAL TERMS

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| "butane" | a hydrocarbon gas that is found in natural gas or refined from crude oil. It has a boiling point of minus 32 degrees Fahrenheit and is used for heating and industrial applications |
| "liquefied gases" | gases that have been or can be changed into liquid form. These include butane, butylene, ethane, ethlene, propane and propylene |
| "LNG" | liquefied natural gas |
| "LPG" | liquefied petroleum gas. A generic name for propane and butane or their mixture which is in liquid form under moderate pressure. Propane and butane are hydrocarbons created as a by-product of oil refining or from natural gas production. LPG is commonly used as a fuel for air and water heating in rural homes, as a fuel for cooking, barbecues and recreational vehicles, and as a transportation fuel |
| "mixed gas" | a mixture of LPG and air |
| "natural gas" | a hydrocarbon gas found in the earth which is composed of methane, ethane, butane, propane and other gases |
| "piped gas" | LPG or mixed gas delivered or transmitted via pipes |
| "propane" | a hydrocarbon gas that is found in natural gas or refined from crude oil. It has a boiling point of minus 43.7 degrees Fahrenheit and is used for heating and industrial applications |

*Potential investors should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.*

## RISKS RELATING TO THE GROUP

### History of losses since incorporation, net liabilities and financial support from Sinolink

The Group started to engage in the LPG business since 1998. The Group has incurred net losses of approximately $2.3 million and $9.7 million respectively for the two years ended 31st December, 1999. The Group's past operating results have been, and its future operating results will be, subject to the following factors:

- changes in the consumers' acceptance of LPG as a source of energy;
- intensity of competition;
- the implementation of business strategies;
- technological innovation; and
- the Group's ability to maintain a competitive advantage.

Despite making an operating profit for the year ended 31st December, 2000 of approximately $0.8 million, the Group recorded net liabilities of approximately $11.9 million as at 31st December, 2000. Since the acquisition of the Group by the Sinolink Group, the Group's operations were mainly financed by equity funding and loans from the Sinolink Group. Prior to the Reorganisation, loans due from the Group to the Sinolink Group which were unsecured, interest free and had no fixed term of repayment, amounted to an aggregate of approximately $164.1 million immediately prior to the Reorganisation. Nevertheless, the financial information as set out in the accountants' report in Appendix I to this prospectus has been prepared on a going concern basis, which the Directors believe to be appropriate based on the fact that part of the loan from the Sinolink Group amounting to approximately $64.1 million has been capitalised subsequently pursuant to the Reorganisation.

Furthermore, the remaining balance of $100 million was converted into the Convertible Note on 4th April, 2001 which is due on 1st April, 2004, the principal terms of which are set out in Appendix III to this prospectus.

The Directors believe that it is possible for the Group's operating profit to decrease in the foreseeable future and there is no assurance that the Group will continue to make profit in the future. Should the Group fail to generate sufficient revenue and cash resources to meet its obligations under the Convertible Note, such obligation and/or its operations will have to be funded by all or part of the unused portion of the proceeds from the Placing and/or other financing activities. In the event that the Group is unable to utilise its internal resources or obtain additional financing to meet its obligation under the Convertible Note or to fund its operations in pursuit of its business plan, the existing operations, performance and prospects of the Group as well as its ability to implement its business plan will be adversely affected.

### Regional expansion

The Group plans to expand its LPG business coverage to other regions in the PRC in which the Group has limited experience and knowledge in conducting business in these regions.

The expansion plans in the domestic market may shift the Group's business focus in terms of activity and geographical segments and may reduce flexibility on management and human resources. There is no assurance that the Group will be able to gain competitive advantage and its market share in these regions.

**Licences and certificates**

The Group's business operations require licences and certificates from various authorities in the PRC such as those referred to in the sub-section headed "Licences and certificates" in the section headed "Business" in this prospectus. As at the Latest Practicable Date, each operating subsidiary of the Company has obtained the relevant material licences and certificates for its operation.

There is no assurance that the relevant members of the Group will be able to renew the existing licences and certificates for existing and future operations upon the expiration of such licences and certificates or that new members of the Group will be able to obtain the relevant licences or certificates. The Group's business and prospects will be adversely affected if such licences and certificates could not be renewed or obtained as may be necessary.

**Industry-related accidents**

Due to the nature of its business, the Group often has to deal with highly flammable and explosive materials. The risk that industry-related accidents will happen is likely to be high. The Group has implemented many strict safety precautions and measures for the business processes and thorough and detailed maintenance procedures for its business facilities. However, there is no assurance that these accidents will not occur during future operations.

**Dependence on LPG suppliers**

The main product purchased by the Group for its operations is LPG. The Group currently purchases LPG mainly from various national petroleum enterprises and LPG importers in the PRC under purchase agreements. Apart from two LPG purchase agreements for fixed terms, further details of which are set out in the subsection headed "Purchases and Supplies" in the section headed "Business", all other purchases are made on a transaction by transaction basis. The terms of the fixed term purchase agreements may not be renewed upon expiry or be renewed on terms acceptable to the Group. There is no assurance that the Group will be able to purchase LPG from its suppliers on terms acceptable to the Group in the future and there is also no assurance that there will not be any random hazards affecting the volume of LPG supplied to the Group.

If the required LPG cannot be purchased as scheduled or on terms acceptable to the Group, the operations and profitability of the Group could be adversely affected.

**Ownership and/or the right to use the properties on or adjacent to which LPG storage stations, LPG pipelines, tank train unloading depots, LPG vessel unloading platform, and retail outlets are situated**

**Described below are the Group's properties in respect of which possible losses, claims, expenses or liabilities may arise as a result of their respective defects in the Group's ownership of or rights to use the said properties. These possible losses, claims, expenses or liabilities could adversely and materially affect the financial position and operating results of the Group.**

*(i) LPG storage stations*

Of the 18 LPG storage stations maintained by the Group, 7 occupy land owned by the Group, 7 occupy land leased from other parties (5 from independent third parties and 2 from the PRC joint venture partner of the relevant subsidiaries of the Company), 3 occupy land provided by the PRC joint venture partner of Nanjing PANVA for the Group's use without any lease payment and 1 is located on the government allocated land of Yangzi PANVA.

Amongst the 7 LPG storage stations occupying land owned by the Group, 3 comprise buildings in respect of which no building ownership certificates have been issued. Such buildings had a net book value of approximately $3.5 million as at 31st December, 2000. The turnover of the relevant operating subsidiaries which occupy these buildings accounted for approximately 8.96%, 13.73% and 6.17% of the Group's total turnover for the three years ended 31st December, 2000 respectively. As the Group is not able to demonstrate that it has good title to those buildings, no commercial value has been ascribed to those buildings in the property valuation of the relevant properties. Furthermore, the Directors do not intend to incur time and resources to obtain those outstanding building ownership certificates because (i) the Group does not intend to resell the relevant buildings; (ii) the Directors believe that there will not be any significant negative impact on the Group's operation if such buildings were to be demolished; and (iii) such buildings do not constitute a material part of the Group's assets.

The turnover of the relevant operating subsidiaries which operate the 7 LPG storage stations occupying land leased by the Group accounted for approximately 2.31%, 12.35% and 8.27% of the total turnover of the Group for the three years ended 31st December, 2000 respectively, and the aggregate net book value of the buildings and plant and machinery situated on such leased land amounted to approximately $11.2 million as at 31st December, 2000. The landlords named in the relevant land lease agreements in respect of these 7 LPG storage stations may or may not have the right to let the land in subject to the Group.

As confirmed by the Company's PRC legal adviser, the 3 LPG storage stations occupying land provided by the PRC joint venture partner of Nanjing PANVA for the Group's use without any lease payment and the 1 located on the government allocated land of Yangzi PANVA do not constitute an interest in land of the Group, and therefore are not included in the valuation report in Appendix II to this prospectus. The net book value of the buildings and plant and machinery situated on the land where the 4 LPG storage stations at Nanjing PANVA and Yangzi PANVA are located amounted to approximately $56.2 million as at 31st December, 2000 representing approximately 35% of the Group's total fixed assets as of the same date.

The Group is presently in negotiation with the PRC joint venture partner in respect of Nanjing PANVA to rent the relevant land for its 3 LPG storage stations. The turnover of Nanjing PANVA for the year ended 31st December, 2000 accounted for approximately 3.06% of the Group's total turnover. The Group is also currently in discussions with the land authorities in the PRC for the purchase of the government allocated land currently occupied by the Yangzi PANVA LPG storage station. Yangzi PANVA was incorporated in September 1999 and its turnover accounted for approximately 9.15% and 50.78% of the total turnover of the Group for the two years ended 31st December, 2000 respectively.

*(ii) LPG pipelines, tank train unloading depots and LPG vessel unloading platform*

The Group does not own the land occupied by the pipelines connecting a LPG supplier of the Group to one of the Group's operating subsidiaries nor does it own the land occupied by those pipelines for the provision of piped gas to the housing estates. The Group also does not own the land on which 3 self-owned tank train unloading depots are situated nor does it own the land next to the LPG vessel unloading platform for facilitating the unloading of LPG supplies from these tank train unloading depots and the LPG vessel unloading platform to the tank trucks. In addition, the Group operates 1 tank train unloading depot under a leasing arrangement which is subject to the relevant authority's approval. No valuation has been carried out on the land appertaining to any such pipelines and the land on which the 4 tank train unloading depots are situated and that next to the LPG vessel unloading platform. The net book value of the aforesaid pipelines, the tank train unloading depots and the LPG vessel unloading platform amounted to approximately $8.8 million, $3.5 million and $1.9 million respectively as at 31st December, 2000 and form part of the plant and machinery of the Group.

*(iii) retail outlets*

Of the 156 retail outlets through which the Group distributes LPG, 31 in Nanjing city are owned or leased by the respective PRC joint venture partner, 1 is owned by the Group which is operated as part of the LPG storage station listed as the property numbered 8 in the valuation report of which the Group leases the land from the respective PRC joint venture partner, 111 have written tenancy agreements with independent third parties and 13 are rented from the PRC joint venture partners of the relevant operating subsidiaries of the Group. The landlord of some or all of the premises leased as retail outlets by the Group may or may not have the right to lease such premises to the Group. The Directors believe that the relocation cost and disruptions to the Group's operations would be minimal in the event that any individual retail outlet needs to be relocated.

However, if the Group is required within a short period of time to seek alternative premises for its LPG storage stations which occupy land not owned by it or for all or a substantial number of its retail outlets, or to dismantle its LPG pipelines, or to relocate any of the tank train unloading depots or LPG vessel unloading platform or to dismantle or vacate any of the buildings owned by it but in respect of which no building ownership certificates have been issued, this could cause material disruption to the Group's business and involve significant costs of relocation or (as the case may be) demolition and could adversely and materially affect the financial position and the operating results of the Group. Furthermore, the terms of the lease agreements with respect to the retail outlets may not be renewed upon expiry or be renewed on terms acceptable to the Group and rental expenses with respect to the retail outlets may increase in the future. All of these possible events could adversely and materially affect the financial position and operating results of the Group.

**Risk regarding operating subsidiaries**

The Group currently conducts its business operations through 13 operating subsidiaries established in the PRC. There is also a possibility that the PRC partners of these operating subsidiaries may:

- take actions which are contrary to the instructions or requests of the Group or contrary to the Group's policies or objectives;

- have economic or business interests or goals which are inconsistent with that of the Group's;
- be unable or unwilling to fulfil their obligations under the relevant joint venture or shareholder's agreements; and
- have financial difficulties.

Although the Group has control over the management of these operating subsidiaries, certain important board resolutions may require unanimous votes from all of the directors attending the board meeting. Such board resolutions include resolutions for approving amendments of the articles, termination of the joint venture or (as the case may be) winding up of the company, increase in registered share capital, transfer of equity interests and so on.

There is no assurance that the above situations will not arise in the future. If they do arise, they may have an adverse effect on the business operations of the Group.

**Price control**

In the regions where the Group operates its LPG business, the maximum selling prices of LPG are subject to the price ceilings ("Approved Price Ceilings") set by the respective local commodity price bureaus. Penalties are imposed on those entities which sell or distribute LPG above the Approved Price Ceilings. During the three years ended 31st December, 2000, the Group had not exceeded the Approved Price Ceilings in selling LPG. There is no assurance that the Approved Price Ceilings will always be adjusted by the relevant commodity price bureaus to match any cost increment of LPG. Should the purchase price of LPG increase and should the Group be unable to raise the selling price of LPG accordingly and in a timely manner, the profitability of the Group will be adversely affected.

## RISKS RELATING TO GEM

**The Growth Enterprise Market**

GEM has been established as the securities trading market to accommodate companies that have a high investment risk in their business nature. GEM has no solid requirement on minimum profit achievements and no obligation to forecast its future profitability. There exist risks that are attached to the emerging nature of the economies and the business sectors in which these companies operate. The potential risks can be tremendous to prospective investors who wish to participate in securities being traded on GEM and should make due and careful consideration before making an investment decision. GEM has a greater risk profile in comparison to the Main Board and high risk is usually accompanied by high growth and great returns. It is genuinely believed that GEM is a market more suited to professional and other sophisticated investors.

GEM requires a minimum percentage of any class of listed equity securities of a company to be held by the public of 20% and is lower than the corresponding provision applicable on the Main Board. Accordingly, securities traded on GEM may experience greater market volatility than securities traded on the Main Board and prospective investors should be aware that no assurance is given that there will be a liquid market in the securities traded on GEM.

## RISKS RELATING TO THE INDUSTRY

### Market volatility

Prices of LPG sourced by the Group are sensitive to changes in a number of factors:

- industry capacity and output levels of crude oil (for the refining process of which LPG is a by-product) and LPG both domestically and globally;
- cyclical changes in regional and global economic conditions;
- price and availability of substitute products; and
- changes in consumer responsiveness and consumer demand.

These factors have a significant impact on LPG prices in the local, regional and global markets.

Historically, the markets for these products have experienced alternating periods of tight supply, causing prices to increase, followed by periods of capacity additions, possibly resulting in oversupply and declining prices and margins. As tariffs and other import restrictions are reduced and the control of product allocation and pricing is relaxed in the PRC, the domestic markets for many of their products have become increasingly subject to the cyclicality of regional and global markets. Historically, international prices of crude oil, LPG and refined products have fluctuated widely due to many other factors that are beyond the control of the Group. Between 1994 and 1999, the markets for many of these principal products experienced substantial price fluctuations.

There is no assurance that the purchase price of LPG by the Group will remain stable in the future. In the event that substantial fluctuations take place or if the price rises to the extent that the cost of the Group's operation is substantially higher than the income which the Group generates as a result of the price ceiling imposed by the PRC government authorities, the Group's profitability may be adversely affected.

### Substitutes

Coal, natural gas and electricity are substitutes to LPG as a source of energy. Consumers' preference depends on a variety of factors including cost, convenience, safety and environmental concerns of acquiring and consuming the energy source.

There is no assurance that the demand for LPG in the PRC for domestic, industrial and commercial usage will not change in the future. There is also no assurance that the Group will adopt competitive pricing strategies in the future.

### Competition

The Directors consider that despite the required licences and certificates from relevant authorities, barriers to entry in the LPG retail business are low and potential competitors can arise at any time of the business cycle. There is no assurance that the Group's competitive advantage will be maintained over the course of its business. There is also no assurance that future competitors will not have a competitive advantage over the Group as a result of superior products, services or more competitive pricing.

**Statistics**

Statistical figures and facts in this prospectus are derived from available publications. The Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources. Therefore the Group makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

There is no assurance that statistical figures and facts in this prospectus are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

## RISKS RELATING TO THE GROUP'S STRATEGIES AND FUTURE OPERATIONS

**The Group may not be able to implement its strategies successfully for future growth**

The Group has a limited operating history in LPG distribution business. The value of the Placing Shares in the future will depend on the Group's success in implementing its long-term strategies and there is no assurance that such strategies or their implementation will be successful.

In addition, in order to finance the implementation of such strategies (which include significant expansion of the LPG retail operation of the Group in the PRC and at a later stage, the expansion of its piped gas business which may involve considerable start-up costs and requires both co-operation from property developers as well as a number of approvals from government authorities) or in the event that operating losses are greater than that anticipated, the Group may seek additional funding by issuing new Shares or by way of bank borrowings. However, there is no assurance that such additional financing will be available on terms favourable to the Group. Such unavailability could have a material adverse effect on the Group's business, operating results and financial position.

**High piped gas start-up cost**

The Group intends to develop the provision of piped gas business in the future and will accordingly continue to invest in new gas stations and incur considerable start-up costs for each new gas station. The Directors believe that there is no assurance that the number of the Group's piped gas customers will grow as expected in the future and there is no assurance that the growth rate of the Group's piped gas customers will increase in accordance with the Group's expectations to justify incurring high piped gas start-up costs for new gas stations.

## RISK RELATING TO PRC'S OIL AND GAS INDUSTRY

PRC government regulations may limit the Group's activities and adversely affect its business operations.

The operations of the Group, like those of other PRC oil and gas companies, are subject to extensive regulations of the PRC government. Central governmental authorities, such as the State Development Planning Commission, the State Economic and Trade Commission, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Foreign Trade and

Economic Co-operation and the State Bureau of Taxation and the local price bureaus, exercise extensive control over various aspects of the PRC's oil and gas industry. These controls affect the following material aspects of the operations of the Company:

- pricing mechanisms of the Group's main products;
- industry-specific taxes and fees;
- capital investments; and
- environmental and safety standards.

As a result, the Group may face significant constraints on its ability to implement its business strategies, to develop or expand its business operations or to maximise its profitability. Its business may also be adversely affected by future changes in certain policies of the PRC government in respect of the oil and gas industry.

## RISKS RELATING TO THE SHARES OF THE COMPANY

### An active trading market for the Shares may not be developed and their market price may be subject to volatility

An active trading market for the Shares may not be developed and the trading price of the Shares may fluctuate significantly. Prior to the listing of the Shares on GEM, there has been no public market for any of the Shares. The Issue Price for the Placing Shares is determined by negotiations between the Company and the Underwriters. This price may not be indicative of the price at which the Shares will trade following the listing of the Shares on GEM. In addition, there can be no assurance that an active trading market for the Shares will develop following the listing of the Shares on GEM, or, if it does develop, that it will be sustained, or that the market price of the Shares will not decline below the Issue Price.

The trading price of the Shares could also be subject to significant volatility in response to the following factors:

- investors' perceptions of the Group and the Group's plans for its LPG business;
- developments in the gas fuel industry, in particular the LPG retail business in the PRC;
- variations in operating results of the Group and the Sinolink Group;
- announcement of new services;
- technological innovations;
- changes in pricing mechanisms made by the Group, its competitors or providers of substitutes or alternative services;
- changes in share prices of other companies in the energy sector;

- the depth and liquidity of the market for the Shares and the development of GEM as a stock market; and
- general economic, political and other factors.

**The shareholders' equity interests in the Company may be diluted in the future**

The Company may need to raise additional funds in the future to finance, among other things, expansion of, or new developments relating to, its existing operations or new expansions and acquisitions. The Company may also enter into equity swaps relating to acquisitions or strategic alliances. If such additional funds are raised or such acquisitions are made, through the issue of new equity or equity-linked securities of the Company, other than on a pro-rata basis to existing Shareholders, the percentage ownership of the existing Shareholders in the Company may be reduced and/or such securities may have rights, preferences and privileges over those attaching to the Shares.

Existing Shareholders may also experience dilution on equity interests in the Company in the event that the Convertible Note which was issued to Supreme in consideration for the Company's acquisition of a loan due from China PANVA to Sinolink is converted into Shares of the Company. Following the Placing and Capitalisation Issue and the Distribution and assuming the Over-allotment Option is not exercised, the Convertible Note confers rights on the holders to convert such note into approximately 140,350,877 Conversion Shares based on an Issue Price of $0.57, which will represent approximately 21.9% of the issued share capital of the Company as enlarged by the Conversion Shares (excluding any Shares that may be issued upon the exercise of the Over-allotment Option or options conditionally granted under the Share Option Schemes and the issue or repurchase of Shares under mandates granted or otherwise). The principal terms of the Convertible Note are set out in Appendix III to this prospectus.

However, according to Rule 17.29 of the GEM Listing Rules, no further Shares or convertible securities of the Company (whether or not of a class already listed) may be issued or form the subject to any agreement to issue within the first 6 months of the date on which securities of the Company first commence dealing on GEM, save in respect of any capitalisation issue or any consolidation, subdivision or capital reduction of Shares.

## RISK RELATING TO THE PRC

All of the Group's businesses are conducted in the PRC and therefore the Group's profitability, financial position and prospects may be affected by economic, political and legal developments in the PRC.

**Political issues and economic issues**

The PRC government's policies in relation to the economy, such as currency conversion, taxation, import restrictions and the trading of imported goods, may have an impact on the overall economy and companies engaging in related industries.

Many of the policies are subject to amendments in the future. The amendment process may not have a favourable effect on the Group's operations. Changes in the policies may include changes in laws and regulations, the introduction of measures to control inflation, changes in the rate or method of taxation and the tightening of bank's credit rates. In case of occurrence of any of such events, there is no assurance that the Group's business will not be adversely affected.

**Currency conversion and exchange rate risks**

All the operating revenues of the Group are denominated in RMB. Based on the present business plans of the Group, the Company's income will primarily be derived from dividend payment and any other distributions by its operating subsidiaries in the PRC. As part of PRC currency reforms, with effect from 1st January, 1994, the PRC government abolished its two-tier exchange rate system and replaced it with a unified system which is subject to market demand and supply. Under the new system, the People's Bank of China quotes a daily exchange rate for RMB to US dollars based on the previous day's dealings in the inter-bank foreign exchange market. Despite such development, the RMB is still not freely convertible. However, pursuant to the Regulations on the Administration of Foreign Exchange Settlement, foreign exchange required for the payment of dividends that are payable by the Company's operating subsidiaries may be purchased from designated foreign exchange banks upon presentation of board resolutions authorising the distribution of profits or dividends of the company concerned. In view of the current restrictions on currency conversions, there is nonetheless a possibility that the Company's operating subsidiaries in the PRC will be unable to obtain adequate foreign exchange to satisfy its dividend payments requirements.

As the exchange rate is based largely on market forces, the exchange rates for the RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors and there can be no assurance that RMB will not be subject to devaluation. Should RMB be devalued, the value of the profitability of the Company's business in term of Hong Kong dollars will be adversely affected.

**Legal framework**

In the PRC, the LPG industry is subject to the administration of relevant government authorities responsible for urban construction, labour and public security in relation to the production, storage, distribution, operation and utilisation of LPG, the design and construction of LPG projects, and the production of domestic gas appliances.

Enterprises that are engaged in the LPG business in the PRC must satisfy certain licensing requirements prescribed by the central and/or local governments.

There is no assurance that this regulatory environment will remain static. There may be changes in the future in respect of the rules and regulations governing various aspects of the LPG industry which will affect the operation and profitability of the Group's business accordingly.

## WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

In preparation for the listing of the Shares on the GEM, the Company has made a waiver application to the Stock Exchange in relation to the requirements set out in Rule 13.16 of the GEM Listing Rules. Details of such waiver are described below.

## LOCK-UP PERIOD WAIVER

### Initial Management Shareholder moratorium

Under Rule 13.16 of the GEM Listing Rules, a new applicant shall procure that every initial management shareholder (as defined in the GEM Listing Rules) who, immediately prior to the listing date is entitled to exercise or control the exercise of 5% or more of the voting rights at general meetings of the issuer should:

1. place in escrow, with an escrow agent acceptable to the Stock Exchange, his/her relevant securities for a period of 2 years (the "Lock-up Period") from the listing date, on terms acceptable to the Stock Exchange; and

2. undertake to the new applicant and the Stock Exchange that, during the Lock-up Period he/she will not, save as provided in Rule 13.17, dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her direct or indirect interests in relevant securities.

After completion of the Reorganisation, the Placing, the Capitalisation Issue and the Distribution and immediately prior to the listing of the Shares on GEM but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or the exercise of the conversion rights attached to the Convertible Note, the following persons will be regarded as Initial Management Shareholders of the Company:

| **Name** | **Number of Shares** | **Approximate percentage of shareholding (%)** |
|---|---|---|
| Kenson *(Note 1)* | 389,800,000 | 77.96 |
| Sinolink *(Note 2)* | 389,800,000 | 77.96 |
| Mr. Ou via Asia Pacific Promotion *(Note 3)* | 10,066,960 | 2.01 |

*Note 1:* Kenson is a company incorporated in the British Virgin Islands whose principal business is investment holding. Kenson is wholly-owned by Sinolink. Mr. Ou is the sole director of Kenson.

*Note 2:* Sinolink is a company incorporated in Bermuda, the shares of which are listed on the Main Board of the Stock Exchange. The directors of Sinolink as at the Latest Practicable Date are Chen Wei, Cheung Wing Yui, Law Sze Lai, Liang Xiaoting, Mr. Ou and Tsang Yu Chor. As at the Latest Practicable Date, Mr. Ou, through Asia Pacific Promotion, was interested in approximately 66.23% of the issued share capital of Sinolink.

*Note 3:* Asia Pacific Promotion is a company incorporated in the British Virgin Islands whose principal business is investment holding. Mr. Ou is the sole director and shareholder of Asia Pacific Promotion.

**Waiver I – moratorium period**

A waiver application has been made to the Stock Exchange to exempt each of the Initial Management Shareholders from strict compliance with the moratorium requirements under Rule 13.16 of the GEM Listing Rules and to accept an undertaking from each Initial Management Shareholder to the Company and the Stock Exchange that it/he will (a) not dispose of (or enter into any arrangement to dispose of) nor permit the registered holder to dispose of its or his direct or indirect interest in the Relevant Securities during the First Relevant Lock-Up Period instead of two years from the Listing Date and (b) to place its/his Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange during the First Relevant Lock-Up Period and the appropriate number of its/his Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange during the Second Relevant Lock-Up Period instead of two years from the Listing Date, but allowing the Initial Management Shareholders to withdraw from escrow and dispose of (or enter into any arrangement to dispose of) any of their respective direct or indirect interests in the Relevant Securities during the Second Relevant Lock-Up Period provided that such withdrawal shall not result in their ceasing to have control over 35% of the voting rights at general meetings of the Company.

The Stock Exchange has granted a waiver to the effect that the moratorium period prescribed in Rule 13.16 of the GEM Listing Rules applicable to the Initial Management Shareholders is reduced from two years to six months from the Listing Date provided that during the First Relevant Lock-up Period, the Initial Management Shareholders must not, save as provided in the GEM Listing Rules, dispose of (or enter into any arrangement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its/his respective direct or indirect interests in the Relevant Securities and during the Second Relevant Lock-Up Period must not dispose of (or enter into any arrangement to dispose of) nor permit the registered holder to dispose of (or enter into any arrangement to dispose of) any Relevant Securities if such disposal would result in their ceasing to have control over 35% of the voting rights at general meetings of the Company.

Further, Kenson has undertaken with the Company, the Sponsor, the Underwriters and the Stock Exchange that it will not dispose of its interest in the Company during the First Relevant Lock-up Period and will not during the Second Relevant Lock-up Period dispose of (or enter into agreement to dispose of) its interest in the Relevant Securities if immediately afterward it will be beneficially interested in less than 35% of the issued share capital of the Company from time to time.

The list of Initial Management Shareholders whose Shares will be subject to lock-up is set out in the paragraph headed "Restrictions on disposal of Shares" under the section headed "Summary" of this prospectus.

**Waiver II – stock borrowing arrangement**

Kenson will enter into a stock borrowing arrangement pursuant to which Kenson will agree upon the request of Tai Fook Securities to lend up to 9,500,000 Shares held by it to Tai Fook Securities. The stock borrowing arrangement to be entered into between Kenson and Tai Fook Securities is to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market. The stock borrowing arrangement would result in non-compliance with Rule 13.16 of the GEM Listing Rules.

The granting of Over-allotment Option together with the accompanying stock borrowing arrangement is adopted by, and/or at the request of the Company to facilitate the distribution of the Shares by the Underwriters under the Placing. A waiver application has been made on the basis that (a) such borrowing arrangement will only be effected by Tai Fook Securities for settlement of over-allocations in connection with the Placing; (b) the maximum number of Shares which may be borrowed from Kenson will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; (c) the same number of Shares will be returned to Kenson no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised and (ii) the day on which the Over-allotment Option is exercised in full; and (d) the returned Shares will be placed in escrow as soon as practicable with an escrow agent acceptable to the Stock Exchange.

## COMPANIES ORDINANCE EXEMPTION

The Company has also sought an exemption from the SFC in relation to certain requirements under the Companies Ordinance. Details of such exemption are described below.

### Disclosure requirement of the Property Valuation Report

According to paragraph 34(2) of the Third Schedule to the Companies Ordinance, the Company is required to set out in the prospectus the valuation report with respect to all the listed issuer's interests in land or buildings including (a) the address; (b) a brief description; (c) the use at the date of the report; (d) the nature of the tenure; (e) a summary of the terms of any sub-leases or tenancies, including repair obligations, granted by the company; (f) the approximate age of buildings; (g) the present capital value; (h) the estimated current net rental, being the estimated average net annual income from 3 years before taking into account tax and any interest or mortgage expenses but after taking into account management and maintenance expenses. As a total of 135 leased properties set out under group II to group VII in Appendix II to this prospectus have been determined by an independent qualified valuer to have no commercial value to the Company, the Company considers it unduly burdensome to reproduce in this prospectus the full valuation report in respect of these properties. The Company has therefore made an application to the SFC for an exemption from full compliance with paragraph 34(2) of the Third Schedule to the Companies Ordinance. In this connection, the SFC has granted an exemption in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance on the condition that:

1. a valuation report by an independent valuer setting out all the information required by paragraph 34(2) of the Third Schedule to the Companies Ordinance be made available for public inspection during the offer period in the manner as stated under the section headed "Documents available for inspection" in Appendix VI to this prospectus; and

2. a summary of all these leased properties be included in the prospectus (see Appendix II to this prospectus).

As a result of the granting of this exemption, the full valuation report in respect of these 135 leased properties would not be included in this prospectus.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this prospectus misleading; and

(c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

## FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing which is sponsored by Tai Fook Capital and jointly managed by Tai Fook Securities and CU Securities Limited and fully underwritten by the Underwriters. For full information about the Underwriters and the placing and underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

## THE PLACING

### Placing Shares To Be Offered In Hong Kong Only

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, Tai Fook Capital, the Underwriters, any of their respective directors or any other person involved in the Placing.

Each person acquiring Placing Shares will be required to, or deemed by its acquisition of Placing Shares to, confirm that it is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

### Over-allotment Option

In connection with the Placing, the Company has granted to Tai Fook Securities the Over-allotment Option which is exercisable at any time within 30 days from the date of this prospectus. Pursuant to the Over-allotment Option, the Company may be required to allot and issue the Over-allotment Shares, representing in aggregate 10% of the Placing Shares initially available under the Placing, to cover over-allocations, if any, to professional and institutional investors in the Placing. In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement will also be entered into between Tai Fook Securities and Kenson. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by the Initial Management Shareholders for the period of two years from the date of listing of the Shares on GEM, in order to allow Kenson to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" of this prospectus.

### Conditions of the Placing

Details of the conditions of the Placing are set out under the paragraph headed "Conditions of the Placing" in the section headed "Structure of the Placing" of this prospectus.

## APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, its existing Shares, the Placing Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares which are to be issued pursuant to the Capitalisation Issue, and any Shares which may fall to be issued pursuant to the exercise of options under the Share Option Schemes and the conversion of the Convertible Note on GEM.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, its Shares on any other stock exchange.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase or disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, Tai Fook Capital, the Underwriters, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase or disposal of or dealing in the Shares.

## REGISTRATION AND STAMP DUTY

All Shares in issue must be registered on the Company's branch register of members to be maintained in Hong Kong and traded on GEM. The Company's principal register of members will be maintained by Bank of Butterfield International (Cayman) Ltd. in the Cayman Islands.

Only Shares registered on the Company's Hong Kong branch register of members may be traded on GEM. Dealings in Shares registered on the branch register of members kept by the Company's Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

## STABILISATION

In connection with the Placing, Tai Fook Securities may over-allocate Shares and may cover such over-allocations by exercising the Over-allotment Option no later than 30 days after the date of this prospectus, by stock borrowing or by making open market purchases in the secondary market. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon exercise of the Over-allotment Option, being 9,500,000 Shares, representing in aggregate 10% of the Placing Shares initially available under the Placing. Tai Fook Securities may also effect transactions which stabilise or maintain the market price of the Shares. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such stabilisation, if begun, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done at the absolute discretion of Tai Fook Securities.

Stabilisation is a practice used by securities practitioners in some markets to facilitate the distribution of securities. To stabilise, the securities practitioners may bid for or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. The stabilisation price shall not exceed the Issue Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where securities practitioners genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In order to facilitate the settlement of over-allocation in connection with the Placing, Tai Fook Securities may either borrow Shares from Kenson under stock borrowing arrangements pending exercise of the Over-allotment Option, or acquire a sufficient number of Shares from other sources. Such stock borrowing arrangements may include arrangements agreed in principle among Tai Fook Securities and Kenson. Application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 to the GEM Listing Rules which restricts the disposal of shares by Kenson following the listing of Shares on GEM, in order to allow

Kenson to enter into such stock borrowing arrangements. Please refer to the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" of this prospectus for details of the waiver application. Kenson will not receive any payment or benefit in respect of such stock borrowing arrangements. Any stock borrowing arrangements will be conducted in accordance with all applicable legal and regulatory requirements.

## STRUCTURE OF THE PLACING

Details of the structure of the Placing, including conditions thereof, are set out in the section headed "Structure of the Placing" on pages 126 to 128 of this prospectus.

## THE DISTRIBUTION

As at the Latest Practicable Date, Asia Pacific Promotion owned approximately 66.23% of the issued share capital of Sinolink. The shareholders of Sinolink will receive an aggregate of 15,200,000 Shares by way of the Distribution by Sinolink, representing approximately 3.04% of the total issued share capital of the Company immediately after the Placing, the Capitalisation Issue and the Distribution. As such, Asia Pacific Promotion will receive up to approximately 2.01% of the issued share capital of the Company through the Distribution and Sinolink will, through Kenson hold approximately 77.96% of the issued share capital of the Company after the Placing, the Capitalisation Issue and the Distribution. The remaining shareholding of approximately 20.03% of the issued share capital of the Company immediately after the Placing, the Capitalisation Issue and the Distribution, which will be held by the public, will be distributed as follows: (i) 1.03% through the Distribution to the Qualifying Shareholders of Sinolink; and (ii) 19% through the Placing.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

## DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence on 20th April, 2001.

Shares will be traded in board lots of 4,000 Shares each.

The GEM stock code for the Shares is 8132.

Dealings in the Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on the Stock Exchange's teletext page information system.

Delivery and payment for Shares dealt on GEM will be effected two trading days following the transaction date ("T+2"). Settlement of transactions between participants of the Stock Exchange in respect of Shares deposited in CCASS is required to take place in CCASS on T+2.

If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

## EXCHANGE RATE CONVERSION

For the purposes of this prospectus, unless otherwise indicated, the following exchange rates have been used, where applicable, for the purpose of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged, at these or any other rates:

$7.74 = US$1.00
$100 = RMB107

| Name | Address | Nationality |
|---|---|---|
| *Executive Directors* | | |
| Mr. Ou Yaping | C3 Kellett View Town House<br>65-69 Mount Kellett Road<br>Hong Kong | Chinese |
| Mr. Chen Wei | No. 3, Beihedao<br>Yi Yuan, Ying Hu Road<br>Shenzhen<br>PRC | Chinese |
| Mr. Lai Wen Guang | Flat B, 23rd Floor<br>Hillier Building<br>275 Queen's Road Central<br>Hong Kong | Chinese |
| Mr. Lau Shi Wa | Flat 1412, Block R<br>14th Floor, Kornhill<br>Quarry Bay<br>Hong Kong | Chinese |
| Mr. Li Fujun | Flat B, 23rd Floor<br>Hillier Building<br>275 Queen's Road Central<br>Hong Kong | Chinese |
| *Non-executive Directors* | | |
| Mr. Yim Chun Leung | 11C<br>127 Robinson Road<br>Hong Kong | British |
| Mr. Zheng Dunxun | Flat H, 10th Floor, Block 23<br>South Horizons<br>Ap Lei Chau<br>Hong Kong | Chinese |

*Independent non-executive Directors*

| | | |
|---|---|---|
| Mr. Cheung Hon Kit | 26B Shouson Hill Road<br>Hong Kong | Chinese |
| Mr. Sun Hiu Lu | Flat B, 29th Floor<br>Tower 27<br>South Horizons<br>Ap Lei Chau<br>Hong Kong | Chinese |

**Sponsor**

Tai Fook Capital Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

**Joint Lead Managers**

Tai Fook Securities Company Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

CU Securities Limited
11th Floor Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

**Underwriters**

Tai Fook Securities Company Limited
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

CU Securities Limited
11th Floor, Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

Luen Fat Securities Company Limited
23rd Floor, Euro Trading Centre
21-23 Des Voeux Road Central
Hong Kong

Peace Town Securities Limited
2nd Floor, Aon China Building
29 Queen's Road Central
Hong Kong

| | |
|---|---|
| | Young Champion Securities Limited<br>Room 904<br>9th Floor, Shun Tak Centre West Tower<br>200 Connaught Road<br>Central, Hong Kong |
| **Legal advisers to the Company** | *As to Hong Kong Law*<br>Woo, Kwan, Lee & Lo<br>27th Floor, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |
| | *As to PRC Law*<br>Haiwen & Partners<br>Room 1016, Beijing Silver Tower<br>No. 2 Dong San Huan North Road<br>Chao Yang District<br>Beijing, 10027<br>PRC |
| | *As to Cayman Islands Law*<br>Maples and Calder Asia<br>1504 One International Finance Centre<br>1 Harbour View Street<br>Hong Kong |
| **Legal advisers to the Sponsor and Underwriters** | *As to Hong Kong Law*<br>Richards Butler<br>20th Floor, Alexandra House<br>16-20 Chater Road<br>Central<br>Hong Kong |
| **Auditors and reporting accountants** | Deloitte Touche Tohmatsu<br>*Certified Public Accountants*<br>26th Floor, Wing On Centre<br>111 Connaught Road Central<br>Central<br>Hong Kong |
| **Property valuer** | DTZ Debenham Tie Leung Limited<br>10th Floor, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |

# CORPORATE INFORMATION

| | |
|---|---|
| **Registered office** | Ugland House<br>P.O. Box 309<br>George Town<br>Grand Cayman<br>Cayman Islands<br>British West Indies |
| **Head office and principal place of business** | 25th Floor<br>Vicwood Plaza<br>199 Des Voeux Road Central<br>Central<br>Hong Kong |
| **Compliance officer** | Mr. Li Fujun |
| **Qualified accountant** | Mr. Yu Man To, Gerald, *CPA (Aust) AHKSA* |
| **Company secretary** | Mr. Yu Man To, Gerald, *CPA (Aust) AHKSA* |
| **Authorised representatives** | Mr. Ou Yaping<br>Mr. Li Fujun |
| **Audit committee** | Mr. Cheung Hon Kit<br>Mr. Sun Hiu Lu<br>Mr. Yim Chun Leung |
| **Principal share registrar and transfer office** | Bank of Butterfield International (Cayman) Ltd.<br>Butterfield House<br>Fort Street<br>P.O. Box 705<br>George Town<br>Grand Cayman<br>Cayman Islands |
| **Share registrar and transfer office** | Central Registration Hong Kong Limited<br>Rooms 1901-1905<br>19th Floor, Hopewell Centre<br>183 Queen’s Road East<br>Hong Kong |

# CORPORATE INFORMATION

| | |
|---|---|
| **Principal bankers** | Nanyang Commercial Bank, Ltd.<br>Hong Kong Branch |
| | Bank of China<br>Shenzhen Branch |
| | The Industrial & Commercial Bank of China<br>Hunan Branch |
| | Nanjing City Commercial Bank<br>Nanjing |

## INTERNATIONAL GAS FUEL AND LPG INDUSTRY

LPG is an important source of energy for industrial, commercial and civil use worldwide. The major LPG-producing regions of the world are countries in North America and countries in the Middle East. Being a clean and efficient source of energy, LPG is becoming more popular and more extensively used worldwide as evidenced by the world energy consumption structure. In 1999, world consumption of LPG accounted for approximately 191.2 million tonnes representing approximately 2.3% of the world total primary energy consumption, while coal and LNG accounted for approximately 24.9% and 24.2% respectively.

In the past 10 years, Asian countries have enjoyed rapid economic growth which stimulates the demand for LPG. From 1990 to 1999, the average annual growth rate in the consumption of LPG in Asia was approximately 6.7%. The annual growth rate in Asia from 1998 to 1999 was approximately 8.9% which was higher than those in any other regions over the same period. From 1998 to 1999, North America and Latin America experienced slower annual growth rate of approximately 3.2% and approximately 5% respectively.

Based on the current level of consumption, the average amount of LPG consumed in the PRC was approximately 10 kilograms per capita in 1999, which is significantly lower than that of certain major countries in North America and Latin America, which consumed on average approximately 42 kilograms per capita and 41 kilograms per capita respectively. The PRC national LPG consumption level lags behind Japan and some other Asian countries. In 1999, the amounts of LPG consumed per capita in Japan, South Korea and Malaysia were approximately 60 kilograms, 50 kilograms and 47 kilograms respectively which are far higher than that of the PRC's. In fact, in 1998, the PRC's consumption rate was merely half of the world average LPG consumption of approximately 15 kilograms per capita. For the PRC to catch up with the world average LPG consumption, the annual volume of LPG consumption will have to increase to approximately 22 million tonnes.

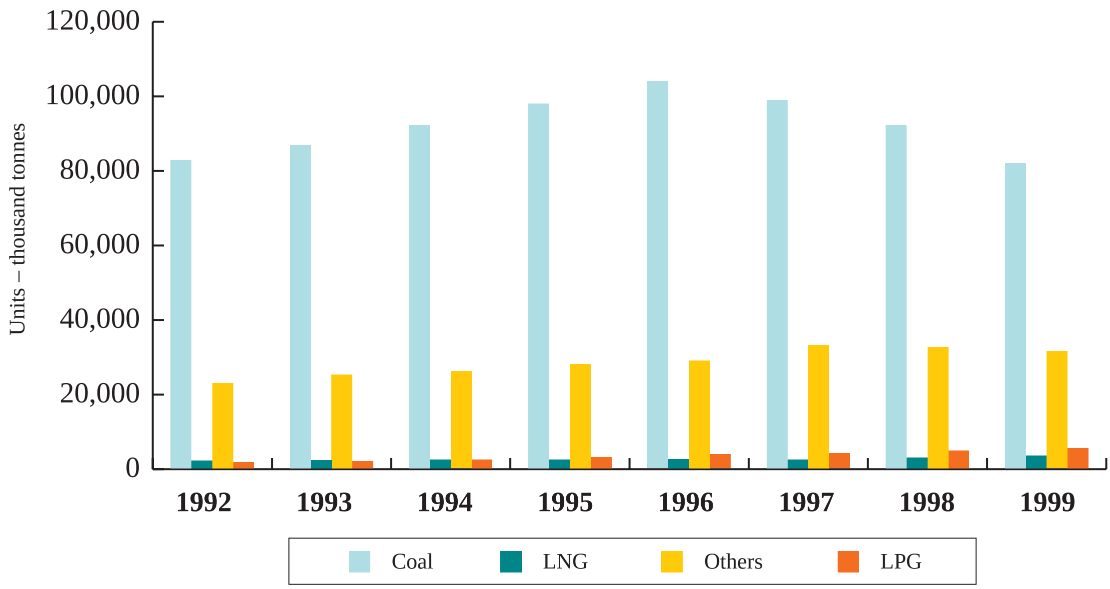
According to projections in 1999, total world consumption of LPG in the civil and commercial sectors is expected to grow to approximately 127 million tonnes by the year 2010. The consumption of LPG in the PRC has been projected to grow to approximately 25 million tonnes by the year 2005. On the production side, the global production of LPG has been projected to increase to approximately 232 million tonnes by the year 2005. The LPG production in the PRC is projected to grow to approximately 12.8 million tonnes in the year 2005. Given the PRC's market demand generally exceeded domestic supply, the shortfall of LPG is expected to be imported from other countries such as Middle East countries.

## ENERGY CONSUMPTION STRUCTURE IN THE PRC

During the past ten years from 1989 to 1999, the PRC economy has sustained an average annual GDP growth rate of approximately 8%, which is higher than any other economy in the world. The rapid growth of the PRC's economy has generated significant growth in the consumption of primary energy. The consumption of primary energy in the PRC in 1999, namely LPG and LNG, had increased at an annual growth rate of approximately 22% and 4.6% respectively, while the consumption of coal decreased significantly in 1999 by approximately 16.8%.

Coal has historically been the main source of energy in the PRC because its price is the lowest and its abundant domestic supply when compared with that of LNG and LPG. However, the extensive use of coal has led to serious pollution problems such as greenhouse effect and pollution of the atmosphere. Driven by environmental and efficiency concerns, coal, as a traditional fuel, has gradually been replaced by LNG and LPG. Despite the increase in energy demand as a consequence of economic growth, coal consumption has declined as a percentage of total energy consumption in the PRC from approximately 76.1% to 67.1% from 1992 to 1999. On the other hand, LNG and LPG consumption in the PRC has increased as a percentage of total primary energy consumption from approximately 2% to 2.8% and approximately 1.2% to 2.4% respectively over the same period.

The following chart sets forth the LPG, LNG and coal consumption in the PRC and the respective percentages of the total energy consumption during the period from 1992 to 1999.



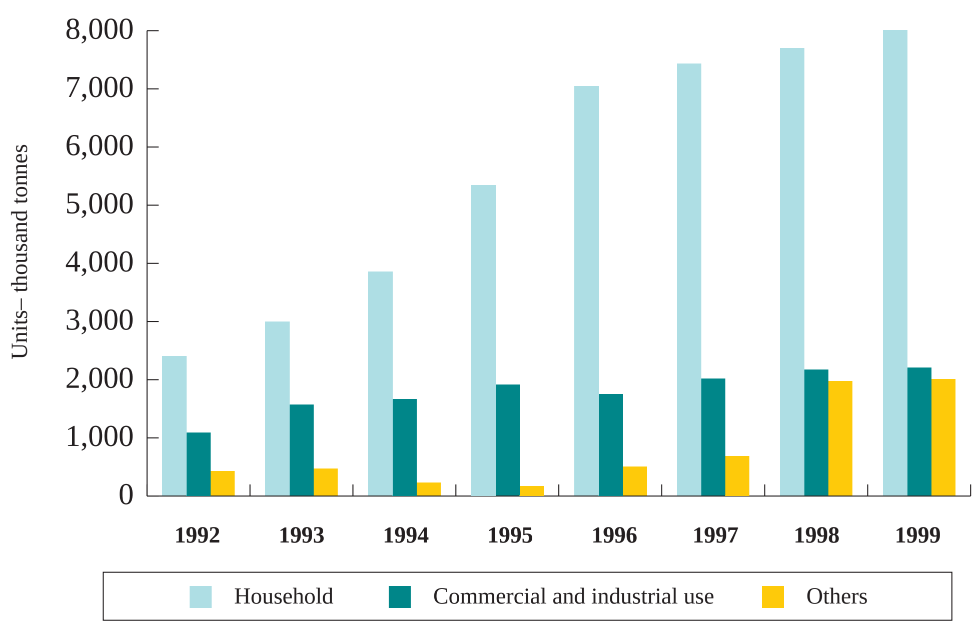

Sources: China Statistics Yearbook Summary 1999
China LPG Report – Guangdong LPG Association

## LPG CONSUMPTION, PRODUCTION AND SUPPLY IN THE PRC

As mentioned above, the PRC's rapid economic growth has led to a strong demand for LPG. With the aim of reducing environmental pollution and improving ecological environment, the PRC Government has been prompted to establish new policies for the energy industry. As LPG is considered to be a clean, highly efficient, convenient, safe, and high-quality energy, consumption of LPG has been encouraged by the PRC government. In the early 80's, consumption of LPG in the PRC was merely approximately 1.2 million tonnes. In 1990, consumption had increased to approximately 2.1 million tonnes, indicating that consumption had doubled within the ten-year period, representing an average annual growth rate of approximately 10.8%, and in 1999, consumption has reached 12.2 million tonnes representing approximately an annual growth rate of 47%.

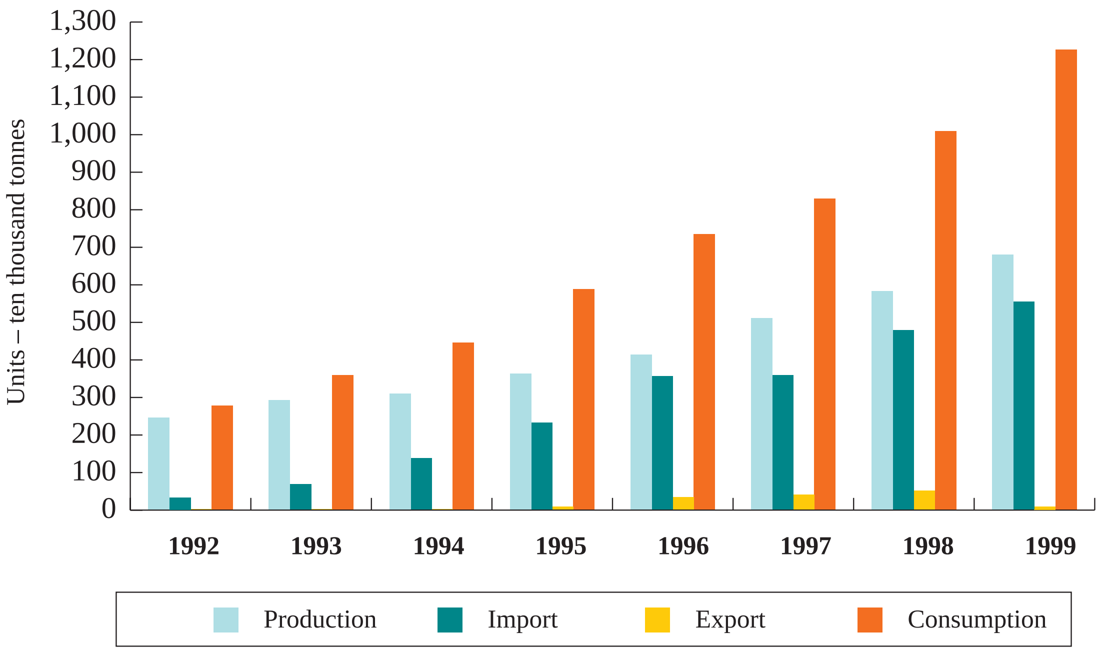
The LPG consumption structure in the PRC has shifted from industrial and commercial use to civil use. In 1980, industrial and commercial consumption of LPG accounted for approximately 64% of the total LPG consumption in the PRC, while civil consumption of LPG accounted for approximately 36% only. During the period from 1990 to 1998, industrial and commercial consumption of LPG had declined as a percentage of total LPG consumption in the PRC from approximately 38% to 35%. Meanwhile, civil consumption of LPG had increased from approximately 62% to 65% over the same period.

The following table shows the LPG consumption structure by civil use, industrial and commercial use and their respective percentages of the PRC's LPG consumption.




Source: China LPG Report-Guangdong LP Gas Association

The PRC was the third largest consumer of LPG in the world in 1999. Demand for LPG in the PRC as measured by domestic consumption consistently exceeded domestic supply during the period from 1991 to 1998. During the years from 1990 to 1998, domestic demand grew at an average annual rate of approximately 20% whereas domestic production increased at an average annual growth rate of approximately 14%. The annual LPG consumption of the PRC is projected to rise to approximately 12.8 million tonnes in 2005, which implies a growth rate of approximately 10% per year. The excess demand over domestic supply from 1989 to 1999 was satisfied principally by imports. The graph below shows the volume of consumption, production and import of LPG in the PRC between 1992 to 1999.



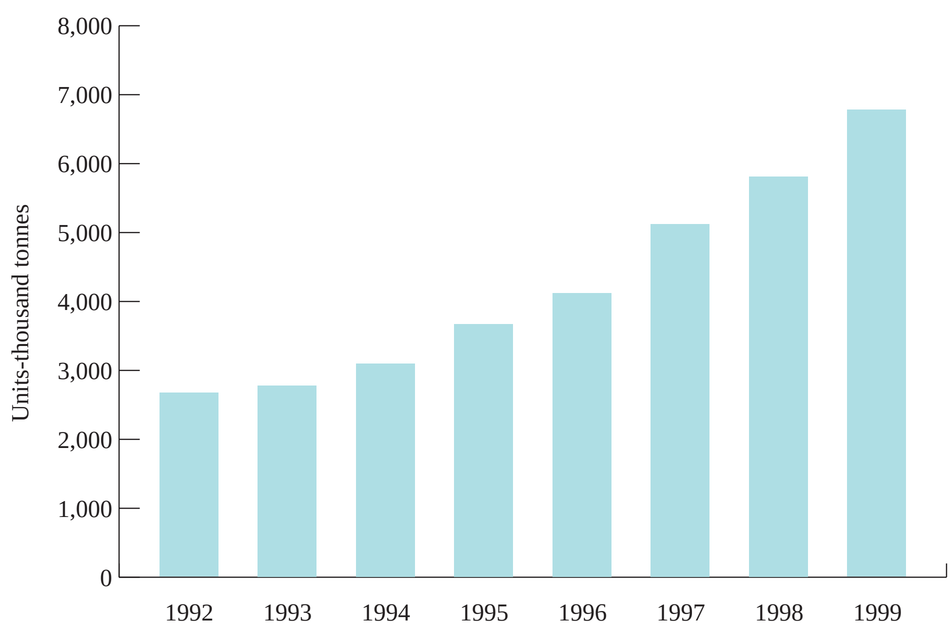

Source: China LPG Report-Guangdong LP Gas Association

The production and supply of LPG in the PRC is mainly concentrated in the northeastern, northwestern and eastern regions in the PRC where most of the refinery plants are located. Transportation of LPG for sale to inland regions is mainly through railways which adds considerable costs. On the other hand, the consumption of LPG in the PRC is mainly concentrated in the southeastern coastal area and some inland cities, in particular the provinces of Guangdong, Zhejiang, Hainan and Fujian. Since these coastal provinces are remote from the LPG production base and also because of the shortage of domestic LPG supply, the price of LPG is generally higher in such provinces than in northern PRC.

In the PRC, the major LPG reserves are found in the northeastern, northwestern and eastern regions where the largest oil-bearing areas in the PRC are located.

During the period from 1990 to 1999, the PRC's LPG production increased significantly from approximately 2 million tonnes in 1990 to approximately 3.7 million tonnes in 1995, and to approximately 6.8 million tonnes in 1999 representing an average annual growth rate of approximately 24%. During 1999, total LPG production in the PRC accounted for approximately 24% of total LPG production in Asia and accounted for approximately 3.5% of total world LPG production, comparing to the corresponding 17.7% and 2.1% in 1995.

**LPG PRODUCTION IN THE PRC FROM 1992-1999**

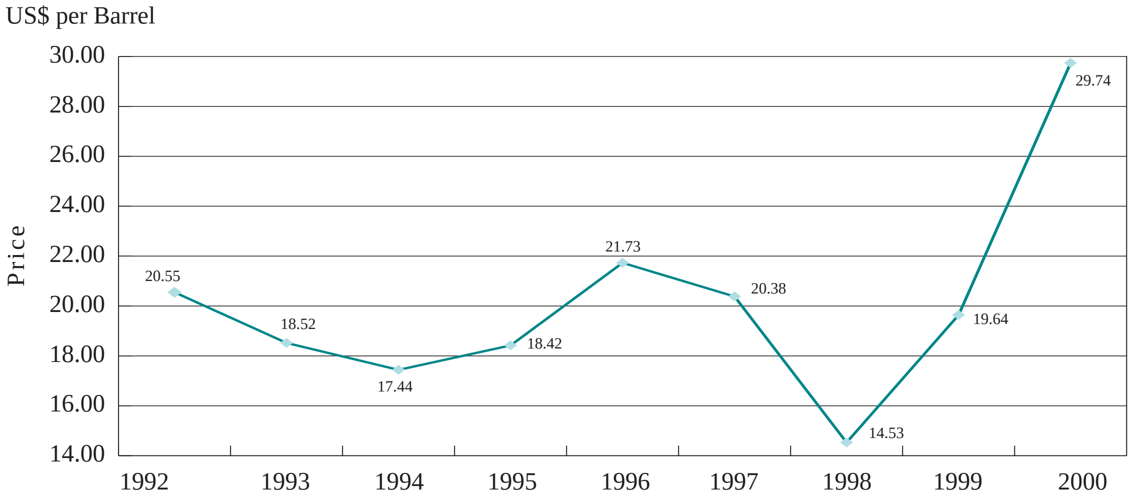



Source: Statistical Review of Global LPG, World LPG Association

## PRICING OF LPG

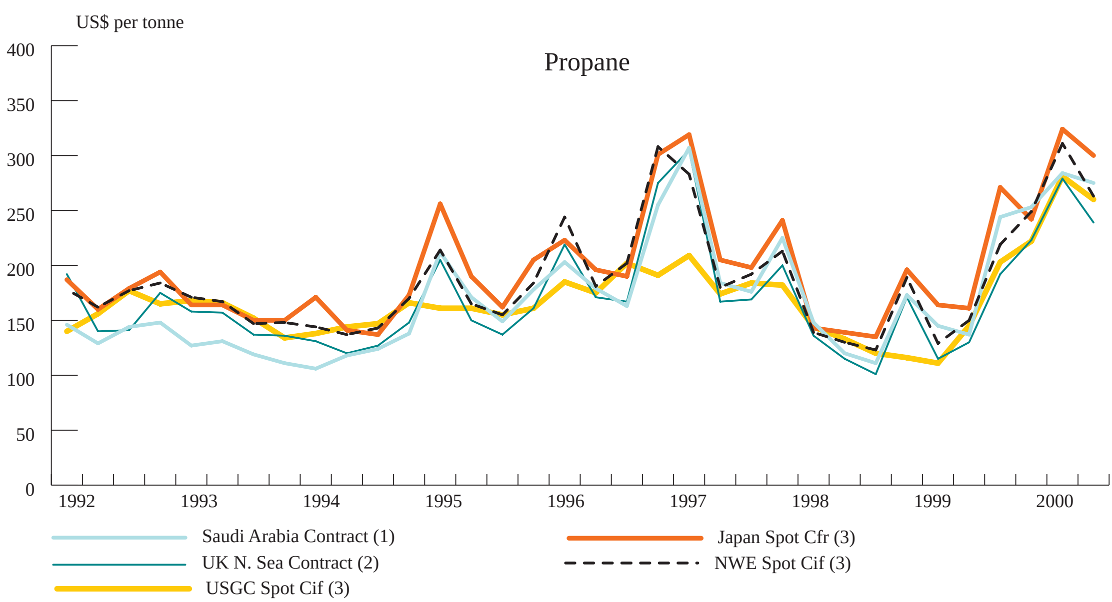
LPG is mainly a by-product in the process of refining and fractional distillation of crude oil. To a certain extent, price of LPG is correlated with crude oil price. However, fluctuations in price of LPG are also caused by imbalances of market demand and supply due to seasonal factors. LPG price tends to trade higher during winter season than summer season. The graphs below show the international crude oil prices and international LPG prices between 1992 to 2000.

**1992-2000 Nymax Crude Oil**

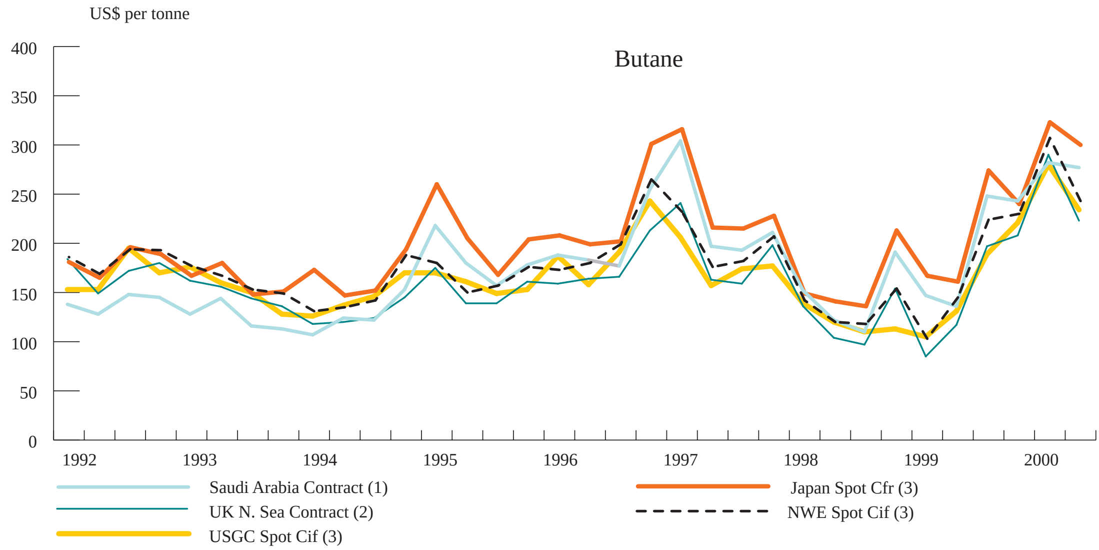



Source: Reuters

**INTERNATIONAL LPG PRICES 1992-2000**




Sources: Statistical Review & Global LP, World LP Gas Association




Source: Statistical Review of Global LPG, World LP Gas Association

Note: 1 tonne = 7.45 Barrels

Source: Reuters

The pricing of domestic LPG in the PRC is basically determined by market supply and demand, subject to price ceilings imposed by respective local commodity price bureaus. In the northern PRC, where most of the refinery plants are located and which is remote from the consumption market in the southern PRC, the price of LPG is generally lower. In the southern PRC, in particular the densely populated coastal areas, as there is no quota restriction for imports of LPG to the PRC, it is expected that the trend will be of increasing imports of LPG into these areas, thus pushing the price of LPG in these areas towards the price quoted in the international market.

## PROSPECT OF THE CHINESE LPG INDUSTRY AND OPPORTUNITIES IN THE NEW MILLENNIUM

Currently, the PRC is the second largest LPG producer in East Asia, following Japan. However, for several years, its domestic demand for LPG has exceeded its production capacity. At the beginning of 1990's, the LPG consumption in the PRC represented only about 7% of the total consumption in Asia. While in 1999, its share in the total consumption increased to over 23.8%.

Growth in LPG consumption in the PRC has also stimulated its LPG importation. The PRC is now the second largest LPG importer among the Asian countries. From approximately 2.3 million tonnes in 1995 to over 5 million tonnes in 1999, PRC's annual LPG import growth rate of over 23% has been the fastest in Asia.

The PRC authorities are stepping up its development of energy reserves in a bid to meet basic energy demands in the coming century and guarantee rapid economic and social development. Energy development is to be focused on the expansion of natural gas projects in the northwestern PRC, and the upgrading of the existing oil refineries to meet the demand for LPG nationwide, particularly in the coastal regions.

The PRC is expected to continue to be a huge LPG market in Asia and will likely to be a significant player in the global LPG markets thus bringing forth more business opportunities to both Asian and other foreign companies in the LPG sector.

## HISTORY AND DEVELOPMENT

For the purpose of spinning-off from Sinolink the business of LPG distribution and the application for separate listing on GEM, the Company was incorporated in the Cayman Islands on 16th November, 2000 as a wholly-owned subsidiary of Sinolink. Prior to the date of this prospectus, the companies comprising the Group underwent the Reorganisation in preparation for the listing of the Shares on GEM. Further details of the Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix V to this prospectus.

The Group's LPG business was originally founded by Mr. Ou in early 1998. Mr. Ou set up China PANVA as the investment vehicle for his LPG business in January 1998. China PANVA's first LPG operating company, Changsha PANVA was incorporated in the PRC on 16th January, 1998 and was then owned as to 60% by Mr. Ou, through Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, and as to 40% by China Petrochemical Group Changling Refinery Co., Ltd. (中國石化集團長嶺煉油化工有限責任公司) ("Changling Refinery") in Changsha, a state-owned enterprise and an independent third party. Since then, other operating subsidiaries were established with partners such as domestic refineries, local LPG operators and transportation companies situated along the Yangzi River, each covering a specific geographical region. In order to develop effectively an LPG retail sales network and to maintain market exposure and coverage, each of these operating subsidiaries also operates a number of retail outlets within its region.

Besides the Changsha region, the Group has its operating subsidiaries incorporated in other regions of the PRC in 1998, namely:

- Wuhu;
- Guiyang;
- Xiangtan;
- Chenzhou;
- Yiyang;
- Changde;
- Hengyang;
- Yongzhou; and
- Nanling.

In May 1998, the Group took its first step in delivering brand awareness to the general public in the PRC by designing its own trademark logo and developing its brand name, "PANVA". Its intention was to enable people to build up recognition of the Group as a renowned LPG distributor with a distinctive logo and reputation in the LPG business.

On 13th January, 1999, Sinolink acquired from Mr. Ou the entire issued share capital of China PANVA and the shareholders' loan owing from China PANVA to Mr. Ou. The rationale behind the Acquisition was that the directors of Sinolink believed that LPG business would have vast development potential in the industrial and commercial sectors in the PRC in view of the growing economy in the PRC as well as the wide application of LPG in such sectors.

At present, all of the Group's operations are carried out under the "PANVA" brand. Through this unified approach, the Group's product and service quality standards are more readily discernible by its customers and the Group is able to more efficiently manage the retail distribution in its principal markets through standardised procedures and unified promotion and marketing.

Since early 1999, the Group has been dedicated to introducing human resources management by developing and releasing various operation manuals and by organising various staff-training programs for different level employees of the Group with the intention to enhance corporate management efficiency and to improve employees' performance. Further details of these efforts are set out in the sub-section headed "Statement of active business pursuits" in this section on page 57 of this prospectus.

During the early stage of the Group's business development, the majority of the Group's revenue was derived from the sale of LPG in bulk. However, as the retail sector of the LPG business commands a higher operating margin, the Group has been gradually shifting its resources towards the retailing activity of its LPG business. In order to strengthen its operational performance, the Group has concentrated its effort on expanding its business coverage and network, conducting market research to explore new opportunities, staff training and promoting stronger industry partner relationships. Besides the sale of LPG, the Group is engaged in the provision of piped gas and the sale of LPG appliances.

For the three years ended 31st December, 2000, the breakdown of the Group's turnover was as follows:

| | **Year ended 31st December, 1998** | | **Year ended 31st December, 1999** | | **Year ended 31st December, 2000** | |
|---|---|---|---|---|---|---|
| | *$'000* | *%* | *$'000* | *%* | *$'000* | *%* |
| Sale of LPG in bulk | 268,398 | 95.3 | 440,515 | 86.7 | 914,308 | 86.3 |
| Sale of LPG in cylinders to retail customers | 11,388 | 4.1 | 36,887 | 7.3 | 94,717 | 8.9 |
| Sale of LPG in cylinders to wholesale customers | 1,395 | 0.5 | 29,061 | 5.7 | 47,443 | 4.5 |
| Provision of piped gas | – | – | 14 | – | 675 | – |
| Sale of LPG household appliances | 366 | 0.1 | 1,399 | 0.3 | 2,586 | 0.3 |
| | 281,547 | 100 | 507,876 | 100 | 1,059,729 | 100 |

The Group currently conducts its LPG operations through 13 operating subsidiaries validly set up in the PRC, namely:

- Changsha PANVA;
- Wuhu PANVA;
- Guizhou PANVA;
- Yangzi PANVA;
- Xiangtan PANVA;
- Chenzhou PANVA;
- Yiyang PANVA;
- Changde PANVA;
- Hengyang PANVA;
- Yongzhou PANVA;
- Nanling PANVA;
- Wuhu Jiangbei PANVA; and
- Nanjing PANVA.

In addition, Wuhu Sanpeng PANVA which is a 55% owned subsidiary of Wuhu PANVA ceased operation in October 2000 due to disputes between the joint venture parties, details of which are set out in the section headed "Litigation" in Appendix V to this prospectus.

*Changsha PANVA*

Changsha PANVA was incorporated on 16th January, 1998 with a registered capital of RMB40 million. It is owned as to 60% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, and as to 40% by Changling Refinery which is a state-owned enterprise in the PRC. At the time of its incorporation, it was mainly engaged in the wholesaling of LPG. Since then, Changsha PANVA has concentrated on developing its LPG retailing business in the Changsha area (see "The Changsha Project" below). It is now a wholesaler of LPG in the mid-south region of the PRC and a retailer of LPG in Changsha city. As at 31st December, 2000, it operates 26 retail outlets.

*Xiangtan PANVA*

Xiangtan PANVA was incorporated on 17th June, 1998 with a registered capital of RMB10 million. It is owned as to 55% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, and as to 45% by 湘潭市煤氣公司(Xiangtan Gas Company) which is a state-owned enterprise in the PRC. It is engaged in the wholesaling and retailing of LPG in Xiangtan city. It is a LPG retailer in the Xiangtan region and operates a LPG storage station with a total capacity of 200 $m^3$. As at 31st December, 2000, 10 retail outlets have been set up by Xiangtan PANVA.

*Chenzhou PANVA*

On 16th July, 1998, Chenzhou PANVA was incorporated with a registered capital of RMB9 million. It is owned as to 45% by 郴州市燃料貿易總公司(Chenzhou Fuel Trading Company), which is a state-owned enterprise in the PRC and as to 55% by Singkong Investments

Limited, a wholly-owned subsidiary of China PANVA. It is a LPG wholesaler and retailer in the Chenzhou city having the ownership of 2 LPG storage stations with a combined capacity of 1,040 $m^3$. As at 31st December, 2000, 9 retail outlets have been set up.

*Yiyang PANVA*

Yiyang PANVA is a LPG retailer and wholesaler in Yiyang city with a registered capital of RMB5 million. It was incorporated on 13th August, 1998. Yiyang PANVA is owned as to 40% by Changling Refinery, which is a state-owned enterprise in the PRC and as to 60% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA. As at 31st December, 2000, 7 retail outlets have been set up.

*Changde PANVA*

Changde PANVA was incorporated on 26th October, 1998 with a registered capital of RMB6 million. It is owned as to 70% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, as to 25% by Changsha PANVA and as to 5% by 湖南省石油總公司常德市公司 (Hunan Oil Company Changde Branch) which is a state-owned enterprise in the PRC. It is a LPG wholesaler and retailer in the Changde region and as at 31st December, 2000, it operates 13 retail outlets.

*Hengyang PANVA*

On 14th November, 1998, Hengyang PANVA was incorporated with a registered capital of RMB6 million. It is owned as to 60% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA, and as to 40% by Changsha PANVA, a sino-foreign equity joint venture. Hengyang PANVA is a LPG wholesaler and retailer in Hengyang city having the ownership of a LPG storage station with a capacity of 200 $m^3$. As at 31st December, 2000, 15 retail outlets have been set up by Hengyang PANVA.

*Yongzhou PANVA*

Yongzhou PANVA was incorporated on 18th December, 1998 with a registered capital of RMB5 million. It is owned as to 40% by 湖南省石油總公司永州市公司 (Hunan Oil Company Yongzhou Branch), which is a state-owned enterprise in the PRC and as to 60% by Singkong Investments Limited, a wholly-owned subsidiary of China PANVA. It is a LPG wholesaler and retailer in Yongzhou city having the ownership of a LPG storage station with a capacity of 600 $m^3$. As at 31st December, 2000, 7 retail outlets have been set up.

*Wuhu PANVA*

On 25th March, 1998, Wuhu PANVA was incorporated with a registered capital of RMB32 million. It is owned as to 55% by Sinolink Power Investment Limited, a wholly-owned subsidiary of China PANVA and as to 45% by 蕪湖長江輪船公司(Wuhu Changjiang Shipping Company) which is a state-owned enterprise in the PRC. It is a LPG wholesaler and retailer in Wuhu city having the ownership of a LPG storage station with a capacity of 3,000 $m^3$ and as at 31st December, 2000, 11 retail outlets have been set up.

*Nanling PANVA*

Nanling PANVA was incorporated on 20th August, 1998. Nanling PANVA is owned as to 55% by Wuhu PANVA and as to 45% by 南陵縣液化氣有限責任公司(Nanling LPG Co., Ltd.), which is a state-owned enterprise in the PRC. It has a registered capital of RMB2 million and is engaged in the wholesaling and retailing of LPG in Nanling city. As at 31st December, 2000, 3 retail outlets have been set up.

*Wuhu Sanpeng PANVA*

On 19th October, 1998, Wuhu Sanpeng PANVA was incorporated and is owned as to 55% by Wuhu PANVA and as to 45% by 蕪湖三朋液化氣化工能源有限公司(Wuhu Sanpeng LPG Chemical & Energy Co., Ltd.), a sino-foreign equity joint venture. It is a subsidiary of Wuhu PANVA with a registered capital of RMB2.3 million. Wuhu Sanpeng PANVA has ceased operation since October, 2000, due to the disputes between the joint venture partners, details of which are outlined under the paragraph headed "Litigation" in Appendix V to this prospectus.

*Wuhu Jiangbei PANVA*

On 1st March, 1999, Wuhu Jiangbei PANVA was incorporated with a registered capital of RMB0.5 million. It is owned as to 51% by Wuhu PANVA and as to 49% by 蕪湖市江北石油液化氣供應站(Wuhu Jiangbei LPG Supply Station), a sino-foreign equity joint venture. Wuhu Jiangbei PANVA is a LPG wholesaler and retailer in Wuhu city and as at 31st December, 2000, 1 retail outlet has been set up.

*Guizhou PANVA*

Guizhou PANVA was incorporated on 25th December, 1998 with a registered capital of RMB16 million. It is owned as to 50.1% by Sinolink International Investment (Group) Limited, a wholly-owned subsidiary of China PANVA and as to 49.9% by 貴陽市煤氣公司(Guiyang Gas Company), which is a state-owned enterprise in the PRC. It is a LPG wholesaler and retailer in Guiyang city having the ownership of a LPG storage station with a capacity of 1,000 $m^3$. As at 31st December, 2000, 18 retail outlets have been set up.

*Yangzi PANVA*

Yangzi PANVA was incorporated on 13th September, 1999. It is owned as to 50% by Sinolink LPG Investment Limited, a wholly-owned subsidiary of China PANVA, and as to 50% by 南京揚子石化煉化有限責任公司(Nanjing Yangzi Petrochemicals Co., Ltd.), which is an enterprise under collective ownership in the PRC. It has a registered capital of USD7.23 million. Yangzi PANVA is a LPG wholesaler and retailer in Nanjing city primarily focusing on the wholesale market and having the ownership of a LPG storage station with a capacity of 4,850 $m^3$. Its business operation coverage extends to other regions including Anhui and Jiangsu. As at 31st December, 2000, 5 retail outlets have been set up.

*Nanjing PANVA*

Nanjing PANVA was incorporated on 16th August, 2000. It is owned as to 55% by Panriver Investments Company Limited, a wholly-owned subsidiary of China PANVA and as to 45% by 南京市液化石油氣公司(Nanjing LPG Company), which is a state-owned enterprise in the PRC. It has a registered capital of RMB50 million. It is a LPG wholesaler and retailer in Nanjing city primarily focusing on the retail market and owns a LPG storage station with a capacity of 8,000 $m^3$. As at 31st December, 2000, 31 retail outlets have been set up.

In addition to all the Group's existing operating subsidiaries established by the Group in various regions, the Group is participating in various research projects in certain targeted regions. The purpose of these projects is to prepare the Group for entry into the LPG business in these targeted regions and to improve operating efficiency of the existing operating regions of the Group. These projects include conducting professional research activities on the potential regions and signing letters of intent with various potential joint venture partners. These projects include:

*The Changsha Project*

The Group has been negotiating and has signed a letter of intent with a local LPG company in Changsha with a view to forming a new operating subsidiary for the purpose of expanding the Group's LPG retail business in the region. This facilitates the consolidation and further development of the LPG retail market in the Changsha region. This may provide opportunities for developing the Group's LPG distribution network into other parts of the Hunan province.

*The Kunming Project*

The Group has been negotiating and has signed a letter of intent with a local LPG company in Kunming with a view to forming a new operating subsidiary to extend the Group's LPG distribution network into the Kunming market in order to further strengthen the Group's market position in the southwestern region of the PRC.

*The Hefei Project*

The Group has been negotiating and has signed a letter of intent with a local LPG company in Hefei with a view to forming a new operating subsidiary to extend the Group's LPG distribution network into the Hefei retail market in the near future which will provide a base from which the Group's LPG business network in the central and northern regions of Anhui province could be developed.

In addition to the above projects, the Group has also been actively engaged and will propose to engage in various other LPG projects in other regions of the PRC, such as Chongqing, Hangzhou and Tibet in the future. The purpose of engaging these projects is to expand the Group's existing business network and to further enhance its products and services for different users in the PRC. The above-mentioned projects are still in progress and your attention is drawn to the section headed "Business objectives and future plans and prospects" in this prospectus for the development of these projects.

## STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits of the Group for the two years ended 31st December, 1999 and the period from 1st January, 2000 to the Latest Practicable Date:

| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Setting up new operating subsidiaries** | Changsha PANVA, Wuhu PANVA, Xiangtan PANVA, Chenzhou PANVA, Yiyang PANVA, Nanling PANVA, Wuhu Sanpeng PANVA, Changde PANVA, Hengyang PANVA and Yongzhou PANVA were incorporated and began operation<br><br>Guizhou PANVA was incorporated | Changsha PANVA acquired 40% of Hengyang PANVA from Hengyang Sanhing Company<br><br>Changsha PANVA acquired 25% of Changde PANVA from Changde Gas Company<br><br>Guizhou PANVA began operation<br><br>Wuhu Jiangbei PANVA and Yangzi PANVA were incorporated and began operation | Nanjing PANVA was incorporated and began operation<br><br>Completed preliminary contract negotiation on setting up joint ventures in Changsha and Kunming *(Note 1)* |

*Note 1:* Activity held in 2001.

| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Signing of letters of intent** | | Letter of intent signed with a LPG company in Hefei on a possible partnership | Letter of intent signed with a petrochemical company in Chongqing on a possible partnership |
| | | Letter of intent signed with a LPG company in Nanchang on a possible partnership | Letter of intent signed with a LPG company in Kunming on a possible partnership |
| | | Letter of intent signed with a LPG company in Yangzhou, Jiangsu Province | Letter of intent signed with a LPG company in Changsha in relation to acquiring the LPG company's customer base |
| | | | Letter of intent signed with a company in Tibet in developing the LPG market in Tibet |
| | | | Letter of intent signed with a LPG company in Jiangyin, Jiangsu Province |

| | **For the year ended 31st December, 1998** | **For the year ended 31st December, 1999** | **For the period from 1st January, 2000 to the Latest Practicable Date** |
|---|---|---|---|
| **Operational development** | Purchased 10 units of cylinder valve sealing machines from an overseas supplier | Detailed plan for scope of services and implementation of specialised customer service centre to provide maintenance and repair services on LPG cylinders and appliances was finalised | PANVA unified and computerised its accounting system amongst all subsidiaries with the Group<br><br>Guizhou PANVA standardised its LPG cylinders serial numbers with a corresponding standardised customer file to facilitate servicing and maintenance of pooled customers' gas cylinders<br><br>Guizhou PANVA acquired 20 tank trains for further expanding its fulfilment capacity into the southwestern region of the PRC<br><br>Nanjing PANVA commenced offering auto-pay telephone ordering services in order to provide convenience to the retail customers |

| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Market research** | Market research conducted for Changsha, Wuhu, Xiangtan, Chenzhou Yiyang, Changde Hengyang and Yongzhou regions | Site visit to LPG operators in Japan and Korea to understand how wholesale and retail of LPG businesses are operated in these countries | Market research conducted on LPG retail customer preferences and the brand name awareness of PANVA in Changsha, Nanjing, Wuhu and Guiyang |
| | | Market research for possible entry of LPG operation in Luoyang City in the PRC | Market research conducted on the LPG market in Kunming |
| | | Market research conducted by Yangzi PANVA on the Hefei LPG retail market | |

| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Brand and customer relationship building** | PANVA logo and trademark established | PANVA logo and trademark registered in the PRC | www.china-panva.com launched to introduce the Group's business on Internet |
| | Hengyang PANVA advertised on Hengyang Television Broadcast Post to celebrate its incorporation | Hengyang PANVA advertised on Hengyang Television Broadcast Post to promote the PANVA brand | Consumer rights' day organised by Wuhu PANVA to promote the Group's image |
| | Customer service conference held by Changsha PANVA to introduce the range of after market services to local retail customers | Admitted as a member of World LP Gas Association | Guizhou PANVA participated in the "2000 China Energy Preservation Propaganda Week" |
| | LPG wholesale customer conference organized by Changsha PANVA in Guilin | | Attended the 2001 China LPG Conference held in Guangzhou in the PRC *(Note 1)* |
| | Attended the 11th World LPG Association conference in Rome, Italy | | |

*Note 1:* Activity held in 2001.

| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Staff training manuals** | The first edition of PANVA brochure published | China PANVA retail outlet management operation manual printed and released | China PANVA retail outlet manager training operation manual printed and released |
| | | The second edition of PANVA brochure printed and released | China PANVA retail outlet sales operation manual printed and released |
| | | | China PANVA retail outlet delivery operation manual printed and released |
| | | | China PANVA LPG safety operation manual printed and released |

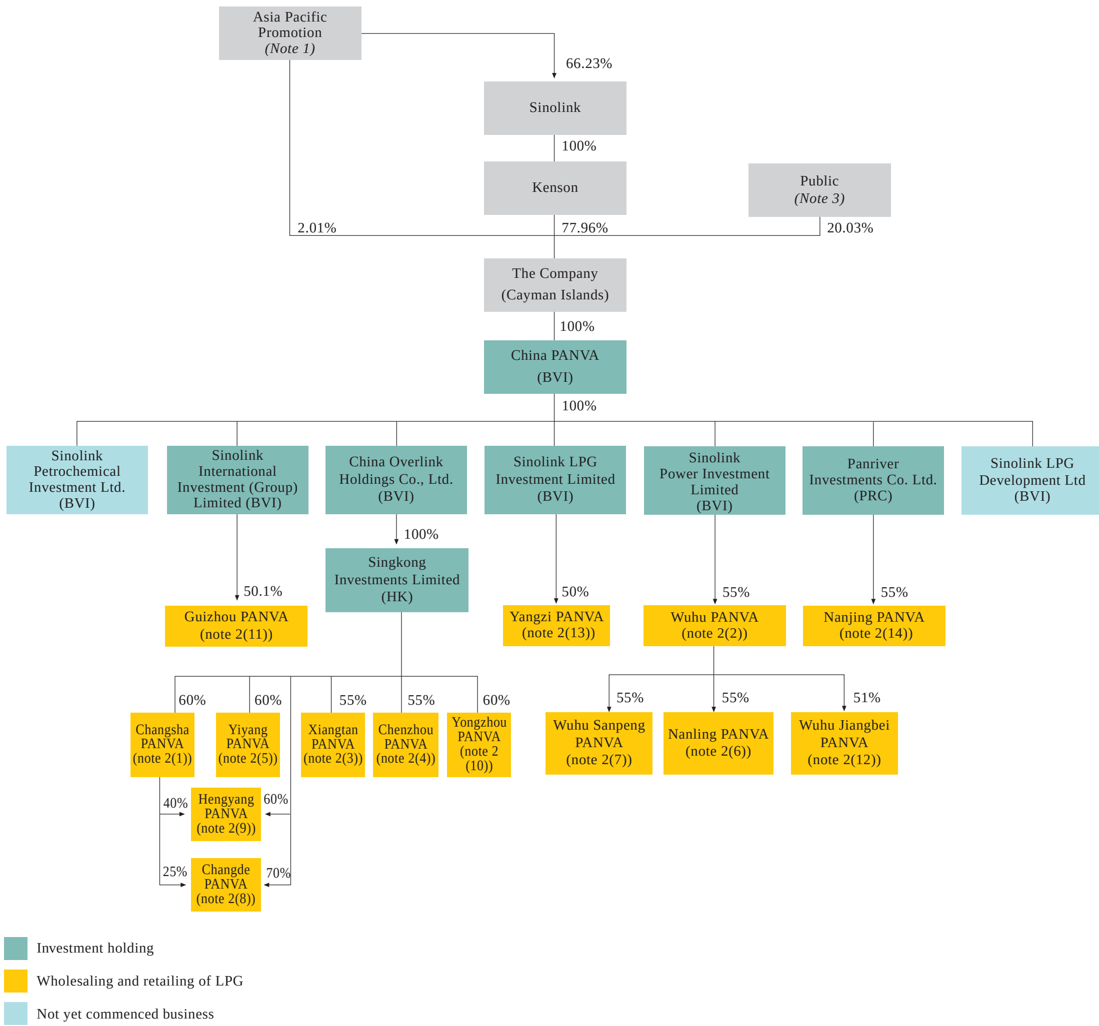
| | For the year ended 31st December, 1998 | For the year ended 31st December, 1999 | For the period from 1st January, 2000 to the Latest Practicable Date |
|---|---|---|---|
| **Human resources development** | China PANVA 1st executive officer and financial officer training program held in Shenzhen | China PANVA 1st, 2nd and 3rd manager training program held in Shenzhen, Nanjing and Changsha respectively | Chenzhou PANVA, Yangzi PANVA, Wuhu PANVA, Yiyang PANVA and Xiangtan PANVA retail management training program held in their respective regions |
| | | China PANVA senior manager training program held in Shenzhen | China PANVA sales strategy training program held in Changsha |
| | | Yongzhou PANVA, Changde PANVA, Hengyang PANVA and Changsha PANVA retail management training programs held in their respective regions | China PANVA human resources management program held in Shenzhen |
| | | Accounting software training program held in Changsha | Nanjing PANVA orientation training held in Nanjing |
| | | | Bi-monthly magazine publication of PANVA commenced for internal circulation to promote communication amongst staff members |

| **Setting up operating facilities** | **As at 31st December, 1998** | **As at 31st December, 1999** | **As at the Latest Practicable Date** |
|---|---|---|---|
| Storage capacity ($m^3$) | 6,330 | 12,200 | 20,200 |
| Tank train capacity (tonnes) | 350 | 880 | 1,680 |
| Tank lorry capacity (tonnes) | 15 | 91 | 186 |
| Cylinder truck capacity (tonnes) | 29 | 68 | 320 |
| No. of LPG tank train unloading depots | 3 | 5 | 5 |
| No. of LPG vessel unloading platform | 1 | 1 | 1 |
| No. of retail outlets | 52 | 137 | 156 |
| No. of piped gas stations | 1 | 2 | 23 |

| **Human resources deployment** | **As at 31st December, 1998** | **As at 31st December, 1999** | **As at the Latest Practicable Date** |
|---|---|---|---|
| **Number of staff** | | | |
| Management | 38 | 54 | 79 |
| Finance and administration | 41 | 87 | 162 |
| Sales and distribution | 231 | 364 | 837 |
| Production, purchase and supply | 56 | 137 | 449 |
| Total | 366 | 642 | 1,527 |

## SHAREHOLDING AND CORPORATE STRUCTURE

Set out below is the Group's corporate structure upon completion of the Placing, the Capitalisation Issue and the Distribution:




*Notes:*

1. Asia Pacific Promotion is 100% beneficially owned by Mr. Ou. Pursuant to the Distribution, Asia Pacific Promotion will be entitled to receive 10,066,960 Shares by virtue of its 66.23% shareholding in Sinolink on the Record Date.

| 2. | Company | Date of incorporation | Registered Capital (RMB million) | Attributable interest to the Company (%) | Term of joint venture (Years) |
|---|---|---|---|---|---|
| 2(1) | Changsha PANVA | 16th January, 1998 | 40 | 60 | 30 |
| 2(2) | Wuhu PANVA | 25th March, 1998 | 32 | 55 | 50 |
| 2(3) | Xiangtan PANVA | 17th June, 1998 | 10 | 55 | 30 |
| 2(4) | Chenzhou PANVA | 16th July, 1998 | 9 | 55 | 30 |
| 2(5) | Yiyang PANVA | 13th August, 1998 | 5 | 60 | 30 |
| 2(6) | Nanling PANVA | 20th August, 1998 | 2 | 30.25 | 50 |
| 2(7) | Wuhu Sanpeng PANVA (a) | 19th October, 1998 | 2.3 | 30.25 | 15 |
| 2(8) | Changde PANVA | 26th October, 1998 | 6 | 85 | 30 |
| 2(9) | Hengyang PANVA | 14th November, 1998 | 6 | 84 | 30 |
| 2(10) | Yongzhou PANVA | 18th December, 1998 | 5 | 60 | 30 |
| 2(11) | Guizhou PANVA | 25th December, 1998 | 16 | 50.1 | 30 |
| 2(12) | Wuhu Jiangbei PANVA | 1st March, 1999 | 0.5 | 28.05 | 20 |
| 2(13) | Yangzi PANVA | 13th September, 1999 | 60 | 50 | 30 |
| 2(14) | Nanjing PANVA | 16th August, 2000 | 50 | 55 | 30 |

(a) ceased operation since October, 2000.

The Group is able to exercise management control over these operating subsidiaries. The balance sheets and the results of these operating subsidiaries are consolidated in the Company's accounts. Please refer to accountants' report in Appendix I to this prospectus for details.

3. The 95,000,000 Shares to be held by the placees under the Placing and the 5,133,040 Shares to be held by the shareholders of Sinolink through the Distribution (other than Asia Pacific Promotion) will be regarded as Shares in the public hands.

## Geographical coverage

The major areas in the PRC in which each of the operating subsidiaries referred to in note 2 above incorporated in the PRC has operated since its incorporation are summarised as follows:

| Name of subsidiary | Major operation coverage |
|---|---|
| Changsha PANVA | Mid-south region and Changsha city and its suburban districts, Hunan province |
| Xiangtan PANVA | Xiangtan city and its suburban districts, Hunan province |
| Chenzhou PANVA | Chenzhou city and its suburban districts, Hunan province |
| Changde PANVA | Changde city and its suburban districts, Hunan province |
| Yiyang PANVA | Yiyang city and its suburban districts, Hunan province |

| Name of subsidiary | Major operation coverage |
|---|---|
| Hengyang PANVA | Hengyang city and its suburban districts, Hunan province |
| Yongzhou PANVA | Yongzhou city and its suburban districts, Hunan province |
| Wuhu PANVA | Wuhu city and its suburban districts, Anhui province |
| Wuhu Jiangbei PANVA | Jiangbei district in Wuhu city, Anhui province |
| Nanling PANVA | Nanling city and its suburban districts, Anhui province |
| Guizhou PANVA | Guiyang city and its suburban districts, Guizhou province |
| Yangzi PANVA | Area covering northern part of Anhui province and coastal area along Jiangsu province |
| Nanjing PANVA | Nanjing city its suburban districts, Jiangsu province |

## STRATEGIC OVERVIEW

Yangzi River is the longest river in the PRC with 1.8 million square metres drainage area, representing approximately 40% of the whole country area. The upper and middle regions of Yangzi River and the south-west of the PRC, including certain areas of Anhui, Jiangsu, Hubei, Hunan, Sichuan, Yunnan provinces and Chongqing, have a population of about 400 million. Owing to constraints on economic development and transportation, the volume of LPG consumed in these regions is lower than provinces such as Guangdong and Zhejiang. Many local inhabitants still rely on coal and firewood as the main source of energy. However, not only are coal and firewood inconvenient to handle, their extensive use has led to serious pollution problems which are causing enormous damages to the ecology of the Yangzi basin.

With the objective of fully utilising opportunities created by a rapidly developing economy, raising the living standard of local inhabitants and improving the ecological environment of the Yangzi basin, the Group is determined to invest in developing the enormous LPG market engendered by the drainage area of Yangzi River and other regions of the PRC. Relying on the rich experiences and extensive business contacts accumulated by the Sinolink Group through years of engaging in the petrochemical product business, the Group has determined to join force and forge joint ventures with domestic refineries, transportation companies situated along the Yangzi River and specialised companies which are granted special permits by the PRC government to undertake the LPG business.

In selecting potential LPG markets in the PRC for development, the Group will conduct market research on potential markets where there is perceived to be a rising demand for LPG. The market research covers user and consumption projections, the investment cost structure and the cost of operational facilities involved.

As the Group's marketing and distribution operations become more closely integrated, the Company expects to be able to more effectively manage the services offered by each operating subsidiary to improve the results of its operations on a consolidated basis. The Directors expect that the increasing integration of each of the Group's marketing and distribution segments would enhance the Group's ability to manage its operations as a single system as opposed to having each operating subsidiary as an independent LPG operating company.

The Directors also believe that greater integration will enable the Group to optimise LPG purchases, improve the quality of its services, gradually close sub-scale, poorly located facilities, strengthen logistics controls, increase the number of retail outlets and enforce control over the Group's capital expenditure structure which helps the Group increase capacity utilisation and operational efficiency.

At present, all of the Group's operations are carried out under the "PANVA" brand. Through this unified brand, the Group can more effectively maintain both product and service quality standards and more efficiently manage the wholesale and retail distribution in their principal markets.

## DESCRIPTION OF BUSINESS

The Group is principally engaged in the sale and distribution of LPG along the Yangzi River and the southwestern regions of the PRC. The Group's main activities include the sale of LPG in bulk and in cylinders, the provision of piped gas, and the sale of LPG household appliances. The Group's other operating activities include the storage and filling of LPG and the management and operation of storage facilities and transportation facilities to support the Group's LPG operations.

### Sale of LPG in bulk

The Group is currently engaged in the sale of LPG in bulk to different local LPG retail operators and industrial customers in the PRC. The bulk order size ranges from 5 tonnes to 500 tonnes of LPG per transaction. The bulk sale process begins by obtaining LPG supplies from various petrochemical enterprises and importors. The suppliers transport LPG to the Group's storage stations by railway, road or waterway. The Group then delivers LPG in tanks by its own tank trains or tank lorries to the customers' storage facilities, or the customers arrange to take delivery by their own tank trains or tank lorries. However, in some cases, the Group liaises with its LPG suppliers and customers to allow its customers to take delivery of LPG directly from the suppliers. For the three years ended 31st December, 2000, the sale of LPG in bulk amounted to approximately $268.4 million, $440.5 million and $914.3 million, representing approximately 95.34%, 86.73% and 86.28% of the Group's total turnover respectively.

**Sale of LPG in cylinders**

The Group is also engaged in the sale of LPG pressurised in cylinders to retail and wholesale customers in the PRC. LPG cylinders are sold in terms of their weight such as 5kg, 10kg, 12kg and 15kg. Retail customers are mainly household users, whilst wholesale customers are LPG retail operators and commercial users.

*Sale of LPG in cylinders to retail customers*

The Group's LPG retail activity is carried out through the retail outlets in the PRC totaling 156 as at 31st December, 2000, or its telephone ordering system. Retail customers can either attend the retail outlets and exchange their empty cylinders for filled ones after paying prescribed charges or telephone the Group's call centre for delivery of filled cylinders.

All of the Group's retail sales are made through a network of retail outlets which operate under the "PANVA" brand. As at 31st December, 2000, the number of retail outlets operating under the "PANVA" brand was 156. The Group intends to identify more suitable sites in major cities and further expand its LPG retail operations to increase its share of existing markets and develop new markets.

Of the 156 retail outlets through which the Group distributes LPG, 31 in Nanjing city are owned by or leased by the respective PRC joint venture partner, one is owned and operated by the Group as part of the LPG storage station listed as property numbered 8 in the valuation report as set out in Appendix II to this prospectus, 111 retail outlets have written tenancy agreements with independent third parties and 13 are rented from the PRC joint venture partners of the Group. With respect to the 31 retail outlets in Nanjing city, the Group intends to enter into lease agreements with the respective PRC joint venture partner or the independent third parties to lease the same properties. The Directors confirm that the relocation cost and disruptions to the Group's operations would be minimal in the event that any individual retail outlet needs to be relocated.

As one of the Group's main projects for its LPG retail operation, the Group has commenced provision of auto-pay telephone ordering services to household users in Nanjing with the aid of advanced telecommunication technologies linking up the Group's call centre and the designated bank in the PRC. A household user needs to provide the call centre personnel with his account number with the designated bank and the corresponding personal identification number when ordering delivery of LPG over the telephone. The call centre personnel then obtains fund transfer clearance from the designated bank before arranging for the delivery of LPG to the customer from the nearest retail outlet. The Group believes its auto-pay telephone ordering services will continue to improve its operational efficiency and provide convenience to customers. For the three years ended 31st December, 2000, the sale of LPG in cylinders to retail customers amounted to approximately \$11.4 million, \$36.9 million and \$94.7 million, and representing approximately 4.05%, 7.26% and 8.94% of the total turnover of the Group respectively.

*Sale of LPG in cylinders to wholesale customers*

For the sale of LPG in cylinders to wholesale customers, the Group arranges for wholesale customers to deliver their own empty cylinders to the Group's LPG storage stations for refilling. The filled cylinders are then transported back to those wholesale customers by trucks. For the three years ended 31st December, 2000, the sale of LPG in cylinders to wholesale customers amounted to approximately $1.4 million, $29.0 million and $47.5 million respectively, representing approximately 0.50%, 5.71% and 4.48% of the total turnover of the Group.

**Provision of piped gas**

The Group currently provides piped gas to certain housing estates in Chenzhou, Changsha and Nanjing cities in the PRC. The provision of piped gas to household subscribers requires the construction and management of gas supply pipelines infrastructure connecting gas stations installed within a housing estate to the individual households within that estate. LPG and air are mixed by a gas mixing machine and the mixed gas is transmitted from the gas station via pipeline networks to customers. The advantage of transmitting mixed gas is that it can be more economically and easily transmitted over longer distances.

The Group owns certain pipelines in its piped gas operation in Nanjing in the PRC, but it does not own the land occupied by these pipelines. It is the Group's intention to apply to the local land authorities for the relevant approval in respect of the land for pipeline usage. The Directors believe that there will not be any material legal obstacles and significant costs in obtaining such approval.

The Group started to provide piped gas to housing estates in 1999 and the provision of piped gas amounted to approximately $0.1 million and $0.6 million and accounted for approximately 0.02% and 0.06% of the Group's total turnover for the two years ended 31st December, 2000 respectively. The Group plans to actively engage in the provision of piped gas in other regions in the PRC in the future.

**Sale of LPG household appliances**

In addition to the Group's sale of LPG and provision of piped gas activities, the Group is also engaged in the sale of LPG household appliances, such as valves, cylinders, various cooking equipment and appliances. The supplies of LPG appliances are obtained from various domestic suppliers and can be purchased at the Group's regional retail outlets.

The sale of LPG household appliances amounted to approximately $0.3 million, $1.4 million and $2.6 million and accounted for approximately 0.11%, 0.28% and 0.24% of the Group's total turnover for the three years ended 31st December, 2000 respectively.

**PURCHASES AND SUPPLIES**

Changsha PANVA has entered into a purchase agreement with (i) China Petrochemical Company Limited (中國石化股份有限公司長嶺分公司), and (ii) Yue Yang Hing Chang Petrochemical Company Limited. China Petrochemical Company Limited is a fellow subsidiary of Changling Refinery, which holds 40% equity interest in Changsha PANVA. Yue Yang Hing Chang Petrochemical Company Limited is owned as to 27.52% by Changling Refinery. Although the entering into the said the purchase agreement constitutes a connected transaction to Sinolink by virtue of China Petrochemical Company Limited being an associate of the substantial shareholder of Changsha PANVA as defined under the Listing Rules, it is not a connected transaction to the Group upon listing of the Company under the GEM Listing Rules. The Group expects to purchase approximately 150,000 to 180,000 tonnes of LPG from China Petrochemical Company Limited per annum, and the expected purchases account for approximately 100% of the total purchases of Changsha PANVA. Purchases from China Petrochemical Company Limited under the purchase agreement, which commenced in September 2000, amounted to approximately $106 million, representing approximately 10.62% of the Group's total purchases for the year ended 31st December, 2000.

Yangzi PANVA has also entered into a LPG purchase agreement with 揚子石油化工股份有限公司(a listed company in the PRC) ("Yangzi Petrochemical"), the parent company of which holds a 49% interest in the PRC joint venture partner of Yangzi PANVA, namely Nanjing Yangzi Petrochemicals Co. Limited. Yangzi Petrochemical is not a connected person of the Company under the GEM Listing Rules. The Group expects to purchase 200,000 to 240,000 tonnes of LPG per annum from Yangzi Petrochemical, and the expected purchases account for approximately 100% of the total purchases of Yangzi PANVA. Purchases from Yangzi Petrochemical under the purchase agreement amounted to approximately $573 million representing approximately 57.41% of the Group's total purchases for the year ended 31st December, 2000.

Pursuant to the purchase agreements, the suppliers have agreed to supply all the LPG they produce (after deducting the amount for use specified in the agreement, such as the suppliers' own production consumption, employee consumption and government consumption) to Changsha PANVA and Yangzi PANVA respectively. The price of LPG is determined by a pre-set formula as set out in the agreements. The term of the purchase agreement signed by Changsha PANVA is for a term of 16 months from 1st September, 2000 to 31st December, 2001 renewable for such term as agreed between Changsha PANVA and the supplier. The term of the purchase agreement signed by Yangzi PANVA is coterminous with the term of the joint venture agreement of Yangzi PANVA. For LPG suppliers with purchase agreements, the Group settles purchases at the end of each month, whilst for purchases on a transaction basis, the Group is usually given 30 days' credit. The Group settles all purchases in RMB by cheque, telegraphic transfer and direct deposits into bank accounts of suppliers.

For those operating subsidiaries without a long term purchasing agreement, the strategies and policies adopted are as follows:

- a purchasing plan is determined approximately 2 to 4 weeks prior to the purchase;

- quotations are obtained from different suppliers, including Changsha PANVA and Yangzi PANVA which have long term supply agreements with LPG suppliers;

- comparisons and negotiations are then made taking into account of the quality, price, the time of delivery, and payments terms; and

- if the terms and conditions are similar to those quoted by Changsha PANVA and Yangzi PANVA, preferences will be given to Changsha PANVA and Yangzi PANVA.

The Group maintains well-established relationships with various petrochemical enterprises and major LPG importers in the PRC. Through these relationships, the Group is able to obtain a steady and stable LPG supply from these parties. For the three years ended 31st December, 2000, the Group principally purchased LPG amounted to approximately $260 million, $487 million and $998 million respectively. All purchases were settled in RMB.

In determining the source of its LPG supplies so as to facilitate the development of the LPG retail market in the PRC, the Group takes into account the following principal factors:

i. whether or not supply is expected to be steady and secure;

ii. the quality of the LPG supplied;

iii. cost and payment terms; and

iv. timing of obtaining the LPG supplies.

For the three years ended 31st December, 2000, the Group's largest supplier accounted for approximately 46.26%, 33.02% and 57.44% of the Group's total purchases respectively and the Group's five largest suppliers accounted for approximately 98.11%, 74.57% and 96.42% of the Group's total purchases respectively.

As at the Latest Practicable Date, none of the Directors, their respective Associates and shareholders who own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group.

The Group adopts a policy of maximising the use of its storage capacity to maintain reasonable inventory level at all times. The Group's total storage capacity is approximately 10,000 tonnes which represents approximately 7-9 days' supply of LPG. Normally, an inventory level equivalent to approximately 5 days' supply of LPG is maintained. However, if the Company anticipates that the price of LPG will fall, a smaller inventory of about 2-3 days' supply of LPG will be kept.

## AREAS OF OPERATION

The Group's principal areas of operation are the middle and upper part of the Yangzi River region and the southwestern region of the PRC including the following provinces:

- Jiangsu;
- Anhui;
- Hunan; and
- Guizhou.

The Directors believe these targeted regions have markets with a very good long term potential and a rapid growing living standard attained by the local people in the respective regions, which contributes to the rising household demand for LPG.

The Group has already established a total of 14 operating subsidiaries in the following cities:

| **City** | **Province** | **Number of operating subsidiaries** |
|---|---|---|
| Changsha | Hunan | 1 |
| Xiangtan | Hunan | 1 |
| Hengyang | Hunan | 1 |
| Yiyang | Hunan | 1 |
| Changde | Hunan | 1 |
| Chenzhou | Hunan | 1 |
| Yongzhou | Hunan | 1 |
| Wuhu *(Note)* | Anhui | 4 |
| Guiyang | Guizhou | 1 |
| Nanjing | Jiangsu | 2 |
| | | 14 |

*Note:* Wuhu Sanpeng PANVA ceased operation in October, 2000.

The map below shows the Group's main areas of operation:


## OPERATION FACILITIES

### LPG storage stations

Set out below is the storage capacity of each of the Group's 14 operating subsidiaries as at 31st December, 2000.

| LPG storage station | Storage capacity ($m^3$) |
|---|---:|
| Changsha PANVA | 630 |
| Xiangtan PANVA | 200 |
| Yiyang PANVA | 200 |
| Changde PANVA | 200 |
| Chenzhou PANVA | 1,040 |
| Hengyang PANVA | 200 |
| Yongzhou PANVA | 600 |
| Wuhu PANVA | 3,000 |
| Guizhou PANVA | 1,000 |
| Nanling PANVA | 110 |
| Wuhu Jiangbei PANVA | 70 |
| Wuhu Sanpeng PANVA *(Note)* | 100 |
| Yangzi PANVA | 4,850 |
| Nanjing PANVA | 8,000 |
| | 20,200 |

*Note:* Wuhu Sanpeng PANVA ceased operation in October, 2000.

LPG is a mixture of different hydrocarbons namely butane and propane in varying proportions. Hydrocarbons can be extremely flammable due to the nature of the bonding within the molecular structure. Extreme caution and attention is essential towards the storage of such organic product. Therefore, LPG is normally stored and transported under pressure in tanks and cylinders to reduce the risk of combustion upon exposure to air.

The operating subsidiaries of the Group maintain 18 LPG storage stations located in their corresponding regions. Of the 18 LPG storage stations maintained, 7 occupy land owned by the Group, 7 occupy land leased from other parties (5 from independent third parties and 2 from the PRC joint venture partner of the relevant subsidiaries of the Company which are not connected persons as defined under the GEM Listing Rules), 3 occupy land provided by the PRC joint venture partner of Nanjing PANVA for the Group's use without any lease payment and 1 is located on the government allocated land of Yangzi PANVA. As confirmed by the Company's PRC legal adviser, the 3 LPG storage stations occupying land provided by the PRC joint venture partner of Nanjing PANVA for use without any lease payment and the 1 located on the government allocated land of Yangzi PANVA do not constitute an interest in land of the Group and therefore are not included in the valuation report in Appendix II to this prospectus. Both the PRC joint venture partners of Nanjing PANVA and Yangzi PANVA are not connected persons of the Company as defined under the GEM Listing Rules. The Group is presently in negotiation with the PRC joint venture partner of Nanjing PANVA to rent the relevant land for its 3 LPG storage stations. The Group is also currently in discussions with the land authorities in the PRC for the purchase of the government allocated land currently occupied by the Yangzi PANVA LPG storage station. The proposed consideration for the acquisition of the said land is currently expected to range from RMB10 million to RMB14 million and will be financed through the internal resources of the Group. The Directors believe that the financial position and operating results of the Group may be adversely and materially affected if these 4 LPG storage stations are required to be relocated before the above mentioned negotiations with the relevant PRC joint venture partners are successfully concluded. In view of this, the Company has been given an indemnity by the major shareholders, Sinolink and Kenson, for any costs, expenses, claims, losses and liabilities arising out of the insufficiency or lack of authority to use the land in relation to the above 4 LPG storage stations as described in the section headed "Estate duty, Tax Indemnity and other Indemnities" in Appendix V to this prospectus.

Amongst the 7 LPG storage stations occupying land owned by the Group, 3 comprise buildings in respect of which no building ownership certificates have been issued. The Directors do not intend to incur time and resources to obtain those outstanding building ownership certificates because (i) the Group does not intend to resell the relevant buildings; (ii) there will not be any significant negative impact on the Group's operation if such buildings were to be demolished; and (iii) such buildings do not constitute a material part of the Group's assets.

At the LPG storage stations, LPG is stored under pressure inside large tanks. Among the Group's storage facilities in the PRC, Nanjing PANVA has the biggest LPG storage capacity of 8,000 $m^3$ and Yangzi PANVA's storage facility is the second largest with storage capacity of 4,850 $m^3$ storage capacity.

Filling of LPG cylinders also takes place at the Group's LPG storage stations. Cylinders can be filled manually by using LPG filling guns or mechanically by using LPG filling machines. The cylinders are then sold to wholesale customers or retail customers.

**Retail outlets**

Set out below is the number of retail outlets through which the Group's operating subsidiaries distribute LPG as at 31st December, 2000:–

| **Subsidiary** | **Number of retail outlets as at 31st December, 2000** |
|---|---|
| Changsha PANVA | 26 |
| Xiangtan PANVA | 10 |
| Yiyang PANVA | 7 |
| Changde PANVA | 13 |
| Chenzhou PANVA | 9 |
| Hengyang PANVA | 15 |
| Yongzhou PANVA | 7 |
| Wuhu PANVA | 11 |
| Guizhou PANVA | 18 |
| Nanling PANVA | 3 |
| Wuhu Jiangbei PANVA | 1 |
| Yangzi PANVA | 5 |
| Nanjing PANVA | 31 |
| Total | 156 |

*Note:* Of the 156 retail outlets, the operation licence of 31 retail outlets have expired and are in the process of renewal, and the operation licence of 38 retail outlets are owned by the joint venture partners.

The Group distributes its LPG cylinders to retail customers through retail outlets in different regions in the PRC. The regional retail outlets are mainly for the sale of LPG in cylinders to commercial and household users in the region where the outlet is located. The retail outlets also provide customer services to users in their respective regions. Customer services include maintenance and repair of faulty LPG cylinders and appliances, LPG safety consulting services and the provision of the Group's operation and product information.

At each retail outlet, a database of its customers' information is maintained. This database includes customers' profile and past purchase history and also credit information for large wholesale customers. The Group plans to adopt a centralised computerised customer database at each of its operating subsidiaries. The Directors believe that the system can speed up the overall ordering and delivery process, thus improving operational efficiency.

All of the Group's retail outlets are operated under the "PANVA" brandname. Through this unified LPG distribution network, the Group's product and service quality standards are more readily discernible by its customers and the Group is able to manage more efficiently the retail distribution in its principal markets. The Group intends to identify more suitable sites in major cities and further expand its LPG retail operations to increase its share of the existing markets and develop new markets.

### Transportation facilities

The Group owns and maintains various means of inland transportation to transport LPG in tanks and cylinders to LPG bulk purchase, wholesale and retail customers. As at the Latest Practicable Date, the Group owned 49 tank trains, 16 tank lorries and 103 LPG trucks for delivering LPG. In addition, to facilitate taking delivery of LPG from suppliers, the Group has the right to operate 5 tank train unloading depots and owns a LPG vessel unloading platform to handle LPG supplies from suppliers.

With respect to the 5 tank train unloading depots, one is situated on the land which is owned by the Group and is represented by property numbered 4 in the valuation certificate of the valuation report set out in Appendix II to this prospectus. Another tank train unloading depot is under leasing arrangement which is subject to the relevant authority's approval. The remaining 3 occupy land in which the Group does not have ownership and the Group is in the process of leasing such land. The Directors believe that there should not be any legal obstacles in putting in place such leasing arrangements.

The LPG vessel unloading platform is located next to a piece of land owned by an associated company of the PRC joint venture partner of Wuhu PANVA. The Directors confirmed that such land is provided for the Group's use by the owner without any lease payment over the term of the joint venture of Wuhu PANVA.

### Machinery and equipment

The Group's business operations involve frequent use of 4 different types of equipment:

- storage equipment such as storage tanks and truck loading facilities;
- filling equipment such as LPG pumps, LPG compressors, gas mixing machines and LPG filling guns;
- transportation equipment such as rail tanks and road tanks; and
- various safety monitoring equipment such as fire extinguishers and LPG cylinders safety alarm.

## SALES AND MARKETING

The Group's revenue is derived from the sale of LPG in bulk and in cylinders, the provision of piped gas and the sale of LPG household appliances. All sales revenue of the Group are denominated in RMB.

During the early stage of the Group's LPG business development, majority of the Group's revenue was derived from the sale of LPG in bulk to customers. However, since early 1999, the Group has been actively engaged in both the sale of LPG in bulk and in cylinders.

**LPG sales statistics for the three years ended 31st December, 2000**

| **1998** | **Total LPG sales** | **Sale of LPG in bulk** | **Sale of LPG cylinders to retail customers** | **Sale of LPG cylinders to wholesale customers** | **Provision of piped gas** | **Sale of LPG appliances** |
|---|---|---|---|---|---|---|
| Turnover | $281.5m | $268.4m | $11.4m | $1.4m | $0 | $0.3m |
| % of total sales | 100% | 95.34% | 4.05% | 0.50% | 0% | 0.11% |
| **1999** | | | | | | |
| Turnover | $507.9m | $440.5m | $36.9m | $29.0m | $0.1m | $1.4m |
| % of total sales | 100% | 86.73% | 7.26% | 5.71% | 0.02% | 0.28% |
| **2000** | | | | | | |
| Turnover | $1,059.7m | $914.3m | $94.7m | $47.5m | $0.6m | $2.6m |
| % of total sales | 100% | 86.28% | 8.94% | 4.48% | 0.06% | 0.24% |

For the three years ended 31st December, 2000, the Group's largest customer accounted for approximately 3.12%, 3.78% and 5.35% of the Group's total turnover and the Group's five largest customers accounted for 8.95%, 13.90% and 15.72% respectively of the Group's total turnover. As at the Latest Practicable Date, none of the Directors, their respective Associates and shareholders who own more than 5% of the issued share capital of the Company had any interest in any of the five largest customers of the Group.

The Group has created its own unique trademark logo and brand name "PANVA". The Directors believe brand building is ultimately one of the most important elements in successful marketing. "PANVA" is the abbreviation for Pan River. PAN has a meaning of "many", "variety" and "numerous". RIVER has a meaning of "stream" and "lake", which symbolises river flow and the Chinese interprets river flow as continuous, energetic and spectacular.

At present, all of the Group's retail operations are carried out under the "PANVA" brand. The Directors believe that "PANVA" will eventually known to the public as a reputable LPG provider and distributor. The Directors also believe that successful brand building can stimulate sales in a very effective way through building brand loyalty amongst customers. Furthermore, through its unified LPG retail distribution network, the Directors believe that the Group's product and service quality standards are more readily discernible by its customers and the Group is able to more efficiently manage the retail distribution in its principal markets through standardised procedures and unified promotion and marketing.

The Group offers a range of payment terms to its customers depending on a number of factors such as customers' commercial credibility, number of repeat orders, the amount of the order, and its relationship with the customer. Payment terms include payment on delivery and payment on credit with terms from 7 to 30 days.

The Group currently implements the following different payment systems:

- bulk purchase customers: the Group normally requires payment on delivery or gives credit terms to these customers based on individual client's credit standing. Customers can purchase LPG on credit with terms from 7 to 30 days. Payments with respect to bulk purchases are made by cheque, telegraphic transfer and direct deposits into bank accounts of the respective operating subsidiaries.

- wholesale customers who purchase LPG cylinders: these customers pay for LPG on a "cash on delivery" basis or on credit with terms ranging from 7 to 30 days.

- retail customers who purchase LPG cylinders: these customers purchase LPG for cash.

- piped gas customers: the Group will issue a bill to each household every month for its previous month's consumption. The amount billed and payable is due immediately. The Company normally sends staff to customers' residence to collect the amount due.

The Company has in place various credit control procedures. These include following up long outstanding balances by designating specific staff members to be responsible for specific outstanding accounts, who will keep frequent contact with the debtors and setting their payment schedules. If any such payment schedule is not met, the Group will instruct lawyers to issue formal demand to the debtor and commence legal proceedings if earlier steps fail to secure settlement.

For the three years ended 31st December, 2000, cash sales with payment prior to or on delivery accounted for approximately 78.88%, 86.18% and 87.52% of the Group's total turnover respectively, and sales on credit with credit term of up to 30 days accounted for approximately 21.12%, 13.82% and 12.48% of the Group's total turnover respectively.

For the three years ended 31st December, 2000, the Group had bad debts amounted to $467,727, $7,099 and $148,950 respectively.

To strengthen the Group's LPG sales and marketing efforts, the Group has launched a web-site www.china-panva.com to provide information relating to the Group and its services. The Group plans to use the Internet and its website as a platform to exchange information and negotiate businesses with its customers and ultimately to develop this into an e-commerce platform for the Group's marketing and sales of LPG. While the Group concludes its sales entirely off the Internet at the present stage, the Group intends to gradually make its sales of LPG through the Internet in the future. However, it is expected that large scale sales of LPG through the Internet will take place beyond the period covered in the section headed "Statement of Business Objectives" in this prospectus and thus no details are included therein.

Nanjing PANVA, which was incorporated in August 2000 and commenced operation in October 2000, had 31 retail outlets and approximately 450,000 registered customers in Nanjing city as at 31st December, 2000 with average sales of approximately 10,000 LPG cylinders per day. The Group has established an efficient telephone ordering system and a call centre in Nanjing to enhance operational efficiency. In addition, Nanjing PANVA has signed an agreement with a local bank in Nanjing in relation to the connection of its call centre to the local bank's settlement system which enables bank cards to become a means of payment for the Group's products ordered through the telephone system, further details of which are set out in subsection headed "Sale of LPG in cylinders to retail customers" under the section headed "Sale of LPG in cylinders" on page 69 of this prospectus.

The ultimate goal of the Group is to be able to deliver LPG to its customers on a timely basis and to establish an extensive sales network with a view to taking up a large market share of the LPG retail market. The Group will continue to adopt flexible and efficient marketing strategies, so as to render the retail operation more dynamic and bring the terminal benefits to full play.

- the Group plans to reinforce its promotion and advertisement activities, while strengthening operation management, quality control and service safety at the same time, in order to create a "brand name" image for its LPG products.

- the Group currently adopts an employee incentive scheme such that the remuneration of each sales and marketing staff member is directly correlated with sales turnover attributable to sales made by that staff member.

- the Group implements a set of standardised specifications, operation procedures and service quality requirements to manage the whole operation. Regulations and policies governing each stage of the distribution process of LPG products starting from procurement, storage, transportation, to wholesale and retail have been implemented.

## LICENCES AND CERTIFICATES

In order to carry out LPG business in the PRC, various licences and certificates have been obtained by the relevant members of the Group. These licences ensure the relevant members of the Group the necessary rights in engaging in the gas fuel industry in the PRC.

In addition to the operation certificates, the operating subsidiaries of the Group also obtained various other certificates from various government departments necessary for the operation of its particular line of business which includes some or all of the following (as the respective local regulations may dictate):

- from the fire department: safety certificate for flammable chemical products（易燃易爆化學物品消防安全許可證）;

- from the labour department: certificate of pressurised equipment（壓力容器許可證）;

- from the labour department: certificate of cylinder filling（氣瓶充裝許可證）; and

- from the office of infrastructure management （建設廳）: gas fuel enterprise qualification certificate（燃氣企業資質證書）.

## QUALITY CONTROL

The Group relies to a great extent on its suppliers in producing LPG of the requisite quality standard, although it carries out quality analysis of the LPG delivered.

For example, the production arm of one of the Group's main suppliers had obtained ISO9002 Quality Assurance Certificate.

In addition, the Group ensures good quality LPG to be delivered to customers by:

- selecting suppliers which supply good quality LPG;
- the inclusion of terms on quality and standard of LPG supplied in purchase agreements; and
- conducting strict quality inspections on all its products and services, and those of its products which have passed quality inspections will be distinguished with a "qualification" label.

## INSURANCE

The operating subsidiaries of the Company have taken out insurance coverage for risks in respect of some or all of the following:

- insurance for assets; insurance for certain assets such as storage tanks, filling centres, gas pipelines, real estates, cylinders, automobile insurance, freight insurance, machinery insurance, public responsibility insurance, LPG cylinder insurance.
- insurance for employees: for example, group insurance for damages and injuries, social insurance for employees purchased from various local Social Insurance Management Councils.
- fire insurance for its properties and third party liability insurance.

## PRODUCT INDEMNITY

Sinolink has undertaken to the Company to indemnify the Company against all losses, liabilities and reasonable costs and expenses incurred or suffered by the Company arising from or in connection with defective or faulty products sold by the Group prior to the date of the deed dated 4th April, 2001 referred to in item 1(d) under the paragraph headed "Summary of Material Contracts" under the section headed "Further Information About the Business" in Appendix V to this prospectus.

## STAFF TRAINING AND MANAGEMENT

### Staff Training

In order to increase the competitiveness, productivity and efficiency of the Group, the Group has implemented various comprehensive training policies and organised various training programs to improve the skills of its employees.

The Group offers initial staff orientation to new employees in order to familiarise them with the Group's history and strategy, corporate culture, rules and regulations and safety measures. This orientation is designed to integrate the employees into the Group and, the Directors believe, helps improve productivity of new employees at an early stage.

The Group also offers training programs for staff at various levels. Such programs aim at raising the productivity of the employees, improving leadership skills, improving safety knowledge and enhancing their management skills. The Group's training programs can be divided into two main categories: technical training and management training.

Technical training programs are designed for operating staff of the Group. These programs aim at increasing the productivity of the Group. Technical training consists of training in the nature, supply, storage and safety of LPG and operation of storage stations, filling facilities and retail outlets comprising the work flow, equipment and maintenance.

Management training programs are designed for management staff from various departments to enhance their management skills. These programs include:

- chief executive training programs;
- executive and financial officers training programs;
- senior managers training programs;
- managers training programs; and
- human resources management training programs.

In addition to the various training programs offered, the Group has also compiled operation manuals to provide employees with knowledge procedures and guidelines which they require in their work. These operation manuals include:

- retail outlet chief executive operation manual;
- retail outlet manager operation manual;
- LPG safety operation manual;
- retail outlet sales personnel operation manual; and

- retail outlet delivery personnel operation manual.

Details of training programs and operation manuals are also set out in the subsection headed "Statement of active business pursuits" under the section headed "History and development and active business pursuits" on page 57 of this prospectus.

## COMPETITION

As a result of continuous growth of LPG consumption in the PRC as driven by environmental and efficiency concerns, the Directors believe that new operators will be attracted to enter into the LPG distribution market. The Directors anticipate the competition in the PRC's LPG distribution market will continue to be keen, as every operator will try to maintain and increase its market share. The Group faces competition from certain large scale local LPG wholesale distributors in the PRC. However, these wholesale distributors do not normally carry on LPG retail distribution operation like the Group does. In respect of the LPG retail business, the Group competes with various small local LPG retail distributors in cities along the Yangzi River where the Group operates. Nevertheless, the Directors believe that only operators possessing the competitive advantages like those of the Group will be able to succeed in this market. The Directors are confident that given its experienced management team, its well established distribution network and retail customer base, its steady and stable supply of LPG as well as its well recognised brand name, the Group is likely to come out as one of the leading and reputable LPG operators in the PRC. Most importantly, as the Group's operation continues to expand, the Directors believe that its operation will soon attain the level of critical mass which would offer scope for unit cost savings and efficiency enhancements through centralisation of operations and logistics. This will enable the Group to achieve a competitive cost structure to establish a strong foothold in the LPG market in the PRC.

## CONNECTED TRANSACTIONS

On 28th February, 2001, the Company entered into a licence agreement with Sinolink in relation to the office premises at Units 2501 and 2502 of 25th Floor, Vicwood Plaza, No.199 Des Voeux Road, Central, Hong Kong which is held by Sinolink under a lease contract dated 15th March, 1999 for a term of 2 years commencing from 15th July, 1999 with a renewal option for a further term of 1 year at a monthly rental of $125,000 exclusive of rates, government rent and charges. Pursuant to the said licence agreement, Sinolink agreed to grant a licence to the Group to use certain part of the premises with approximately 1,645 square feet in area for a term commencing from 1st March, 2001 and expiring on 14th July, 2001 at a monthly licence fee of $41,600 exclusive of rates, government rent and charges. Sinolink is the controlling shareholder and a substantial shareholder (as defined under the GEM Listing Rules) of the Company.

On 1st January, 2001, Panriver Investments Company Limited, a wholly foreign owned enterprise established in the PRC and indirectly wholly-owned by the Company, entered into an office facilities management agreement in Chinese with Shenzhen Sinolink Enterprises Co., Ltd., an associate of a connected person of the Company by virtue of its being a subsidiary of Sinolink which is a controlling and substantial shareholder of the Company under the GEM Listing Rules. Under the said agreement, the Company is allowed to use the office facilities at

2nd Floor, Sinolink Building, 28 Taining Road, Shenzhen, the PRC by payment of (i) a facility fee of RMB19,412.10 per month (calculated at RMB45 for each sq.m. based on 431.38 sq.m.) and (ii) electricity and water fee at RMB4,313.80 per month (calculated at RMB10 for each sq.m. based on 431.38 sq.m.).

The above two transactions constitute connected transactions (as defined under the GEM Listing Rules) of the Company. In accordance with Rule 20.25(3) these two connected transactions, which are within the de minimis amount set out therein will be exempted from any disclosure and independent Shareholders' approval requirement.

## DIRECTORS

### Executive Directors

Mr. Ou Yaping, aged 39, the chairman, founder and ultimate controlling shareholder of the Company. He is also the chairman and managing director of Sinolink. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC and is also the vice chairman of the board and a part-time professor of that institute. He was previously employed by a number of trading companies and investment companies in the PRC and Hong Kong and is presently a director of China Merchants Bank of the PRC and chairman of 9xo9.com Limited. Mr. Ou has 15 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Group.

Mr. Chen Wei, aged 39, managing director of the Company. He is also an executive director of Sinolink. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC. He was previously employed by a number of other large organisations and has over 15 years of experience in the engineering business administration, market development and management. Mr. Chen joined the Sinolink Group in February 1992 and is responsible for the operation and administration of the power generation business and the LPG business.

Mr. Lai Wen Guang, aged 37, deputy managing director of the Company. He holds a Diploma from China Social University. Mr. Lai has 15 years of experience in the trading, investment and management in the oil and LPG business. He joined the Sinolink Group in July 1997 and is responsible for the development of LPG business.

Mr. Lau Shi Wa, aged 38, executive Director. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology and a Master of Engineering Management degree from China Metallurgy University. He has 13 years of experience. He joined the Sinolink Group in January 1996 and is responsible for the management and market development of the LPG business.

Mr. Li Fujun, aged 37, executive Director. He holds a Bachelor of Engineering degree from Tsinghua University and a Master of Economics degree from the University of International Business and Economics. He has 8 years of experience in project evaluation and strategic planning, investment analysis, engineering work, as well as project management and investment. Mr. Li joined the Sinolink Group in May 1994 and is responsible for the strategic planning, investment and management of the LPG business.

### Non-executive Directors

Mr. Yim Chun Leung, aged 39, a non-executive Director and the chief financial officer and the company secretary of Sinolink. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Yim has 17 years of experience in corporate finance, auditing, accounting, company secretarial work, human resources and executive management of listed companies. He joined

Sinolink Group in December 2000 and is responsible for corporate finance work in the Sinolink Group.

Mr. Zheng Dunxun, aged 63, graduated from Beijing Foreign Trade Institute. Mr. Zheng previously served as an officer, division chief, chief representative to Japan, vice president and president of China National Chemicals Import & Export Corporation (SINOCHEM). He was also appointed as a member of China Council for the Promotion of International Trade, vice chairman of China International Trade Association and vice chairman of the board of First Pacific Bank Limited. At present, he is a member of Chinese People's Political Consultative Conference as well as a member of the Economy Committee under this organisation. Mr. Zheng is also vice chairman of the board of Sinochem Hong Kong (Holdings) Co., Ltd.. He has been a non-executive Director since February 2001.

**Independent non-executive Directors**

Mr. Cheung Hon Kit, aged 47, has over 22 years experience in the real estate development, property business and corporate finance. Mr. Cheung graduated from the University of London with a Bachelor Degree (Hons.) in Arts. Before joining the Group, he worked for various property companies in Hong Kong. From 1979 to 1989, he has been the executive director of Chinachem Group, the senior manager and personal assistant to the chairman of Sun Hung Kai Securities Ltd. the executive director of Sino Land Company Ltd. and the director of Lai Sun Garment and Development Ltd. From 1990 to 1998, Mr. Cheung was the deputy managing director of The Kwong Sang Hong International Ltd. Currently, he is also the non-executive director of listed companies, namely ITC Corporation Ltd. and Hanny Holdings Ltd. He has been an independent non-executive Director since January 2001.

Mr. Sun Hiu Lu, aged 45, graduated from the Faculty of Trade Economy in the People's University of Beijing and holds a bachelor degree in Economy. He has been the director of Mark Victory International Limited and Sinogrowth Investment Limited since 1996. Mr. Sun has many years of experience in investment and corporate management. Mr. Sun has been the chairman of Hong Kong Pharmaceutical Holdings Limited since June 1999. He has been an independent non-executive Director since January 2001.

## COMPLIANCE OFFICER

Mr. Li Fujun, aged 37, is an executive Director of the Company.

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yu Man To, Gerald, *CPA (Aust) AHKSA*, aged 34, is the financial controller and company secretary of the Company.

## AUDIT COMMITTEE

The Company has established an audit committee on 4th April, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The two independent non-executive Directors and Mr. Yim Chun Leung, the non-executive Director, have been appointed to the audit committee, and Mr. Cheung Hon Kit, one of the independent non-executive Directors, has been appointed as the chairman of the audit committee.

## SENIOR MANAGEMENT

Mr. Yu Man To, Gerald, aged 34, the financial controller and the company secretary of the Company. He holds a Bachelor degree in Business and a Master degree in Business Administration. Mr. Yu has over 7 years of experience as an auditor with an international accounting firm. He is a certified practising accountant in Australia and an associate member of the Hong Kong Society of Accountants. Mr. Yu joined the Group in December 2000 and is responsible for accounting and finance of the Group.

Mr. Xiong Jiang, aged 41, deputy managing director and executive director of Panriver Investments Limited. He holds a Bachelor of Management degree from Hunan Television Broadcast University (湖南廣播電視大學). Mr. Xiong had been actively engaged in the production, operation, management and business development in the petrochemical industry. He was previously the general manager of Changsha PANVA, and has rich experience in project planning and market sales. He joined the Group in January 1998 and is responsible for the development and management of LPG investment projects in the central regions of the PRC.

Mr. Mo Shi Kang, aged 42, deputy managing director and executive director of Panriver Investments Limited and chairman of Guizhou PANVA. He holds a Bachelor degree in Mathematics from Tianjin Education University and a Master degree in Economics from Tianjin College of Finance. Mr. Mo was previously the deputy general manager in Guizhou PANVA. He has rich experience in the development and sales strategies planning in the LPG retail sector. Mr. Mo joined the Group in April 1998 and is responsible for the development and management of LPG investment projects in the southwestern regions of the PRC.

Mr. Luo Lei, aged 37, the administration director of Panriver Investments Limited. He holds a Bachelor degree in Economics from the People's University of China. He was employed by various companies in Hong Kong and the PRC and was responsible for trading, management and investment business. Mr. Luo has 16 years of experience in business and executive management. He joined the Group in September 1999 and is responsible for the administration and human resources of the Group .

Mr. Wang Han Yu, aged 52, director of Panriver Investments Limited and the general manager of Guizhou PANVA. He graduated from Shanghai School of Mechanical Installation in 1968. He has 13 years of experience in the production, development, operation and management of the gas fuel industry. He joined the Group in December 1998 and is responsible for operational management of the LPG project in Guizhou.

Mr. Liu Fang Ye, aged 43, director of Panriver Investments Limited and the general manager of Changsha PANVA. He holds a Bachelor degree from Hunan Television University and a Master of Economics degree from Middle South Finance University, the Chop of the

University is illegible and has 20 years of experience in personnel management and marketing in the petrochemical industry. Mr. Liu joined the Group in January 1998 and is responsible for the operational management of the LPG project in Changsha.

Mr. Shen Lian Jin, aged 38, director of Panriver Investments Limited and the general manager of Nanjing PANVA. He holds a Bachelor degree from Anhui Education University. He was previously the general manager of Wuhu PANVA. Mr. Shen has rich experience in business development, operation and management in the LPG retail market. He joined the Group in March 1998 and is responsible for the operational management for the LPG project in Nanjing.

Mr. He Han Qing, aged 45, graduated from Hubei Finance University. He was previously the chief accountant in Changsha PANVA. Mr. He has 23 years of experience in financial management, auditing, asset valuation and taxation handling. He was one of the founding members of the Wuhan Society of Accountants. He was a certified accountant in 1991 and a certified tax accountant in 1996. Mr. He joined the Group in October 1997 and is responsible for the general management in Panriver Investments Company Limited.

Mr. Zhu Yimin, aged 36, graduated from Xiangtan University and holds the title of economist. He was previously the manager of the retail department and the chief accountant of Changsha PANVA. Mr. Zhu was previously engaged in the production, techniques, equipment and management of the petroleum sales system and the sales of LPG in major petrochemical enterprises in the PRC. He is familiar with the management of LPG storage and transportation and has 14 years of experience in management in major petrochemical enterprises and 3 years of experience in the investment, market development and sales of LPG. He joined the Group in January 1998 and is responsible for investment management in Panriver Investments Limited.

Ms. Huang Jie, aged 29, graduated from 中南財經大學. She is a certified accountant and has rich experience in taxation and finance. Ms Huang joined the Group in April 1998 and is responsible for financial management in Panriver Investments Company Limited.

Mr. Yi Gan Lin, aged 33, graduated from Hunan College of Finance (湖南財經學院). Mr. Yi was previously engaged in auditing in Changsha PANVA. He has 14 years of experience in financial management. He is familiar with the financial policies and laws of the PRC and the production, operation and management of LPG business. Mr. Yi joined the Group in January 1998 and is responsible for auditing in Panriver Investments Company Limited.

## STAFF

As at the Latest Practicable Date, the Group had a total of 1,527 staff. The breakdown of staff by function as at 31st December, 1998 and 1999 and as at the Latest Practicable Date is as follows:

| Human resources deployment (Number of staff) | As at 31st December, 1998 | As at 31st December, 1999 | As at the Latest Practicable Date |
|---|---|---|---|
| Management | 38 | 54 | 79 |
| Finance and administration | 41 | 87 | 162 |
| Sales and distribution | 231 | 364 | 837 |
| Production, purchase and supply | 56 | 137 | 449 |
| Total | 366 | 642 | 1,527 |

The Group recognises the importance of training to its staff. In addition to on-the-job training, the Group regularly provides various training programs and operation manuals for different levels of employees to enhance their technical, product and operation knowledge, details of which are set out the subsection headed "Statement of active business pursuits" under the section headed "History and development and active business pursuits" on page 57 of this prospectus.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

### Staff benefits

The Group provides a provident fund scheme for its Hong Kong employees approved by the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong). The scheme is funded by contributions from employers and employees. The amount of the Group's contributions is calculated based on a specified percentage of basic salary of the employees concerned. Forfeited contributions in respect of unvested benefits of employees leaving the scheme prior to benefits being vested are used to reduce the Group's ongoing contributions. Moreover, pursuant to the relevant PRC regulations, operating subsidiaries of the Company incorporated in the PRC are required to contribute amounts ranging from approximately 12% to 25% of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC.

Details of the contributions made by the Group are as follows:

| | **Year ended 31st December, 1998** *($'000)* | **Year ended 31st December, 1999** *($'000)* | **Year ended 31st December, 2000** *($'000)* |
|---|---|---|---|
| Net contributions charged to operating profit | 278 | 653 | 1,084 |

As at the Latest Practicable Date, there was no forfeited contribution to offset future contributions to be made by the Group.

**Pre-Listing Share Option Plan**

The Company has conditionally adopted the Pre-Listing Share Option Plan whereby certain employees and directors of the Group and the Sinolink Group have been granted options in respect of Shares. The principal terms of the Pre-Listing Share Option Plan are set out in the sub-paragraph headed "Summary of the terms of the Pre-Listing Share Option Plan" of the paragraph headed "Share Options" in Appendix V to this prospectus.

**Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme whereby employees of the Group and executive Directors may be granted options to acquire Shares. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of high calibre executives and employees. The principal terms of the Share Option Scheme are set out in the sub-paragraph headed "Summary of the terms of the Share Option Scheme" of the paragraph headed "Share Options" in Appendix V to this prospectus.

## RELATIONSHIPS WITH THE SINOLINK GROUP

On 13th January, 1999, Sinolink and Mr. Ou entered into the Acquisition Agreement pursuant to which Sinolink would purchase from Mr. Ou the entired issued share capital of China PANVA and the shareholder's loan (approximately $44.6 million) owing from China PANVA to Mr. Ou for a total consideration of $55,183,411 being satisfied by the issue of a convertible note to Mr. Ou. China PANVA then became a directly wholly-owned subsidiary of Sinolink before the corporate reorganisation as set out in Appendix V to this prospectus.

Sinolink is the controlling shareholder of the Company. The Sinolink Group is principally engaged in real estate development and investment as well as in the business of electricity generation and supply. The Directors do not consider that there exists for the purpose of the GEM Listing Rules any competition between the Group's business and that of the Sinolink Group, as the Group's principal business is the sale and distribution of LPG in the PRC.

The Directors believe that, given the previous business experience and the extensive business contacts of the Sinolink's senior management team in oil trading in the PRC, the Group's affiliation with the Sinolink Group will certainly assist the Group to identify viable business opportunities in the PRC's LPG market. Furthermore, the Directors consider that the Sinolink Group will be able to provide members of the Group the opportunity to bid for piped gas work in Sinolink Group's real estate development projects, subject to compliance with the Listing Rules and the GEM Listing Rules.

Certain members of the Company's senior management may serve on the board of companies in both the Group and the Sinolink Group. In addition, a number of the Group's senior management work part time for the Group with their remaining time working for the Sinolink Group. The Directors believe that such relationship provides the Group access to experience, knowledge, management skills and business relationship that it might not otherwise have.

## CONVERTIBLE NOTE

Supreme, a wholly-owned subsidiary of Sinolink was issued the Convertible Note in consideration for the acquisition by the Company of a loan due from China PANVA to Sinolink. Following the Placing and assuming the Over-allotment Option is not exercised, Sinolink through Kenson will hold approximately 77.96% of the issued share capital of the Company. The Convertible Note will represent approximately 21.9% of the issued share capital of the Company on a fully diluted basis (excluding any Shares that may be issued upon the exercise of the Over-allotment Option or of options conditionally granted under the Share Option Schemes), assuming conversion at a conversion price based on the Issue Price of $0.57. The principal terms of the Convertible Note are set out in Appendix III to this prospectus.

However, it should be noted that pursuant to Rule 11.23(1) of the GEM Listing Rules, the public must hold at least 20% of the Shares of the Company at all times. Therefore, Sinolink through Supreme will only be able to exercise its conversion rights under the Convertible Note if it takes steps to ensure that the public holding of Shares will not fall below the 20% limit. It should also be noted that pursuant to Rule 17.29 of the GEM Listing

Rules, no further Shares or securities convertible into equity securities of the Company may be issued or form the subject of any agreement to issue within the first six months of the date on which the Shares first commence dealing on GEM.

**CONNECTED TRANSACTIONS**

On 28th February, 2001, the Company entered into a licence agreement with Sinolink in relation to the office premises at Units 2501 and 2502 of 25th Floor, Vicwood Plaza, No.199 Des Voeux Road Central, Hong Kong which is held by Sinolink under a lease contract dated 15th March, 1999 for a term of two years commencing from 15th July, 1999 with a renewal option for a further term of one year at a monthly rental of $125,000 exclusive of rates, government rent and charges. Pursuant to the said licence agreement, Sinolink agreed to grant a licence to the Group to use certain parts of the premises for a term commencing from 1st March, 2001 and expiring on 14th July, 2001 at a monthly licence fee of $41,700 exclusive of rates, government rent and charges. Sinolink is the controlling shareholder and a substantial shareholder (as defined under the GEM Listing Rules) of the Company.

On 1st January, 2001, Panriver Investments Company Limited, a wholly foreign owned enterprise established in the PRC and wholly owned by the Company, entered into an office facilities management agreement in Chinese with Shenzhen Sinolink Enterprises Co., Ltd., an associate of a connected person of the Company by virtue of its being a subsidiary of Sinolink which is a controlling and substantial shareholder of the Company under the GEM Listing Rules. Under the said agreement, the Company is allowed to use the office facilities at 2nd Floor, Sinolink Building, 28 Taining Road, Shenzhen, the PRC by payment of (i) a facility fee of RMB19,412.10 per month (calculated at RMB45 for each sq.m. based on 431.38 sq.m.) and (ii) electricity and water fee at RMB4,313.80 per month (calculated at RMB10 for each sq.m. based on 431.38 sq.m.).

The above two transactions constitute connected transactions (as defined under the GEM Listing Rules) of the Company. In accordance with Rule 20.25(3), of the GEM Listing Rules, these two connected transactions, which are within the de minimis amount set out therein will be exempted from any disclosure and independent Shareholders' approval requirement.

In addition, Sinolink has undertaken to the Company that, conditional upon the listing of Shares on GEM, Sinolink will not and procure that none of the members of Sinolink Group will, for so long as it is a controlling shareholder of the Company under the GEM Listing Rules, directly or indirectly engage, participate or hold any right or interest in or otherwise be involved in the Company's business as more particularly described in the section headed "Business" of this prospectus. However, it will not preclude the ownership by Sinolink Group of not more than 5% of the issued voting securities of any company listed on the Stock Exchange or GEM or any recognised stock exchange which company is engaged in the Company's business ("listed competing company") provided that:

(a) the number of directors which Sinolink Group is entitled to appoint to the board of directors of the listed competing company does not exceed 5% (round up to the nearest whole number) of the total number of directors comprising the board of directors of the listed competing company from time to time; and

(b) there is a person or company who or which together with its or his or her associates (as defined under the GEM Listing Rules) is directly or indirectly interested in a larger percentage holding of the relevant securities of the listed competing company than the aggregate holding of Sinolink Group in such securities.

The Directors, in reliance on Sinolink's non-competition undertaking, consider that there is a proper delineation with Sinolink Group's business.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing, the Capitalisation Issue (but without taking into account any Shares which may be issued pursuant to the Over-allotment Option) and the Distribution, the only persons directly or indirectly interested in 10% or more of the voting rights at any general meeting of the Company other than a Director or a chief executive of the Company will be as follows:

| Name | Number of Shares | Approximate percentage of holding (per cent) *(note 3)* |
|---|---|---|
| Kenson | 389,800,000 | 77.96 |
| Sinolink *(note 1)* | 389,800,000 | 77.96 |
| Asia Pacific Promotion *(note 2)* | 399,866,960 | 79.97 |
| Mr. Ou via Asia Pacific Promotion *(note 3)* | 399,866,960 | 79.97 |

*Notes:*

(1) Kenson is a wholly-owned subsidiary of Sinolink. Sinolink through its interest in Kenson is deemed to be interested in the 389,800,000 Shares held by Kenson under the SDI Ordinance.

(2) As at the Latest Practicable Date, Asia Pacific Promotion was interested in approximately 66.23% of the issued share capital of Sinolink. Asia Pacific Promotion is therefore entitled to exercise or control the exercise of one third or more of the voting rights of Sinolink which in turn is entitled to exercise or control the exercise of one third or more of the voting rights of Kenson and which in turn is entitled to exercise or control the exercise of one third or more of the voting rights of the Company, it is deemed, by virtue of the SDI Ordinance, to be interested in the same 389,800,000 Shares held by Kenson.

Apart from the above, Asia Pacific Promotion will be interested in 10,066,960 Shares pursuant to the Distribution.

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

## SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing (without taking into account Shares which may be taken up under the Placing, any Shares which may fall to be allotted and issued upon exercise of the Over-allotment Option or any Shares which may be issued upon the conversion of the Convertible Note or exercise of options which may be granted under the Share Option Schemes), the Capitalisation Issue and the Distribution, apart from the substantial shareholders referred to above and the initial management shareholders referred to below, there are no other shareholders who will be interested in 5% or more of the voting rights at general meetings of the Company.

## INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing, the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Placing in which may be issued upon the conversion of the Convertible Note or exercise of the options which may be granted under the Share Option Schemes) and the Distribution, there are no other persons other than Sinolink, Kenson, Mr. Ou and Asia Pacific Promotion as disclosed above who will be directly or indirectly interested in 5% or more of the Shares then in issue and who are able, as a practical matter, to direct or influence the management of the Company.

## NON DISPOSAL UNDERTAKINGS

Each of the Initial Management Shareholders has given certain undertakings to the Company, the Stock Exchange, the Sponsor and the Underwriters. Details of the undertakings are set out in the paragraph headed “Undertakings” under the section headed “Underwriting” in this prospectus. In addition, a waiver has been obtained with respect to the lock-up period which is set out in the section headed “Waivers from compliance with the GEM Listing Rules and Companies Ordinance”. As a result of such waiver, each of the Initial Management Shareholders has undertaken with the Company, the Stock Exchange, the Sponsor and the Underwriters (on behalf of the Underwriters) not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities (i) during the First Relevant Lock-up Period; and (ii) during the Second Relevant Lock-up Period so as to result in the Initial Management Shareholders ceasing to have control over 35% of the voting powers at general meetings of the Company.

Each of the Initial Management Shareholders has further undertaken to the Stock Exchange, the Company, the Sponsor and the Underwriters that (i) in the event that the Initial Management Shareholder pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.17 of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules at any time during the First and Second Relevant Lock-up Period, it must inform the Company and the Sponsor immediately thereafter, disclosing the relevant information specified under Rule 17.43(1) to (4) of the GEM Listing Rules and (ii) having pledged or charged any interest in the relevant Shares as in (i) above, it must inform the Company and the Sponsor immediately in the event that it becomes aware that the pledgee or the chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

| *Authorised:* | | *$* |
|---|---|---|
| 2,000,000,000 | Shares | 200,000,000 |

*Issued and to be issued, fully paid or credited as fully paid:*

| | | |
|---|---|---|
| 105,000,000 | Shares in issue | 10,500,000 |
| 300,000,000 | Shares to be issued pursuant to the Capitalisation Issue | 30,000,000 |
| 95,000,000 | Shares to be issued pursuant to the Placing | 9,500,000 |
| 500,000,000 | Shares | 50,000,000 |

**Assumptions**

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the minimum prescribed percentage of 20% of the issued share capital of the Company in the hands of the public.

This table assumes that the Placing, the Capitalisation Issue and the Distribution has become unconditional.

It takes no account of any Shares which may be issued under the Over-allotment Option, the Share Option Schemes or upon the exercise of the conversion rights attached to the Convertible Note, or under the general mandate (see below "General mandate to issue Shares"), or which may be bought back by the Group (see below "General mandate to repurchase Shares") or otherwise.

Under the Over-allotment Option granted by the Company to Tai Fook Securities, up to an aggregate of 9,500,000 new Shares, which represent 10% of the number of Placing Shares may be issued by the Company at the Issue Price.

**Ranking**

The Placing Shares will rank pari passu in all respects with all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares except in respect of the Capitalisation Issue.

**Convertible Note**

The Company has issued the Convertible Note to Supreme as consideration for acquisition by the Company of the loan due from China PANVA to Sinolink. Principal terms of the Convertible Note are set out in Appendix III to this prospectus. The Convertible Note may be converted at any time after the expiration of six months from the Listing Date. Any new Shares issued as a result of the exercise of the conversion rights attached to the Convertible Note shall rank pari passu in all respects with the existing Shares.

**Pre-Listing Share Option Plan and Share Option Scheme**

The Group has conditionally adopted the Pre-Listing Share Option Plan and the Share Option Scheme subject to Sinolink's shareholders approval. Summaries of the principal terms of such plan and scheme are set out in the paragraph headed "Share Options" in Appendix V to this prospectus.

Under the Pre-Listing Share Option Plan, options to subscribe for Shares have conditionally been granted to a number of grantees, being Directors and employees of members of the Group and members of the Sinolink Group.

Under the Share Option Scheme, options to subscribe for Shares may be granted to the executive Directors and full-time employees of the Group provided that the aggregate nominal value of the Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with Shares subject to any other share option schemes (including the Pre-Listing Share Option Plan) of the Group, 10% of the nominal value of all the issued Shares (excluding Shares which may be issued pursuant to the exercise of options granted under the Pre-Listing Share Option Plan and the Share Option Scheme and any pro-rata entitlements to further Shares issued) from time to time.

**General mandate to allot and issue Shares**

A general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal amount of Shares in issue and to be issued (as set out in the above table, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option); and

(ii) the aggregate nominal amount of Shares repurchased by the Group under the authority referred to in the paragraph headed "General mandate to repurchase Shares" below.

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or Shares to be issued upon the exercise of options granted under the Share Option Scheme.

This mandate will expire:

(i) at the end of the Group's next annual general meeting; or

(ii) at the end of the period within which the Group is required by any applicable laws or its articles of association to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Further information about the Group" in Appendix V to this prospectus.

**General mandate to repurchase Shares**

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Group to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of the Shares in issue and to be issued (as set out in the above table, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option).

This mandate only relates to purchases made on GEM, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which is in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

This mandate will expire:

(i) at the end of the Group's next annual general meeting; or

(ii) at the end of the period within which the group is required by any applicable laws or its articles to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Further information about the Group" in Appendix V to this prospectus.

## INDEBTEDNESS

### Borrowings

At the close of business on 28th February, 2001, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this prospectus, the Group had outstanding bank borrowings of approximately $2.7 million secured by fixed assets of the Group, unsecured and non-interest bearing advances from minority shareholders amounting to approximately $33.6 million and unsecured and non-interest bearing advances from the intermediate holding company, Sinolink, of approximately $163.8 million. Pursuant to the Reorganisation, such indebtedness to Sinolink was partly capitalised in an amount of $64.1 million and the remaining balance was converted into the Convertible Note on 4th April, 2001, details of which are set out in Appendix III to this prospectus.

### Contingent liabilities

On 28th October, 2000, a legal claim in the amount of approximately RMB1,658,000 was brought against Wuhu PANVA by Wuhu Sanpeng LPG Chemical and Energy Co., Ltd., the joint venture partner of Wuhu Sanpeng PANVA for losses on breaching the joint venture agreement between them. The Directors are of the opinion that the claims and allegations are unfounded and groundless. Nonetheless, the Group intends to wind up Wuhu Sanpeng PANVA, upon conclusion of the litigation and the remaining investment cost of this subsidiary had been written off in the year ended 31st December, 2000. The Directors, having considered the case carefully, are of the opinion that the winding up of Wuhu Sanpeng PANVA would not have a material effect on the Group's financial position as at 28th February, 2001. The controlling shareholders of the Company, Sinolink and Kenson, have given indemnity to the Company against any amount payable and all expenses incurred (including legal costs) arising from or in connection with this claim in the event that the Group is unsuccessful in defending the claim. Details of the litigation and the indemnity given are set out in Appendix V to the prospectus.

### Disclaimers

Save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities outstanding at the close of business on 28th February, 2001.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 28th February, 2001.

## DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Net current assets

As at 28th February, 2001, the Group had unaudited net current assets of approximately $98.1 million. The unaudited current assets of the Group comprised cash and bank balances of approximately $145.5 million, trade debtors of approximately $16.8 million, inventories of approximately $22.9 million, and other debtors, deposits and prepayments of approximately $11.5 million. The unaudited current liabilities of the Group comprised short term bank loans of $2.7 million, trade creditors of approximately $30.3 million, other creditors and accruals of approximately $32.0 million and amounts due to minority shareholders of approximately $33.6 million.

### Borrowings and banking facilities

The Group generally finances its operations with internally generated resources, banking facilities provided by its principal bankers, advances from minority shareholders and intermediate holding company, Sinolink.

As at 28th February, 2001, the Group had total outstanding bank borrowing of $2.7 million, unsecured and non-interest bearing advances from minority shareholders of approximately $33.6 million and unsecured and non-interest bearing advances from intermediate holding company of approximately $163.8 million. The bank loans were secured by plant and equipment of the Group with net book value of approximately $8.3 million.

### Capital commitments

As at 28th February, 2001, the Group had no material capital commitments.

### Other commitment

As at 28th February, 2001, one of the Group's subsidiary, Panriver Investments Company Limited had outstanding registered capital contribution of US$23 million which needs to be paid up by 9th March, 2002 or such later date as approved by the relevant PRC government authority. The Directors expect to fulfil such capital contribution by way of transferring the Group's equitable interests in all operating subsidiaries which amount to approximately US$17 million, and injecting US$6 million cash into Panriver Investments Company Limited of which approximately US$5 million will be from the use of proceeds and the remaining balance will be financed by internal resources of the Group.

### Foreign currency exposure

The Group's entire present operation is carried out in the PRC. All its receipts and payments in relation to the operation are denominated in RMB. In this respect, the Directors consider there is no currency mismatch in its operational cashflows and the Group is not exposed to any foreign currency exchange risk in its operation.

**Directors' opinion on the working capital**

The Directors are of the opinion that, after taking into consideration the financial resources and banking facilities available to the Group including its internally generated funds, amounts due to minority shareholders and intermediate holding company and the estimated net proceeds of the Placing, the Group has sufficient working capital to satisfy its present requirements.

## TRADING RECORD

The following is a summary of the combined results of the Group for each of the three years ended 31st December, 2000. The summary has been prepared on the basis that the existing structure of the Group had been in place throughout the three years ended 31st December, 2000 and should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

| | **Year ended 31st December,** | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| Turnover *(Note 1)* | 281,547 | 507,876 | 1,059,729 |
| Cost of sales | (259,536) | (491,076) | (1,011,052) |
| Gross profit | 22,011 | 16,800 | 48,677 |
| Other revenue | 121 | 859 | 487 |
| *Less:* Distribution expenses | (4,836) | (10,140) | (19,335) |
| Administrative expenses | (15,651) | (20,481) | (25,796) |
| Other operating expenses | (224) | (247) | (661) |
| Profit (loss) from operations | 1,421 | (13,209) | 3,372 |
| Finance costs | (2,317) | (339) | (319) |
| Investment income | 434 | 510 | 3,430 |
| (Loss) profit from ordinary activities before taxation | (462) | (13,038) | 6,483 |
| Taxation | – | – | (342) |
| (Loss) profit before minority interests | (462) | (13,038) | 6,141 |
| Minority interests | (1,887) | 3,252 | (5,313) |
| Net (loss) profit for the year | (2,349) | (9,786) | 828 |
| (Loss) earnings per share (cents) *(Note 2)* | (0.58) | (2.42) | 0.20 |

*Notes:*

1. Turnover represents revenue from the sale of LPG, the provision of piped gas and the sale of LPG household appliances during the year, net of discounts and returns, value added tax and sales tax. The value added tax and sales tax are charged at the rate of 17% and 5.05% respectively.

2. The calculation of the (loss) earnings per share for each of the three years ended 31st December, 2000 is based on the combined (loss) profit for each of the three years ended 31st December, 2000 and on the 405,000,000 shares in issue during those periods on the assumption that the Reorganisation had been effective on 1st January, 1998.

During the three years ended 31st December, 2000, the Group has borrowed funds from the intermediate holding company, Sinolink and the minority shareholders where no interest expenses were charged on these balances. Had these balances been interest bearing, the Directors believe that the combined results of the Group after taxation for the three years ended 31st December, 2000 would have been decreased by the following notional amounts:

| | **Year ended 31st December,** | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| (Loss) profit for the year as set out above | (2,349) | (9,786) | 828 |
| Notional adjustments: | | | |
| Interest expense on amount due to intermediate holding company *(Note 1)* | – | (1,020) | (2,996) |
| Interest expense on amounts due to minority shareholders *(Note 2)* | (20) | (256) | (756) |
| | (20) | (1,276) | (3,752) |
| Adjusted loss for the year | (2,369) | (11,062) | (2,924) |

*Notes:*

1. Notional interest expense is calculated at 3% per annum, being the same rate as the Convertible Note as described in Appendix III to this prospectus, on the portion of advances which are not capitalised on Reorganisation.

2. Notional interest expense is calculated at a rate equivalent to the PRC short term bank loan rate, i.e. 6% per annum.

**LPG sales statistics for the three years ended 31st December, 2000**

| **1998** | **Total LPG sales** | **Sale of LPG in bulk** | **Sale of LPG cylinders to retail customers** | **Sale of LPG cylinders to wholesale customers** | **Provision of piped gas** | **Sale of LPG appliances** |
|---|---|---|---|---|---|---|
| Turnover | $281.5m | $268.4m | $11.4m | $1.4m | $0 | $0.3m |
| % of total sales | 100% | 95.34% | 4.05% | 0.50% | 0% | 0.11% |
| **1999** | | | | | | |
| Turnover | $507.9m | $440.5m | $36.9m | $29.0m | $0.1m | $1.4m |
| % of total sales | 100% | 86.73% | 7.26% | 5.71% | 0.02% | 0.28% |
| **2000** | | | | | | |
| Turnover | $1,059.7m | $914.3m | $94.7m | $47.5m | $0.6m | $2.6m |
| % of total sales | 100% | 86.28% | 8.94% | 4.48% | 0.06% | 0.24% |

During the three years ended 31st December, 2000, the Group experienced growth in its turnover. The Group's turnover grew from approximately $281.5 million in 1998 to approximately $1,059.7 million for the year ended 31st December, 2000. Nevertheless with the exception of the year ended 31st December, 2000, the Group suffered losses during the two years ended 31st December, 1999. The losses were mainly due to the fact that the Group was at the initial stage of building up its market share which had not reached the level where the Group would have the benefits of economies of scale. However, as the Group's operation continues to expand, the Directors believe that its operation will soon attain the level of critical mass which offers scope for unit cost savings and efficiency enhancements through centralisation of operations and logistics.

**Year ended 31st December, 1998**

For the year ended 31st December, 1998, the Group recorded a turnover of approximately $281.5 million and a net loss for the year of approximately $2.3 million. The turnover of the Group was mainly attributable to the sale of LPG in bulk, which accounted for approximately 95.34% of the turnover, whilst the sale of LPG in cylinders to retail and wholesale customers as well as the sale of LPG household appliances accounted for the remainder. The gross profit margin and operating profit margin of the Group were approximately 7.8% and 0.5%, respectively, for the year.

Distribution expenses amounted to approximately $4.8 million. Distribution expenses included commission paid, salaries and wages, advertising and promotion expenses, transportation expenses and travelling expenses. Financial expenses were approximately $2.3 million of which approximately $2.2 million was paid to Mr. Ou, a director of the Company, in accordance with the loan agreement at the rate of 8% per annum.

Administration expenses mainly included wages and salaries, employees' welfare, rental expenses, depreciation charges, travelling expenses, professional fees, entertainment, pre-operating expenses and transportation expenses, and amounted to approximately $15.7 million for the year.

**Year ended 31st December, 1999**

For the year ended 31st December, 1999, the Group recorded a turnover of approximately $507.9 million, representing an increase of approximately 80.4% over 1998. Sale of LPG in bulk, sales of LPG in cylinders to retail customers and sales of LPG in cylinders to wholesale customers accounted for approximately 76.0%, 11.3% and 12.2% of the total increase in turnover for the year respectively. The increase in turnover was mainly due to the increase in the number of operating subsidiaries from 9 in 1998 to 13 in 1999 and over 10 subsidiaries having full year operation in 1999. Sale of LPG in cylinder to retail customers recorded an increase of approximately 223.7% over the previous year, as the Group focused on building up the retail distribution network. During the year, the number of retail outlets through which the Group distributed LPG to retail customers increased to 140 as compared to 52 at the year end of 1998.

The gross profit margin of the Group decreased from approximately 7.8% in 1998 to approximately 3.3% in 1999. The decrease in gross profit margin was mainly attributable to the fact that the exceptionally high gross profit margin achieved in 1998 was a consequence of the flooding in the PRC which resulted in a shortage of energy, including LPG. For the year 1999, the Group made an operating loss of approximately $13.2 million primarily as a result of substantial increases in distribution expenses and administration expenses as the Group increased its operating subsidiaries from 9 in 1998 to 13 in 1999. Net loss for the year amounted to approximately $9.8 million.

Distribution expenses increased from approximately $4.8 million to approximately $10.1 million, representing an increase of approximately 110.4% over the previous year, of which commission paid, depreciation charges, rental expenses, salaries, and transportation expenses accounted for most of the increase as a result of the increase in the number of operating subsidiaries as mentioned above and the Group's expansion in the LPG retail business. Financial expenses decreased from approximately $2.3 million to approximately $0.3 million. The decrease in financial expenses was mainly due to the disposal of the Group together with the loan from Mr. Ou to Sinolink. The loan due to Sinolink is interest free and with no fixed term of repayment.

Administration expenses increased from approximately $15.7 million to approximately $20.5 million, representing an increase of approximately 30.6% over the previous year, of which depreciation expenses, salaries, and staff welfare expenses accounted for most of the increase. The increase in administrative expenses was mainly attributable to the increase in the number of operating subsidiaries from 9 in 1998 to 13 in 1999 and over 10 operating subsidiaries having full year operation during the year.

**Year ended 31st December, 2000**

For the year ended 31st December, 2000, the Group recorded a turnover of approximately $1,059.7 million representing an increase of approximately 108% over 1999. The increase in turnover of the Group was mainly attributable to increases in sale of LPG in bulk and sale of LPG in cylinders to retail customers. During the year, sale of LPG in bulk and sale of LPG in cylinders to retail customers recorded increases of approximately 107.6% and 156.6% respectively as compared to the previous year. These increases were mainly due to the fact that all of the operating subsidiaries, except Nanjing PANVA which commenced operation in October 2000, had a full year of operation, in particular, Yangzi PANVA, being the largest operating subsidiary which contributed 50.8% to the total turnover of the Group as well as the continuous growth in the number of retail outlets to 156 at year end as compared to 140 at the year end of 1999.

For the year ended 31st December, 2000, the Group recorded an operating profit and net profit of approximately $3.4 million and $0.8 million respectively. In 2000, Changsha PANVA, Yangzi PANVA and Guizhou PANVA commenced to contribute to the profitability of the Group, while there were high start up costs incurred in 1998 and 1999 due to the establishment of new operating subsidiaries. With Yangzi PANVA accounting for approximately 50.8% of the turnover of the Group and making a positive contribution to the Group's operation, the Group managed to generate a slight profit in 2000.

For the year ended 31st December, 2000, the gross profit margin of the Group increased to approximately 4.6% as compared to 3.3% in 1999. The increase in gross profit margin was mainly attributable to the increase in the proportion of the retail business of the Group which commands a relatively higher gross profit margin than the wholesale operation.

Distribution expenses increased by approximately 90.7% for the year ended 31st December, 2000. Commission payable, salaries, and transportation expenses increased by approximately 298.2%, 114.6%, and 97.6% respectively. The increase in commission payable was mainly due to the increase in the retail activities and only one subsidiary paid commission in 1999 compared to 5 in 2000. The increases in salaries and transportation expense were mainly due to the increase in the retail operation in Changsha PANVA and Yangzi PANVA having a full year of operation and Nanjing PANVA commenced operation in October 2000.

Although the Group's business increased significantly by approximately 108% over the previous year, administrative expenses only went up by approximately 26.0% during the year, as the Group started to benefit from the cost savings deriving from the economies of scale achieved from the growth in turnover.

**Taxation**

The Group's profit arising in or derived from Hong Kong is subject to Hong Kong profits tax. No provision for Hong Kong profits tax has been made as the Group's income neither arises in nor derived from Hong Kong.

In accordance with the relevant tax rules and regulations in the PRC, Changsha PANVA was exempted from income tax for the two years from 1st January, 1998 to 31st December, 1999 and is taxable at a concessionary tax rate of 12% for the three years from 1st January, 2000 to 31st December, 2002. Thereafter, the income tax rate applicable to Changsha PANVA will be 24%.

Guizhou PANVA and Yangzi PANVA are subject to an income tax rate of 24% and 33% respectively. Guizhou PANVA and Yangzi PANVA are exempted from income tax for the two years from 1st January, 2000 to 31st December, 2001 and is taxable at concessionary tax rates of 12% and 16.5% respectively for the three years ending on 31st December, 2004.

The tax rates applicable to all other PRC subsidiaries range from 15% to 33%. With the exception of Changsha PANVA, no provision for PRC income tax has been made in the financial statements as all other PRC subsidiaries were either exempted from PRC income tax or no assessable income was derived during the relevant periods.

## PROPERTY INTERESTS

### The PRC

The Group operates 18 LPG storage stations, of which 7 LPG storage stations occupy land owned by the Group and are situated in Changsha city, Xiangtan city, Hengyang city, Yongzhou city, Chenzhou city in Hunan Province, Wuhu city and Nanling county in Anhui province. These 7 LPG storage stations constitute property interests of the Group and form part of the property valuation and represented by properties as numbered 1 to 7 in the valuation report in Appendix II to this prospectus. 7 LPG storage stations occupy land which are leased by the Group and are situated in Changde city in Hunan province, Wuhu city in Anhui province, Chenzhou city in Hunan province, Yiyang city in Hunan province, Nanjing city in Jiangsu province and Guiyang city in Guizhou province. These 7 LPG storage stations are represented by properties as numbered 8 to 14 in the valuation report. Amongst the remaining 4 LPG storage stations, 3 are situated in Nanjing city in Jiangsu province occupying land provided by the PRC joint venture partner of Nanjing PANVA for the Group's use without any lease payment and 1 is located on the government allocated land of Yangzi PANVA. As confirmed by the Company's PRC legal adviser, these 4 LPG storage stations do not constitute an interest in land of the Group and therefore are not included in the valuation report in Appendix II to this prospectus. The Group is presently under rental negotiation with the PRC joint venture partners of Nanjing PANVA and the land authorities in the PRC to rent and purchase the land respectively.

The Group also leases 124 retail outlets in Changsha city, Xiangtan city, Hengyang city, Yongzhou city, Chenzhou city, Changde city and Yiyang city in Hunan province, Wuhu city and Nanling county in Anhui province and Guiyang city in Guizhou province as numbered 15 to 138 in the valuation report in Appendix II to this prospectus.

In addition, the Group leases an office unit in Changsha, Hunan province as numbered 139 in the valuation report, as well as a dormitory building and several office units in Wuhu and Anhui province as numbered 140 and 141 in the same valuation report respectively.

### Hong Kong

On 28th February, 2001, the Company entered into a licence agreement with Sinolink in relation to the office premises at Units 2501 and 2502 of 25th Floor, Vicwood Plaza, No.199 Des Voeux Road, Central, Hong Kong which is held by Sinolink under a lease contract dated 15th March, 1999 for a term of 2 years commencing from 15th July, 1999 with a renewal option for a further term of 1 year at a monthly rental of $125,000 exclusive of rates, government rent and charges. Pursuant to the said licence agreement, Sinolink agreed to grant a licence to the Group to use certain part of the premises with approximately 1,645 square feet in area for a term commencing from 1st March, 2001 and expiring on 14th July, 2001 at a monthly licence fee of $41,600 inclusive of rates, government rent and management charges.

### Property valuation

The property interests attributable to the Group have been valued at $9,889,425 as at 31st January, 2001 by DTZ Debenham Tie Leung Limited, an independent property valuer. The text of the letter, the summary of valuations and extracts of the valuation certificates of these property interests by DTZ Debenham Tie Leung Limited are set out in Appendix II to this prospectus. The full version of the valuation certificates is available for inspection as stated under section headed "Documents available for inspection" in Appendix VI to this prospectus.

## DIVIDENDS

The Directors currently do not expect to recommend payment of any dividends for the foreseeable future. Should dividends be paid in the future, the Company will probably pay such dividends in May and October respectively of each year. The declaration of, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Company's future operations and earnings, financial condition, cash requirements and availability and other factors as may be deemed relevant at such time by the Directors.

## DISTRIBUTABLE RESERVES

The Company was incorporated on 16th November, 2000. There was no reserve available for distribution to the Shareholders of the Company as at 31st December, 2000.

For dividend purposes, the amount which the Group's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to the profits as reflected in their PRC statutory financial statements which are prepared in accordance with accounting principles and financial regulations applicable to PRC joint ventures ("PRC GAAP"). These profits differ from those that are reflected in accountants' report set out in Appendix I to this prospectus, which are prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("HK GAAP").

Upon listing of the Shares on GEM, it's the Directors' current intention to distribute dividends based on the lower of the Group's profit determined under PRC GAAP and HK GAAP.

## ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited combined net liabilities of the Group as at 31st December, 2000 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

| | *$'000* |
|---|---|
| Audited combined net liabilities of the Group as at 31st December, 2000 | (11,948) |
| *Add:* Unaudited combined profit after taxation and minority interests of the Group for the two months ended 28th February, 2001 | 356 |
| Surplus arising on revaluation as at 31st January, 2001 of the Group's land and buildings less amount attributable to minority interests *(Note 1)* | 2,398 |
| Deficit arising on revaluation as at 31st January, 2001 of the Group's land and buildings less amount attributable to minority interests *(Note 1)* | (233) |
| Capitalisation of an amount due to Sinolink pursuant to the Reorganisation, detail of which are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus | 64,100 |
| Estimated net proceeds of the Placing *(Note 3)* | 42,000 |
| Adjusted net tangible assets | 96,673 |
| Adjusted net tangible asset value per Share *(Note 4)* | 0.193 |

*Notes:*

1. The calculation of the above revaluation surplus or deficit only include the land and buildings owned by the Group, which are numbered 1 to 7 in the valuation certificate in Appendix II to this prospectus.

   The above surplus or deficit arising from the revaluation of land and buildings of the Group as at 31st January, 2001 will be incorporated into the financial statements of the Group for the year ending 31st December, 2001. Had the above surplus or deficit been incorporated into the Group's financial statements for the year ending 31st December, 2001, the depreciation charge of the Group would have been increased by approximately $148,000.

   As to the buildings without building ownership certificates but the land are owned by the Group, which are numbered 4, 6 and 7 in the valuation certificate in Appendix II to this prospectus, no commercial value had been assigned to these buildings by Debenham Tie Leung, an independent property valuer. For the purpose of this statement of adjusted net tangible assets these buildings have net book value of approximately $3,440,000 and the depreciated replacement cost of approximately $3,659,000 as at 31st January, 2001.

As for the buildings which are situated on land not belonging to the Group, details of which are set out at note 2 below, no commercial value had been assigned to these buildings by Debenham Tie Leung, an independent property valuer. For the purpose of this statement of adjusted net tangible assets, these buildings are stated at their net book value at 31st January, 2001 of approximately $9,201,000. However, based on a separate valuation report provided by the property valuer, the depreciated replacement cost of these buildings with no commercial value amounted to approximately $10,220,000. Therefore, in the opinion of the Directors, no impairment to the value of these buildings to the Group has occurred.

2. As for buildings which is situated on land not belonging to the Group, as stated in note 1 above, can be divided into two categories:

   i. As to the buildings with building ownership certificates but the relevant land is leased from the respective joint venture partners or independent third parties for terms of 10-15 years, which are #8, 9, 10 and 14 in the valuation certificate in Appendix II to this prospectus, these buildings have net book value of approximately $3,725,000 and depreciated replacement cost of approximately $4,283,000 as at 31st January 2001.

   ii. As to the buildings situated on land provided for use free of charge by the joint venture partners who have no certificates of land use right, i.e. at Nanjing PANVA and Yangzi PANVA the Group is, for the former, in the process of negotiating with the joint venture partner to lease the land over the term of the joint venture and for the latter, in the process of negotiating with the land authorities in the PRC to purchase the land. These buildings have net book values of approximately $2,803,000 and approximately $2,673,000 respectively and depreciated replacement cost of approximately $2,993,000 and approximately $2,944,000 respectively.

3. The estimated net proceeds of the Placing is based on the Issue Price of $0.57 and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

4. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section but it takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Pre-Listing Share Option Plan, the Share Option Scheme or upon the conversion of the Convertible Note or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares described in the paragraph headed “Resolutions passed by the sole shareholder of the Company” in Appendix V to this prospectus.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31st December, 2000 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

## MISSION

The Group will extensively promote the use of LPG in regions along the Yangzi River, and other areas in the PRC, thereby helping reduce pollution, and create a better living environment for people. The Group will strive to apply and enforce strict safety standards with the aim of ensuring the absolute safety at each stage involved in the distribution process of LPG. The Group seeks to establish a unified national distribution network for its retail business to create economies of scale in the Group's LPG retail operations and a professional and reputable image in the provision of services of superior standard.

## BUSINESS OBJECTIVES

With the rapid growth of the PRC's economy, the PRC government has become more and more aware of the importance of establishing facilities to protect and preserve the environment, thus providing good prospects for businesses involved in environmental protection in the forthcoming years. The Directors believe that with the Group's experience and knowledge gained from its operational history, the Group is well-positioned to benefit from the foreseeable trend of the LPG industry.

Accordingly the Group has formulated its overall business objectives as follows:

1. To further develop LPG retailing for household, industrial and commercial users and also for automobiles.

   The ultimate goal of the Group is to be able to deliver LPG to its customers and establishing extensive sales network and take up directly a large market share of the retail market. The Group will continue to concentrate its efforts and resources in further developing the LPG retail market for household, industrial and commercial users. The Directors believe that the Group's target LPG retail markets will be a major composition of the gas fuel industry. The Directors also believe that the Group's target markets have a large scope for expansion and the Group has established constant business relationships with its customers. LPG is a newly introduced energy source for automobiles and the Directors believe that there is great potential in developing this expanding market.

2. To seek industry enterprises with established government connections as business partners and to further expand the Group's LPG geographical coverage.

   The Group will dedicate its efforts and investments in developing its LPG business coverage in the Yangzi River region, cities in the mid-south region and cities in the southwest region. The Directors believe that these regions have great potential for development and can generate substantial revenue for the Group in the future.

   The Group has plans to try to bring in strategic partners with established government connections to cooperate in future operations and projects (as outlined in "The Changsha Project", "The Kunming Project" and "The Hefei Project" on page 56 of this prospectus) to further expand its business operation coverage. The Directors believe that these partners can bring about benefits for both parties through co-operation. At the same time the Group can extend its market share within a quicker time frame and absorb other parties' experience and expertise in managing and developing the LPG business.

3. To improve operational efficiency and increase awareness for product safety.

The Group will continue to improve its managerial efficiency through its dedicated management regime that constantly improves the Group's services to customers and provides a better working and living environment for its employees and the general public.

By 2001,

- the Group intends to undertake a feasibility study on the development and implementation of an Enterprise Resources Planning System to integrate information systems and automate enterprise-wide financial, materials and equipment management, as well as customers' relation management and sales and distribution activities across the whole supply chain;

- the Group intends to consolidate its business structure;

- the Group intends to have a standardised procurement system;

- the Group intends to complete the construction of internal management information network;

- the Group intends to continuously strengthen its management structure.

By 2002,

- the Group intends to commence the implementation of the Enterprise Resources Planning System;

- the Group intends to commence the development of electronic business operation platform;

- the Group intends to continuously improve the quality of its management and to construct an internal management information system network;

- the Group intends to dedicate its efforts towards increasing employees' safety awareness for products and services and improve their working standard.

By 2003,

- the Group intends to complete the implementation of the Enterprise Resources Planning System;

- the Group intends to complete the development of electronic business operation platform;

- the Group intends to commence the implementation of online purchase and supply of LPG;

4. To further develop the provision of piped gas.

   The Group will also continue the development of its piped gas business provision. The project will include construction of pipelines infrastructure and through these pipelines the Group will provide LPG to housing estates. The Directors believe that piped gas supply could generate substantial revenue for the Group in the future.

5. To build "PANVA" as a national brand for the Group's products and services.

   The Group plans to adopt flexible and efficient marketing strategies, in order to render the retail operation more dynamic and bring the terminal benefits to full play.

   - the Group plans to reinforce its promotion and advertisement activities, while strengthening operation management, quality control and service safety at the same time, in order to further enhance a "brand name" image for its LPG products and build up confidence amongst customers towards the Group's products and services.

   - the Group will continue to conduct strict safety inspections on all its products, and products having passed safety inspections will be distinguished with a label.

   - the Group possesses a comprehensive set of standardised specifications, operation procedures and service quality requirements to manage the enterprise. Therefore, there will be regulations and policies to govern each stage in the distribution process of LPG products starting from procurement, storage, transportation, to wholesale and retail.

As the Group's marketing and distribution operations become more closely integrated, the Group expects to be able to more effectively manage the services offered by each of the joint venture operating companies to improve their results of operations on a consolidated basis. The Directors expect that the increasing integration of the Group's marketing and distribution segments would enhance its ability to manage its operations as a single system as opposed to independent LPG operating companies.

The Directors also believe that greater integration will also enable the Group to optimise LPG purchases, improve the quality of its services, eliminate sub-scale, poorly located facilities, strengthen logistics controls, increase the number of retail outlets and enforce control on the Group's capital expenditure structure which helps the Group to increase capacity utilisation and operational efficiency.

## MILESTONES

In light of the business objectives of the Group, the Group will seek to attain the following milestones in the period from the Latest Practicable Date to 31st December, 2003. The milestones and their respective scheduled time for attainment are formulated based on the bases and assumptions referred to under the paragraph headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular, the risk factors set out in the section headed "Risk factors" of this prospectus. In addition, a majority of these assumptions are untested and accordingly, may turn out to be invalid.

The business objectives of the Group mentioned in this section are based on the existing plans and intentions of the Group which are either in a conceptual stage or a preliminary state. Furthermore, such intentions and plans are based on assumptions that future events which by their nature are subject to uncertainty. The Group's actual course of action may therefore vary from the intentions and plans set out below. Although the Directors will endeavour to execute such plans in accordance with the following terms and time frame, there can be no assurance that the objectives of the Group be fully accomplished or accomplished at all. If the Group makes any material changes to its business objectives as mentioned in this section, the Company will inform its Shareholders by making appropriate announcements.

| | Latest Practicable Date to 30th June, 2001 | 1st July, 2001 to 31st December, 2001 | 1st January, 2002 to 30th June, 2002 | 1st July, 2002 to 31st December, 2002 | 1st January 2003 to 30th June, 2003 | 1st July, 2003 to 31st December, 2003 |
|---|---|---|---|---|---|---|
| **BUSINESS DEVELOPMENT** | | | | | | |
| **Business operation coverage** | Guizhou<br>Hunan<br>Anhui<br>Jiangsu | Guizhou<br>Hunan<br>Anhui<br>Jiangsu<br>Yunnan | Guizhou<br>Hunan<br>Anhui<br>Jiangsu<br>Yunnan | Guizhou<br>Hunan<br>Anhui<br>Jiangsu<br>Yunnan<br>Chongqing | Guizhou<br>Hunan<br>Anhui<br>Jiangsu<br>Yunnan<br>Chongqing | Guizhou<br>Hunan<br>Anhui<br>Jiangsu<br>Yunnan<br>Chongqing |

| | Latest Practicable Date to 30th June, 2001 | 1st July, 2001 to 31st December, 2001 | 1st January, 2002 to 30th June, 2002 | 1st July, 2002 to 31st December, 2002 | 1st January, 2003 to 30th June, 2003 | 1st July, 2003 to 31st December, 2003 |
|---|---|---|---|---|---|---|
| **Setting up operating subsidiary** | **Changsha** Negotiation and signing of contract with a local LPG operator to expand the retail business of Changsha PANVA | **Changsha** The enlarged retail business in Changsha commences operation | | | | |
| | **Kunming** Negotiation and signing of contract with a local LPG operator | **Kunming** Joint venture operation begins | | | | |
| | | | **Hefei** Negotiation and signing of contract with a local LPG operator | **Hefei** Joint venture operation begins | | |
| | | **Chongqing** Negotiation with a local LPG operator | **Chongqing** Negotiation and signing of contract with a local LPG operator | **Chongqing** Joint venture operation begins | | |
| | | | | | **Hangzhou** Negotiation with a local LPG operator | **Hangzhou** Negotiation and signing of contract with a local LPG operator |
| | | | | | | **Tibet** Negotiation with a local LPG operator |

| | Latest Practicable Date to 30th June, 2001 | 1st July, 2001 to 31st December, 2001 | 1st January, 2002 to 30th June, 2002 | 1st July, 2002 to 31st December, 2002 | 1st January, 2003 to 30th June, 2003 | 1st July, 2003 to 31st December, 2003 |
|---|---|---|---|---|---|---|
| **Automobile LPG market development** | | | **Nanjing** Commence building automobile LPG filling stations | **Nanjing** Continue building automobile LPG filling stations and completed stations begin operation | **Nanjing** Continue building automobile LPG filling stations and completed stations begin operation | |
| | | | **Kunming** Commence building automobile LPG filling stations | **Kunming** Continue building automobile LPG filling stations and completed stations begin operation | **Kunming** Continue building automobile LPG filling stations and completed stations begin operation | **Kunming** Continue building automobile LPG filling stations and completed stations begin operation |
| | | | | | **Changsha** Commence building automobile LPG filling stations | **Changsha** Continue building automobile LPG filling stations and completed stations begin operation |
| **Market Research** | Completion of market research on the LPG market in Kunming | Completion of market research on the LPG market in Wuhan and Chongqing | Completion of market research on the LPG market in Hangzhou | Completion of market research on the LPG market in Tibet | Completion of market research on the LPG automobile market in Guizhou | Completion of market research on the LPG market in Chengdu |
| | | Completion of market research on the LPG automobile market in Kunming | Completion of market research on the automobile LPG market in Changsha | | | |

| | **Latest Practicable Date to 30th June, 2001** | **1st July, 2001 to 31st December, 2001** | **1st January, 2002 to 30th June, 2002** | **1st July, 2002 to 31st December, 2002** | **1st January, 2003 to 30th June, 2003** | **1st July, 2003 to 31st December, 2003** |
|---|---|---|---|---|---|---|
| **IMPROVING OPERATIONAL EFFICIENCY** | Commence the feasibility study on the possibility of implementing an Enterprise Resources Planning System to optimise operational efficiency and effectiveness | Completion of the feasibility study on the implementation of an Enterprise Resources Planning System | Commence the implementation of the Enterprise Resources Planning System | Continue the implementation of the Enterprise Resources Planning System | Continue the implementation of the Enterprise Resources Planning System | Completion of the Enterprise Resources Planning System |
| | Commence and complete the development of the Group's Intranet | | | | | |
| | | Completion of the overall LPG procurement plan for the year 2002 | | Completion of the overall LPG procurement plan for year 2003 | | Completion of the overall LPG procurement plan for year 2004 |
| | | | Commence the feasibility study on the development of electronic business operation platform | Completion of the feasibility study on the development of electronic business operation platform | | |
| | Completion of the development of the telephone ordering/ payment system in Nanjing | Commence the negotiation and development of a telephone ordering/ payment system in Changsha and Guiyang | Completion of the development of the telephone ordering/ payment system in Changsha and Guiyang | | | |
| | Continue to centralise and computerise the customer database at operating subsidiaries level | Completion of the centralisation and computerisation of the customer database at operating subsidiaries level | | | | |

| | Latest Practicable Date to 30th June, 2001 | 1st July, 2001 to 31st December, 2001 | 1st January, 2002 to 30th June, 2002 | 1st July, 2002 to 31st December, 2002 | 1st January, 2003 to 30th June, 2003 | 1st July, 2003 to 31st December, 2003 |
|---|---|---|---|---|---|---|
| **BRAND BUILDING** | Distribute marketing pamphlets and LPG safety manuals to retail customers | Advertise in local newspapers in major cities | Produce television commercial for broadcasting on local television stations in Changsha, Nanjing, Guiyang and Kunming | Continue to advertise on television and advertise on roadside bill-boards in major cities | Redesign marketing pamphlets and continue to advertise on television | Distribute new marketing pamphlets and continue to advertise on television |
| **OPERATION FACILITIES (figures cumulative)** | | | | | | |
| Storage tank capacity ($m^3$) | 20,200 | 32,000 | 35,000 | 38,000 | 42,000 | 45,000 |
| Tank train capacity (tonnes) | 1,680 | 2,450 | 3,185 | 3,850 | 4,550 | 5,600 |
| Tank lorry capacity (tonnes) | 186 | 295 | 355 | 435 | 500 | 600 |
| Cylinders truck capacity (tonnes) | 320 | 350 | 380 | 420 | 450 | 480 |
| No. of tank train unloading depot | 8 | 10 | 10 | 12 | 13 | 13 |
| No. of LPG vessel unloading platform | 1 | 2 | 2 | 2 | 2 | 2 |
| No. of retail outlets | 170 | 190 | 210 | 220 | 230 | 250 |
| No. of piped gas stations | 23 | 56 | 82 | 144 | 172 | 202 |
| No. of automomile LPG filling stations | 0 | 0 | 5 | 20 | 30 | 45 |
| **HUMAN RESOURCES DEPLOYMENT** | | | | | | |
| **No. of staff** | | | | | | |
| Management | 90 | 115 | 150 | 180 | 220 | 250 |
| Finance and administration | 188 | 230 | 250 | 280 | 320 | 350 |
| Sales and distribution | 974 | 1,240 | 1,350 | 1,500 | 1,700 | 1,850 |
| Production, purchase and supply | 548 | 715 | 750 | 840 | 960 | 1,050 |
| Total | 1,800 | 2,300 | 2,500 | 2,800 | 3,200 | 3,500 |

| USE OF PROCEEDS | From Latest Practicable Date to 30th June, 2001 | 1st July, 2001 to 31st December, 2001 | 1st January, 2002 to 30th June, 2002 | 1st July, 2002 to 31st December, 2002 | Sub-total by category |
|---|---|---|---|---|---|
| | *$million* | *$million* | *$million* | *$million* | *$million* |
| Setting up of new joint venture companies in *(note 1):* | | | | | |
| Kunming, Yunnan | 18 | – | – | – | 18 |
| Changsha, Hunan | – | 16 | – | – | 16 |
| Sales and Marketing Propaganda | 0.9 | 1.1 | 1.2 | 0.8 | 4 |
| General Working Capital | 2.0 | 2.0 | – | – | 4 |
| | 20.9 | 19.1 | 1.2 | 0.8 | 42 |

*Note:*

(1) It is estimated that investment in each of the new operating subsidiaries in Chongqing and Hefei will amount to approximately RMB10 million and will be financed by internal resources of the Group. However, the decision of the investments, their timing and the actual investment amounts will be subject to the finalisation of the negotiations and the resulting joint venture agreements.

(2) Costs in conducting market researches and the improvement of operational efficiency is estimated to be approximately RMB300,000 and will be financed by internal resources of the Group.

(3) It is also estimated that investment in automobile LPG market development between 2002 to 2003 will amount to approximately RMB30 million and will be financed by internal resources of the Group. However, the exact investment amount and timing will be subject to change.

## BASES AND ASSUMPTIONS

The Directors have assessed the potential of LPG markets and have formulated strategies to achieve the Group's business objectives on the basis of past industry trends and the Group's past experience and expertise in the industry as well as future growth of the markets and anticipated demand. The Directors have set the milestones described in this section on the following bases and assumptions:

### Market condition

1. there will be a continuous growth in the LPG market and the gas fuel industry in the PRC;

2. there will be a growing number of users making use of LPG for household, industrial and commercial usage;

3. there will be a strong demand for using LPG as fuels for automobiles in the PRC;

4. the Group is able to locate and rent suitable locations for setting up retail outlets and storage stations on terms and conditions which are commercially acceptable to the Group;

5. the Group is able to identify and team up with suitable business and/or strategic partners (including but not limited to LPG wholesalers/distributors/retailers) in the PRC for extension and strengthening of its distribution network and market position in the PRC; and

6. the Group is able to obtain a steady and stable supply of LPG from its suppliers for future operation volume.

**Human resources**

1. there will be a sufficient supply of production, purchase and supply staff in the LPG industry;

2. there will be a sufficient supply of sales and distribution staff in the LPG industry; and

3. there will be a sufficient supply of administrative, finance and management staff in the LPG industry.

**Legal environment**

1. there will be no material change in the existing political, legal, fiscal or economic conditions in the PRC or any country in which the Group intends to operate and expand its business;

2. the Group is able to obtain the licence(s) and/or approval(s) required for the operation of the LPG business in the PRC and in relevant countries in which the Group intends to operate and expand its business; and

3. the PRC government will continue to stress the importance of environmental protection and support the development of the urban gas fuel industry.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the net proceeds from the Placing will strengthen the Group's capital base and will provide funding for the Group's business objectives.

The net proceeds of the Placing, after deducting related expenses, are estimated to amount to approximately $42 million (on the basis that the Over-allotment Option is not exercised). If the Over-allotment Option is exercised in full, the net proceeds will increase to approximately $47 million. It is presently intended that the net proceeds will be applied as follows:

- as to approximately $16 million of the net proceeds will be used on setting up a new joint venture company in Changsha for the purpose of expanding the Group's LPG retail business in that region;

- as to approximately $18 million of the net proceeds will be used on setting up a new joint venture company in Kunming to further expand the geographic coverage of the Group's LPG operation;

- as to approximately $4 million of the net proceeds will be used on sales and marketing, and media propaganda;

- as to approximately $4 million of the net proceeds will be used as the Group's general working capital; and

- in the event that the Over-allotment Option is exercised in full, the additional net proceeds will be reserved for additional working capital of the Group.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with financial institutions. If for any reason the proceeds are not utilised as described above or are reallocated, the Group will issue an announcement in accordance with the GEM Listing Rules.

## UNDERWRITERS

### Underwriters

Tai Fook Securities
CU Securities Limited
Luen Fat Securities Company Limited
Peace Town Securities Limited
Young Champion Securities Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Underwriting Agreement

The Company has entered into the Underwriting Agreement with the executive Directors, the Initial Management Shareholders, Tai Fook Capital and the Underwriters.

Pursuant to the Underwriting Agreement (being material contract (f) referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business" in Appendix V to this prospectus), the Company agreed to offer the Placing Shares for subscription on and subject to the terms and conditions of this prospectus at the Issue Price per New Share. Subject to, among other conditions, the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM Listing Committee of the Stock Exchange on or before 30 days after the date of this prospectus (or such later date as the Sponsor on behalf of the Underwriters may agree in writing with the Company), the Underwriters have severally agreed to procure subscribers to subscribe for or failing which they shall subscribe for the Placing Shares.

### Grounds for termination

Tai Fook Securities (for itself (in its capacity as lead manager of the Placing) and on behalf of the Underwriters) shall have the right to terminate the arrangements set out in the Underwriting Agreement in its discretion, by notice in writing given to the Company (for itself and on behalf of the other parties hereto (other than the Underwriters and Tai Fook)) by Tai Fook Securities (in its capacity as lead manager of the Placing) at any time prior to 9:00 a.m. (Hong Kong time) on the Delivery Date, if:–

(i) there shall develop, occur or come into force:–

   (a) any new law or regulation or any change in existing laws or regulations in Hong Kong, the PRC, the British Virgin Islands, the Cayman Islands or change in the interpretation or application thereof or other occurrence of any nature whatsoever; or

   (b) any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not ejusdem generis with any of the foregoing, resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic or stock market conditions; or

(c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or

(d) a change or development involving a prospective change in taxation in Hong Kong, the PRC, the British Virgin Islands or the Cayman Islands or the implementation of exchange controls which shall or might materially and adversely affect the Company or the Group taken as a whole; or

(e) a change or deterioration in the conditions of local, national or international securities markets; or

(f) a change in the financial, political, economic, military, industrial, fiscal, regulatory or stock market conditions or sentiments in the PRC and Hong Kong; or

(g) any event of force majeure affecting Hong Kong, and the PRC including, without limitation, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out or any escalation of hostilities involving Hong Kong, the PRC or any other relevant jurisdiction; or

(h) a change in the conditions or sentiments of the financial market in Hong Kong, the PRC, the British Virgin Islands or the Cayman Islands; or

(i) an imposition of economic sanctions or withdrawal of trading privileges, in whatever form, by Hong Kong, the PRC or any other relevant jurisdiction; or

(j) any other change whether or not of the same kind or nature as any of the foregoing,

and in the reasonable opinion of Tai Fook Securities (for itself (in its capacity as lead manager of the Placing) and on behalf of the Underwriters), the business, financial or other condition or prospects of the Group taken as a whole would be or is likely to be materially and adversely affected thereby, or the results of the Placing would be materially and adversely affected thereby, or it would be inexpedient or inadvisable to proceed with the Placing as a result thereof;

(ii) there comes to the notice of any of the Sponsor, Tai Fook Securities and/or the Underwriters any information, any matter or event which in the reasonable opinion of Tai Fook Securities (for itself and on behalf of the Sponsor and the Underwriters) would lead to material adverse change in the business or in the financial or trading position or prospects of the Group taken as a whole; or

(iii) any of the Company, Initial Management Shareholders and the executive Directors commits any material breach of, or omits to observe in any material respect, any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement; or

(iv) there comes to the notice of any of any of the Sponsor, Tai Fook Securities and/or the Underwriters any information, matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by Tai Fook Securities (for itself and on behalf of the Underwriters) in its reasonable opinion to be material; or

(v) there comes to the notice of any of the Sponsor, Tai Fook Securities and/or the Underwriters any information, any matter, which, has arisen and has not been disclosed in this prospectus, that constitutes a material omission therefrom; or

(vi) there comes to the notice of any of any of the Sponsor, Tai Fook Securities and/or the Underwriters any material statement contained in this prospectus which is discovered to be or becomes untrue, incorrect or misleading,

Tai Fook Securities (for itself (in its capacity as leading manager of the Placing) and on behalf of the Sponsor and the Underwriters) shall be entitled (but not bound) by notice in writing to the Company on or prior to such time to elect to treat such matter or event as releasing and discharging Tai Fook (in its capacity as sponsor of the Placing), itself (in its capacity as lead manager of the Placing) and the Underwriters from their respective obligations under the Underwriting Agreement.

**Undertakings**

Mr. Ou, Sinolink, Kenson and Asia Pacific Promotion have jointly and severally undertaken to and covenant with the Company, the Sponsor and the Underwriters in the Underwriting Agreement that:

(i) he or it will place with an escrow agent acceptable to the Stock Exchange and the Sponsor, his or its Relevant Securities for the First Relevant Lock-up Period and continue to place in escrow such number of Relevant Securities which would together represent not less than 35% of the total issued share capital of the Company from time to time throughout the Second Relevant Lock-up Period;

(ii) he or it will not and will procure that none of his or its Associates and the companies controlled by him or it or nominees or trustees holding in trust for him or it will within First Relevant Lock-up Period save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into an agreement to dispose of) any of the Relevant Securities nor permit the registered holder of any of the Relevant Securities to dispose of (or enter into an agreement to dispose of) his or its direct or indirect interest in any of the Relevant Securities;

(iii) during the Second Relevant Lock-up Period, he or it will not and will procure that none of his or its Associates and companies controlled by him or it or nominees or trustees holding in trust for him or it will dispose of any Relevant Securities if such disposal would result in their ceasing to have control in aggregate over 35% of the voting rights at general meetings of the Company; and

(iv) in the event that he or it pledges or charges any direct or indirect interest in the Relevant Securities in compliance with the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules at any time during the First Relevant Lock-up Period, he or it must inform the Company and the Sponsor immediately in the event that he or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Relevant Securities affected, such information specified in Rule 17.43(1) to (4) of the GEM Listing Rules.

The Company has undertaken to and covenanted with the Sponsor and the Underwriters not to and each of the Initial Management Shareholders and the executive Directors has undertaken and covenanted with the Sponsor and the Underwriters to procure that the Company and the members of the Group will not, save pursuant to the Placing, the Capitalisation Issue or the grant of any option under the Share Option Schemes or the exercise of the Over-allotment Option or the exercise of any option granted under the Share Option Schemes or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares (a) within the period of six months from the Listing Date, issue or agree to issue any shares or securities in the Company or grant or agree to grant any options, or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any securities of the Company, and (b) at any time during the period of 12 months from the Listing Date, issue any shares or securities in the Company or grant or agree to grant any options, warrants or other rights carrying the right to subscribe for, or otherwise convert into or exchange for shares or securities in the Company so as to result in each of the Initial Management Shareholders ceases to be the controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

Each of the Company, the Initial Management Shareholders and the executive Directors undertakes to and covenants with the Sponsor and the Underwriters that save with the prior written consent of the Sponsor or Tai Fook Securities (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed), no company in the Group will within the period of six months from the Listing Date purchase any securities of the Company.

Kenson has undertaken to and covenanted with the Company, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) its direct or indirect interest in its Relevant Securities during the Second Relevant Lock-up Period if such disposal would result in it ceasing to have control over 35% of the voting rights at general meetings of the Company.

Sinolink has undertaken to and covenanted with the Company, the Sponsor and the Underwriters that it will not dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in Kenson for a period of 12 months from the Listing Date if such disposal would, result in its holding less than 35% of the voting rights at general meetings of the Company.

**Commission**

The underwriting commission of 3%, documentation fee, transaction levy, brokerage, legal and other expenses relating to the Placing which are estimated to amount to approximately $12 million in aggregate, will be payable by the Company.

**Sponsor's agreement**

Under a sponsor's agreement dated 9th April, 2001 and made between Tai Fook Capital and the Company (the "Sponsor Agreement"), the Company appoints Tai Fook Capital and Tai Fook Capital agrees to act as a sponsor to the Company pursuant to the GEM Listing Rules for a fee from the Listing Date to 31st December, 2001 and for two years thereafter until 31st December, 2003 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

**Sponsor's and Underwriters' interests in the Company**

Save for (i) the obligations of the Sponsor and the Underwriters under the Underwriting Agreement: (ii) the advisory and documentation fee payable to the Sponsor as a sponsor of the Placing; and (iii) the Sponsor's interests under the Sponsor Agreement, none of the Sponsor and the Underwriters have any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group nor any interest in the Placing.

## PRICE PAYABLE ON APPLICATION

Issue Price of $0.57 plus 1% brokerage and a 0.01% Stock Exchange transaction levy. A total of $2,303.03 for every 4,000 Shares.

## CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares will be conditional upon:

(i) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and

(ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional, and not being terminated, on or before 9th May, 2001, being the date which is 30 days after the date of this prospectus (or such later date as the Sponsor on behalf of the Underwriters may agree in writing with the Company). Details of the Underwriting Agreement, its conditions and grounds for terminations, are set out in the section headed “Underwriting”.

## OFFER MECHANISM – BASIS OF ALLOCATION OF NEW SHARES

### The Placing

The Company is offering 95,000,000 Placing Shares for subscription by way of the Placing. Investors subscribing for the Placing Shares are also required to pay a 1% brokerage and 0.01% Stock Exchange transaction levy. The Placing is jointly managed by Tai Fook Securities and CU Securities Limited and is fully underwritten by the Underwriters.

Pursuant to the Placing, the Underwriters or selling agents nominated by them, on behalf of the Company, will conditionally place the Placing Shares at the Issue Price plus 1% brokerage and 0.01% Stock Exchange transaction levy. The Placing Shares are to be placed with selected professional and institutional investors. Professional and institutional investors generally include brokers, dealers, companies, including fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing is subject to the conditions as stated in the paragraph headed “Conditions of the Placing”.

### Over-subscription

Allocation of Placing Shares to professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the investor is likely to acquire further Shares, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and its shareholders as a whole.

## Over-allotment Option

In connection with the Placing, the Company has granted to Tai Fook Securities the Over-allotment Option which is exercisable at any time within 30 days from the date of this prospectus. Pursuant to the Over-allotment Option, the Company may be required to allot and issue at the Issue Price up to an aggregate of 9,500,000 additional Shares, representing 10% of the Placing Shares initially available under the Placing, to cover over-allocations, if any, to professional and institutional investors in the Placing. In order to facilitate settlement of over-allocation in connection with the Placing pending exercise of the Over-allotment Options, a stock borrowing arrangement will be entered into between Tai Fook Securities and Kenson. An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Kenson for the period of two years from the date of listing of the Shares on GEM, in order to allow Kenson to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" of this prospectus.

## DISTRIBUTION OF SHARES TO QUALIFYING SHAREHOLDERS

Sinolink has resolved to make a distribution in specie of Shares to the Qualifying Shareholders, on the basis of 20 Shares for every 2,000 Sinolink Shares held by them on Record Date. CU Securities Limited has been appointed by the Company to provide a dealing facility in respect of odd lots of Shares distributed to Qualifying Shareholders from the Listing Date, up to and including 7th May, 2001. Qualifying Shareholders who wish to take advantage of this facility should contact Ms. Clara Ho of CU Securities Limited at 25371711 during the aforesaid period. **Shares in the Distribution may not be in the integral multiple of a full board lot of 4,000 Shares and dealings in odd lot Shares may be below their prevailing market price.**

## COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on 20th April, 2001.

Shares will be traded in board lots of 4,000 each.

## SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM, as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

In respect of dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

## MINIMUM PUBLIC FLOAT

As the 95,000,000 Placing Shares initially offered in the Placing, together with not less than 5,133,040 Shares allotted to shareholders of Sinolink excluding Asia Pacific Promotion, will represent not less than 20% of the issued share capital of the Company immediately following the completion of the Placing, the Capitalisation Issue and the Distribution. The Company is required under the GEM Listing Rules to maintain at all times after its listing on GEM a public float of at least 20% of its total issued share capital from time to time.

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

10th April, 2001

The Directors
Panva Gas Holdings Limited
(formerly known as Panva Holdings Limited)
Tai Fook Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Panva Gas Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 2000 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 10th April, 2001 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 16th November, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Through a group reorganisation, further details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the Prospectus, the Company acquired the entire share capital of China Pan River Group Ltd. and became the holding company of the Group on 4th April, 2001.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company):

| Name | Place and date of incorporation/ establishment and operation | Issued and fully paid share capital/ capital contribution | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|---|---|---|
| *Directly-owned subsidiaries* | | | | |
| China Pan River Group Ltd. | British Virgin Islands ("BVI") 6th January, 1998 | 1 share of US$1 each | 100% | Investment holding |

| Name | Place and date of incorporation/ establishment and operation | Issued and fully paid share capital/ capital contribution | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|---|---|---|
| *Indirectly-owned subsidiaries* | | | | |
| Chenzhou Pan River Gas Industry Co., Ltd.<br>郴州百江燃氣實業有限公司 | People's Republic of China ("PRC")– Sino-foreign equity joint venture<br>16th July, 1998 | RMB9,000,000 | 55% | Wholesaling and retailing of liquid petroleum gas ("LPG") |
| China Overlink Holdings Co., Limited | BVI<br>15th August, 1997 | 1 share of US$1 each | 100% | Investment holding |
| Nanjing Panva LPG Company Ltd.<br>南京百江液化氣有限公司 | PRC– Sino-foreign equity joint venture<br>16th August, 2000 | RMB50,000,000 | 55% | Wholesaling and retailing of LPG |
| Pan River Enterprises (Changde) Co., Ltd. #<br>常德百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>26th October, 1998 | RMB6,000,000 | 85% | Wholesaling and retailing of LPG |
| Pan River Enterprises (Chang-Sha) Co., Ltd.<br>長沙百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>16th January, 1998 | RMB40,000,000 | 60% | Wholesaling and retailing of LPG |
| Pan River Enterprises (Hengyang) Co., Ltd.*<br>衡陽百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>14th November, 1998 | RMB6,000,000 | 84% | Wholesaling and retailing of LPG |
| Pan River Enterprises (Wuhu) Co., Ltd.<br>蕪湖百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>25th March, 1998 | RMB32,000,000 | 55% | Wholesaling and retailing of LPG |
| Panriver Investments Company Limited<br>百江投資有限公司 | PRC– Limited liability company<br>10th March, 2000 | US$30,000,000 *(Note 1)* | 100% | Investment holding |
| Pan River Gas (Guizhou) Co., Ltd.<br>貴州百江燃氣有限公司 | PRC– Sino-foreign equity joint venture<br>25th December, 1998 | RMB16,000,000 | 50.10% *(Note 2)* | Wholesaling and retailing of LPG |

| Name | Place and date of incorporation/ establishment and operation | Issued and fully paid share capital/ capital contribution | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|---|---|---|
| Singkong Investments Limited | Hong Kong<br>4th June, 1992 | 10,000 ordinary shares of HK$1 each | 100% | Investment holding |
| Sinolink International Investment (Group) Limited | BVI<br>29th August, 1997 | 1 share of US$1 each | 100% | Investment holding |
| Sinolink LPG Development Limited | BVI<br>22nd June, 1999 | 1 share of US$1 each | 100% | Not yet commenced business |
| Sinolink LPG Investment Limited | BVI<br>16th March, 1999 | 1 share of US$1 each | 100% | Investment holding |
| Sinolink Petrochemical Investment Limited | BVI<br>16th March, 1999 | 1 share of US$1 each | 100% | Not yet commenced business |
| Sinolink Power Investment Limited | BVI<br>30th December, 1997 | 1 share of US$1 each | 100% | Investment holding |
| Wuhu Pan River Enterprises Jiangbei Co., Ltd.<br>蕪湖百江江北能源有限公司 | PRC– Limited liability company<br>1st March, 1999 | RMB500,000 | 28.05%<br>*(Note 3)* | Wholesaling and retailing of LPG |
| Nanling Pan River LPG Co., Ltd.<br>南陵百江液化氣有限責任公司 | PRC– Limited liability company<br>20th August, 1998 | RMB2,000,000 | 30.25%<br>*(Note 4)* | Wholesaling and retailing of LPG |
| Wuhu Pan River Sanpeng LPG Co., Ltd.<br>蕪湖百江三朋液化氣有限公司 | PRC– Sino-foreign equity joint venture<br>19th October, 1998 | RMB2,300,000 | 30.25%<br>*(Note 4)* | Ceased operation |
| Xiangtan Pan River Energy Industry Co., Ltd.<br>湘潭百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>17th June, 1998 | RMB10,000,000 | 55% | Wholesaling and retailing of LPG |
| Yiyang Pan River Enterprises Co., Ltd.#<br>益陽百江能源實業有限公司 | PRC– Sino-foreign equity joint venture<br>13th August, 1998 | RMB5,000,000 | 60% | Wholesaling and retailing of LPG |

| Name | Place and date of incorporation/ establishment and operation | Issued and fully paid share capital/ capital contribution | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|---|---|---|
| Yongzhou Pan River Enterprises Co., Ltd. 永州百江能源實業有限公司 | PRC– Sino-foreign equity joint venture 18th December, 1998 | RMB5,000,000 | 60% | Wholesaling and retailing of LPG |
| Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. 揚子石化百江能源有限公司 | PRC– Sino-foreign equity joint venture 13th September, 1999 | US$7,230,000 | 50% *(Note 5)* | Wholesaling and retailing of LPG |

*Note 1:* Panriver Investments Company Limited is a foreign wholly-owned enterprise with a tenure of 50 years. At the date of this report, Panriver Investments Company Limited has outstanding registered capital contribution of US$23,000,000 which needs to be paid up by China Pan River Group Ltd. by 9th March, 2002 on such later date as approved by the relevant PRC government authority. The Directors expect to fulfill such capital contribution by way of transferring the Group's equitable interests in all operating subsidiaries which amount to approximately US$17 million, and injecting US$6 million cash into Panriver Investments Company Limited.

*Note 2:* Pan River Gas (Guizhou) Co., Ltd. is a subsidiary of the Company because the Company has control over the board of directors.

*Note 3:* Pan River Enterprises (Wuhu) Co. Ltd. holds 51% equity interest therein.

*Note 4:* Pan River Enterprises (Wuhu) Co. Ltd. holds 55% equity interest therein.

*Note 5:* Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. is a subsidiary of the Company because the Company has control over the board of directors.

\# *With reference to the Summary of material contracts item (a) as detailed in Appendix V to this Prospectus, Singkong Investments Limited through its subsidiary, Pan River Enterprises (Chang-Sha) Co., Ltd., purchased 25% interests in Pan River Enterprises (Changde) Co., Ltd. ("Changde PANVA") from the minority shareholder, who is an independent third party, on 30th May, 1999. Singkong Investments Limited initially held 70% in Changde Panva on 26th October, 1998.*

*With reference to the Summary of material contracts item (c) as detailed in Appendix V to this Prospectus, Singkong Investments Limited purchased additional 6% interests in Yiyang Pan River Enterprises Co., Ltd. ("Yiyang PANVA") from the minority shareholder, who is an independent third party, on 9th August, 1999. Singkong Investments Limited initially held 54% in Yiyang Panva on 13th August, 1998.*

*These additional interests were acquired from the respective minority shareholders who have not made their respective capital contributions to Changde PANVA and Yiyang PANVA and the Group made such capital contributions after the acquisition.*

* *With reference to the Summary of material contracts item (b) as detailed in Appendix V to this Prospectus, Pan River Enterprises (Chang-Sha) Co., Ltd. purchased the 40% interest in Pan River Enterprises (Hengyang) Co., Ltd. ("Hengyang PANVA") from Hengyang Sanxing Energy Co., Ltd., an independent third party on 8th June, 1999. Prior to that, Singkong Investments Limited owned 60% of Hengyang PANVA.*

We have acted as auditors of all the companies now comprising the Group for the Relevant Periods or since their respective dates of incorporation/establishment to 31st December, 2000, where this is a shorter period, except for the following:

| Company | From | To | Auditors |
|---|---|---|---|
| Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司 | 16th July, 1998 | 31st December, 1998 | 郴州會計師事務所 |
| | 1st January, 1999 | 31st December, 2000 | 湖南大信會計師事務所 |
| Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司 | 26th October, 1998 | 31st December, 1998 | 常德市審計師事務所 |
| | 1st January, 1999 | 31st December, 2000 | 湖南大信會計師事務所 |
| Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司 | 14th November, 1998 | 31st December, 1998 | 衡陽會計師事務所 |
| | 1st January, 1999 | 31st December, 1999 | 衡陽天翼有限責任會計師事務所 |
| | 1st January, 2000 | 31st December, 2000 | 湖南大信會計師事務所 |
| Pan River Enterprises (Chang-Sha) Co., Ltd. 長沙百江能源實業有限公司 | 16th January, 1998 | 31st December, 2000 | 湖南大信會計師事務所 |
| Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司 | 25th March, 1998 | 31st December, 1998 | 蕪湖市審計事務所 |
| | 1st January, 1999 | 31st December, 2000 | 安徽平泰會計師事務所 |
| Pan River Gas (Guizhou) Co., Ltd. 貴州百江燃氣有限公司 | 25th December, 1998 | 31st December, 2000 | 貴陽新華會計師事務所 |
| Wuhu Pan River Enterprises Jiangbei Co., Ltd. 蕪湖百江江北能源有限公司 | 1st March, 1999 | 31st December, 2000 | 安徽平泰會計師事務所 |
| Nanling Pan River LPG Co., Ltd. 南陵百江液化氣有限責任公司 | 20th August, 1998 | 31st December, 1998 | 蕪湖市審計事務所 |
| | 1st January, 1999 | 31st December, 2000 | 安徽平泰會計師事務所 |
| Wuhu Pan River Sanpeng LPG Co., Ltd. 蕪湖百江三朋液化氣有限公司 | 19th October, 1998 | 31st December, 1998 | 蕪湖市審計事務所 |
| | 1st January, 1999 | 31st December, 1999 | 安徽凱吉通會計師事務所 |
| | 1st January, 2000 | 31st December, 2000 | 安徽平泰會計師事務所 |
| Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司 | 16th August, 2000 | 31st December, 2000 | 江蘇永和會計師事務所 |
| Panriver Investments Company Limited 百江投資有限公司 | 10th March, 2000 | 31st December, 2000 | 深圳力誠會計師事務所 |

| Company | From | To | Auditors |
|---|---|---|---|
| Xiangtan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司 | 17th June, 1998<br>1st January, 1999 | 31st December, 1998<br>31st December, 2000 | 湘潭會計師事務所<br>湖南大信會計師事務所 |
| Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司 | 13th August, 1998<br>1st January, 2000 | 31st December, 1999<br>31st December, 2000 | 益陽赫山會計師事務所<br>湖南大信會計師事務所 |
| Yongzhou Pan River Enterprises Co., Ltd. 永州百江能源實業有限公司 | 18th December, 1998 | 31st December, 2000 | 湖南大信會計師事務所 |
| Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. 楊子石化百江能源有限公司 | 13th September, 1999<br>1st January, 2000 | 31st December, 1999<br>31st December, 2000 | 江蘇岳華會計師事務所<br>南京中大會計師事務所 |

The statutory financial statements of these companies were prepared in accordance with accounting rules and financial regulations applicable to enterprises established in the PRC. For the purpose of this report, we have performed our own independent audit of the respective financial statements of these companies, prepared in accordance with accounting principles generally accepted in Hong Kong, for the Relevant Periods or since their respective dates of establishment to 31st December, 2000 where this is a shorter period, in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

No audited financial statements has been prepared by the Company since its incorporation as the Company has not carried on any business, other than the transactions relating to the group reorganisation referred to herein. However, we have reviewed all material transactions of the Company since its date of incorporation.

We have examined the audited financial statements of the companies comprising the Group for the Relevant Periods or since their respective dates of incorporation/establishment to 31st December, 2000, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and the combined net liabilities of the Group as at 31st December, 2000 (the "Summaries") set out in this report have been prepared from the audited financial statements of the companies comprising the Group on the basis set out in Section 1 below.

The financial statements of the companies comprising the Group are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the prospectus in which this report is included. It is our responsibility to compile the Summaries of the Group set out in this report from the financial statements of the companies comprising the Group, to form an opinion on the Summaries and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 below the Summaries give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the three years ended 31st December, 2000 and of the combined net liabilities of the Group as at 31st December, 2000.

## 1. BASIS OF PREPARATION

The summaries of the combined results of the Group for the Relevant Periods include the results of the companies comprising the Group as if the Group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/ establishment, where this is a shorter period. The summary of the combined net liabilities of the Group as at 31st December, 2000 has been prepared to present the combined assets and liabilities of the Group as at that date as if the current structure had been in existence as at that date except for the results of Pan River Enterprises (Hengyang) Co., Ltd, where the Group accounted for the additional 24% interests purchased on 8th June, 1999 as from that date on an acquisition basis.

All material intra-group transactions and balances have been eliminated on combination.

The financial information has been prepared on a going concern basis, as the amount due to Sinolink Worldwide Holdings Limited, the intermediate holding company, of approximately $64,100,000 has been capitalised at the time of the group reorganisation on 4th April, 2001. Details of the capitalisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix V to the Prospectus.

## 2. PRINCIPAL ACCOUNTING POLICIES

The Summaries have been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the Summaries and which conform with accounting principles generally accepted in Hong Kong are as follows:

### Revenue recognition

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

Interest income is accrued on a time basis by reference to 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.

### Joint ventures

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

**Investments**

Investments, which are held for an identified long-term strategic purpose, are measured at cost, as reduced by an impairment loss that is other than temporary.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, 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 equity joint venture contract, whichever is shorter |
| Buildings | 3% to 6% |
| Leasehold improvements | 15% |
| Furniture, fixtures and equipment | 18% to 20% |
| Plant and machinery | 6% to 10% |
| Motor vehicles | 6% to 18% |

**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 receivable or payable in respect of operating leases are credited or charged to the income statement on a straight line basis over the terms of the respective leases.

**Inventories**

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

**Taxation**

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

**Foreign currencies**

Transactions in foreign currencies are translated at the rates of exchange prevailing at the transaction dates or at the contracted settlement rate. 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 dealt with in the income statement.

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

**Staff retirement benefits**

Contributions to retirement benefits scheme as stipulated by the relevant PRC regulations are charged to the income statement as incurred.

## 3. COMBINED RESULTS

| | Notes | 1998 HK$'000 | 1999 HK$'000 | 2000 HK$'000 |
|---|---|---|---|---|
| | | Year ended 31st December, | | |
| Turnover | *a* | 281,547 | 507,876 | 1,059,729 |
| Cost of sales | | (259,536) | (491,076) | (1,011,052) |
| Gross profit | | 22,011 | 16,800 | 48,677 |
| Other revenue | *b* | 121 | 859 | 487 |
| *Less:* Distribution expenses | | (4,836) | (10,140) | (19,335) |
| Administrative expenses | | (15,651) | (20,481) | (25,796) |
| Other operating expenses | *c* | (224) | (247) | (661) |
| Profit (loss) from operations | *d* | 1,421 | (13,209) | 3,372 |
| Finance costs | *e* | (2,317) | (339) | (319) |
| Investment income | *f* | 434 | 510 | 3,430 |
| (Loss) profit from ordinary activities before taxation | | (462) | (13,038) | 6,483 |
| Taxation | *g* | – | – | (342) |
| (Loss) profit before minority interests | | (462) | (13,038) | 6,141 |
| Minority interests | | (1,887) | 3,252 | (5,313) |
| Net (loss) profit for the year | | (2,349) | (9,786) | 828 |
| (Loss) earnings per share (cents) | *h* | (0.58) | (2.42) | 0.20 |

During the Relevant Periods, the Group has borrowed funds from the intermediate holding company, Sinolink Worldwide Holdings Limited and the minority shareholders where no interest expenses were charged on these balances. Had these balances been interest bearing, the Directors believe that the combined results of the Group after taxation for the Relevant Periods would have been decreased by the following notional amounts:

| | **Year ended 31st December,** | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| (Loss) profit for the year as set out above | (2,349) | (9,786) | 828 |
| Notional adjustments: | | | |
| Interest expense on amount due to intermediate holding company *(Note 1)* | – | (1,020) | (2,996) |
| Interest expense on amounts due to minority shareholders *(Note 2)* | (20) | (256) | (756) |
| | (20) | (1,276) | (3,752) |
| Adjusted loss for the year | (2,369) | (11,062) | (2,924) |

*Notes:*

1. Notional interest expense is calculated at 3% per annum, being the same rate as the Convertible Note as described in Appendix III to the Prospectus, on the portion of advances which are not capitalised on reorganisation.

2. Notional interest expense is calculated at a rate equivalent to the PRC short term bank loan rate, i.e. 6% per annum.

*Notes:*

**a. TURNOVER**

Turnover represents revenue from the sale of LPG, the provision of piped gas and the sale of LPG household appliances during the year, net of discounts and returns, value added tax and sales tax.

**b. OTHER REVENUE**

| | **Year ended 31st December,** | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Rental income | – | 288 | – |
| Profit on disposal of property, plant and equipment | – | 36 | – |
| Dividend income | – | – | 94 |
| Exchange gain | – | – | 70 |
| Sundry | 121 | 535 | 323 |
| | 121 | 859 | 487 |

### c. OTHER OPERATING EXPENSES

| | Year ended 31st December, 1998 *HK$'000* | 1999 *HK$'000* | 2000 *HK$'000* |
|---|---|---|---|
| Donations | 217 | 22 | – |
| Write off of investment cost of Wuhu Pan River Sanpeng LPG Co., Ltd *(Note 4(k))* | – | – | 500 |
| Sundries | 7 | 225 | 161 |
| | 224 | 247 | 661 |

### d. PROFIT (LOSS) FROM OPERATIONS

| | Year ended 31st December, 1998 *HK$'000* | 1999 *HK$'000* | 2000 *HK$'000* |
|---|---|---|---|
| Profit (loss) from operations has been arrived at after charging: | | | |
| Auditors' remuneration | 310 | 557 | 582 |
| Depreciation | 1,887 | 7,822 | 11,451 |
| Operating lease rentals in respect of land and buildings | 1,084 | 1,363 | 2,164 |
| Provision for bad debts | 468 | 7 | 149 |
| Staff costs | | | |
| – Directors' emoluments | – | 655 | 1,523 |
| – Staff costs, excluding directors' emolument | 5,555 | 8,998 | 17,809 |
| – Retirement benefits Scheme Contributions | 278 | 653 | 1,084 |

### e. FINANCE COSTS

| | Year ended 31st December, 1998 *HK$'000* | 1999 *HK$'000* | 2000 *HK$'000* |
|---|---|---|---|
| Interest paid on bank loans, overdrafts and other loans repayable within five years | 2,261 | 304 | 157 |
| Exchange loss | 53 | 29 | – |
| Bank charges | 3 | 6 | 162 |
| | 2,317 | 339 | 319 |

### f. INVESTMENT INCOME

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

**g. TAXATION**

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

In accordance with the relevant tax rules and regulations in the PRC, Pan River Enterprises (Chang-Sha) Co., Ltd. was exempted from income tax for the two years from 1st January, 1998 to 31st December, 1999 and is taxable at a concessionary tax rate of 12% for the three years from 1st January, 2000 to 31st December, 2002. Thereafter, the income tax rate applicable to Changsha Panva will be 24%.

Pan River Gas (Guizhou) Co., Ltd. and Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. are exempted from income tax for the two years from 1st January, 2000 to 31st December, 2001 and is taxable at concessionary tax rates of 12% and 16.5% respectively for the three years ending on 31st December, 2004.

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

There were no significant unprovided deferred taxation for each of the three years ended 31st December, 2000 as there were no significant timing differences.

**h. (LOSS) EARNINGS PER SHARE**

The calculation of the (loss) earnings per share for the Relevant Periods is based on the combined (loss) profit for each of the Relevant Periods and on the 405,000,000 shares in issue during those periods on the assumption that the Reorganisation had been effective on 1st January, 1998.

**i. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES**

Details of emoluments paid by the Group to the directors during the Relevant Periods are as follows:

| | | **Year ended 31st December,** | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive Directors | | | |
| Fees | – | – | – |
| Basic salaries and other benefits | – | 655 | 1,523 |
| Bonus | – | – | – |
| Retirement benefits | – | – | – |
| | – | 655 | 1,523 |

| | | **Year ended 31st December,** | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Emoluments of the Directors were as follows: | | | |
| Executive | | | |
| Director A | – | 363 | 430 |
| Director B | – | 241 | 240 |
| Director C | – | 51 | 853 |

No emoluments were paid to the remaining one executive director of the Company during the Relevant Periods.

Of the five individuals with the highest emoluments in the Group, there was no director of the Company for the year ended 31st December, 1998 and 2 were directors of the Company for the year ended 31st December, 1999 and 3 were directors of the Company for the year ended 31st December, 2000, details of whose emoluments are included in the disclosures set out above. The emoluments of the remaining individuals are as follows:

| | Year ended 31st December, | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| Employees | | | |
| Basic salaries and allowances | 433 | 598 | 788 |
| Bonus | – | – | – |
| Retirement benefits | – | – | – |
| | 433 | 598 | 788 |

| | Number of employees | | |
|---|---|---|---|
| Emoluments of the employees were within the following bands: | | | |
| Nil to $1,000,000 | 5 | 3 | 2 |

During the Relevant Periods, no emoluments were paid by the Group to these individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments during the Relevant Periods.

**j. RETIREMENT BENEFITS SCHEME**

Pursuant to the relevant PRC regulations, relevant subsidiaries are required to contribute amounts ranging from approximately 12 to 25 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC. According to the existing PRC regulations, no forfeited contributions may be used by the employer to reduce the existing level of contributions.

Details of the contributions made by the Group during the Relevant Periods are as follows:

| | Year ended 31st December, | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| Contributions charged to operating profit | 278 | 653 | 1,084 |

As at 31st December, 2000, there was no forfeited contribution to offset future contributions to be made by the Group.

**k. RELATED PARTY TRANSACTIONS**

During the Relevant Periods, the following related party transactions took place:

| **Name of related party** | **Nature of transactions** | Year ended 31st December, **1998** | **1999** | **2000** |
|---|---|---|---|---|
| | | *$'000* | *$'000* | *$'000* |
| Non-continuing transaction | | | | |
| Mr. Ou Yaping | Interest expense | 2,242 | 280 | – |

*Note:* Mr. Ou Yaping, a director of the Company, received interest income therefrom on advances to China Pan River Group Ltd.. The interest expense was determined in accordance with the relevant loan agreement at the rate of 8 per cent. per annum.

In the opinion of the directors, the above related party transaction was carried out in the ordinary and usual course of business and on normal commercial terms.

## 4. COMBINED NET LIABILITIES

| | | **As at 31st December, 2000** |
|---|---|---|
| | *Notes* | *$'000* |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | *a* | 160,713 |
| Investment | *b* | 1,123 |
| | | 161,836 |
| CURRENT ASSETS | | |
| Inventories | *c* | 14,581 |
| Trade debtors | | 10,569 |
| Other debtors, deposits and prepayments | | 14,207 |
| Bank balances and cash | *d* | 154,839 |
| | | 194,196 |
| CURRENT LIABILITIES | | |
| Trade creditors | | 37,272 |
| Other creditors and accruals | | 29,626 |
| Amounts due to minority shareholders | *e* | 24,212 |
| Bank borrowings | *f* | 2,713 |
| | | 93,823 |
| NET CURRENT ASSETS | | 100,373 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 262,209 |
| NON-CURRENT LIABILITIES | | |
| Amount due to the intermediate holding company | *g* | 163,367 |
| Amount due to a minority shareholder | *h* | 9,355 |
| | | 172,722 |
| | | 89,487 |
| MINORITY INTERESTS | | (101,435) |
| NET LIABILITIES | | (11,948) |

*Notes:*

**a. PROPERTY, PLANT AND EQUIPMENT**

| | Cost at 31st December, 2000 | Accumulated depreciation at 31st December, 2000 | Net book value at 31st December, 2000 |
|---|---|---|---|
| | *$'000* | *$'000* | *$'000* |
| Medium term leasehold land and buildings in the PRC | 27,869 | 2,478 | 25,391 |
| Leasehold improvement | 18 | 2 | 16 |
| Construction in progress | 4,780 | – | 4,780 |
| Plant and machinery | 122,844 | 11,480 | 111,364 |
| Furniture, fixtures and equipment | 3,203 | 678 | 2,525 |
| Motor vehicles | 22,444 | 5,807 | 16,637 |
| | 181,158 | 20,445 | 160,713 |

Included in the net book value of the medium term leasehold land and buildings in the PRC is an amount of $12,695,000 which represents buildings where either the Group had no building ownership certificates or where the buildings is situated on land not belonging to the Group. These buildings can be divided into three categories:

i. As to the buildings without building ownership certificates but the land are owned by the Group, which are #4, 6 and 7 in the valuation certificate in Appendix II to the Prospectus, the net book value of these buildings is approximately $3,451,000 as at 31st December, 2000.

ii. As to the buildings with building ownership certificates but the relevant land is leased from the respective joint venture partners or independent third parties for terms of 10-15 years, which are #8, 9, 10 and 14 in the valuation certificate in Appendix II to the Prospectus, the net book value of these buildings is approximately $3,743,000 as at 31st December, 2000.

iii. As to the buildings situated on the land provided for use free of charge by the joint venture partners who have no certificates of land use right, i.e. at Nanjing Panva LPG Company Ltd and Yangzi Petrochemical Baijing Energy Resoruces Co., Ltd., the Group is, for the former, in the process of negotiating with the joint venture partner to lease the land over the term of the joint venture and for the latter, in the process of negotiating with the land authorities in the PRC to purchase the land. The net book values of these buildings are approximately $2,816,000 and approximately $2,685,000 respectively as at 31st December, 2000.

The major shareholders of the Company, Sinolink Worldwide Holdings Limited and Kenson Investment Limited, have given indemnity to the Company against any financial loss to the Group with respect to the buildings mentioned above in accordance with the terms of the indemnity, details of which are set out in the section headed "Estate duty, tax indemnity and other indemnities" in Appendix V to the Prospectus.

As at 31st December, 2000, the Group had pledged property, plant and equipment with a net book value amounted to approximately HK$8,954,000 for bank loans, granted to the Group (Note 4(f)).

**b. INVESTMENT**

| | *$'000* |
|---|---|
| Unlisted equity investment at cost | 1,123 |

The investment represent the Group's interests in a PRC domiciled enterprise called Yueyang Jin E Petrochemical Co., Ltd.（岳陽金鶚石化發展有限公司）.

A subsidiary of the Company, Pan River Enterprises (Chang-Sha) Co., Ltd. holds 32.5% equity interest in this investment. This investment is classified as investment as the Group has no significant influence in its financial and operating policy decisions.

**c. INVENTORIES**

| | *$'000* |
|---|---|
| At cost: | |
| Finished goods | 12,675 |
| Consumable stores | 1,906 |
| | 14,581 |

**d. CASH AND BANK BALANCES**

The cash and bank balances included $80,276,000 which were denominated in Renminbi ("RMB") in the amount of RMB85,815,000. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

**e. AMOUNTS DUE TO MINORITY SHAREHOLDERS**

These balances are unsecured, interest free and have no fixed terms of repayment. The minority shareholders have agreed not to demand repayment prior to the listing.

**f. BANK BORROWINGS**

| | *$'000* |
|---|---|
| Bank loans, secured *(Note 4(a))* | 2,713 |

The maturity of the above loans is as follows:

| | |
|---|---|
| Within one year | 2,713 |

**g. AMOUNT DUE TO THE INTERMEDIATE HOLDING COMPANY**

The balance represents balance due to the intermediate holding company, Sinolink Worldwide Holdings Limited which is unsecured and interest free. Of the amount due, an amount of $64,100,000 has been capitalised at the time of the group reorganisation on 4th April, 2001 as investment in the Company and the remaining balance was converted into an unsecured 3% redeemable convertible note due 2004. Details of the Convertible note are set out in Appendix III to the prospectus.

**h. AMOUNT DUE TO A MINORITY SHAREHOLDER**

The balance is unsecured, interest free and has no fixed term of repayment. This minority shareholder has agreed not to demand repayment within one year and is therefore shown as non-current liability.

### i. MOVEMENTS IN RESERVES

| | Year ended 31st December, | | |
|---|---|---|---|
| | **1998** | **1999** | **2000** |
| | *$'000* | *$'000* | *$'000* |
| Exchange reserve | | | |
| As at the beginning of the year | – | 398 | 166 |
| Translation adjustments | 398 | (232) | (272) |
| As at the end of the year | 398 | 166 | (106) |
| Statutory reserve fund *(Note)*:– | | | |
| As at the beginning of the year | – | – | 535 |
| Movements for the year | – | 535 | – |
| As at the end of the year | – | 535 | 535 |
| Enterprise expansion fund *(Note)*:– | | | |
| As at the beginning of the year | – | – | 267 |
| Movements for the year | – | 267 | – |
| As at the end of the year | – | 267 | 267 |

As at 31st December, 2000, the Company had not commenced business and hence there was no reserve available for distribution to its shareholders at that date.

*Note:–*

In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage (as determined by the board of directors) of their profit after taxation (as determined in accordance with PRC GAAP), if any, to the general reserve which comprise of the statutory reserve and the enterprise expansion fund. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve can be used to offset against accumulated losses or for the issuance of bonus shares. The enterprise expansion fund can be used for the future development of the subsidiaries or for the issuance of bonus shares. Neither the statutory reserve, nor the enterprise expansion fund is available for distribution.

**j. COMMITMENTS**

Operating lease commitments

At 31st December, 2000, the Group had the following commitments payable within the following year under non-cancellable operating leases in respect of property, plant and equipment.

| | |
|---|---|
| | *$'000* |
| Operating leases which expire: | |
| Within one year | 218 |
| In the second to fifth years (inclusive) | 450 |
| Over five years | 519 |
| | 1,187 |

Capital commitments

At 31st December, 2000, the Group had no material capital commitments.

**k. CONTINGENT LIABILITIES**

On 28th October, 2000, a legal claim in the amount of approximately RMB1,658,000 has been brought against a subsidiary of the Company, Pan River Enterprises (Wuhu) Co., Ltd. by Wuhu Sanpeng LPG Chemical and Energy Co., Ltd., the joint venture partner of Wuhu Pan River Sanpeng LPG Co., Ltd. for losses on breaching the joint venture agreement between them. The directors of the Company are of the opinion that the claims and allegations are unfounded and groundless. Nonetheless, the Group intends to wind up the said subsidiary, Wuhu Pan River Sanpeng LPG Co., Ltd. upon conclusion of the litigation and the remaining investment cost of this subsidiary had been written off in the year ended 31st December, 2000 (Note 3(c)). The Directors of the Company, having considered the case carefully, are of the opinion that the winding up of the said subsidiary would not have a material effect on the Group's financial position at 31st December, 2000. The major shareholders of the Company, Sinolink Worldwide Holdings Limited and Kenson Investment Limited, have given indemnity to the Company against any amount payable and all expenses incurred (including legal costs) arising from or in connection with this claim in the event that the Group is unsuccessful in defending the claim.

## 5. NET LIABILITIES OF THE COMPANY

The Company was incorporated on 16th November, 2000 and has no asset or liability as at 31st December, 2000. On the basis of presentation set out in note 1 above, the net liabilities of the Company as at 31st December, 2000 would have been approximately HK$11,948,000 representing its direct investment in China Pan River Group Ltd..

## 6. ULTIMATE HOLDING COMPANY

The directors consider the Company's ultimate holding company to be Asia Pacific Promotion Limited, a company incorporated in the BVI.

**7. SUBSEQUENT EVENTS**

Subsequent to 31st December, 2000, the following significant events took place:

(1) Resolutions of the sole shareholder were passed on 4th April, 2001 to approve the matters set out in the section headed "Resolutions passed by the sole shareholer of the Company" in Appendix V to the Prospectus.

(2) The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the spin-off of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, details of which are set out in the section headed "Corporate reorganisation" in Appendix V to the prospectus.

**8. DIRECTORS' EMOLUMENTS**

Save as disclosed in note (3)(i) above, no other emoluments have been paid or were payable in respect of the Relevant Periods by the Company, or any of its subsidiaries to the directors of the Company. Under the arrangement pursuant to the service contracts entered into between the Group and the directors, the estimated aggregate amount of the directors' emoluments payable for the year ending 31st December, 2001 is approximately $2,300,000, excluding any management bonus.

**9. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for any companies comprising the Group in respect of any period subsequent to 31st December, 2000.

Yours faithfully,
**DELOITTE TOUCHE TOHMATSU**
*Certified Public Accountants*
Hong Kong

The following is the letter and extracts of the valuation certificates prepared by DTZ Debenham Tie Leung Limited on the Group's property interests for the purpose of incorporation into this prospectus. The full version of the valuation certificate is available for inspection as stated in Appendix VI to this prospectus.

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

10th April, 2001

The Directors
Panva Gas Holdings Limited
(formerly known as Panva Holdings Limited)
25th Floor
Vicwood Plaza
199 Des Voeux Road Central
Central
Hong Kong

Dear Sirs,

## RE: PORTFOLIO VALUATIONS

### INSTRUCTIONS, PURPOSE & DATE OF VALUATION

In accordance with the instructions of Panva Gas Holdings Limited ("the Company") for us to value the property interests, including various liquefied petroleum gas (LPG) storage stations, held by the Company and its subsidiaries or associated companies (together referred to as "the Group") in the People's Republic of China ("the PRC") and in The Hong Kong Special Administrative Region of the PRC ("Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of these property interests as at 31st January, 2001 ("the date of valuation").

### SUBSIDIARIES OF THE COMPANY

The names of the various subsidiaries of the Company in the PRC and their abbreviations (for reference purpose only) are summarised as follows:–

| Abbreviation | Name of the subsidiaries |
|---|---|
| Changde PANVA | Pan River Enterprises (Changde) Co., Ltd.<br>（常德百江能源實業有限公司） |
| Changsha PANVA | Pan River Enterprises (Chang-Sha) Co., Ltd.<br>（長沙百江能源實業有限公司） |

| Abbreviation | Name of the subsidiaries |
|---|---|
| Chenzhou PANVA | Chenzhou Panva River Gas Industry Co., Ltd. (郴州百江燃氣實業有限公司) |
| Guizhou PANVA | Pan River Gas (Guizhou) Co., Ltd. (貴州百江燃氣有限公司) |
| Hengyang PANVA | Pan River Enterprises (Hengyang) Co., Ltd. (衡陽百江能源實業有限公司) |
| Nanjing PANVA | Nanjing Panva LPG Ltd. (南京百江液化氣有限公司) |
| Nanling PANVA | Nanling Pan River LPG Ltd. (南陵百江液化氣有限責任公司) |
| Wuhu PANVA | Pan River Enterprises (Wuhu) Co., Ltd. (蕪湖百江能源實業有限公司) |
| Wuhu Jiangbei PANVA | Wuhu Pan River Jiangbei Enterprises Co., Ltd. (蕪湖百江江北能源有限公司) |
| Wuhu Sanpeng PANVA | Wuhu Pan River Sanpeng LPG Co., Ltd. (蕪湖百江三朋液化氣有限公司) |
| Xiangtan PANVA | Xiangtan Pan River Energy Industry Co., Ltd. (湘潭百江能源實業有限公司) |
| Yangzi PANVA | Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. (揚子石化百江能源有限公司) |
| Yiyang PANVA | Yiyang Pan River Enterprises Co., Ltd. (益陽百江能源實業有限公司) |
| Yongzhou PANVA | Yongzhou Pan River Enterprises Co., Ltd. (永州百江能源實業有限公司) |

## BASIS OF VALUATION

Our valuation of each of the property interests represents our opinion of the open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

## VALUATION ASSUMPTION

Our valuations of the respective properties have been made on the assumption that the owner sells the respective properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement, or any similar arrangement which would serve to increase the value of the respective properties.

In valuing the properties which are situated in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and, unless otherwise stated, that any premium payable has already been fully paid. We have also assumed that the grantees or the users of the respective properties have free and uninterrupted rights to use or to assign the respective properties for the whole of the unexpired term as granted. We have relied on the advice given by the Group and its legal adviser on PRC Law regarding the title to the respective properties.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the respective properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the respective properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect value.

## METHOD OF VALUATION

In valuing the properties in Group I which are LPG storage stations held and occupied by the Group in the PRC, we have valued the land element of the respective properties by Direct Comparison Method with reference to comparable land prices and site transactions in the relevant market. In respect of the building elements, we have valued them by Depreciated Replacement Cost Method by taking into account the current reinstatement cost of similar building structures, depreciated with consideration of the functional and physical obsolescence of the same.

Properties in Groups II to VII which are rented or licensed by the Group in the PRC and Hong Kong respectively have no commercial value due to the prohibition against assignment or otherwise due to the lack of substantial profit rent.

Properties in Groups II and V are rented by the Group from respective joint venture partners of the various subsidiaries of the Company in the PRC as mentioned above.

## SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Group and related parties and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, age of buildings, site and floor areas, particulars of occupancy and tenancies and all other relevant matters. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied.

Dimension, measurements and areas included in the valuation certificate attached are based on information provided to us and are therefore only approximations. No on-site measurement has been taken.

## TITLE INVESTIGATION

We have been provided by the Group with copies of documents in relation to the title to the respective properties. However, we have not been able to search the original documents to verify the ownership of the respective properties and to ascertain any amendment which may not appear on the copies handed to us.

## SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the respective properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the respective properties are free of rot, infestation or other structural defects nor were any tests carried out on any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurement to verify the floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

## CURRENCY & EXCHANGE RATES

Unless otherwise stated, all money amounts stated in our valuation are in Hong Kong dollars. The exchange rate adopted in our valuation is $1 = RMB1.06 which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

Yours faithfully,

for and on behalf of
**DTZ Debenham Tie Leung Limited**
**Andrew K. F. Chan**
*A.H.K.I.S., M.R.I.C.S., R.P.S. (GP)*
*Director*

*Note:* Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has 13 and 9 years of experience in valuing properties in Hong Kong and the PRC respectively.

## SUMMARY OF VALUATIONS

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| **Group I – LPG storage stations held and occupied by the Group in the PRC** | | | | |
| 1. | A LPG storage station situated in Maotang Village, Ansha Town, Changsha, Hunan Province | 4,600,000 | 60 | 2,760,000 |
| 2. | A LPG storage station situated at No. 112 Xiangheng Road, Yaowan Jiedao, Yuhu District, Xiangtan, Hunan Province | 1,900,000 | 55 | 1,045,000 |
| 3. | A LPG storage station situated at No. 125 Caojiayuan, Chengbei District, Hengyang, Hunan Province | 1,800,000 | 84 | 1,512,000 |
| 4. | A LPG storage station situated in Mianhuatang Village, Renwan Town, Lengshuitan District, Yongzhou, Hunan Province | 2,200,000 | 60 | 1,320,000 |
| 5. | A LPG storage station situated off National Highway No. 107, Xifengdu Village, Xifengdu Town, Suxian District, Chenzhou, Hunan Province | 2,000,000 | 55 | 1,100,000 |
| 6. | A LPG storage station situated in Xihua Shipyard, Wuhu, Anhui Province | 3,600,000 | 55 | 1,980,000 |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 7. | A LPG storage station situated in Shipu, Dong Street, Nanling County, Anhui Province | 570,000 | 30.25 | 172,425 |
| | | | Grand total: | 9,889,425 |

**Group II – LPG storage stations leased by the Group from respective joint venture partners in the PRC**

| | | |
|---|---|---|
| 8. | A LPG storage station situated in Xinan Village, Wuling Avenue, Wuling District, Changde, Hunan Province | No commercial value |
| 9. | A LPG storage station situated at Yuanhe West Road, Yuxikou, Wuhu, Anhui Province | No commercial value |

**Group III– LPG storage stations leased by the Group from third parties in the PRC**

| | | |
|---|---|---|
| 10. | A LPG storage station situated on the side of National Highway No. 107, Qilidong, Suxian District, Chenzhou, Hunan Province | No commercial value |
| 11. | A LPG storage station situated at No.64 Huilongshan Road, Heshan District, Yiyang, Hunan Province | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001<br>*HK$* | Interest attributable to the Group<br>*%* | Capital value in existing state attributable to the Group as at 31st January, 2001<br>*HK$* |
|---|---|---|---|---|
| 12. | A LPG storage station situated in Jiefang East Road, Wuhu, Anhui Province | | | No commercial value |
| 13. | A LPG storage station situated in Jiaogui, Xinhua Road, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 14. | A LPG storage station situated in Niulangguan, Guiyang, Guizhou Province | | | No commercial value |

**Group IV – Retail outlets leased by the Group from respective joint venture partners in the PRC**

| | | | | |
|---|---|---|---|---|
| 15. | A retail shop, Haiheng Road No. 112, Shaziling, Yuhu District, Xiangtang, Hunan Province | | | No commercial value |
| 16. | A retail shop on Level 1, No. 29 Guoqing South Road, Chenzhou, Hunan Province | | | No commercial value |
| 17. | A retail shop on Level 1, No. 25 Guimenling, Chenzhou, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 18. | A retail shop on Level 1, No. 78 South Street, Chenzhou, Hunan Province | | | No commercial value |
| 19. | A retail shop on Level 1, No. 45 Gongye Avenue, Xiameiqiao, Chenzhou, Hunan Province | | | No commercial value |
| 20. | A retail shop on Level 1, Coal-gas Building, Yanqun Road, Chenzhou, Hunan Province | | | No commercial value |
| 21. | Two retail shops on Level 1, No. 67 Lingyang Road, Nanling County, Anhui Province | | | No commercial value |
| 22. | A retail shop on Level 1, Xintian Avenue, Guiyang, Guizhou Province | | | No commercial value |
| 23. | A retail shop on Level 1, Huanghe Road, Guiyang, Guizhou Province | | | No commercial value |
| 24. | A retail shop on Level 1, Chaoyang Village, Huaxi Avenue, Guiyang, Guizhou Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 25. | A retail shop on Level 1, No. 173 Huangjing Road, Guiyang, Guizhou Province | | | No commercial value |
| 26. | Two retail shops on Level 1, No. 167 Huancheng North Road, Guiyang, Guizhou Province | | | No commercial value |
| 27. | A retail shop on Level 1, No. 168 Fuyuan South Road, Guiyang, Guizhou Province | | | No commercial value |

**Group V – Retail outlets leased by the Group from third parties in the PRC**

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 28. | A retail shop on Level 1, No. 221 Shaoshan Central Road, Changsha, Hunan Province | | | No commercial value |
| 29. | Retail shop No. 7 on Level 1, Huoxing Town, Changsha, Hunan Province | | | No commercial value |
| 30. | A retail shop on Level 1, No. 339 Shuyuan Road, Changsha, Hunan Province | | | No commercial value |
| 31. | Two retail shops on Level 1, No. 16 Chigang North Road, Changsha, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 32. | Two retail shops on Level 1, Shiyang Road, Reminxincun, Changsha, Hunan Province | | | No commercial value |
| 33. | Retail shop Nos. 2 & 3 on Level 1, Guoqingxincun, Shahuqiao, Wujialing, Changsha, Hunan Province | | | No commercial value |
| 34. | A retail shop on Level 1, No. 30 Jinkui Road, No. 165 Shaoshan South Road, Yuhua District, Changsha, Hunan Province | | | No commercial value |
| 35. | Three retail shops on Level 1, Tongxi Resident Committee, Tongzipo, Yuelu District, Changsha, Hunan Province | | | No commercial value |
| 36. | Two retail shops, No. 31, Wanchengpo Town, Changsha, Hunan Province | | | No commercial value |
| 37. | Retail shop No. 6, Elderly Political Consultative Dormitory, Songguiyuan, Changsha, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 38. | Two retail shops on Level 2, No. 54 Xiamayuanling, Changsha, Huan Province | | | No commercial value |
| 39. | Two retail shops on Level 1, No. 62 Ermalu, Changsha, Hunan Province | | | No commercial value |
| 40. | A retail shop on Level 1, No. 11 Hexidu, Changsha, Hunan Province | | | No commercial value |
| 41. | Retail shop No. 20 on Level 1, Block No. 4, Yangjiashan, Changsha, Hunan Province | | | No commercial value |
| 42. | A retail shop on Level 1, No. 45 Laoya Village, Yingpanling, Changsha, Hunan Province | | | No commercial value |
| 43. | Retail shop No. 1, West Block 1, Jiangjialong, Changsha, Hunan Province | | | No commercial value |
| 44. | Two retail shops on Level 1, No. 55 Huangni Street, Changsha, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 45. | A retail shop on Level 1, Xinqiao Village 5th Group, Changsha, Hunan Province | | | No commercial value |
| 46. | Two retail shops on Level 1, Chenjiahu, Yuoyi Village, Wujialing, Changsha. Hunan Province | | | No commercial value |
| 47. | Retail shop Nos. 9 and 10 on Level 1, No. 58 Fuxing Street, Changsha, Hunan Province | | | No commercial value |
| 48. | Retail shops Nos. 1 & 2 on Level 1, Block 9, Guihua Village, Yuhua District, Changsha, Hunan Province | | | No commercial value |
| 49. | A retail shop on Level 1, Shima Village, Yuhuating, Yuhua District, Changsha, Hunan Province | | | No commercial value |
| 50. | A retail shop on Level 1, Erfang Factory, Shilingtang Road, Chazi Mountain, Yuelu District, Changsha, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 51. | Retail shop No. 15 on Level 1, Xiangyin Apartment, Jiyuang Small Zone, Changsha, Hunan Province | | | No commercial value |
| 52. | A retail shop on Level 1, West of Xianjiahu Tumour Hospital, Yuelu District, Changsha, Hunan Province | | | No commercial value |
| 53. | Five retail shops on Level 1, No. 33 Qingshuitang Road, Changsha, Hunan Province | | | No commercial value |
| 54. | A retail shop on the right side of the Main Entrance of Shaziling LPG Station, Xiangtang, Hunan Province | | | No commercial value |
| 55. | Retail shop No. 103 Wenjian Village, Yuetang District, Xiangtang, Hunan Province | | | No commercial value |
| 56. | A retail shop on Level 1, No. 3 Xiaotang Road, Yuetang District, Xiangtang, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001<br>*HK$* | Interest attributable to the Group<br>*%* | Capital value in existing state attributable to the Group as at 31st January, 2001<br>*HK$* |
|---|---|---|---|---|
| 57. | A retail shop on Level 1, No. 31 Lizhuxinchun, Gezhu Road, Yuhu District, Xiangtan, Hunan Province | | | No commercial value |
| 58. | A retail shop on Level 1, No. 163 Renmin Road, Yuhu District, Xiangtang, Hunan Province | | | No commercial value |
| 59. | A retail shop on Level 1, No. 8 Fanghu Road, Yuhu District, Xiangtang, Hunan Province | | | No commercial value |
| 60. | A retail shop on Level 1, No. 81 Tangmeng Road, Yuhu District, Xiangtang, Hunan Province | | | No commercial value |
| 61. | A retail shop on Level 1, No. 30 Guangji Road, Xiangtang, Hunan Province | | | No commercial value |
| 62. | Retail shop No. 2, Level 1, Hongzheng House, Chengzheng Street, Yuhu District, Xiangtang, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 63. | Two Retail Shops on Level 1, Block No. 131, No. 89 Hongxiang Road, Taiping Small Zone, Hengyang, Hunan Province | | | No commercial value |
| 64. | Retail Shop Nos. 8 and 9, Xihu Park, Hengyang, Hunan Province | | | No commercial value |
| 65. | Retail Shop No. 106, Block No. 4, Huayuan Road, High & New Technology Development Zone, Hengyang, Hunan Province | | | No commercial value |
| 66. | Retail Shop No. 17, No. 35 Hubei Road, Hengyang, Hunan Province | | | No commercial value |
| 67. | A retail shop on Level 1, No. 92 Huangbai Road, Chengnan District, Hengyang, Hunan Province | | | No commercial value |
| 68. | Retail Shop No. 1, No. 72 Maogaitai, Hengyang, Hunan Province | | | No commercial value |
| 69. | Retail Shop No. 3 on Level 1, No. 115 Zhengxiang North Road, Hengyang, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 70. | Retail Shop No. 19, Tianmashan South Road, Hengyang, Hunan Province | | | No commercial value |
| 71. | Retail Shop No. 12, Level 1, Renminjiedao Office Building, Xiangqun Wet Market, Changsheng Central Road, Hengyang, Hunan Province | | | No commercial value |
| 72. | Retail Shop No. 6 on Level 1, No. 15 Dongfeng Road, Jiangdong District, Hengyang, Hunan Province | | | No commercial value |
| 73. | A retail shop on Level 1, No. 13 Hengqi Road, Hengyang, Hunan Province | | | No commercial value |
| 74. | A retail shop on Level 1, No. Fu 6 Wangzheng Road, Hengyang, Hunan Province | | | No commercial value |
| 75. | A retail shop on Level 1, Lixin Development Zone, Hengyang, Hunan Province | | | No commercial value |
| 76. | A retail shop on Level 1, Hangyin Road, Hengyang, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 77. | A retail shop on Level 1, Longmin Street, Qidong County, Hengyang, Hunan Province | | | No commercial value |
| 78. | A retail shop on Level 1, Renmin East Road, Chenzhou, Hunan Province | | | No commercial value |
| 79. | Retail shop No. 7 on Level 1, Qilidong, Chenzhou, Hunan Province | | | No commercial value |
| 80. | A retail shop on Level 1, No. 9 Suxian North Road, Chenzhou, Hunan Province | | | No commercial value |
| 81. | A retail shop on Level 1, Zixing New Zone, Chenzhou, Hunan Province | | | No commercial value |
| 82. | A retail shop on Level 1, No. 144 Lingling South Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 83. | A retail shop on Level 1, No. 69 Zhenzhu Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 84. | A retail shop on Level 1, Baiye Building, Fenghuangyuan, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 85. | A retail shop on Levels 1 and 2, No. 6 Yiyun Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 86. | A retail shop on Level 1, Tuchenrizha Building Zhongshan Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 87. | A retail shop on Level 1, Qingqiao Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 88. | A retail shop No. 23 on Level 1, Linyeju, Shuangzhou Road, Lengshuitan District, Yongzhou, Hunan Province | | | No commercial value |
| 89. | A retail shop on Level 1, No. 579 Renmin East Road, Changde, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 90. | A retail shop on Level 1, No. 457 Langzhou Road, Changde, Hunan Province | | | No commercial value |
| 91. | Retail shop No. 13 on Level 1, Argricultural Machine Administration Bureau, Office Building, Qingnian East Road, Changde, Hunan Province | | | No commercial value |
| 92. | A retail shop on Level 1, No. 5 Longyang Road, Wuling Town, Dingcheng District, Changde, Hunan Province | | | No commercial value |
| 93. | A retail shop on Level 1, Dormitory of Sancha Road Office, Zaoguo Small Zone, Wuling District, Changde, Hunan Province | | | No commercial value |
| 94. | A retail shop on Level 1, No. 1 Block 11, Moli Village, Wuling District, Changde, Hunan Province | | | No commercial value |
| 95. | A retail shop on Level 1, Sanlu Village, Dongjiaoxiang, Wuling District, Changde, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 96. | Retail shop No. 18 on Level 1, Zhiqiao Road, Changde, Hunan Province | | | No commercial value |
| 97. | A retail shop on Level 1, Mabenqiao, Wuling District, Changde, Hunan Province | | | No commercial value |
| 98. | A retail shop on Level 1, Huiyuan Building, Renmin West Road, Wuling District, Changde, Hunan Province | | | No commercial value |
| 99. | A retail shop on Level 1, No.740 Renmin West Road, Wuling District, Changde, Hunan Province | | | No commercial value |
| 100. | A retail shop on Level 1, No. 63 Yuxia Road, Jianshe West Road, Dingcheng District, Changde, Hunan Province | | | No commercial value |
| 101. | A retail shop on Level 1, Sanjue Building, Renmin Road, Ziyang District, Yiyang, Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 102. | Retail shop No. 13 on Level 1, No. 100 Gongren Road, Sanyi Street, Ziyang District, Yiyang, Hunan Province | | | No commercial value |
| 103. | A retail shop on Level 1, Kewei Commercial/ residential Building, Dali Road, Heshan District, Yiyang, Hunan Province | | | No commercial value |
| 104. | Retail shop No. 3 on Level 3, Sports Stadium, No. 1 Kangfu North Road, Heshan District, Yiyang, Hunan Province | | | No commercial value |
| 105. | A retail shop on Level 1, No. 384 Zijiang West Road, Ziyang District, Yiyang, Hunan Province | | | No commercial value |
| 106. | Retail shop No. 4 on Level 1, No. 8 Chaoyang West Road, Chaoyang District, Yiyang, Hunan Province | | | No commercial value |
| 107. | Two retail shops on Level 1, No. 1 Longzhou South Road, Heshan District, Yiyang Hunan Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 108. | A retail outlet, Siwang District, Xinhua Road, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 109. | A retail outlet, Getang Town, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 110. | A retail outlet, Changlu Town, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 111. | A retail outlet, Jingliu Road, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 112. | A retail outlet, No. 545 Xinhua Road, Dachang District, Nanjing, Jiangsu Province | | | No commercial value |
| 113. | A retail shop on Level 1, No. 427 Limin Road, Wuhu, Anhui Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 *HK$* | Interest attributable to the Group *%* | Capital value in existing state attributable to the Group as at 31st January, 2001 *HK$* |
|---|---|---|---|---|
| 114. | Two retail shops on Level 1, No. 1 Yuanhe Road, Wuhu, Anhui Province | | | No commercial value |
| 115. | A retail shop on Level 1, Shenshankou, Erhuan North Road, Wuhu, Anhui Province | | | No commercial value |
| 116. | Two retail shops on Level 1, No. 69 Tuanjie West Road, Wuhu, Anhui Province | | | No commercial value |
| 117. | A retail shop on Level 1, No. 88 Yijiang Road, Wuhu, Anhui Province | | | No commercial value |
| 118. | A retail shop on Level 1, No. 17 Tangjia North Alley, Wuhu, Anhui Province | | | No commercial value |
| 119. | A retail shop on Level 1, No. 58 Gaochengban, Wuhu, Anhui Province | | | No commercial value |
| 120. | A retail shop on Level 1, Xitou Jihe Small Zone, Xiwu Road, Wuhu, Anhui Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 121. | A retail shop on Level 1, Zhoucheng Factory, Wuhu, Anhui Province | | | No commercial value |
| 122. | A retail shop on Level 1, No. 77 Heshan Road, Wuhu, Anhui Province | | | No commercial value |
| 123. | Two retail shops on Level 1, No. 144 Changjiang Road, Wuhu, Anhui Province | | | No commercial value |
| 124. | A retail shop on Level 1, Yuxi Road, Wuhu, Anhui Province | | | No commercial value |
| 125. | A retail shop on Level 1, Nanxiang Road, Nanling County, Anhui Province | | | No commercial value |
| 126. | A retail shop on Level 1, Huimin South Road, Nanling County, Anhui Province | | | No commercial value |
| 127. | Retail shop No. 7, No. 92 Guikai Road, Guiyang, Guizhou Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001<br>*HK$* | Interest attributable to the Group<br>*%* | Capital value in existing state attributable to the Group as at 31st January, 2001<br>*HK$* |
|---|---|---|---|---|
| 128. | Retail shop No. 1, Guiyang Third Hospital, Guiyang, Guizhou Province | | | No commercial value |
| 129. | A retail shop on Level 1, No. 113 Shengqi Road, Guiyang, Guizhou Province | | | No commercial value |
| 130. | Retail shop No. 448 A8 on Level 1, Huaxi Avenue North Section, Guiyang, Guizhou Province | | | No commercial value |
| 131. | Retail shop Nos. 1 and 2, No. 20 Baiyun Central Road, Guiyang, Guizhou Province | | | No commercial value |
| 132. | A retail shop on Level 1, No. 8 Taiping Road, Guiyang, Guizhou Province | | | No commercial value |
| 133. | Retail shop Nos. 1-13 and 1-14 on Level 1, Shida Printing Factory, Xudong Road, Guiyang, Guizhou Province | | | No commercial value |
| 134. | A retail shop on Level 1, Dongshanyakou, Guiyang, Guizhou Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |
| 135. | Retail shop Nos. 29 and 30 on Level 1, The 29th Secondary School, No. 29 Shachong Road, Guiyang, Guizhou Province | | | No commercial value |
| 136. | Retail shop No. 2 on Level 1, No. 29 Waihuancheng East Road, Guiyang, Guizhou Province | | | No commercial value |
| 137. | Retail shop No. 5 on Level 1, No. 104 Shifeng Road, Guiyang, Guizhou Province | | | No commercial value |
| 138. | A retail shop on Level 1, Sanqiao Central Road, Guiyang, Guizhou Province | | | No commercial value |

**Group VI – Other properties leased by the Group from third parties in the PRC**

| | | | | |
|---|---|---|---|---|
| 139. | Unit No. 202 on Level 2, Yaxiya Building, No. 82 Shaoshan North Road, Changsha, Hunan Province | | | No commercial value |
| 140. | A Dormitory Building, Huangnitan, Wuhu, Anhui Province | | | No commercial value |
| 141. | Unit Nos. 306, 308, 310, 312 and 314, Level 3, No. 258 Jiuhuashan Road, Wuhu, Anhui Province | | | No commercial value |

| | Property | Capital value in existing state as at 31st January, 2001 | Interest attributable to the Group | Capital value in existing state attributable to the Group as at 31st January, 2001 |
|---|---|---|---|---|
| | | *HK$* | *%* | *HK$* |

**Group VII – Property licensed by the Group in Hong Kong**

| | | | | |
|---|---|---|---|---|
| 142. | Portion of Unit Nos. 2501 & 2502, 25th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Central, Hong Kong | | | No commercial value |

# VALUATION CERTIFICATE

## Group I – LPG storage stations held and occupied by the Group in the PRC

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 1. | A LPG storage station situated in Maotang Village, Ansha Town, Changsha, Hunan Province | The property occupies an irregular-shaped site with an area of approximately 16,413 sq.m. (176,670 sq.ft.).<br><br>The property comprises various single to 2-storey buildings completed in 1996. The property has a total gross floor area of approximately 946.95 sq.m. (10,193 sq.ft.), exclusive of other ancillary structures.<br><br>The land use rights of the property have been granted for a term of 50 years from 11th January, 1999. | The property is currently occupied by Changsha PANVA as a LPG storage station with ancillary office. | HK$4,600,000<br><br>(60% interest attributable to the Group: HK$2,760,000) |

*Notes:–*

(1) According to the Certificate for the Use of State-owned Land No. 99-003 issued by Changsha State Land Administrative Bureau on 11th January, 1999, the land use rights of the property, comprising a site area of 16,413 sq.m., have been granted to Changsha PANVA for a term of 50 years for "LPG storage station (commercial)" use.

(2) According to Grant Contract for State-owned Land Use Rights entered into between Changsha State Land Administrative Bureau ("Party A") and Changsha PANVA ("Party B") on 10th January, 1999, Party A has agreed to grant the land use rights of the property to Party B on the terms and conditions as cited, inter alia, as follows:–

(i) Site area : 16,408.20 sq.m.

(ii) Land use term : 50 years (from the date of issue of Certificate for the Use of State-owned Land)

(iii) Use of land : Office and Storage

(3) According to four Building Ownership Certificates Nos. 99-0043 to 99-0046, the title to the various buildings of the property, comprising a total gross floor area of 946.95 sq.m. is vested in Changsha PANVA. Details of the said certificate are summarized as follows:–

| Certificate No. | No. of Storeys | Gross Floor Area *(sq.m.)* |
|---|---|---|
| 99-0043 | 2 | 537.03 |
| 99-0044 | 1 | 41.10 |
| 99-0045 | 1 | 69.70 |
| 99-0046 | 1 | 299.12 |

(4) According to the Equity Joint Venture Contract entered into between 巴陵石化長嶺煉油化工總廠 ("Party A") and Singkong Investments Limited ("Party B") on 8th December, 1997, the parties have agreed to establish an equity joint venture company ("the EJV") on the terms and conditions as cited, inter alia, as follows:–

| | | | | | |
|---|---|---|---|---|---|
| (i) | Name of the EJV | : | Changsha PANVA | | |
| (ii) | Total investment amount | : | RMB100,000,000 | | |
| (iii) | Registered capital | : | RMB40,000,000 | | |
| (iv) | Capital contribution | : | Party A | : | RMB16,000,000 (40% of registered capital) |
| | | | Party B | : | RMB24,000,000 (60% of registered capital) |
| (v) | Profit/Loss sharing | : | Party A | : | 40% |
| | | | Party B | : | 60% |
| (vi) | Term of operation | : | 30 years from the date of issue of the business licence | | |

(5) According to Business Licence No. 000601 dated 5th April, 2000, Changsha PANVA has been incorporated as a sino-foreign joint venture enterprise with a registered capital of RMB40,000,000 and an operation period from 16th January, 1998 to 16th January, 2028.

(6) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Changsha PANVA has obtained the land use rights of the property for a term of 50 years from 11th January, 1999 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Changsha PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Changsha PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Changsha PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) During the term of the land use rights, Changsha PANVA is entitled to transfer, mortgage or lease the building ownership of the buildings of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Changsha PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(7) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Changsha PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(8) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | Yes |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for State-owned Land Use Rights | Yes |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 2. | A LPG storage station situated at No. 112 Xiangheng Road, Yaowan Jiedao, Yuhu District, Xiangtan, Hunan Province | The property occupies an irregular-shaped site with an area of approximately 8,135.10 sq.m. (87,566 sq.ft.).<br><br>The property comprises various single storey buildings completed in about 1992. The property has a total gross floor area of approximately 927.41 sq.m. (9,983 sq.ft.), exclusive of other ancillary structures.<br><br>The land use rights of the property have been granted for a term of 30 years from 13th April 1999 to 13th April, 2029 for industrial use. | The property is currently occupied by Xiangtan PANVA as a LPG storage station with ancillary office. | HK$1,900,000<br><br>(55% interest attributable to the Group: HK$1,045,000) |

*Notes:–*

(1) According to Certificate for the Use of State-owned Land No. (2000) 10508 issued by Xiangtan State Land Administrative Bureau on 1st December, 2000, the land use rights of the property, comprising a site area of 8,135.10 sq.m., have been granted to Xiangtan PANVA for "Industrial" use. According to the PRC legal opinion, the land use term should be commenced from 13th April, 1999 to 13th April, 2029.

(2) According to four Building Ownership Certificates issued by Xiangtan Real Estate Administrative Bureau, the title to the various buildings of the property, comprising a total gross floor area of 927.41 sq.m., is vested in Xiangtan PANVA. Details of the said certificates are summarized as follows:–

| Certificate No. | Block No. | No. of Storeys | Gross Floor Area *(sq.m.)* |
|---|---|---|---|
| 125901 | 003 | 1 | 23.96 |
| 125948 | 004 | 1 | 307.73 |
| 125949 | 005 | 1 | 523.41 |
| 125950 | 002 | 1 | 72.31 |

(3) According to the Equity Joint Venture Contract entered into between 湘潭市煤氣公司 ("Party A") and Singkong Investments Limited ("Party B") on 18th December, 1998, the parties have agreed to establish an equity joint venture company ("the EJV") on the terms and conditions as cited, inter alia, as follows:–

| | | | | | |
|---|---|---|---|---|---|
| (i) | Name of the EJV | : | Xiangtan PANVA | | |
| (ii) | Total investment amount | : | RMB10,000,000 | | |
| (iii) | Registered capital | : | RMB10,000,000 | | |
| (iv) | Capital contribution | : | Party A | : | RMB4,500,000 (45% of registered capital) |
| | | | Party B | : | RMB5,500,000 (55% of registered capital) |
| (v) | Profit/Loss sharing | : | Party A | : | 45% |
| | | | Party B | : | 55% |
| (vi) | Term of operation | : | 30 years from the date of issue of the business licence | | |

(4) According to Business Licence No. 000216 dated 16th August, 2000, Xiangtan PANVA has been incorporated as a sino-foreign joint venture enterprise with a registered capital of RMB10,000,000 and an operation period from 17th June, 1998 to 16th June, 2028.

(5) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Xiangtan PANVA has obtained the land use rights of the property for a term from 13th April, 1999 to 13th April, 2029 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Xiangtan PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Xiangtan PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Xiangtan PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) During the term of the land use rights, Xiangtan PANVA is entitled to transfer, mortgage or lease the building ownership of the buildings of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Xiangtan PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(6) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Xiangtan PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(7) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | Yes |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for State-owned Land Use Rights | No |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 3. | A LPG storage station situated at No. 125 Caojiayuan, Chengbei District, Hengyang, Hunan Province | The property occupies an irregular-shaped site with an area of approximately 4,255.20 sq.m. (45,803 sq.ft.).<br><br>The property comprises various single to 2-storey buildings comlpeted in the 1980's. The property has a total gross floor area of 435.84 sq.m. (4,691 sq.ft.).<br><br>The land use rights of the property have been granted for a term due to expire on 31st January, 2050. | The property is currently occupied by Hengyang PANVA as a LPG storage station with ancillary office. | HK$1,800,000<br><br>(84% interest attributable to the Group: HK$1,512,000) |

*Notes:–*

(1) According to Certificate for the Use of State-owned Land No. (2000A) 202102 issued by Hengyang State Land Administrative Bureau on 31st January, 2000, the land use rights of the property, comprising a site area of 4,255.20 sq.m., have been granted to Hengyang PANVA for a term due to expire on 31st January, 2050 for "Storage" use.

(2) According to Grant Contract for State-owned Land Use Rights No. GF-94-1001 entered into between Hengyang State Land Administrative Bureau ("the Grantor") and Hengyang PANVA ("the Grantee") on 28th January, 2000, the Grantor agreed to grant the land use rights of the property to the Grantee at a land grant fee of RMB445,500.

(3) According to two Building Ownership Certificate Nos. 00085464 and 00085465 issued by Hengyang Real Estate Administrative Bureau on 28th January, 2000, the title to the buildings of the property, comprising a total gross floor area of 435.84 sq.m., is vested in Hengyang PANVA. The details as stipulated in the said certificates are summarized as follows:–

| Certificate No. | Use | No. of Storeys | Gross Floor Area *(sq.m.)* |
|---|---|---|---|
| 00085464 | Others | 1 | 261.32 |
| 00085465 | Office | 2 | 174.52 |

(4) According to the Equity Joint Venture Contract entered into between Singkong Investments Limited ("Party A") and Changsha PANVA ("Party B") in 1999, the parties have agreed to establish an equity joint venture company ("the EJV") on the terms and conditions as cited, inter alia, as follows:–

| | | | |
|---|---|---|---|
| (i) | Name of the EJV | : | Hengyang PANVA |
| (ii) | Total investment amount | : | RMB8,500,000 |
| (iii) | Registered capital | : | RMB6,000,000 |
| (iv) | Capital contribution | : | Party A : RMB3,600,000 (60% of registered capital)<br>Party B : RMB2,400,000 (40% of registered capital) |

| | | | | | |
|---|---|---|---|---|---|
| (v) | Profit/Loss sharing | : | Party A | : | 60% |
| | | | Party B | : | 40% |
| (vi) | Term of operation | : | 30 years from the date of issue of the business licence | | |

(5) According to Business Licence No. 000439 dated 7th January, 2000, Hengyang PANVA has been incorporated as a sino-foreign joint venture enterprise with a registered capital of RMB6,000,000 and an operation period from 14th November, 1998 to 14th November, 2028.

(6) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Hengyang PANVA has obtained the land use rights of the property for a term due to expire on 31st January, 2050 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Hengyang PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Hengyang PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Hengyang PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) During the term of the land use rights, Hengyang PANVA is entitled to transfer, mortgage or lease the building ownership of the buildings of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Hengyang PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(7) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Hengyang PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(8) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | Yes |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for State-owned Land Use Rights | Yes |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 4. | A LPG storage station situated in Mianhuatang Village, Renwan Town, Lengshuitan District, Yongzhou, Hunan Province | The property occupies an irregular-shaped site with an area of approximately 10,000 sq.m. (107,640 sq.ft.).<br><br>The property comprises various single to 2-storey buildings comlpeted in the 1980's.<br><br>The land use rights of the property have been granted for a term due to expire in January 2039. | The property is currently occupied by Yongzhou PANVA as a LPG storage station with ancillary office. | HK$2,200,000<br><br>(60% interest attributable to the Group: HK$1,320,000) |

*Notes:–*

(1) As no building ownership certificate has been produced and the title of the buildings of the property has not been verified by the Group's PRC legal adviser, no commercial value has been ascribed to the building portion of this property interest.

(2) According to Certificate for the Use of State-owned Land No. (1999) 0365 issued by Yongzhou State Land Administrative Bureau on 2nd July, 1999, the land use rights of the property, comprising a site area of 10,000 sq.m., have been granted to Yongzhou PANVA for a term due to expire in January 2039 for "Industrial" use.

(3) According to the Equity Joint Venture Contract entered into between Singkong Investments Limited ("Party A") and 湖南省石油總公司永州市公司 ("Party B") on 22nd November, 1998, the parties have agreed to establish an equity joint venture company ("the EJV") on the terms and conditions as cited, inter alia, as follows:–

| | | | | | |
|---|---|---|---|---|---|
| (i) | Name of the EJV | : | Yongzhou PANVA | | |
| (ii) | Total investment amount | : | RMB7,000,000 | | |
| (iii) | Registered capital | : | RMB5,000,000 | | |
| (iv) | Capital contribution | : | Party A | : | RMB3,000,000 (60% of registered capital) |
| | | | Party B | : | RMB2,000,000 (40% of registered capital) |
| (v) | Profit/Loss sharing | : | Party A | : | 60% |
| | | | Party B | : | 40% |
| (vi) | Term of operation | : | 30 years from the date of issue of the business licence | | |

(4) According to Business Licence No. 000210 dated 18th May, 2000, Yongzhou PANVA has been incorporated as an equity joint venture enterprise (Hong Kong capital) with a registered capital of RMB5,000,000 and an operation period from 18th December, 1998 to 17th December, 2028.

(5) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Yongzhou PANVA has obtained the land use rights of the property for a term due to expire in January 2039 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Yongzhou PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Yongzhou PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Yongzhou PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) The Group's legal adviser is unable to express any legal opinion on the title of the buildings of the property because no title documents proving the ownership of the buildings have been made available to him.

(6) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Yongzhou PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(7) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | No |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for State-owned Land Use Rights | No |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 5. | A LPG storage station situated off National Highway No. 107, Xifengdu Village, Xifengdu Town, Suxian District, Chenzhou, Hunan Province | The property occupies an irregular-shaped site with an area of approximately 7,965.67 sq.m. (85,742 sq.ft.).<br><br>The property comprises various single to 3-storey buildings completed in 1989. The property has a total gross floor area of 1,374.71 sq.m. (14,797 sq.m.).<br><br>The land use rights of the property have been granted for the respective terms from 17th August, 1998 to 16th August, 2048 and from 16th July, 1998 to 15th July, 2028 respectively. | The property is currently occupied by Chenzhou PANVA as a LPG storage station with ancillary office. | HK$2,000,000<br><br>(55% interest attributable to the Group: HK$1,100,000) |

*Notes:–*

(1) According to Certificate for the Use of State-owned Land No. (98) 030002 issued by Chenzhou Land Administrative Bureau on 28th September, 1998, the land use rights of the property, comprising a site area of 6,633.67 sq.m., have been granted to Chenzhou PANVA for “LPG storage station” use.

According to Certificate for the Use of State-owned Land No. (98) 030595 issued by Chenzhou Land Administrative Bureau on 17th August, 1998, the land use rights of the property, comprising a site area of 1,332 sq.m. are granted to Chenzhou PANVA.

(2) According to six Building Ownership Certificates issued by the People’s Government of Chenzhou on 2nd August, 1999, the title to the buildings of the property, comprising a total gross floor area of 1,374.71 sq.m., is vested in Chenzhou PANVA. Details of the said certificates are summarized as follows:–

| Certificate No. | No. of Storeys | Gross Floor Area *(sq.m.)* |
|---|---|---|
| 079 | 3 | 157.72 |
| 080 | 1 | 907.60 |
| 081 | 1 | 57.72 |
| 082 | 1 | 208.55 |
| 083 | 1 | 21.56 |
| 084 | 1 | 21.56 |

(3) According to the Equity Joint Venture Contract entered into between Singkong Investments Limited (“Party A”) and 郴州市燃料貿易總公司 (“Party B”) on 4th July, 1998, the parties have agreed to establish an equity joint venture company (“the EJV”) on the terms and conditions as cited, inter alia, as follows:–

(i) Name of the EJV : Chenzhou PANVA

(ii) Total investment amount : RMB12,500,000

(iii) Registered capital : RMB9,000,000

| | | | | | | |
|---|---|---|---|---|---|---|
| (iv) | Capital contribution | : | Party A | : | RMB4,950,000 (55% of registered capital) |
| | | | Party B | : | RMB4,050,000 (45% of registered capital) |
| (v) | Profit/Loss sharing | : | Party A | : | 55% |
| | | | Party B | : | 45% |
| (vi) | Term of operation | : | 30 years from the date of issue of the business licence | | |

(4) According to Business Licence No. 000214 dated 29th March, 2000, Chenzhou PANVA has been incorporated as a sino-foreign joint venture enterprise with a registered capital of RMB9,000,000 and an operation period from 16th July, 1998 to 15th July, 2028.

(5) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Chenzhou PANVA has obtained the land use rights of a portion of the property with a site area of 1,332 sq.m. for a term of 50 years from 17th August, 1998 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Chenzhou PANVA has obtained the land use rights of another portion of the property with a site area of 6,633.67 sq.m. for a term from 16th July, 1998 to 15th July, 2028 by virtue of obtaining the Certificate for the Use of State-owned Land.

(iii) Chenzhou PANVA has settled the land premium in full.

(iv) During the term of the land use rights, Chenzhou PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Chenzhou PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(v) During the term of the land use rights, Chenzhou PANVA is entitled to transfer, mortgage or lease the building ownership of the buildings of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Chenzhou PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(6) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Chenzhou PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(7) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | Yes |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for Land Use Rights of State-owned Land | No |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 6. | A LPG storage station situated in Xihua Shipyard, Wuhu, Anhui Province | The property occupies an irregular-shaped site with an area of approximately 12,617.32 sq.m. (135,813 sq.ft.).<br><br>The property comprises various single-storey building completed in 1998.<br><br>The land use rights of the property have been granted for a term of 30 years from 19th June, 1998 to 18th June, 2028 for industrial use. | The property is currently occupied by Wuhu PANVA as a LPG storage station with ancillary office. | HK$3,600,000<br><br>(55% interest attributable to the Group: HK$1,980,000) |

*Notes:–*

(1) As no building ownership certificate has been produced and the title of the buildings of the property has not been verified by the Group's PRC legal adviser, no commercial value has been ascribed to the building portion of this property interest.

(2) According to Certificate for the Use of State-owned Land No. (98) 079 issued by Wuhu Land Administrative Bureau on 19th June, 1998, the land use rights of the property, comprising a site area of 12,617.32 sq.m., have been granted to Wuhu PANVA for a term of 30 years for "Industrial" use.

(3) According to the Equity Joint Venture Contract entered into between 蕪湖長江輪船公司 ("Party A") and Sinolink Power Investment Limited ("Party B") on 26th February, 1998, the parties have agreed to establish an equity joint venture company ("the EJV") on the terms and conditions as cited, inter alia, as follows:–

| | | | | | |
|---|---|---|---|---|---|
| (i) | Name of the EJV | : | Wuhu PANVA | | |
| (ii) | Total investment amount | : | RMB64,000,000 | | |
| (iii) | Registered capital | : | RMB32,000,000 | | |
| (iv) | Capital contribution | : | Party A | : | RMB14,400,000 (45% of registered capital) |
| | | | Party B | : | RMB17,600,000 (55% of registered capital) |
| (v) | Profit/Loss sharing | : | Party A | : | 45% |
| | | | Party B | : | 55% |
| (vi) | Term of operation | : | 50 years from the date of issue of the business licence | | |

(4) According to Business Licence No. 000308 dated 11th May, 2000, Wuhu PANVA has been incorporated as a sino-foreign joint venture enterprise with a registered capital of RMB32,000,000 and an operation period from 25th March, 1998 to 24th March, 2048.

(5) The opinion of the Group's legal adviser states, inter alia, that:–

(i) Wuhu PANVA has obtained the land use rights of the property for a term of 30 years from 19th June, 1998 by virtue of obtaining the Certificate for the Use of State-owned Land.

(ii) Wuhu PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Wuhu PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Wuhu PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) The Group's legal adviser is unable to express any legal opinion on the title of the buildings of the property because no title documents proving the ownership of the buildings have been made available to him.

(6) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:–

(i) Wuhu PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

(ii) All land premium and other costs of ancillary utilities services have been settled in full.

(iii) The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities.

(iv) The property may be disposed of freely to third parties.

(7) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | No |
| Certificate for Use of State-owned Land | Yes |
| Grant Contract for Land Use Rights of State-owned Land | No |
| Equity Joint Venture Contract | Yes |
| Business Licence | Yes |

| | Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31st January, 2001 |
|---|---|---|---|---|
| 7. | A LPG storage station situated in Shipu, Dong Street, Nanling County, Anhui Province | The property occupies an irregular-shaped site with an area of approximately 3,008.54 sq.m. (32,384 sq.ft.).<br><br>The property comprises various buildings completed between 1993 and 1994.<br><br>The land use rights of the property have been granted for a term of 30 years from 26th October, 1998. | The property is currently occupied by Nanling PANVA as a LPG storage station with ancillary office. | HK$570,000<br><br>(30.25% interest attributable to the Group: HK$172,425) |

*Notes:–*

(1) As no building ownership certificate has been produced and the title of the buildings of the property has not been verified by the Group's PRC legal adviser, no commercial value has been ascribed to the building portion of this property interest.

(2) According to Certificate for the Use of State-owned Land No. (98) 8589 issued by Nanling County Land Administrative Bureau on 26th October, 1998, the land use rights of the property, comprising a site area of approximately 3,008.54 sq.m., have been granted to Nanling PANVA.

(3) According to the Equity Joint Venture Contract entered into between Wuhu PANVA ("Party A") and 南陵縣液化氣有限責任公司 ("Party B") on 20th August, 1998, the parties have agreed to establish an joint operative company ("the JV") on the terms and conditions as cited, inter alia, as follows:–

| | | | | | |
|---|---|---|---|---|---|
| (i) | Name of the JV | : | Nanling PANVA | | |
| (ii) | Registered capital | : | RMB2,000,000 | | |
| (iii) | Capital contribution | : | Party A | : | RMB1,100,000 (55% of registered capital) |
| | | | Party B | : | RMB900,000 (45% of registered capital) |
| (iv) | Profit/Loss sharing | : | Party A | : | 55% |
| | | | Party B | : | 45% |
| (v) | Term of operation | : | 50 years from the date of issue of the business licence | | |

(4) According to Business Licence No. 3402231000094 dated 17th April, 2000, Nanling PANVA has been incorporated as a PRC domestic limited company with a registered capital of RMB2,000,000 and an operation period of 50 years from 20th August, 1998.

(5) The opinion of the Group's legal adviser states, inter alia, that:–

  (i) Nanling PANVA has obtained the land use rights of the property for a term of 30 years from 26th October, 1998 by virtue of obtaining the Certificate for the Use of State-owned Land.

  (ii) Nanling PANVA has settled the land premium in full.

(iii) During the term of the land use rights, Nanling PANVA is entitled to transfer, mortgage or lease the land use rights of the land of the property without payment to the relevant authority of any land premium or other substantial sum, provided that Nanling PANVA and its transferee, mortgagee or lessee shall have to attend to the requisite procedures in respect of the transfer, mortgage or lease and pay the requisite tax or fee in accordance with the PRC laws.

(iv) The Group's legal adviser is unable to express any legal opinion on the title of the buildings of the property because no title documents proving the ownership of the buildings have been made available to him.

(6) We have relied on the aforesaid legal opinion and prepared our valuation on the following assumptions:

(i) Nanling PANVA is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all land premium and other costs of ancillary utilities services have been settled in full;

(iii) the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and

(iv) the property may be disposed of freely to third parties.

(7) In accordance with the information provided by the Group and the aforesaid legal opinion, the status of the title and grant of major approvals and licences are as follows:–

| | |
|---|---|
| Building Ownership Certificate | No |
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for State-owned Land Use Rights | No |
| Joint Venture Contract | Yes |
| Business Licence | Yes |

The principal terms of the Convertible Note are summarised below:

| | |
|---|---|
| Issuer: | The Company |
| Subscriber: | Supreme All Investments Limited |
| Principal Amount: | $100 million. The Convertible Note confers rights on the holder(s) to convert such note into approximately 140,350,877 Conversion Shares (assuming an Issue Price of $0.57, representing about 28% of the issued share capital of the Company upon listing of the Shares (assuming the Over-allotment Option is not exercised and no Shares are allotted and issued pursuant to the Share Option Schemes) and approximately 21.9% of the issued share capital of the Company as enlarged by the Conversion Shares. |
| Voting: | The holder of the Convertible Note will not be entitled to attend or vote at any general meeting of the Company. |
| Interest: | 3% per annum, payable semi annually in arrear from the date of issue. |
| Maturity Date: | 1st April 2004, the Company shall repay the principal amount outstanding under the Convertible Note to holder(s) of the Convertible Note together with accrued interest. |
| Conversion Price: | 25% over the Issue Price per share. |
| Conversion Rights: | The Convertible Note may be converted at any time after the expiry of six months after the Listing Date. The Convertible Note may be converted in full or in part (in amounts of not less than $1 million on each conversion) of the principal amount thereof, any new Shares issued as a result of the exercise of the conversion rights attached to the Convertible Note shall rank pari passu in all respects with the then existing Shares. Supreme All Investments Limited has in accordance with the terms of the Convertible Note undertaken to the Stock Exchange that it will not exercise the conversion rights attached to the Convertible Note which may result in the public holding of the Shares falling below 20% (or such lower percentage as may be acceptable to the Stock Exchange). |

| | |
|---|---|
| Redemption at the Option of the Issuer: | The Issuer may redeem all or part only of the Note on or at any time after 1st April, 2002 at their principal amount together with interest accrued to the date of redemption. No such redemption may be made unless the closing price of the Shares on GEM for a period of 30 consecutive dealing days, the last of which occurs not more than 30 days before notice of redemption is published by the Issuer, has been at least 120%. of the Conversion Price then in effect. |
| Transfer: | The Convertible Note may be assigned or transferred in whole or in part after the expiry of six months after the Listing Date subject to compliance of all relevant laws, regulations and approvals provided that if the Convertible note is transferred to any connected person (within the meaning of the GEM Listing Rules) of Supreme All Investments Limited, such transferees shall also be required to undertake to the Stock Exchange that it will not exercise the conversion rights attached to the Convertible Note which may result in the public holding of the Share falling below 20% (on such lower percentage as may be acceptable to the Stock Exchange). |
| Security: | Unsecured and ranking pari passu with all other present and future unsecured and other general obligations of the Company, except for obligations accorded preference by mandatory provisions of all applicable laws. |
| Listing: | The Convertible Note will not be listed on any stock Exchange. Application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. |
| Amendments to Term: | Any amendments to the terms of the Convertible Note will be subject to, inter alia, the approval of the Stock Exchange. |

The Company was incorporated in the Cayman Islands with limited liability on 16th November, 2000 under the Companies Law. Set out below is a summary of certain provisions of the constitution of the Company and of certain aspects of Cayman Islands company law.

## CONSTITUTION OF THE COMPANY

### 1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company (the "Memorandum of Association") was adopted on 4th April, 2001 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted (including acting as a holding and investment company) and the Company shall have full power and authority to carry out any object not prohibited by any law as provided by section 7(4) of the Companies Law, that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit as provided in section 27(2) of the Companies Law and (in view of the fact that the Company is an exempted company) that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

The objects of the Company are set out in full in clause 3 of the Memorandum of Association of the Company which is available for inspection at the address specified in Appendix VI in the section headed "Documents available for inspection".

### 2. ARTICLES OF ASSOCIATION

The Articles of Association of the Company (the "Articles of Association") were adopted on 4th April, 2001 and include provisions to the following effect:

#### A. Classes of Shares

The share capital of the Company consists of ordinary shares.

#### B. Directors

*(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors may determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on the holders of any Shares or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

*(b) Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulations from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors (the “Board”) at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of Directors in respect of any contract or arrangement or any other proposal in which he has any material interest but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company, its holding company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself guaranteed or secured in whole or in part;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;

(bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(vi) any contract or arrangement in which the Director is interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his interest in Shares or debentures or other securities of the Company.

*(g) Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as he may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a Director retiring at the meeting shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by some member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Board (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Board resolves that his office is vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being shall retire from office by rotation. Each Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election. Subject to the provision of the Articles of Association, the Company may at each annual general meeting at which the Directors retire fill each of the vacated offices by electing a person thereto.

*(i) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

*(j) Proceedings of the Board*

The Directors may meet in any part of the world for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**C. Alteration to constitutional documents**

No alteration to the Memorandum or Articles of Association may be made except by special resolution.

**D. Variation of rights of existing Shares or classes of shares**

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the special rights attached to any class (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate general meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**E. Alteration of Capital**

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and

(iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

**F. Special resolution – majority required**

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

**G. Voting rights (generally, on a poll and right to demand a poll)**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Share registered in his name in the register of members of the Company.

In the case of joint holders of any share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

No member shall, unless the Directors otherwise determine, be entitled to vote, or be reckoned in a quorum, at any general meeting in respect of any Share unless he is registered as a shareholder of the Company at the date of such meeting and all calls which have been made by the Directors, or other sums presently payable by him, in respect of such Share have been paid.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least five members present in person or by proxy and entitled to vote; or

(c) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy and a person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual shareholder of the Company.

### H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next.

### I. Accounts and audit

The Directors shall cause to be kept accounting records sufficient to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any account or book or document of the Company except as conferred by the Companies Law or as authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting profit and loss accounts, balance sheets and the Directors' and the auditors' reports thereon. Copies of these documents which are to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any Shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting and shall fix his or their remuneration provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**J. Notice of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

**K. Transfer of Shares**

All transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which must be consistent with any form of transfer as prescribed by the Stock Exchange from time to time.

The instrument of transfer of a Share shall be signed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer, when registered, shall be retained by the Company.

The Directors may decline to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any other Shares unless:

(a) the instrument of transfer is lodged at such place or places where the Board from time to time determines to keep a branch register of Shareholders and where (except where the Board otherwise determines) transfers of documents of title for Shares are to be lodged for registration and are to be registered, with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of Share;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;

(e) the Shares concerned are free of any lien in favour of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine (or such lesser sum as the Directors may from time to time require) is paid to the Company.

If the Directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers as the Directors may determine be suspended at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

## L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong or by any other recognised stock exchange.

## M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

## N. Dividends and other methods of distributions

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no such dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Except in so far as the rights attaching to, or the terms of issue of, any Share otherwise provides:

(a) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on the Share; and

(b) all dividends shall be apportioned and paid pro rata according to the amounts paid upon the Shares during any portion or portions of the period in respect of which the dividend is paid.

The Directors may also pay any dividend which is payable on any Shares half-yearly or on any other dates, whenever the position of the Company, in the opinion of the Directors, justifies such payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

In respect of any dividend proposed to be paid or declared on the share capital of the Company, the Directors may resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class or classes as the class or classes already held by the allottee. The Directors may also, with the sanction of the members of the Company in general meeting, resolve and direct in respect of any particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right of members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend or bonus may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and to such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute good discharge by the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct payment or satisfaction of any dividend wholly or in part by the distribution of specific assets, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may issue fractional certificates, disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

### O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in any common form or in such other form as the Directors may approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

**P. Calls on Shares and forfeiture of Shares**

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his Shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time serve a notice on the holder of such Shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the day and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted, cancelled or otherwise disposed of.

A person whose Shares have been forfeited shall thereupon cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with interest thereon at such rate not exceeding 15% per annum (or such lower rate as the Directors may determine) from the date of forfeiture until payment, and the Directors may enforce payment without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

**Q. Inspection of register of members**

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on notice being given by advertisement in such one or more newspapers as the Directors may determine, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding $2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

**R. Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Save as otherwise provided by the Articles two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one shareholder of record the quorum shall be that one member present in person or by proxy.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph D above.

**S. Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

**T. Procedure on liquidation**

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

**U. Untraceable members**

The Company shall be entitled to sell any Shares of a member or the Shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in accordance with the rules of any stock exchange on which the Shares are for the time being listed (the "Recognised Stock Exchange"), giving notice of its intention to sell such Shares and a period of three months has elapsed since such advertisement and the Recognised Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

## SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

### A. Introduction

The Companies Law (2000 Revision) of the Cayman Islands (the "Companies Law") is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

### B. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16th November, 2000 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

### C. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

## D. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

## E. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained has been applied and followed by the courts in the Cayman Islands.

## F. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

## G. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

## H. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

## I. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

## J. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

## K. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

## L. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

## M. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

## N. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

## O. Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**P. Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**Q. Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**R. Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 5th December, 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

## S. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## T. General

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

## FURTHER INFORMATION ABOUT THE COMPANY

### 1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 16th November, 2000 under the name of Panva Holdings Limited. The Company has established a place of business in Hong Kong at 25th Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong and on 12th January, 2001 was registered in Hong Kong as an overseas Company under Part XI of the Companies Ordinance. Mr. Ou has been appointed as agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. On 22nd March, 2001, the name of the Company was changed from Panva Holdings Limited to Panva Gas Holdings Limited. As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises a memorandum of association and articles of association. A summary of various parts of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

### 2. Changes in share capital

As at the date of incorporation of the Company, its initial authorised share capital was \$0.1 million divided into 1,000,000 Shares of \$0.10 each. On 16th November, 2000, one Share was allotted and issued to the initial subscriber and then transferred to Mr. Ou.

On 10th January, 2001, the one Share held by Mr. Ou in the Company was transferred to Kenson.

Pursuant to a resolution in writing of the sole shareholder of the Company dated 4th April, 2001, the authorised share capital of the Company was increased from \$0.1 million to \$200 million by the creation of an additional 1,999,000,000 Shares.

On 4th April, 2001, the Company allotted and issued in aggregate 104,999,999 Shares to Kenson credited as fully paid as consideration for the acquisition by the Company of the entire issued share capital of China PANVA from Sinolink. The Company further issue the Convertible Note for the amount of \$100 million to Supreme in consideration for the assignment from Sinolink to the Company of a loan in the amount of \$100 million (the "Loan") due and owing by China PANVA to Sinolink.

Assuming that the Placing becomes unconditional and the issue of the New Shares and the issue of Shares pursuant to the Capitalisation Issue mentioned herein are made, the authorised share capital of the Company will be \$200 million divided into 2,000,000,000 Shares and the issued share capital of the Company will be \$50 million divided into 500,000,000 Shares fully paid or credited as fully paid, with 1,500,000,000 Shares remaining unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Schemes or pursuant to the exercise of any conversion rights under the Convertible Note, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the shareholders of the Company in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

### 3. Resolutions passed by the sole shareholder of the Company

On 4th April, 2001, resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:–

(a) the authorised share capital of the Company was increased from $100,000 to $200 million by the creation of an additional 1,999,000,000 new Shares;

(b) the Directors were authorised to (i) allot and issue, credited as fully paid 104,999,999 Shares to Kenson as consideration for the acquisition by the Company of the entire issued share capital of China PANVA and (ii) issue the Convertible Note to Supreme as consideration for the acquisition by the Company of the Loan and the Directors were further authorised to allot, issue and deal with Conversion Shares pursuant to the exercise of conversion rights under the Convertible Note;

(c) conditional on the share premium account of the Company being credited as a result of the Placing, the sum of $30 million was directed to be capitalised from the amount standing to the credit of the share premium account of the Company and the said sum be applied in paying up in full at par 300,000,000 Shares in the capital of the Company, such Shares to be allotted and issued, credited as fully paid at par, to Kenson;

(d) conditional on the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and the Shares to be issued as mentioned herein and on the obligations of Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Tai Fook Securities on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 10th May, 2001 or such later date as Tai Fook Securities and the Company may agree, the Placing, Capitalisation Issue and the Over-allotment Option were approved and the Directors were authorised to allot and issue the New Shares and the Shares which may be required to be issued if the Over-allotment Option is exercised;

(e) conditional on (i) the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Schemes and the granting of any options thereunder and the granting of the listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such option under the Share Option Schemes and the shares which may be required to be issued if the Over-allotment Option is exercised, and (ii) on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Tai Fook Securities on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise, the rules of the Share Option Schemes were approved and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Schemes and to take all such steps as they consider necessary or desirable to implement the Share Option Schemes;

(f) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights or an issue of shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of any options which may be granted under the Share Option Schemes 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 or any scrip dividend schemes or similar arrangements providing for the allotment and issue of shares of the Company in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company or a specific authority granted by the shareholders of the Company in general meeting, Shares with an total nominal value not exceeding 20% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue, such mandate to remain in effect 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 other applicable laws to be held; or

(iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;

(g) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC in Hong Kong and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue, such mandate to remain in effect 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 other applicable laws to be held; or

(iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;

(h) the general unconditional mandate mentioned in paragraph (g) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (g) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue; and

(i) the Company approved and adopted its existing Memorandum and Articles.

**4. Corporate Reorganisation**

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM. China PANVA became the intermediate holding company and the Company became the ultimate holding company of the Group. The corporate reorganisation involved the following:–

(a) On 10th March, 2000, China PANVA disposed of its entire interest in New Silver Development Limited by transferring 1 share of US$1.00 held by it in New Silver Development Limited to Sinolink at the consideration of US$1.00 for cash.

(b) On 4th April, 2001, Sinolink was issued and allotted 12,820 shares in China PANVA for a total consideration of $64.1 million which is payable by way of capitalising the shareholder's loan then owed by China PANVA to Sinolink in the amount of $64.1 million.

(c) On 4th April, 2001, the Company acquired the entire issued share capital of China PANVA from Sinolink in consideration for the allotment and issue of 104,999,999 Shares, credited as fully paid, to Kenson. The Company also acquired the loan in consideration of the issuance of the Convertible Note of $100 million by the Company to Supreme.

**5. Changes in the share capital of subsidiaries**

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

In addition to those mentioned in the section headed "Corporate Reorganisation" in this Appendix, the following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this prospectus:–

(a) On 1st March, 1999, Wuhu Jiangbei PANVA was formed with a registered capital of RMB500,000.

(b) On 13th September, 1999, Yangzi PANVA was formed with a registered capital of US$7,230,000.

(c) On 16th March, 1999, Sinolink Petrochemical Investment Limited was formed with an issued share capital of US$1.00.

(d) Following its incorporation on 16th March, 1999, one share of US$1.00 each in Sinolink LPG Investment Ltd. was allotted and issued to China PANVA on 29th March, 1999.

(e) Following its incorporation on 22nd June, 1999, one share of US$1.00 each in Sinolink LPG Development Ltd. was allotted and issued to China PANVA on 29th June, 1999.

(f) On 10th March, 2000, Panriver Investments Company Limited was formed with a registered capital of US$30 million.

(g) On 16th August, 2000, Nanjing PANVA was formed with a registered capital of RMB50 million.

**6. Repurchase by the Company of its own securities**

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

*(a) Regulations of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:–

(i) Shareholders' approval

All repurchases of securities on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

*Note:* Pursuant to a written resolution of the sole shareholder of the Company passed on 4th April, 2001, a general unconditional mandate (the "Buyback Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange of up to 10% of the total nominal value of the share capital of the Company in issue immediately after completion of the Placing, at any time until the conclusion of the next annual general meeting of the Company or 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 other applicable laws to be held or the passing of an ordinary resolution of shareholders of the Company in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) Source of funds

Any repurchases must be financed out of funds legally available for the purpose in accordance with the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

*(b) Exercise of the Buyback Mandate*

Exercise in full of the Buyback Mandate, on the basis of 500,000,000 Shares in issue immediately after listing of the Shares could accordingly result in up to 50,000,000 Shares being repurchased by the Company during the period up to (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 other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

*(c) Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

*(d) Funding of repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not purchase securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

*(e) General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules, the memorandum and the articles of association of the Company and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

## PARTICULARS OF INVESTMENT IN PRC

### Schedule 1

| | | |
|---|---|---|
| Name | : | Panriver Investments Company Limited |
| Nature | : | Wholly foreign-owned enterprise |
| Total investment | : | US$30 million |
| Registered Capital | : | US$30 million (of which US$7 million was paid and the balance of US$23 million needs to be paid by 9th March, 2002 or such later date as approved by the relevant PRC government authority) *(Note 1)* |
| Name of Group member which is the shareholder of the enterprise | : | China PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 100% |
| Directors | : | Ou Yaping, Chen Wei, Lai Wen Guang, Lau Shi Wa, Xiong Jiang, Liu Fangye, Mo Shikang, Wang Hanyu, Shen Lianjin, Xue Guobin, Luo Lei |
| Term of the enterprise | : | 50 years from 10th March, 2000 to 9th March, 2050 |
| Pre-emption rights | : | Not applicable |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders |

*Note:*

1. Approximately US$5 million from the proceeds will be injected into this company for the project in Kunming and Changsha. It is expected that the Group's interests in all operating subsidiaries which amount to approximately US$17 million will be transferred to this company as injection of capital. The remaining balance of US$1 million will be financed by the Group's internal resources.

**Schedule 2**

| | | |
|---|---|---|
| Name | : | Changsha PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB100 million |
| Registered Capital | : | RMB40 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 60% |
| Name of the other joint venture partner | : | 巴陵石化長嶺煉油化工總廠(現改名為中國石化集團長嶺煉油化工有限責任公司) (Baling Petrochemical Changling Refinery Company Limited, whose name has been changed to China Petrochemical Group Changling Refinery Co., Ltd.) *(Note 1)* (the "Changling Refinery Co., Ltd.") |
| Directors | : | Chen Wei, Qiao Guorui, Luo Lei, Sun Wuying, Cao Pingjian, Zhu Yimin, Xiong Jiang, Song Fuan, Wen Zhicheng |
| Term of the enterprise | : | 30 years from 16th January, 1998 to 16th January, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 3**

| | | |
|---|---|---|
| Name | : | Changde PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB8 million |
| Registered Capital | : | RMB6 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited and Changsha PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 70% and 25% |
| Name of the other joint venture partner | : | 湖南省石油總公司常德市公司 (Hunan Oil Company Changde Branch) *(Note 1)* (the "Changde Branch") |
| Directors | : | Xiong Jiang, Liu Fangye, Yao Lihua, He Hanqing, Zhu Yimin |
| Term of the enterprise | : | 30 years from 26th October, 1998 to 26th October, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 4**

| | | |
|---|---|---|
| Name | : | Hengyang PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB8.5 million |
| Registered Capital | : | RMB6 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited and Changsha PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 60% and 40% |
| Directors | : | Xiong Jiang, Liu Fangye, Feng Keqiang, Luo Lei, Zhu Yimin |
| Term of the enterprise | : | 30 years from 14th November, 1998 to 14th November, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 5**

| | | |
|---|---|---|
| Name | : | Yongzhou PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB7 million |
| Registered Capital | : | RMB5 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 60% |
| Name of the other joint venture partner | : | 湖南省石油總公司永州市公司 (Hunan Oil Company Yongzhou Branch) *(Note 1)* (the "Yongzhou Branch") |
| Directors | : | Xiong Jiang, Liu Fangye, Sun Wuying, Yi Honghua, He Dingyu |
| Term of the enterprise | : | 30 years from 18th December, 1998 to 17th December, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 6**

| | | |
|---|---|---|
| Name | : | Chenzhou PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB12.5 million |
| Registered Capital | : | RMB9 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of the other joint venture partner | : | 郴州市燃料貿易總公司 (Chenzhou General Fuel Trading Company) *(Note 1)* (the "Chenzhou Fuel Trading") |
| Directors | : | Xiong Jiang, Liu Fangye, Sun Wuying, Zeng Yu, Li Guizhu, Liao Yong, Hou Qing Xian |
| Term of the enterprise | : | 30 years from 16th July, 1998 to 15th July, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 7**

| | | |
|---|---|---|
| Name | : | Yiyang PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB5 million |
| Registered Capital | : | RMB5 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 60% |
| Name of the other joint venture partner | : | Changling Refinery Co., Ltd. |
| Directors | : | Xiong Jiang, Liu Fangye, Jiang Junwu, He Hanqing, Zhu Yimin |
| Term of the enterprise | : | 30 years from 13th August, 1998 to 12th August, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 8**

| | | |
|---|---|---|
| Name | : | Xiangtan PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB10 million |
| Registered Capital | : | RMB10 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Singkong Investments Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of the other joint venture partner | : | 湘潭市煤氣公司 (Xiangtan Gas Company) *(Note 1)* (the "Xiangtan Gas Company") |
| Directors | : | Xiong Jiang, Liu Fangye, Xi Guanqiu, Zhang Yingchun, Yin Huahe, Zhu Yimin, Liu Xiaopin |
| Term of the enterprise | : | 30 years from 17th June, 1998 to 16th June, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 9**

| | | |
|---|---|---|
| Name | : | Wuhu PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB64 million |
| Registered Capital | : | RMB32 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Sinolink Power Investment Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of the other joint venture partner | : | 蕪湖長江輪船公司 (Wuhu Jiangjiang Shipping Company) *(Note 1)* (the "Wuhu Jiangjiang Shipping Company") |
| Directors | : | Lai Wen Guang, Zhang Zongfu, Luo Li, Chen Wei, Li Zongqi, Ou Yaping, Yao Ping, Lau Shi Wa, Xiong Jiang, He Hanqing, Liu Xihang, Qiao Changshi, Chen Aiping |
| Term of the enterprise | : | 50 years from 25th March, 1998 to 24th March, 2048 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 10**

| | | |
|---|---|---|
| Name | : | Nanling PANVA |
| Nature | : | 有限責任公司 (PRC domestic limited Company) *(note 2)* |
| Total investment | : | Not applicable |
| Registered Capital | : | RMB2 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Wuhu PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of shareholder | : | 南陵縣液化氣有限責任公司 (Nanling LPG Co., Ltd.) *(Note 1)* (the "Nanling LPG Co., Ltd") |
| Directors | : | Shen Lianjin, Luo Li, Zhang Sihai, Tao Xiaoqing, Xu Benyi |
| Term of the enterprise | : | 50 years from 20th August, 1998 to 19th August, 2048 (based on Clause 40.1 of the Joint Venture Contract) |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 11**

| | | |
|---|---|---|
| Name | : | Wuhu Jiangbei PANVA |
| Nature | : | 有限責任公司（國內合資）(PRC domestic limited Company) *(Note 2)* |
| Total investment | : | Not applicable |
| Registered Capital | : | RMB0.5 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Wuhu PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 51% |
| Name of shareholder | : | 蕪湖市江北石油液化氣供應站 (Wuhu Jiangbei LPG Supply Station) *(Note 1)* (the "Wuhu Jiangbei LPG Supply Station") |
| Directors | : | Shen Lianjin, Luo Li, Chen Wei, Jin Benshui, Zhao Liansheng |
| Term of the enterprise | : | 20 years for 1st March, 1999 to 28th February, 2019 (based on Clause 41.1 of the Joint Venture Contract) |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 12**

| | | |
|---|---|---|
| Name | : | Wuhu Sanpeng PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB2.5 million |
| Registered Capital | : | RMB2.3 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Wuhu PANVA |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of the other joint venture partner | : | 蕪湖三朋液化氣化工能源有限公司 (Wuhu Sanpeng LPG Chemical & Energy Co., Ltd.) *(Note 1)* (the "Wuhu Sanpeng LPG Chemical") |
| Directors | : | Shen Lianjin, Pang Jiade, Luo Li, Wang Yang, Cao Yihong |
| Term of the enterprise | : | 15 years from 19th October, 1998 to 18th October, 2013 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 13**

| | | |
|---|---|---|
| Name | : | Nanjing PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB60 million |
| Registered Capital | : | RMB50 million (of which RMB27.5 million has been paid by Panriver Investments Company Limited as its capital share of contribution and the balance of RMB22,500,000 will be settled by the PRC joint venture partner in the form of asset injection) |
| Name of Group member which is the shareholder of the enterprise | : | Panriver Investments Company Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 55% |
| Name of the other joint venture partner | : | 南京市液化石油氣公司 (Nanjing LPG Company) *(Note 1)* (the "Nanjing LPG Company") |
| Directors | : | Zhu Zi Qiang, Chen Wei, Lai Wen Guang, Luo Lei, Shen Lianjin, Zheng Yong Liang, Chen Zhouguang |
| Term of the enterprise | : | 30 years from 16th August, 2000 to 15th August, 2030 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 14**

| | | |
|---|---|---|
| Name | : | Guizhou PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | RMB20 million |
| Registered Capital | : | RMB16 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Sinolink International Investment (Group) Limited |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 50.1% |
| Name of the other joint venture partner | : | 貴州市煤氣公司 (Guizhou Gas Company) *(Note 1)* (the "Guizhou Gas Company") |
| Directors | : | Mo Shikang, Huang Youxing, Wang Hanyu, Zhu Yimin, Huang Jie, Tang Xiyong |
| Term of the enterprise | : | 30 years from 25th December, 1998 to 24th December, 2028 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

**Schedule 15**

| | | |
|---|---|---|
| Name | : | Yangzi PANVA |
| Nature | : | Sino-foreign equity joint venture |
| Total investment | : | US$10.2 million |
| Registered Capital | : | US$7.2 million (fully paid up) |
| Name of Group member which is the shareholder of the enterprise | : | Sinolink LPG Investment Ltd. |
| Percentage of equity interest owned by and share of profit and loss allocation of the relevant group member | : | 50% |
| Name of the other joint venture partner | : | 南京揚子石化煉化有限責任公司 (Nanjing Yangzi Petrochemicals Co., Ltd.) *(Note 1)* (the "Nanjing Yangzi Petrochemicals") |
| Directors | : | Zhou Yimin, Lai Wen Guang, He Hanqing, Zhu Yimin, Zhou Xiaoben, Li Zihong, Wang Yubing, Li Chengfeng |
| Term of the enterprise | : | 30 years from 13th September, 1999 to 12th September, 2029 |
| Pre-emption rights | : | Disposal of shares by either shareholder is subject to pre-emption right of the other shareholder |
| Assets distribution on termination of joint venture | : | Any distribution of remaining assets after liquidation in accordance with law is to be made to the shareholders in accordance with their shareholding ratio in the company |

*Notes:*

1. The English name of this company appearing in this schedule is only an English translation of its Chinese official name.

2. The English description of the nature of this company appearing in this schedule is only an English translation of its description in Chinese.

## FURTHER INFORMATION ABOUT THE BUSINESS

### 1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:–

(a) an agreement in Chinese dated 30th May, 1999 between Singkong Investments Limited (盛港投資有限公司) , Hunan Oil Company Changde Branch ("Changde Branch") (湖南省石油總公司常德市公司) and Changsha PANVA whereby Changde Branch agreed to sell and Changsha PANVA agreed to purchase 25% of Changde Branch's interests in Changde PANVA in consideration for cash payment of US$1.00;

(b) share transfer agreement dated 8th June, 1999 in relation to the transfer of 40% interest in Hengyang PANVA from 衡陽三興燃料公司 (Hengyang Sanxing Energy Co., Ltd.) to Changsha PANVA at the consideration of RMB2.4 million;

(c) an agreement in Chinese dated 9th August, 1999 between Changling Refinery Co., Ltd., 盛港投資有限公司 Singkong Investments Limited and 益陽市萬通新能源開發有限公司 (Yiyang Wantong New Energy Development Co., Ltd.) (the "Wantong New Energy") whereby Wantong New Energy agreed to sell 9% and 6% of the interests in Yiyang PANVA to Changling Refinery Co., Ltd. and Singkong Investments Limited in consideration for cash payment of US$1.00 and of US$1.00 respectively;

(d) a deed dated 4th April, 2001 entered into between Sinolink and the Company whereby, Sinolink agreed to transfer the entire issued share capital of China PANVA in consideration of the Company's allotment and issue of 104,999,999 Shares to Kenson, a wholly-owned subsidiary of Sinolink, credited as fully paid and Sinolink agreed to give certain warranties, undertaking and representation in favour of the Group which include, among other things, a non-competition undertaking as described in the section headed "Relationship with the Sinolink Group" in this prospectus.

(e) an assignment dated 4th April, 2001 between Sinolink as assignor, the Company as assignee and China PANVA as debtor whereby Sinolink assigned to the Company the Loan in consideration of the issue by the Company of the Convertible Note to Supreme;

(f) an underwriting agreement dated 9th April, 2001 entered into between the Company, the Underwriters, the Sponsor, the executive Directors and the Initial Management Shareholders referred to in the paragraph headed "Underwriting Agreement" in the section headed "Underwriting" of this prospectus;

(g) agreement for the capitalisation of the shareholder's loan in the amount of $64.1 million due and owing by China PANVA to Sinolink in consideration for the issuance and allotment of 12,820 shares in China PANVA to Sinolink as evidenced by the application for shares of China PANVA dated 4th April, 2001 signed by Sinolink; and

(h) a deed of indemnity dated 9th April, 2001 entered into between Sinolink and Kenson (together the "Warrantors") and the Company, whereby the Warrantors agreed to give certain indemnities in favour of the Company being the indemnities referred to in the sub-paragraph headed "Estate Duty, Tax Indemnity and other Indemnities" under the paragraph headed "Other Information" in this Appendix.

## 2. Intellectual Property

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks in respect of the classes of services specified below:

| (a) | Trademark | Class *(Note)* | Applicant | Country of Registration | Filling Number | Expiration Date |
|---|---|---|---|---|---|---|
| | 百江 | 6 | China PANVA | PRC | 1347083 | 20th December, 2009 |
| | 百江 | 39 | China PANVA | PRC | 1327285 | 20th October, 2009 |
| | 百江 | 37 | China PANVA | PRC | 1332342 | 6th November, 2009 |
| | 百江 | 35 | China PANVA | PRC | 1329855 | 27th October, 2009 |
| | 百江 | 11 | China PANVA | PRC | 1332003 | 6th November, 2009 |
| | 百江 | 4 | China PANVA | PRC | 1328046 | 27th October, 2009 |
| | PANVA | 4 | China PANVA | PRC | 1328045 | 27th October, 2009 |
| | PANVA | 11 | China PANVA | PRC | 1332002 | 6th November, 2009 |
| | PANVA | 37 | China PANVA | PRC | 1332340 | 6th November, 2009 |
| | PANVA | 39 | China PANVA | PRC | 1327283 | 20th October, 2009 |

| (a) | Trademark | Class *(Note)* | Applicant | Country of Registration | Filling Number | Expiration Date |
|---|---|---|---|---|---|---|
| | | 4 | China PANVA | PRC | 1328044 | 27th October, 2009 |
| | | 6 | China PANVA | PRC | 1347082 | 20th December, 2009 |
| | | 11 | China PANVA | PRC | 1341889 | 6th December, 2009 |
| | | 35 | China PANVA | PRC | 1329856 | 27th October, 2009 |
| | | 37 | China PANVA | PRC | 1332341 | 6th November, 2009 |
| | | 39 | China PANVA | PRC | 1327284 | 20th October, 2009 |

*Notes:*

(1) The numbers of the class represent the product or service categories in which the trademark has been registered.

(2) The detailed product or service categories corresponding to these numbers is clearly listed in the certificate issued to the Group by the Trademark Bureau under the State Industrial and Commercial Bureau of the PRC.

The major domain names specified below are registered in the names of members of the Group:

| Domain Names | Registrant | Registration Date | Expiration Date |
|---|---|---|---|
| china-panva.com | China PANVA | 23rd November, 1999 | 23rd November, 2001 |

## FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

### 1. Directors

*Disclosure of Interests*

Mr. Ou is the Chairman and an executive director of Sinolink, the indirect holding company of the Company.

(a) Immediately following completion of the Placing, the Capitalisation Issue and the Distribution, the beneficial interests of the Directors in the share capital of the Company or any of its associated corporations (within the meaning of the SDI

Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed as follows:

| Name of Company | Name of Director | Nature of Interest | Number of Shares | Approximate Percentage of Interest |
|---|---|---|---|---|
| Panva Holdings Limited | Mr. Ou | Corporate *(note 1)* | 389,800,000 | 77.96% |
| Panva Holdings Limited | Mr. Ou | Corporate *(note 2)* | 10,066,960 | 2.01% |
| Total | | | 399,866,960 | 79.97% |

*Notes:*

(1) these Shares are held by Kenson, a company incorporated in the British Virgin Islands in which Mr. Ou, through Asia Pacific Promotion, has an indirect interest of 66.23%. Mr. Ou was deemed (by virtue of the SDI Ordinance) to be interested in these Shares.

(2) these Shares are held by Asia Pacific Promotion which is legally and beneficially owned by Mr. Ou.

(b)

| Name of Associated Corporation | Number and Class of Securities | Category of Interest |
|---|---|---|
| Kenson Investment Limited | 1 ordinary share | Corporate *(note)* |
| Sinolink Worldwide Holdings Limited | 1,006,800,000 ordinary shares | Corporate *(note)* |
| Asia Pacific Promotion Limited | 1 ordinary share | Personal *(note)* |

*Note:* These securities are held by Kenson, Sinolink and Asia Pacific Promotion in which Mr. Ou is entitled to control the exercise of one third or more of the voting power at their general meetings and therefore Mr. Ou is deemed (by virtue of the SDI Ordinance) to be interested in these securities.

Certain Directors have been granted options in respect of Shares under the Pre-Listing Share Option Plan described in the section headed "Pre-Listing Share Option Plan" below. The options granted under the Pre-Listing Share Option Plan, including the options granted to Directors, are set out in the sub-paragraph headed ("Summary of the terms of the Pre-Listing Share Option Plan") of the paragraph headed "Share Options" in Appendix V of this prospectus.

(c) Immediately following completion of the Placing, the Capitalisation Issue and the Distribution, so far as the Directors are aware and taking no account of Shares which may be taken up pursuant to the Placing, the persons (other than the Director, chief executive of the Company) who will be directly or indirectly interested in 10% or more of the Shares then in issue will be as follows:–

| Name of shareholder of the Company | Number of Shares | Approximate percentage of Shareholding |
|---|---|---|
| Kenson Investment Limited *(note)* | 389,800,000 | 77.96% |
| Sinolink Worldwide Holdings Limited | 389,800,000 | 77.96% |
| Asia Pacific Promotion Limited | 399,866,960 | 79.97% |

*Note:* The Shares in which Kenson is shown as being interested are included in and duplicate with those Shares held by Sinolink and Asia Pacific Promotion.

As Kenson is a wholly-owned subsidiary of Sinolink, Sinolink is taken to have an interest in the shares held by Kenson in the Company.

(d) Immediately following completion of the Placing, the Capitalisation Issue and the Distribution, so far as the Directors are aware and taking no account of Shares which may be taken up pursuant to the Placing, the holders of 10% or more of the voting power at general meetings of the subsidiaries of the Company (other than members of the Group) will be:–

| | Name of subsidiary of the Company | Name of holder | Percentage of Shareholding |
|---|---|---|---|
| (a) | Changsha PANVA | Changling Refinery Co., Ltd | 40.0% |
| (b) | Yongzhou PANVA | Youngzhou Branch | 40.0% |
| (c) | Chenzhou PANVA | Chenzhou Fuel Trading | 45.0% |
| (d) | Yiyang PANVA | Changling Refinery Co., Ltd. | 40.0% |
| (e) | Xiangtan PANVA | Xiangtan Gas Company | 45.0% |
| (f) | Wuhu PANVA | Wuhu Changjiang Shipping Company | 45.0% |
| (g) | Nanling PANVA | Nanling LPG Co., Ltd. | 45.0% |
| (h) | Wuhu Jiangbei PANVA | Wuhu Jiangbei LPG Supply Station | 49.0% |
| (i) | Wuhu Sanpeng PANVA | Wuhu Sanpeng LPG Chemical | 45.0% |
| (j) | Nanjing PANVA | Nanjing LPG Company | 45.0% |
| (k) | Guizhou PANVA | Guizhou Gas Company | 49.9% |
| (l) | Yangzi PANVA | Nanjing Yangzi Petrochemicals | 50.0% |

(e) Save as disclosed herein but taking no account of any Shares which may be issued pursuant to the Over-allotment Option and the exercise of options granted or to be granted under the Share Option Schemes or the exercise of the conversion rights attached to the Convertible Note, the Directors are not aware of any person who will immediately following completion of the Placing, the Capitalisation Issue and the Distribution be directly or indirectly interested in 10% or more of the Shares then in issue or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

## 2. Particulars of service agreements

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

(i) each service contract is of three years duration commencing on 1st April, 2001 and shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of three years;

(ii) the monthly salary for each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun for the period from 1st April, 2001 to 31st March, 2004 shall be $0.1 million, $46,600, and $34,000 respectively, such salary to be reviewed annually by the board of Directors based on the results and performance of the Company. For the period from 1st April, 2004, the salary of each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun shall be determined by the board of Directors;

(iii) each of Mr. Chen Wei, Mr. Lai Wen Guang and Mr. Li Fujun is entitled to such management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items ("Net Profits") as the board of Directors may approve provided that the aggregate amount of management bonuses payable to all executive directors in respect of any financial year of the Group shall not exceed 5% of the Net Profits for the relevant financial year; and

(iv) each such Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of Directors regarding the amount of annual salary and management bonus payable to himself.

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

**3. Directors' remuneration**

(a) The Company's policies concerning remuneration of executive Directors are:–

(i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided to the Directors under their remuneration package; and

(iii) the executive Directors may be granted, at the discretion of the board of Directors, share options pursuant to the Share Option Scheme, as part of their remuneration package.

(b) An aggregate of approximately $1.5 million was paid to the Directors as remuneration for the year ended 31st December, 2000. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

(c) It is expected that an aggregate sum of approximately $2.3 million will be paid to the Directors as remuneration by the Group in respect of the year ending 31st December, 2001 pursuant to the present arrangement excluding management bonus.

(d) No bonuses were paid to the Directors for each of the three years ended 31st December, 2000.

(e) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three years ended 31st December, 2000 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other notice in connection with the management of the affairs of any member of the Group.

(f) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31st December, 2000.

**4. Others**

(a) Apart from the Directors, 5 other individuals are amongst the five persons who receive the highest emoluments from the Group for the year ended 31st December, 1998, 3 for the year ended 31st December, 1999 and 2 for the year ended 31st December, 2000. Particulars of emoluments paid to such individuals are set out in note (i) to the section headed "Combined Results" of the accountants' report set out in Appendix I to this prospectus.

(b) Mr. Ou is interested in the corporate reorganisation transactions as set out under the paragraph headed "Corporate Reorganisation" in this Appendix.

(c) Mr. Ou holds share(s) in certain subsidiaries of the Company as nominee for certain other members of the Group, details of which are set out below:–

| Name of subsidiary | Name of beneficial owner | Number of shares held |
|---|---|---|
| Singkong Investments Limited | China Overlink Holdings Co. Ltd. | 1 |

## 5. Agency fees or commissions received

The Underwriters will receive an underwriting commission and Tai Fook Capital will receive a documentation fee as mentioned in the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" of this prospectus.

## 6. Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note (k) of the section headed "Combined Results" of the accountants' report set out in Appendix I, and the paragraph headed "Connected Transactions" in the sections headed "Business" and "Relationship with the Sinolink Group" of this prospectus respectively.

## 7. Disclaimers

Save as disclosed herein:–

(a) None of the Directors or chief executives has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;

(b) none of the Directors nor any of the persons whose names are listed in the sub-paragraph headed "Consent of experts" under the section headed "Other Information" in this Appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors nor any of the persons whose names are listed in the paragraph headed "Consents of experts" under the section headed "Other Information" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;

(d) none of the persons whose names are listed in the paragraph headed "Consents of experts" under the section headed "Other Information" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(e) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

(f) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Share Offer or related transaction as mentioned in this prospectus; and

(g) so far as is known to the Directors, none of the Directors, their respective Associates or shareholders of the Company who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers of the Group.

## SHARE OPTIONS

### A. Summary of the terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by resolutions of the sole shareholder of the Company on 4th April, 2001.

*(a) Who may join*

The board of Directors ('Board") may, at its discretion, invite any full-time employee including any executive director of any company in the Group ("Employee") to take up options at $1.00 per option to subscribe for Shares at a price calculated in accordance with sub-paragraph (d) below.

*(b) Grant of Option*

Any grant of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option should be granted until such information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules.

*(c) Payment on acceptance of option offer*

$1.00 is payable by the Employee to the Company on acceptance of the option offer.

*(d) Price of Shares*

The subscription price for Shares under the Share Option Scheme will be a price determined by the Board and notified to each grantee and will be the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day, (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer and (iii) the nominal value of a Share.

*(e) Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under (i) the Share Option Scheme and (ii) any other share option scheme(s) of the Company, shall not in aggregate exceed 10% of the entire issued ordinary share capital of the Company from time to time. In determining the said 10% limit, the following Shares of the entire issued ordinary share capital of the Company shall be excluded:

(1) Shares issued pursuant to the Share Option Scheme and any other schemes including the Pre-listing Share Option Plan; and

(2) any pro rata entitlements to subscribe for further Shares pursuant to the issue of Shares mentioned in (1) above.

No option may be granted to any one person which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which may be granted under the Share Option Scheme at the time it is proposed to grant the relevant options to that person.

*(f) Requirements on granting options to connected persons*

Any grant of options to an Employee who is a connected person (as such term is defined in the GEM Listing Rules) of the Company must be approved by the independent non-executive Directors.

Where the Board proposes to grant any option to an Employee who is a substantial shareholder (as defined in the GEM Listing Rules) or an associate of any substantial shareholder (as so defined) of the Company and such option which is exercised in full, would result in such Employee becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued, and issuable, to him or her pursuant to all the options granted to him or her in the 12 month period up to and including the date on which such proposal is made by the Board (the "Relevant Date"):

(i) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and

(ii) having a value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a trading day, the trading day immediately preceding the Relevant Date, in excess of $5,000,000.

such proposed grant of options must be approved by the shareholders of the Company in general meeting with the Employee concerned and all other connected persons (as defined in the GEM Rules) of the Company abstaining from voting (except where any connected person (as to defined) intends to vote against such proposed grant).

*(g) Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not less than 3 years and not more than 10 years to be notified by the Board to each grantee which period of time shall commence on the date of the grant of the option and expire on the last day of such period as determined by the Board and the exercisable period is not less than 3 years.

*(h) Rights are personal to grantee*

An option may not be transferred or assigned and is personal to the grantee.

*(i) Rights on ceasing employment*

If the grantee of an option ceases to be an Employee for any reasons other than death, misconduct or certain other grounds, the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not failing which the option will lapse.

If the grantee of an option leaves the service of the Group by reason of misconduct or on other grounds, his or her option (to the extent such has become exercisable but not already exercised) will immediately lapse.

*(j) Rights on death*

If the grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his or her employment arises, his or her personal representative(s) may exercise the option in full (to the extent which has become exercisable and not already exercised) within a period of 12 months from the date of death or such longer period as the Board may determine failing, which the option will lapse.

*(k) Effects of alterations to capital*

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made in the subject matter of the option so far as unexercised the subscription price and/or the method of the exercise of the option, provided that no such alteration shall be made so that a Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares in the capital of the Company as consideration in a transaction.

*(l) Rights on take-over*

If a general offer by way of take-over is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) with the terms of the offer having been approved by the holders of not less than nine-tenths in value of the Shares comprised in the offer within four months from the date of the offer and the offeror thereafter gives a notice to acquire the remaining Shares, the grantee (or his or her personal representative(s)) may by notice in writing to the Company within 21 days of such notice exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in such notice.

*(m) Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the grantee on the same date as it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may until the expiry of the period commencing with such date and ending with the earlier of the date two months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of his or her options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or his or her personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

*(n) Rights on winding up*

In the event a notice is given by the Company to its members to convene a shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to convene the shareholders' meeting, give notice thereof to all grantees and the thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his Options at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

*(o) Lapse of Option*

An option shall lapse automatically and not be exercisable (to the extent which has become exercisable and not already exercised) on the earliest of:

(i) the expiry of the option period;

(ii) the expiry of the periods referred to in sub-paragraph (i), (j) or (l) respectively;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (m);

(iv) the date on which the grantee of an option ceases to be an Employee by reason of the termination of his or her employment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;

(v) the date of the commencement of the winding-up of the Company; or

(vi) the date on which the grantee sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option in breach of the Share Option Scheme.

*(p) Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to the Company's articles of association for the time being in-force and will rank pari passu with the fully paid Shares in issue on the date of exercise of the option and in particular will rank in full for all dividends or other distributions declared paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of exercise of the option.

Unless the context otherwise requires, references to "Shares" in the Company Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

*(q) Cancellation of Options granted*

Any cancellation of options granted but not exercised must be approved by shareholders of the Company (and also by shareholders of any holding company which is listed on the GEM and the main board of the Stock Exchange) in general meeting, with participants and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

*(r) Period of Share Option Scheme*

The Share Option Scheme will remain valid for a period of 10 years commencing on 4th April, 2001 after which period no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

*(s) Alteration to Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of the Company in general meeting (with participants and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Company's shareholders under the Company's articles of association for the time being for a variation of the rights attached to the Shares.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

*(t) Administration of the Share Option Scheme*

The Share Option Scheme will be administered by the Board of the Company.

*(u) Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on (a) the Share Option Scheme being approved by the shareholder of Sinolink and the Company in their respective general meetings, (b) the GEM Listing Committee granting the listing of and permission to deal in the Shares on GEM, granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme, and (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by Tai Fook Capital on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise.

Application has been made to the GEM Listing Committee for the approval of the Share Option Scheme, the granting of the options under the Share Option Scheme and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

**B. Summary of the terms of the Pre-Listing Share Option Plan**

The purpose of the Pre-Listing Share Option Plan is to recognise the contribution of certain directors and employees of members of the Group and members of the Sinolink Group to the growth of the Group and/or to the listing of the Shares on GEM. The principal terms of the Pre-Listing Share Option Plan, conditionally approved by a written resolutions of the sole shareholder of the Company dated 4th April, 2001 (which is still subject to certain conditions as referred to in paragraph(s) of the paragraph headed "Share Options – Summary of terms of the Share Option Scheme" above), are substantially the same as the terms of the Share Option Scheme except that:–

(a) the subscription price for Shares is the Issue Price in all cases;

(b) the total number of Shares subject to the Pre-Listing Share Option Plan is 23,400,000 and there are no similar requirements on granting options to connected persons as summarised in paragraph (f) of the paragraph headed "Share Options – Summary of terms of the Share Option Scheme" above);

(c) the definition of "Employee" includes any employee and director of the Group or the Sinolink Group; and

(d) save for the options which have been conditionally granted (see below) no further options will be offered or granted, as the right to do so will end upon the listing of the Shares on GEM.

An option may be exercised in accordance with the terms of the Pre-Listing Share Option Plan at any time for a period of 10 years which shall commence on the date of the grant of the option as on 4th April, 2001. Each of the grantees to whom options have been conditionally granted under the Pre-Listing Share Option Plan will be entitled to exercise (i) one half of the options so granted to him/her (rounded down to the nearest whole number) at any time after 1st January, 2003; and (ii) the remaining options after 1st January, 2004. The period of time for exercising the options shall expire on 3rd April, 2011.

Application has been made to the GEM Listing Committee for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Pre-Listing Share Option Plan.

### Outstanding options granted under the Pre-Listing Share Option Plan

As at the date of this prospectus, options to subscribe for an aggregate of 23,400,000 Shares (representing approximately 4.47% of the total enlarged issued share capital of the Company immediately after completion of the Share Offer assuming the Over-allotment Option is not exercised) have been conditionally granted by the Company under the Pre-Listing Share Option Plan. Particulars of the outstanding options conditionally granted under the Pre-Listing Share Option Plan to the 24 grantees including executive Directors and full-time employees of the Group and certain executive Directors of the Sinolink Group who have been conditionally granted options to subscribe for an aggregate of 23,400,000 Shares or more are set out below:

| Name of grantee | Address | Number of Shares subject to the options |
|---|---|---|
| *Directors:–* | | |
| Mr. Ou Yaping | C3 Kellett View Town House<br>65-69 Mount Kellett Road, Hong Kong | 3,000,000 |
| Mr. Chen Wei | No. 3 Beihedao, Yi Yuan<br>Ying Hu Road, Shenzhen, PRC | 3,000,000 |
| Mr. Lai Wen Guang | Flat B, 23rd Floor, Hillier Building<br>275 Queen's Road Central, Hong Kong | 2,000,000 |
| Mr. Lau Shi Wa | Flat 1412, Block R, 14th Floor<br>Kornhill, Quarry Bay, Hong Kong | 1,000,000 |
| Mr. Li Fujun | Flat B, 23rd Floor, Hillier Building<br>275 Queen's Road Central, Hong Kong | 2,000,000 |
| Mr. Yim Chun Leung *(Note)* | 11C, 127 Robinson Road, Hong Kong | 1,000,000 |

| Name of grantee | Address | Number of shares subject to the options |
|---|---|---|
| *Other* | | |
| *18 other employees of members of the Sinolink Group and the Group (each holding options to subscribe for 2,000,000 shares or less):–* | | |
| Law Sze Lai | Flat 4, 5th Floor, Block A Hong Way Garden, 8 New Market Street Sheung Wan, Hong Kong | 800,000 |
| Xiong Jiang | Room 506, Block 2, No. 12 Shu Guang Zhong Lu Yuhua District, Changsha, Hunan Province, PRC | 2,000,000 |
| Mo Sui Kang | Room 204, Block 7 Guizhu Garden, Shekou District, Shenzhen, GuangDong Province, PRC | 2,000,000 |
| Luo Lei | No. 480, Bayi Road Kaifu District, Changsha City, Hunan Province, PRC | 1,000,000 |
| Chu Yin Yi | Flat D, Block 2, 27th Floor, Greenwood Terrace, Chaiwan, Hong Kong | 1,000,000 |
| Yu Man To | 2D Monticello, 48 Kennedy Road, Hong Kong | 1,000,000 |
| Liu Fang Ye | No. 508, Block 1, Dongting Village, North District Yuyang City, Hunan Province, PRC | 500,000 |
| Wang Han Yu | No. 160, Datong Street, Zhonghua Zhong Road Guiyong City, Guizhou Province, PRC | 500,000 |
| Shen Lian Jin | Room 402, No. 331 Da Guanshan New Wuhun District, Wuhu City, Anhui Province, PRC | 500,000 |
| Sun Wu Ying | No. 23, YaoLing Dong Village Changsha City, Hunan Province, PRC | 300,000 |
| Chen Zhou Guang | No. 228, Shiyu Road, Jian Ye District, Nanjing City, Jiangsu Province, PRC | 300,000 |

| Name of grantee | Address | Number of shares subject to the options |
|---|---|---|
| Tang Xi Yong | The Hygiene Station Dormitory of Hua Xi District, Guiyang City, Guizhou Province, PRC | 200,000 |
| Luo Li | No. 95, Lane 1, Xiao Dong Jia, Hanjiang District, Wuhan City, Hubei Province, PRC | 200,000 |
| Li Zihong | Room 1704, Golden Spring Garden, Furong District, Changsha City Hunan Province, PRC | 300,000 |
| Zhou Xiao Ben | Room 201, Block 2, No. 70 Rehenanlu, Nanjing City, Jiangsu Province, PRC | 200,000 |
| Huang Jie | Jindi Cui Garden, Fumin Road, Futian District Shenzhen, Guangdong Province, PRC | 200,000 |
| Zhu Yimin | Room 1804, Golden Spring District, Furong District, Changsha City, Hunan Province, PRC | 200,000 |
| Yi Gan Lin | Room 303, Block 24, Yun I District, Happiness Village, Yue Yang City Hunan Province, PRC | 200,000 |
| Total | | 23,400,000 |

*Note: Mr. Yim Chun Leung is also a full-time employee of Sinolink Group.*

## OTHER INFORMATION

### 1. Estate duty, Tax Indemnity and other Indemnities

Sinolink and Kenson (the "Indemnifiers") have pursuant to a deed of indemnity referred to as item (h) in the sub-section headed "Summary of material contracts" under the section headed "Further Information about the Business" in this Appendix, given indemnities in connection with, among others, (a) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the Placing becomes unconditional; and (b) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Placing becomes unconditional.

The Indemnifiers will however, not be liable under the deed of indemnity for taxation where (a) provision has been made for such taxation in the audited combined accounts of the Company or the audited accounts of any member of the Group for the three years ended 31st December, 2000 (the "Accounts"); (b) the taxation arises or is incurred as a result of a retrospective change in law or the interpretation or practice thereof by the relevant authority (whether in Hong Kong, the PRC or any other part of the world) coming into force after the signing of the deed of indemnity; (c) any member of the Group is primarily liable to such taxation as a result of transactions entered into in the ordinary course of business after the date on which the Placing becomes unconditional; (d) the taxation or liability would not have arisen but for any act or omission by any member of the Group voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the date of the deed of indemnity; and (e) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve.

The Indemnifiers have agreed jointly and severally to indemnify the Company from all losses suffered and costs and expenses reasonably incurred by any of the members of the Group which are attributable to the Company including but not limited to depletion in asset value as a result of any of the members of the Group not being permitted to use or occupy or being evicted from or being required to demolish on the basis that that member of the Group does not have good title to and legal ownership of any of the buildings on properties nos. 4, 6 and 7 in the summary of valuations of the valuation certificate as set out in Appendix II to this prospectus.

The Indemnifiers have also jointly and severally undertaken, to indemnify the Company in respect of properties presently used or occupied by the relevant members of the Group (the "Affected Premises") including but not limited to properties nos. 8 to 141 in the summary of valuations of the valuation certificate set out in Appendix II to this prospectus, to secure for the use and occupation by relevant members of the Group of a property ("Substitute Premises") which is comparable and substantially similar to the Affected Premises in location, area and use, for a term not shorter than the original term under the lease for the Affected Premises in the event that any member of the Group is not being permitted to use or occupy or being evicted from the Affected Premises by the landlord thereof or any third party (including without limitation, any PRC government authorities or any other competent authorities or mortgagee) and to indemnify the Company and at all times to keep the Company indemnified on demand from and against any costs and expenses reasonably incurred, claims, losses and liabilities suffered (including but not limited to cost of relocation, difference in rentals between the Affected Premises and the Substitute Premises, operating and business losses arising from relocation, penalties and fines, claims, losses, legal costs, fees, charges, duties, levies, and imposts of any nature) by any of the members of the Group which are attributable to the Company resulting from any member of the Group not being permitted to use or occupy or being evicted from the Affected Premises in the manner as stated above, the lack or insufficiency of authority or power on the part of any persons with which any members of the Group has entered into arrangement (whether with or without a lease) pursuant to which that member of the Group was given the right to occupy and use the Affected Premises, any invalidity, unenforceability, variation or termination of any lease of the Affected Premises (other than a termination thereof as a result of the expiration of the term in the lease), the existing use of any of the Affected Premises whether under a lease or not being unlawful, any concluded or unconcluded litigation, claim, action, prosecution, arbitration, mediation, alternative dispute resolution or other similar proceedings relating to the use and occupation of any of the Affected Premises (collectively the "Proceedings"), any dispute with any entity relating to the use and occupation of any of the Affected Premises not resulting in Proceedings (and for all the above whether resulting from an award, judgment or finding or from negotiated settlement or otherwise), any failure to obtain the requisite leasing permit from, or to attend to the requisite registration with, the relevant PRC authorities, or any failure to comply with the relevant PRC legal or administrative requirements regarding a lease of any of the Affected Premises located in the PRC.

The Indemnifiers have agreed jointly and severally to indemnify the Company against any loss suffered or may be suffered by any of the members of the Group which are attributable to the Company in connection with the legal proceedings instigated against Wuhu PANVA as set out below in the paragraph headed "Litigation". The Indemnifiers have also agreed to indemnify the Company against any loss suffered or may be suffered by any members of the Group which are attributable to the Company in the event that Wuhu Sanpeng PANVA fails to pay to Wuhu PANVA the trade debt together with the accrued interests and court fees pursuant to the judgment given by the Anhui Wuhu People's Court of the PRC on 1st June, 2000.

The Directors are of the view that the joint venture enterprises operated by the Company in the PRC will not be affected as a going concern in the event that any member of the Group is not being permitted to use or occupy or being evicted from the Affected Premises in the manner as set out aforesaid. The Company does not intend to grant shareholders' loan to any of the joint venture enterprises operated by the Company in the PRC in the foreseeable future.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the PRC or the British Virgin Islands, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

**2. Litigation**

On 16th April, 2000, Wuhu PANVA issued a writ in Anhui Wuhu Xinwu People's Court of the PRC against Wuhu Sanpeng PANVA seeking for payment of trade debt of RMB163,359.30. Judgment was made on 1st June, 2000 against Wuhu Sanpeng PANVA which was ordered by the Court to pay Wuhu PANVA the said trade debt together with interests and court fees of RMB1,115 and RMB6,034 respectively.

Wuhu PANVA has received a writ dated 28th October, 2000 in Wuhu Intermediate People's Court of the PRC from Wuhu Sanpeng LPG Chemical and Energy Co., Ltd. (the "Plaintiff"), the joint venture partner of Wuhu Sanpeng PANVA, claiming that Wuhu PANVA has breached the joint venture agreement.

The Plaintiff seeks damages of RMB1,095,398.20 and RMB420,518.25 arising from direct loss and indirect loss respectively. The Plaintiff also alleges that Wuhu PANVA's breach of the joint venture agreement has caused Wuhu Sanpeng PANVA to incur tax liability of RMB142,000 to the PRC government and that Wuhu PANVA should be wholly and solely liable to pay the taxes. The Plaintiff also pleads for termination of the joint venture agreement. The Company is of the view that the claims and allegations are unfounded and groundless. The Company will defend the Plaintiff's legal action vigorously.

On 25th April, 1999, Changsha PANVA issued a writ against Shen Guo Rong (申國榮) (the "Defendant") seeking for outstanding payment of LPG supplied by Changsha PANVA to the Defendant. An LPG supply agreement was made on 9th February, 1998 between Changsha PANVA and the Defendant whereby Changsha PANVA agreed to sell LPG to the Defendant. As at 31st January, 1999, the Defendant owed a long outstanding debt of RMB252,485.54 to Changsha PANVA. Despite repeated demand for payment by Changsha PANVA, the Defendant has not yet settled the outstanding amount. Judgment was made on 30th June 1999 in favour of Changsha PANVA in Hunan Yueyang Yunxi People's Court where the Defendant was ordered to pay to Changsha PANVA the outstanding debt of RMB252,485.54 together with interest and court fees of RMB16,633.74 and RMB10,000.00 respectively. However, the Defendant has not yet been located since the judgment date. Changsha PANVA will take enforcement action against the Defendant as soon as he is located and full provision had been made by the Company in 1998 in respect of this litigation.

The Directors are of the view that the amount involved in relation to each of the litigations is immaterial and insignificant by reference to the Group's operation as a whole. Hence, the Directors believe that such litigations will not have any material impact on the financial status and reputations of the Company or the Group. Sinolink however had agreed to indemnify the Company against the loss it suffers in the event that judgment is entered into against Wuhu PANVA. Sinolink and Kenson had also agreed to indemnify the Company against the loss it suffers in the event that Wuhu Sanpeng PANVA fails to pay to Wuhu PANVA the trade debts together with the accrued interests and court fees pursuant to the judgment given by the Anhui Wuhu People's Court of the PRC on 1st June, 2000.

Save as disclosed, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

### 3. Address for service of process and notices

Mr. Ou Yaping have been nominated as the authorised person to accept service of process and notices of the Company. The address for service of process and notices is 25th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

### 4. Sponsor

Tai Fook Capital has made an application on behalf of the Company to the GEM Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares falling to be issued pursuant to the Over-allotment Option the exercise of options granted under the Share Option Schemes.

### 5. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately $12 million and are payable by the Company.

### 6. Promoter

The promoter of the Company is Sinolink. As at the Latest Practicable Date, the issued share capital of Sinolink was $152 million divided into 1,520,000,000 shares of $0.10 each which are fully paid or credited as fully paid. Sinolink's current directors, principal bankers and auditors are as follows:

*Directors of the promoter*

Mr. Ou Yaping
Mr. Law Sze Lai
Mr. Chen Wei
Mr. Liang Xiaoting
Mr. Tsang Yu Chor, Patrick
Mr. Cheung Wing Yui

*Principal bankers of the promoter*

Bank of China, Hong Kong Branch
Bank of China, Shenzhen Branch
Nanyang Commercial Bank, Shenzhen Branch
China Construction Bank, Luohu Branch, Shenzhen
China Merchants Bank, Dongmen Sub-branch, Shenzhen

*Auditors of the promoter*

Deloitte Touche Tohmatsu

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

**7. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| *Name* | *Qualification* |
|---|---|
| Tai Fook Capital | Registered investment adviser |
| Deloitte Touche Tohmatsu | Certified public accountant |
| DTZ Debenham Tie Leung Limited | Property valuers |
| Maples and Calder Asia | Cayman Islands attorneys-at-law |
| Haiwen & Partners | Qualified PRC legal adviser |

**8. Consents of experts**

Each of Tai Fook Capital, Deloitte Touche Tohmatsu, Haiwen & Partners, DTZ Debenham Tie Leung Limited, and Maples and Calder Asia has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

**9. Binding effect**

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

## 10. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and

(iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.

(b) None of Tai Fook Capital, Deloitte Touche Tohmatsu, Haiwen & Partners, DTZ Debenham Tie Leung Limited, and Maples and Calder Asia:

(i) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

(c) No company within the Group is presently listed on any stock exchange or traded on any trading system.

(d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.-

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo, Kwan, Lee & Lo, at 27th Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including 4th May, 2001:

(a) the Memorandum and Articles of Association;

(b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of each of the companies comprising the Group for each of the three years ended 31st December, 2000 (or since their respective dates of incorporation to 31st December, 2000 if it is a shorter period);

(d) the letter, summary of valuation and valuation certificates relating to the property interests of the Group prepared by DTZ Debenham Tie Leung Limited, setting out the information required by paragraph 34(2) of the Third Schedule to the Companies Ordinance and the GEM Listing Rules;

(e) the letter prepared by Maples and Calder Asia summarising certain aspects of Cayman Islands company law and taxation referred to in Appendix IV to this prospectus;

(f) the Companies Law;

(g) the rules of the Share Option Schemes;

(h) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus; and

(i) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus.