Panva Gas Holdings Limited
百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

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Corporate Information

Board of Directors

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

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

Independent Non-executive Directors
Mr. Cheung Hon Kit
Mr. Sun Hiu Lu

Authorised Representatives
Mr. Ou Yaping
Mr. Li Fujun

Compliance Officer
Mr. Li Fujun

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

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

Audit Committee
Mr. Cheung Hon Kit
Mr. Sun Hiu Lu

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

Head Office and Principal Place of Business
25th Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

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

Principal Share Registrar and Transfer Office
Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Room 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Legal Advisers
(As to Hong Kong Law)
Woo, Kwan, Lee & Lo
(As to Cayman Islands Law)
Maples and Calder Asia
(As to the PRC Law)
Haiwen & Partners

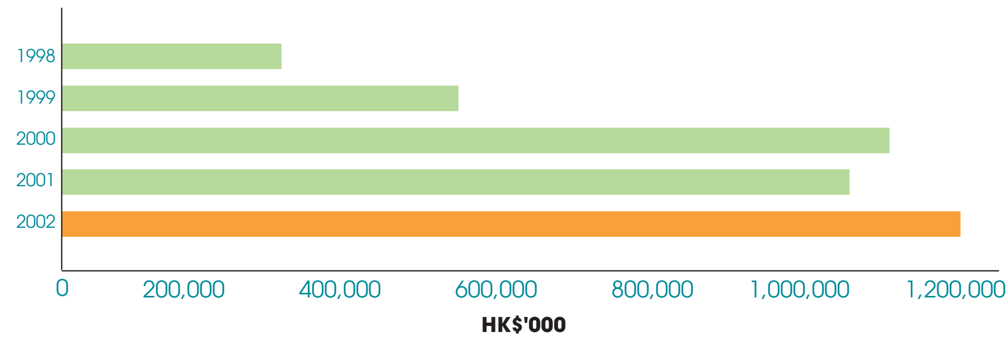
Principal Bankers
Hang Seng Bank Limited
Nanyang Commercial Bank Ltd., Hong Kong Branch
Bank of China, Shenzhen Branch
The Industrial & Commercial Bank of China,Hunan Branch
Nanjing City Commercial Bank, Nanjing

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

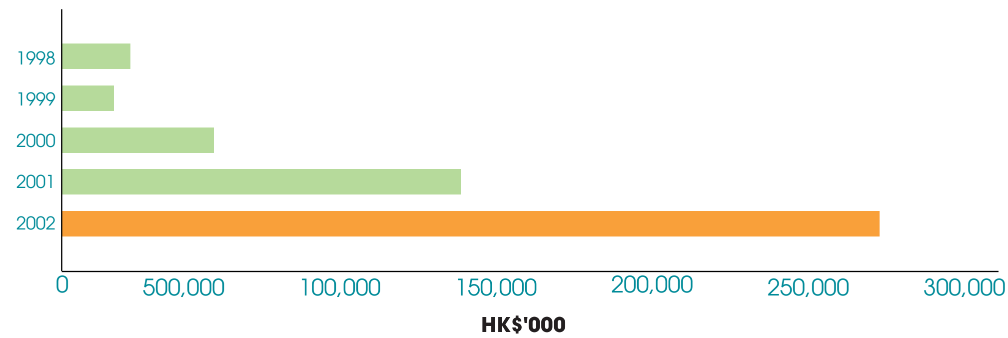
	2002 HK$'000	2001 HK$'000	Increase
Turnover	1,150,322	1,008,335	14%
Gross Profit	261,895	127,833	105%
Net Profit	132,538	31,693	318%
Shareholder's fund	268,373	131,148	105%
Total Assets	735,540	529,972	39%

	2002 HK Cents	2001 HK Cents	Increase
Earnings per share	21.97	5.59	293%
Net Asset Value per share	44.35	21.85	103%

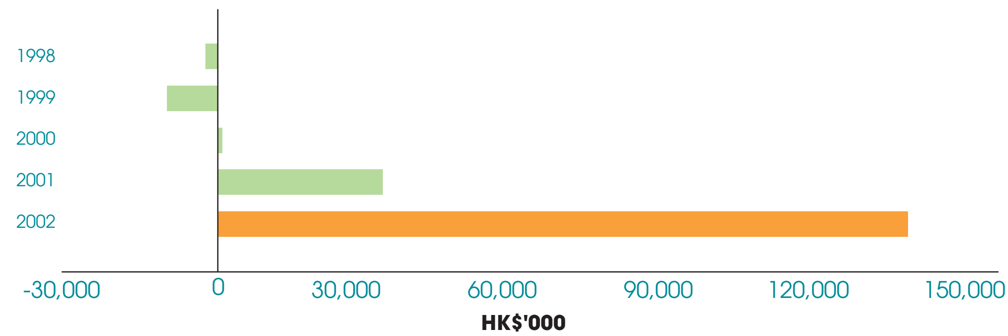
Turnover



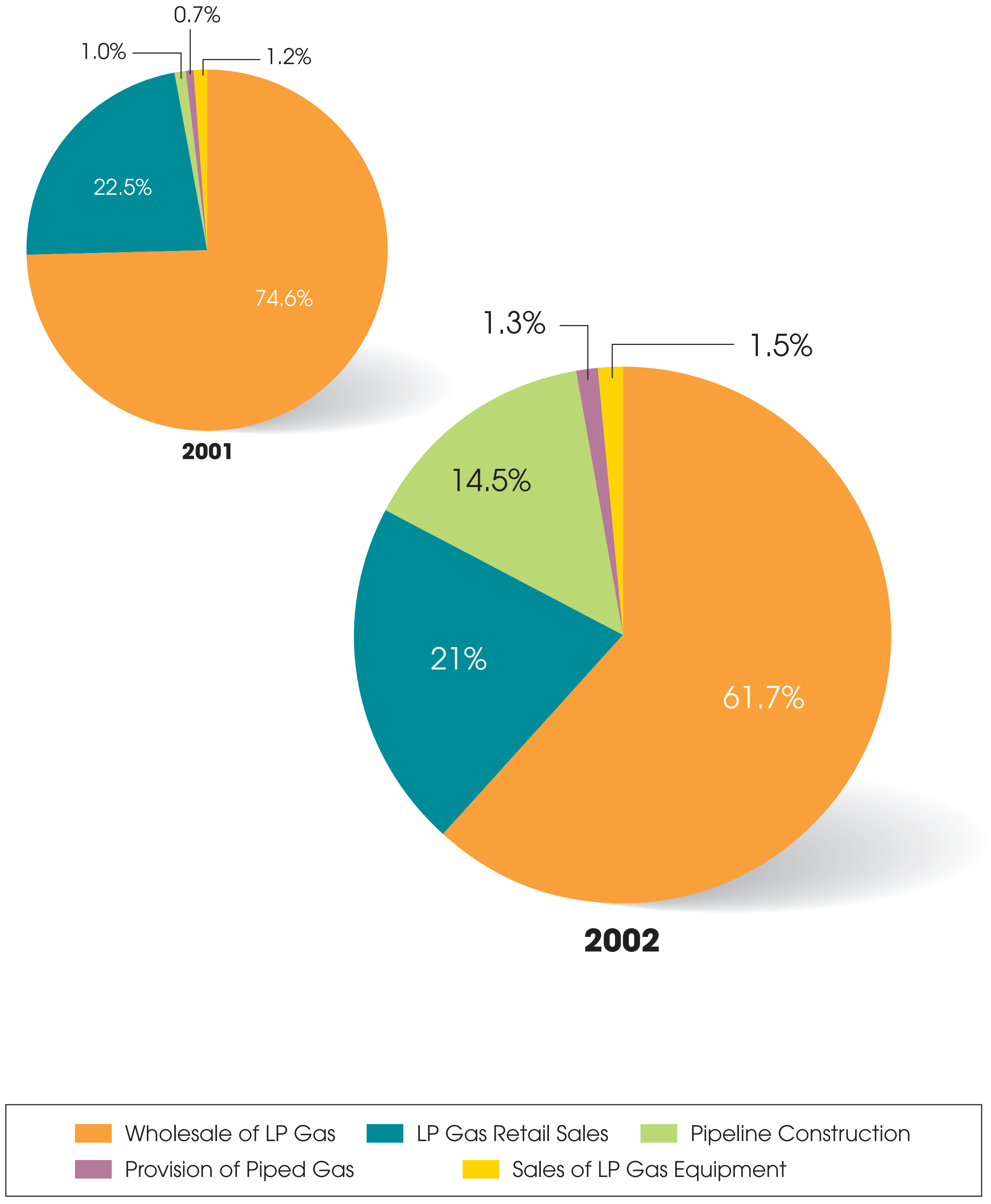
Gross Profit



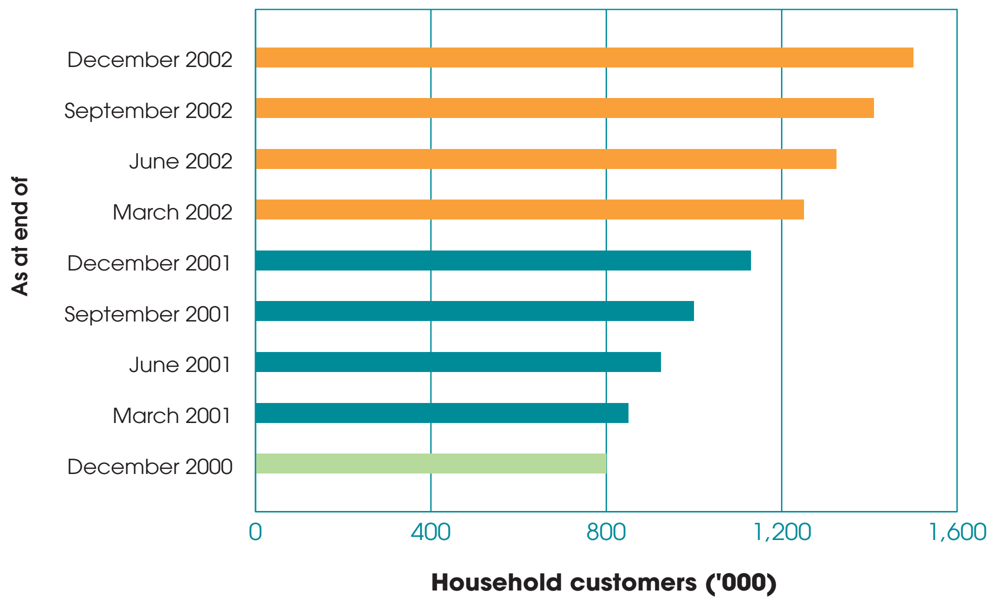
Net Profit



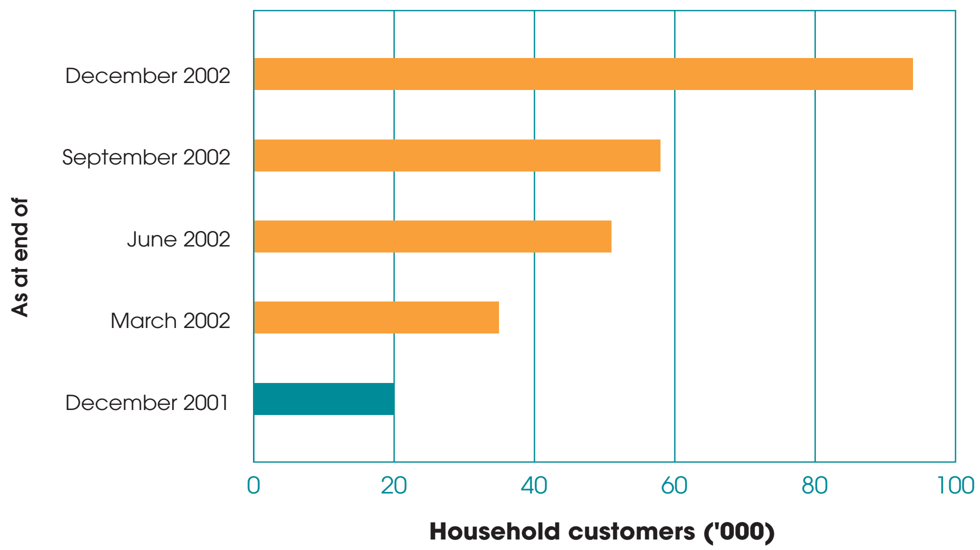
Turnover Breakdown



Cylinder gas user



Piped gas user



Financial Highlights

Five Year Statistics

	For the year ended 31 December				
	1998	1999	2000	2001	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	281,547	507,876	1,059,729	1,008,335	**1,150,322**
(Loss) profit before taxation	(462)	(13,038)	6,483	68,499	**178,303**
Taxation	–	–	(342)	–	**(8,545)**
(Loss) profit before minority interests	(462)	(13,038)	6,141	68,499	**169,758**
Minority interests	(1,887)	3,252	(5,313)	(36,806)	**(37,220)**
Net (loss) profit for the year	(2,349)	(9,786)	828	31,693	**132,538**
(Losses) earnings per share (HK cents)					
Basic	(0.48)	(2.02)	0.17	5.59	**21.97**
Diluted	N/A	N/A	N/A	4.89	**17.44**

	As at 31 December		
	2000	2001	**2002**
	HK$'000	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES			
Total assets	356,032	529,972	**735,540**
Total liabilities	(266,545)	(216,721)	**(251,499)**
Minority interest	(101,435)	(182,103)	**(215,668)**
Shareholders' (deficits) funds	(11,948)	131,148	**268,373**

Notes:

1. The results for the three years ended 31 December 2000 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the three years ended 31 December 2000 have been extracted from the Company's prospectus dated 10 April 2001.

2. The Company was incorporated in Cayman Islands under the Laws of Cayman Islands on 16 November 2000. Accordingly, the only balance sheets for the Group that have been prepared over the past three years are presented above.

Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") had an excellent year in 2002. Not only did the Group attain a rapid growth, a higher market share and a substantial increase in profitability for its businesses in the People's Republic of China (the "PRC"), it also performed remarkably well on the GEM and won investors' strong support. We are deeply proud of these achievements and believe that our enterprising efforts will gain further recognition from more investors.

Development of the PRC Gas Sector

Booming economic conditions, improving living standards and increasing environmental consciousness in the PRC helped spur the country's demand for clean fuels such as liquefied petroleum gas ("LP Gas") and natural gas. Production of natural gas in the PRC continued to grow strongly in 2002, achieving a record high of 32.633 billion cubic metres for the year that is 7.5% over 2001. Nonetheless, the PRC's annual per capita consumption remained low comparing to global standard, at 25 cubic metres against the world average of 403 cubic metres. This is due to the fact that natural gas still plays a small role in the PRC's energy consumption structure. Presently, natural gas accounts for only 3% of the PRC's primary energy consumption, which is far behind the world average of 23.8% and the Asian average of 8.8%. According to the Statistical Review of World Energy 2002 published by British Petroleum, demand for natural gas will remain strong in Asia, with the PRC expected to record a 12.9% growth in 2003 on a GDP growth of over 8% and an industrial production growth of around 8.5%.

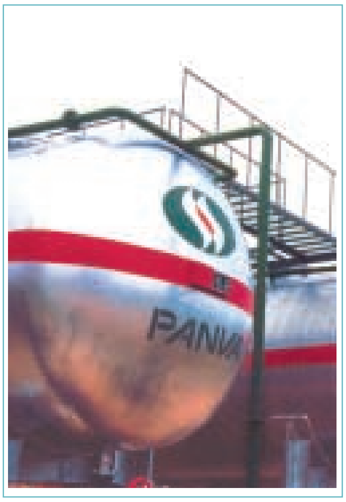
Demand for LP Gas in the PRC grew by 14.5% to 16,228,000 tonnes in 2002, but the per capita consumption also remained much lower than the world average. This suggests a strong sustainable growth in coming years for the LP Gas market in the PRC, whose consumption is growing rapidly at an annual rate of 12%. Domestic consumption is expected to record strong growth particularly in the Yangtze River and the southern PRC regions, where the increase in investment and the improvement in infrastructure are providing favourable conditions for LP Gas supply. Environmental protection is also exerting pressure on towns and counties in the regions to direct more energy consumption to LP Gas.

All these factors provide the Group's core businesses with a strong impetus for further expansion, which in turn will enable the Group to enjoy a substantial share of the considerable gains to be made by the PRC's booming gas sector.

The fight against environmental pollution has topped the PRC's agenda for securing a sustainable economic growth. There has been high enthusiasm across the country to accelerate natural gas development. Piped natural gas is particularly the case given the strong growing demand in the PRC for a more convenient supply of clean fuel. As such, the piped natural gas market has entered into a stage of rapid growth. In the next 10 years, a nationwide framework for piped natural gas will gain shape in the PRC, comprising the "five major pipelines" that connect the eastern, western, southern, northern and central parts of the country. The "eastern pipeline", to be completed in 2004, will supply natural gas mainly to the southern Zhejiang province and Shanghai. The "western pipeline" will transmit natural gas

from Talimu and Sebei to Henan, Anhui, Jiangsu, Zhejiang and Shanghai, boasting an annual supply capacity of 12 billion cubic metres. The Kuche-Tabei region will be the major supplier for the western pipeline under the "West to East Natural Gas Pipelines Project" which is expected to be completed on schedule. The "southern pipeline" includes liquefied natural gas projects in Guangdong and Fujian and is making solid progress. The "northern pipeline" is intended for bringing natural gas from Russia, with its main pipeline to go from Siberia to Tongzhou in the eastern suburb of Beijing, and an ancillary pipeline extending to Shandong. The "central pipeline" will tap the natural gas in Sichuan Basin and Shannxi-Gansu-Ningxia provinces and bring it to the Sichuan-Chongqing regions and the Yunnan-Guizhou areas in the southwest; the number of destinations is vigorously expanding. All in all, the PRC's new framework for natural gas development has already taken shape in 2002.

On 4 July 2002, the "West to East Natural Gas Pipelines Project" formally commenced works. The project will cover nine of the PRC's most developed provinces that have an aggregate population of 300 to 400 million people. Upon completion, the project will give birth to a huge natural gas market comprising hundreds of millions of users in Xinjiang, Gansu, Ningxia, Shannxi, Shanxi, Henan, Anhui, Jiangsu, Zhejiang and Shanghai. Taking only domestic users into account, the project will lift the gas supply difficulty of 85 million people living at the vicinity of the pipelines. Furthermore, the "northern pipeline" project for brining natural gas southern from Russia will also commence works shortly. Upon completion scheduled to be in 2005-2007, this project will bring huge and significant benefits to the political and economic developments of the northeastern PRC as well as the Pan Bohai region.



Moreover, as part of the means to improve energy supply in the fast growing southeastern coastal cities, the PRC government has approved the introduction of liquefied natural gas projects from overseas. The sales and procurement contract for the Guangdong liquefied natural gas project was formally signed in October 2002, pursuant to which the project will be developed in two phases. The first phase, to be completed in 2006, is planned for an annual supply of 3,500,000 tonnes of liquefied natural gas, and the second phase for an additional annual supply of 2,000,000 tonnes. As for the Fujian liquefied natural gas project, the contract of which was also signed in 2002, it will boast an annual supply capacity of 5,000,000 tonnes upon completion. The signing of the two contracts indicates that a huge market for liquefied natural gas is set to emerge in the PRC.

The present time represents a critical stage of the PRC's urbanisation. Experiences of other countries show that the most important governing factor for successful urbanisation is a secure fuel supply for domestic and commercial use. As the "West to East Natural Gas Pipelines Project" covers 9 provinces and autonomous regions as well as 66 counties, and given the particular fact that most of them are located in the western area with low levels of urbanisation, the project is bound to unleash huge growth potential in these areas. Moreover, all the pipelines projects will enhance the development of other related industries and assure a rapid growth of the natural gas sector. Hence, the gas fuel market in the PRC is bound to enjoy great and promising prospects, and a fuel economy with the development and utilisation of natural gas as its major characteristics is bound to flourish. City gas development is now entering into a great era of rapid growth across the PRC.

The smooth implementation of these projects alone will significantly increase the sales opportunities and customer resources available to the Group. It can be said that the Group is now standing on the shoulders of the giants and on board the fast train of rapid economic and gas energy developments in the PRC. The Group is convinced that with further enterprising efforts it will achieve even better results.

Business Development

A mammoth development of the century, the "West to East Natural Gas Pipelines Project" is undoubtedly a strong propellant for the gas related industries to upgrade their facilities, expand their markets and improve their efficiencies. It is also an obvious propeller for the Group's business advancement. In the wake of an abundant supply of gas resources, local gas operators in the PRC are taking initiatives to find long-term partnerships with strong gas enterprises of well-established brand names in order to strengthen their own competitiveness. Experts of the field forecast that the local gas operators will drastically revise their sales and marketing through various means, such as participating in joint ventures or mergers and acquisitions that could help them accelerate their pipeline construction works and standardise their management modules. This trend suits the Group's development strategies for its core businesses, which emphasise the continual efforts to transform available opportunities into real profits. After all, being the PRC's largest multi-regional distributor of gas fuel for end-users, the Group has already secured a gold-plated brand name. The Group is taking full advantage of its brand strength and management edge to uncover more acquisition and joint venture opportunities. These efforts will enable the Group to continuously expand its market share, further strengthen its brand name and maximise the returns for shareholders.

By capitalising on its prime resources, the Group has largely completed its strategic framework for natural gas development in Sichuan during 2002. The smooth operation of Ziyang Panva Gas Co. Ltd. ("Ziyang Panva"), as well as the successful acquisitions and subsequent formations of Pengxi Panva Gas Co. Ltd. ("Pengxi Panva") and Weiyuan Panva Gas Co. Ltd. ("Weiyuan Panva"), all gave ample proof to the Group's accomplishment of its adopted development strategy. We are now more convinced that our prudent execution of the adopted development strategy will continue to generate excellent rewards for our shareholders.

Moreover, the establishment of Pan River Gas (Zunyi) Co. Ltd. ("Zunyi Panva"), which represents the Group's further expansion of its LP Gas business, has the same promising prospects as those enjoyed by the natural gas business described above. The Group will strive to maximise the profit margin of the LP Gas business on the basis of further consolidating and rationalising its resources.

Prospects

As we anticipated early last year, the Group with strong competitive advantages was able to tap on the rapidly growing gas consumption in the PRC to achieve excellent performance during the past year. The Group has greatly enhanced its asset quality and quantity, capital return, brand value and management resources, which together further strengthened the Group's competitive advantages.

It can be expected that the Group, being one of the rapidly growing listed companies on the GEM, will continue to strengthen its LP Gas business, consolidate its existing resources, further develop the natural gas pipelines market through mergers and acquisitions and expand to the related up-and-down stream businesses. The Group will also keep on enhancing its corporate image as a comprehensive and professional gas services provider, expanding its end-user customer base and increasing its core competitiveness in the gas sector.

Appreciation

On behalf of the board, I would like to take this opportunity to thank our shareholders, customers and business associates for their continual supports and our staff for their diligence and contribution during the past year. We are a company with a seasoned working team and I look forward to a more rewarding 2003 for our business.

Ou Yaping
Chairman

Hong Kong, 24 March 2003

The year 2002 was a year of leaps and bounds for the Group. All major targets set for project development, capital employment, investor relations and corporate maneuvers were largely met and significant progress was made in standardising the administration and human resources management of the Group's joint ventures.

Review of Operations

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK$1,150,322,000, which represented an increase of approximately 14.1% from last year. The gross profit margin increased significantly from 12.7% in 2001 to 22.8% in 2002. The increase in gross profit margin was mainly attributable to significant increase in the higher margin gas pipeline construction business and growth in the proportion of the retail business which commands a higher gross profit margin than the wholesale operation. Profit attributable to shareholders was approximately HK$132,538,000, representing a substantial increase of approximately 3.18 times from last year.

Wholesale of LP Gas

The sale of LP Gas in bulk and in cylinders to wholesale customers remains as one of the Group's principal activities.

As the PRC is still at a developing stage in energy alignment, only those enterprises with strong access to up-stream energy resources can ensure smooth operation and added value advantages for their down-stream gas fuel businesses. As such, the LP Gas wholesale operation will continue to play a significant role in the Group's overall development and facilitate the development of the retail business.

Retail Sales

Included in retail sales are the sale of LP Gas in cylinders to retail customers, provision of piped LP Gas and provision of piped natural gas. During the year ended 31 December 2002, the Group focused on increasing the proportion of this higher margin business through realigning its resources and providing its operations with stronger support. Alongside this strategy was the continual effort to increase the market share and enhance the customer service of the business. Remarkable results have been achieved, as can be seen in the turnover from retail sales, which grew by 9.9% to HK$256,511,000, and the proportion it accounted for in the Group's total turnover amounted to 22.3%.

As at 31 December 2002, the Group's end-user household customers exceeded 1,500,000 households. The continual growth in end-user household customers facilitated the Group's strategic move to increase profitability and reflected the value growth of the Group's brand name. It laid a solid foundation for the Group to further increase its market share and profitability as well as its influence and leverage in the marketplace.

Gas Pipeline Construction

During the year, as part of its adopted strategy to help accelerate the piped gas business, the Group worked vigorously on the development of gas pipelines for its end-user household customers. The works mainly included construction and improvement of piped gas stations and networks and direct connection of gas pipelines to end-user households. For each household connected, the Group received a connection fee of approximately RMB3,000 from the developer or the property management company. Revenue from the gas pipeline construction business increased to approximately HK$166,482,000 in 2002, accounting for approximately 14.5% of the Group's total turnover. The higher gross profit margin of the gas pipeline construction business, coupled with the economies-of-scale benefits derived from the continuous increase in the number of piped gas companies and customers, contributed significantly to the Group's profitability. As the Group's companies are further enhancing their management and expanding their market share, the benefits will be more vivid in the coming future.

Group Structure

As part of the its efforts to vigorously expand retail sales and the piped natural gas business, the Group established three operating subsidiaries during the year under review, namely Pengxi Panva, Weiyuan Panva and Zunyi Panva.

Pengxi Panva

Through its wholly-owned subsidiary Pan River Investments Company Limited, the Group acquired a 90% interest in Sichuan Pengxi Natural Gas Company for a consideration of RMB11,700,000, with an exclusive right to develop and operate gas pipelines for a period of 50 years in the Pengxi county of Sichuan, the PRC. Prior to the acquisition, Sichuan Pengxi Natural Gas Company was a state-owned gas enterprise incorporated in Pengxi county. The acquisition further increased the Group's market share in the piped natural gas sector. The consideration was funded by the Group's internal resources. The Company owns 20 kilometres of long range pipelines and more than 30 kilometres of city pipelines.

Following the acquisition, the Group extensively restructured the operation of this formally state-owned enterprise. It has been renamed as Pengxi Panva and has adopted the Panva brand service and management system. Its strong efforts to expand market share and develop new customers have yielded favourable results.

Weiyuan Panva

Through Pan River Investments Company Limited, the Group acquired all the certified assets of Weiyuan Natural Gas Co. Ltd. for a consideration of RMB23,000,000, with an exclusive right to develop natural gas operation in Weiyuan for a period of 30 years. Subsequent to the acquisition, Pan River Investments

Company Limited transferred 10% of the assets to Ziyang Panva, the Group's 90% owned subsidiary and held the remaining 90% interest.

Weiyuan is a county located in the central southern region of the Sichuan province. It has a total population of approximately 749,000. It is among the more developed counties in Sichuan with a higher spending power and boosts a strong industrial economy that is supported by dozens of large manufacturers. The prospects for natural gas supply to the commercial and industrial enterprises in Weiyuan are promising. Being the only supplier of piped natural gas in Weiyuan, Weiyuan Panva is currently providing services to the urban area of the county. The company owns 37 kilometres of long-range pipelines, 2 gas stations, 1 retail centre and 60 kilometres of city pipelines.

The Group is applying enterprise reforms to the company including the introduction of sophisticated management and brand development practices. These measures should yield significant improvements for the company, which in turn can benefit the Group in further expanding its market share in the piped natural gas sector.

Zunyi Panva

Through Panva River (China Southwest) Co., Ltd. ("Panva Southwest"), the Group established a subsidiary, Zunyi Panva in the city of Zunyi, Guizhou province. Zunyi Panva is principally engaged in the production, processing, storage, transportation, wholesale and retail of LP Gas and the construction of city gas pipelines. Located in northern Guizhou, Zunyi has a total population of approximately 6,000,000 and an urban population of approximately 600,000.

The registered capital of Zunyi Panva is RMB4,200,000, which has been contributed in one lump sum by Panva Southwest as a reinvestment of its retained profits. The establishment of Zunyi Panva is a clear indication that the Group is expanding its market share in the southwestern PRC and strengthening its competitiveness in the region, which in turn will further enhance the Group's economies-of-scale advantages.

Significant Events

Hutchison invests in the Company

During the year, Hutchison Whampoa Limited ("Hutchison") through a wholly-owned subsidiary Hutchison International Limited, acquired a 6.4% interest in the Company from our parent Sinolink Worldwide Holdings Limited ("Sinolink") and subscribed for an exchangeable note issued by Sinolink, for a total consideration of HK$250,000,000. Issued in October 2002, the exchangeable note has a face value of HK$125,000,000 with an interest of 2% per annum and can be exchanged to the Company's shares within two years at HK$3.25 per share, up to an amount that is equivalent to approximately 6.4% of the Company's total issued shares at the date of the note issue. Through the transactions, Hutchison has become the second largest shareholder of the Company. In December 2002, Mr. Canning Fok Kin-ning, the managing director of Hutchison, was appointed as a non-executive director of the Company, and Mr. Simon To Chi Keung, the managing director of Hutchison Whampoa (China) Limited, was appointed as an alternate director to Mr. Fok.

The investment reflects Hutchison's confidence in the Group's management team and its strategy towards the gas fuel market in the PRC. Its participation will facilitate the Group's business development in the PRC and enhance the value of the Panva brand.

Foray into natural gas exploration

Heng Tong Natural Gas Exploration Co. Ltd. was formally a joint venture between Weiyuan Natural Gas Co. Ltd. and Southwest Mine Area New Star Technology Trading Co., an affiliate of China National Petroleum Corporation ("CNPC") in southwestern PRC. Heng Tong Natural Gas Exploration Co. Ltd. is principally engaged in the exploration and sale of natural gas found at shallow ground level. Through acquiring the assets of Weiyuan Natural Gas Co. Ltd., the Group obtained a 20% interest in Heng Tong Natural Gas Exploration Co. Ltd. This signifies the Group's foray into the natural gas exploration business and the beginning of its indirect cooperation with CNPC.

Shallow level exploration is an up-stream wholesale segment in the chain of natural gas development. It utilises sophisticated technology to bring out natural gas at shallow ground level and delivers it through pipelines to the distributors. The management believes that through close cooperation, the Group and its business partners in Heng Tong Natural Gas Co. Ltd. can help the company achieve greater success in exploring shallow level natural gas in Weiyuan. Apart from an increase in the wholesale of natural gas, the effort will also bring extra benefits to the Group's retail business.

Progress of gas pipelines development projects

During the year, the Group successfully forayed into the natural gas pipeline business in Sichuan whilst its Gaochun project in eastern PRC also commenced operation. By refocusing its development strategy and project development, the Group has achieved major breakthroughs, with three natural gas subsidiaries and one LP Gas pipeline enterprise already in operation. As for new projects, the progress in Sichuan as well as in other provinces has been encouraging. The group is currently in discussion with more than 25 city gas pipeline network development projects in the PRC and has signed letters of intents with 13 cities. It is preliminarily estimated that approximately RMB1 billion (approximately HK$935 million) would be invested in these related projects.

These negotiations are at a very preliminary stage which may or may not lead to any agreements, although the Group intends to complete some of the projects negotiation in 2003, the Group does not have a definitive completion timetable.

Banking facility arrangement with Bank of China, Shenzhen Branch

The Group has entered into an arrangement with the Bank of China, Shenzhen Branch ("Shenzhen BOC") under which Shenzhen BOC agreed to provide a banking facility to the Group up to RMB6 billion to finance the Group's investments in city pipe gas projects in the PRC. The arrangement is valid for a period of three years. The banking facility reflects the business and financial strength of the Group along with the huge market potential of the gas industry and the high standing of Panva's shareholders. This substantial loan has strengthened the Group's competitiveness in the PRC gas fuel market and laid a solid foundation for the Group to further increase its market share.

Financial Position

The Group's bank borrowings increased slightly from approximately HK$3,274,000 in 2001 to approximately HK$14,599,000 in 2002. Borrowings are mainly used for investments in city piped gas projects and as working capital by some operating subsidiaries in the PRC. The Group ended the year with a current ratio of 2.36 and a gearing (bank loan liabilities to equity) of 5.44%.

Total assets pledged in securing these loans have a net book value of approximately HK$8,135,000 as at 31 December 2002. All borrowings are denominated in Renminbi and as the operation of the Group are carried out in the PRC, all receipts and payments in relation to the operation are denominated in Renminbi. In this respect the Group is not exposed to any foreign exchange exposure risk. No financial instruments were used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK$98,224,000 as at 31 December 2002 and were mostly denominated in Renminbi, Hong Kong dollars and US dollars.

Contingent Liabilities

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

Employees and Remuneration Policies

As at 31 December 2002, the Group had 2,573 full time employees, of which approximately 99% are located in the PRC.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individuals' performance. Other benefits, such as medical and retirement benefits, are also provided.

Prospects

With the PRC's rapid economic growth, the increasing investment from its private sector and other favourable factors recently emerged, the energy sector in the PRC is heading for great prosperity, as can be seen in the rapidly growing demand for electricity, petroleum and natural gas in the PRC. According to the forecast of China Petrochemicals Economy and Technology Institute, assuming that the PRC economy maintains an annual GDP growth of around 7% in the next 10 years, the PRC's demand for LP Gas will increase from currently 16,000,000 tonnes to around 21,000,000 tonnes by 2005 and 28,000,000 tonnes by 2010. This high potential growth coupled with the importance attached by the PRC government to the "West to East Natural Gas Pipelines Project" and environmental protection are providing a major impetus for the continual rapid growth of the gas fuel industry in the PRC.

Given the rising needs of local gas companies to seek reform, 2003 will continue to be a year of opportunities for the Group to expand its market share and increase its profitability. With the healthy business development and rapid profit growth set in place in the past year, the Directors and the management believe that the Group will continue to achieve satisfactory results and gain more recognition from investors.

Looking ahead, the Group intends to make further advance by taking the following strategies:

- Ensuring a balanced development of the Group's various gas fuel businesses. Apart from the continuous efforts to vigorously expand the piped gas market, such as the further participation in city piped natural gas projects through merger and acquisition, the Group will continue to expand the wholesale and retail of LP Gas in cylinders. While the Group is now the PRC's largest multi-regional distributor of gas fuel for end-users, its leverage in the marketplace remains not much significant as relative to the huge size of the market; hence there is still huge room for the Group to further increase its market share. The Group will continue to enhance the research, assessment and negotiation works on potential projects in the western and eastern PRC, and ensure that the existing projects are developed in full steam and completed on target.

- Further strengthening the Group's financial management and administration. The Group has made good progress on financial control in 2002, such as the adoption of a formulated scheme for accounting and internal audits that provided strong support for project development and management. Continuous efforts will be made to strengthen the Group's financial control so as to further improve the management, reduce the operating costs and maximise the returns of the projects. At the same time, the Group will continue to enhance the training and nurturing of talents by improving the works of Panva Management Institute. These efforts can facilitate the promotion of the Group's corporate culture, enhance the management of the joint ventures and enlarge the pool of quality managers.

Building on established solid foundations, the Group will further strengthen its corporate management and accelerate its market development. The Group will continue to develop the Panva brand in order to further increase the number of retail end-user household customers and to generate higher returns for shareholders. The coming year can be looked forward as a highly promising year.

Appreciation

On behalf of the Board, I would like to express our gratitude to all our staff for their devoted efforts and hard work during the year.

By Order of the Board
Chen Wei
Managing Director

Hong Kong, 24 March 2003

Directors

Executive Directors

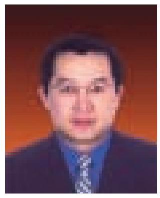
Mr. Ou Yaping, aged 41, the chairman, founder and ultimate controlling shareholder of the Company. He is also the chairman and managing director of Sinolink Worldwide Holdings Limited ("Sinolink"). He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC 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. Mr. Ou has over 17 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 41, 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 17 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 gas fuel business.

Mr. Lai Wen Guang, aged 40, deputy managing director of the Company. He holds a Diploma from China Social University. Mr. Lai has 17 years of experience in the trading, investment and management in the oil and gas fuel business. He joined the Sinolink Group in July 1997 and is responsible for the development of gas fuel.

Mr. Lau Shi Wa, aged 41, executive director of the Company. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology and a Master of Engineering Management degree from China Metallurgy University. He has 15 years of experience. He joined the Sinolink Group in January 1996 and is responsible for the management and market development of the gas fuel business.

Mr. Li Fujun, aged 40, executive director of the Company. He holds a Bachelor of Engineering degree from Tsinghua University and a Master of Economics degree from the University of International Business and Economics. He has 10 years of experience in project evaluation and strategic planning, investment analysis, 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 gas fuel.



Mr. Tang Yui Man, Francis, aged 40, executive director of the Company. He is also the chief executive officer and an executive director of Sinolink. He graduated with a Bachelor degree in computer studies from the University of Victoria in Canada and with a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang is a qualified accountant in the United States and has numerous years of experience in management, accounting and finance. He joined the Sinolink Group in March 1998 and is responsible for corporate planning, strategic development and financial planning and management of the Company.

Non-executive Directors

Mr. Fok Kin Ning, Canning, aged 51, holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants. He is the group managing director of Hutchison Whampoa Limited, the chairman of Hutchison Telecommunications (Australia) Limited, Hutchison Harbour Ring Limited and Partner Communications Company Ltd. and the co-chairman of Husky Energy Inc. He is also the deputy chairman of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited and a director of Cheung Kong (Holdings) Limited. Mr. Fok has been a non-executive director since December 2002.

Mr. To Chi Keung, Simon, aged 51, is an alternate director to Mr. Fok Kin Ning, Canning. He holds a First Class honours degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. Mr. To is currently the managing director of Hutchison Whampoa (China) Limited. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of Industrial Project Division and was appointed managing director in the following year. He has over 28 years of management experience.

Mr. Zheng Dunxun, aged 65, 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. At present, he is a member of the Economics 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 49, has over 25 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. He has worked in key executive position in various leading property companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and Paul Y.-ITC Construction Holdings Limited and the executive vice chairman of China Land Group Limited. He is also a director of Hanny Holdings Ltd, Asean Resources Holdings Limited, hkcyber.com (Holdings) Ltd, Billybala Holdings Limited, Companion Building Material International Holdings Limited and Skynet (International Group) Holdings Limited. He has been an independent non-executive director since January 2001.

Mr. Sun Hiu Lu, aged 47, graduated from the Faculty of Trade Economy in the People's University of Beijing and holds a bachelor degree in Economics. He has been the director of Mark Victory International Limited and Sinogrowth Investment Limited since 1996. Mr. Sun has extensive experience in investment and corporate management. Mr. Sun has been the chairman of Hong Kong Pharmaceutical Holdings Limited since June 1999. He been an independent non-executive director since January 2001.

Compliance Officer

Mr. Li Fujun, aged 40, is an executive director of the Company.

Chief Financial Officer

Mr. Chan Wai Chuen, Ricky, *MCF, CPA, FCCA, AHKSA,* aged 33, is the Chief Financial Officer of the Company.

Qualified Accountant and Company Secretary

Mr. Yu Man To, Gerald, *MBA, CPA (Aust) AHKSA*, aged 36, is the financial controller and company secretary of the Company.

Comparison of Business Objective with Actual Business Progress

The following is a summary comparison of the actual business progress for the period from 1 July 2002 to 31 December 2002 (the "Review Period").

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
BUSINESS DEVELOPMENT		
Business operation coverage	Guizhou Hunan Anhui Jiangsu Yunnan Chongqing	Guizhou Hunan Anhui Jiangsu Yunnan Sichuan
Setting up operating subsidiary	**Hefei** Joint venture operation begins	**Hefei** Negotiation terminated as the project does not meet our investment criteria
	Chongqing Joint venture operation begins	**Chongqing** Negotiation terminated as the project does not meet our investment criteria
		Changsha Currently in discussion with a local LP Gas operator on details of the joint venture agreement to expand the retail business of Changsha
		Weiyuan Acquisition agreement signed and commenced operation
Automobile Gas market development	**Nanjing** Continue building automobile LP Gas filling stations and completed stations begin operation	**Nanjing** Automobile LP Gas storage tanks completed but operations not yet commenced
	Kunming Continue building automobile LP Gas filling stations and completed stations begin operation	**Kunming** Automobile LP Gas business still under planning stage, details not yet finalised
		Ziyang Automobile compressed natural gas filling station commenced operation

Comparison of Business Objective with Actual Business Progress

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Market research	Completion of market research on the LP Gas market in Tibet	Market research completed on Tibet
IMPROVING OPERATIONAL EFFICIENCY	Continue the implementing an Enterprise Resources Planning System	Implementation of the Enterprise Resources Planning System commenced
	Completion of the overall LP Gas procurement plan for the year 2003	Procurement plan for LP Gas and natural gas for the year 2003 completed
	Completion of the feasibility study on the development of electronic	Feasibility study on the development of electronic business operation platform business operation platform completed
BRAND BUILDING	Continue to advertise on television and advertise on roadside billboards in major cities	Advertisements were made in some cities

OPERATION FACILITIES (figures cumulative)	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
Storage tank capacity (cubic metres)	38,000	26,000
Tank train capacity (tonnes)	3,850	4,050
Tank lorry capacity (tonnes)	435	280
Cylinders truck capacity (tonnes)	420	380
No. of tank train unloading depot	12	10
No. of LPG vessel unloading platform	2	1
No. of retail outlets	220	205
No. of piped gas stations	144	50
No. of automobile filling stations	20	1

Comparison of Business Objective with Actual Business Progress

HUMAN RESOURCES DEPLOYMENT	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
No. of staff		
Management	180	150
Finance and administration	280	258
Sales and distribution	1,500	1,385
Production, purchase and supply	840	780
Total	2,800	2,573

USE OF PROCEEDS		
	HK$	HK$
Setting up of new joint venture in Changsha	16,000,000	–
Sales and marketing propaganda	3,100,000	1,500,000
General working capital	–	–
	19,100,000	1,500,000

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

The Changsha Project

The Group has been negotiating on the details of the possible expansion of the retail market in Changsha with a potential joint venture partner for the past several months. Major issues, such as the types and quality of the fixed assets, existing employees to be retained, and so on, are still being negotiated. The Group plans to continue with the negotiation and hope to complete the negotiation as soon as possible ensuring that all issues are satisfactorily addressed.

Operational Facilities

Storage tank facilities – The variance is mainly due to the expansion of the retail business of Changsha Panva is still under negotiation.

Tank train capacity – The additional tank trains were acquired for the expanding operation of the south-western region of the PRC, providing a stable supply for Yunnan Panva and Panva Southwest.

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

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

Automobile LP Gas filling stations – The automobile LP Gas business has not yet commenced, however, an automobile LP Gas storage tank in Nanjing has been completed and an automobile compressed natural gas filling station in Ziyang has commenced operation.

Report of the Directors

The directors present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 38 of the annual report.

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

Financial Summary

A summary of the results of the Group for each of the five years ended 31 December 2002 is set out on page 6 of the annual report.

Property, Plant and Equipment

Details of movements during the year in the property, plant and equipment of the Group is set out in note 13 to the financial statements.

Share Capital

Details of movements during the year in the authorised and issued share capital of the Company are set out in note 23 to the financial statements.

Directors

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

Executive Directors:

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

Non-executive directors:

Mr. Fok Kin-ning, Canning	(appointed on 23 December 2002)
Mr. To Chi Keung, Simon (alternative director to Fok Kin-ning, Canning)	(appointed on 23 December 2002)
Mr. Yim Chun Leung	(resigned on 1 March 2002)
Mr. Zheng Dunxun	

Independent non-executive directors:

Mr. Cheung Hon Kit
Mr. Sun Hiu Lu

In accordance with the provisions of the Company's Articles of Association, Messrs. Fok Kin-ning, Canning, Ou Yaping, Lai Wen Guang and Sun Hiu Lu shall retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election except for Mr. Sun Hiu Lu, who does not offer himself for re-election.

Each of the independent non-executive directors was appointed for a period commencing from his appointment date to the annual general meeting for the year ended 31 December 2002.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Each of Messrs. Chen Wei, Lai Wen Guang and 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 1 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 Messrs. Chen Wei, Lai Wen Guang and Li Fujun for the period from 1 April 2001 to 31 March 2004 shall be HK$100,000, HK$46,600 and HK$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 1 April 2004, the salary of each of Messrs. Chen Wei, Lai Wen Guang and Li Fujun shall be determined by the board of Directors;

(iii) each of Messrs. Chen Wei, Lai Wen Guang and 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.

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).

Directors' Interests in Shares

As at 31 December 2002, the interests of the directors of the Company and their respective associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(i) Interests in shares of the Company

Name of directors	Nature of interests	No. of shares held
Mr. Chen Wei	Personal	2,160,000
Mr. Li Fujun	Personal	720,000
Mr. Ou Yaping	Corporate	441,380,062 *(Note)*
Mr. Tang Yui Man, Francis	Personal	1,440,000

Note: The 441,380,062 shares represent (i) 429,298,462 shares held by Kenson Investment Limited ("Kenson"), a company incorporated in the British Virgin Islands ("BVI") in which Mr. Ou, through Asia Pacific Promotion Limited ("Asia Pacific"), has an indirect interest of 67.63%. Mr. Ou is deemed (by virtue of SDI Ordinance) to be interested in these shares. (ii) 12,081,600 shares held by Asia Pacific which is legally and beneficially owned by Mr. Ou.

(ii) Interests in convertible note

As at 31 December 2002, Kenson held a convertible note amounting to HK$100,000,000. Such convertible note can be converted into 169,491,525 Shares of the Company on or before 1 April 2004 at a conversion price of HK$0.59 per share. Mr. Ou Yaping is deemed under SDI Ordinance to have an interest in the convertible note of the Company held by Kenson.

(iii) Interests in shares in associated corporations

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant Group members	Note
Mr. Ou Yaping	Asia Pacific	Personal	1 ordinary share	
Mr. Ou Yaping	Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	Corporate	55%	3
Mr. Ou Yaping	Chuzhou YPC & Panva Energy Co., Ltd. 滁州揚子百江能源有限公司	Corporate	60%	3
Mr. Ou Yaping	Kenson	Corporate	1 ordinary share	1
Mr. Ou Yaping	Nanjing Panva LPG Co., Ltd. 南京百江液化氣有限公司	Corporate	55%	3
Mr. Ou Yaping	Nanling Pan River LPG Co., Ltd. 南陵百江液化氣有限責任公司	Corporate	55%	3
Mr. Ou Yaping	Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	Corporate	85%	3

(iii) Interests in shares in associated corporations – *Continued*

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant Group members	Note
Mr. Ou Yaping	Pan River Enterprises (Changsha) Co., Ltd. 長沙百江能源實業有限公司	Corporate	60%	3
Mr. Ou Yaping	Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	Corporate	84%	3
Mr. Ou Yaping	Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	Corporate	55%	3
Mr. Ou Yaping	Panva Southwest 百江西南燃氣有限公司	Corporate	50.1%	3
Mr. Ou Yaping	Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	Corporate	56.94%	3
Mr. Ou Yaping	Pengxi Panva 蓬溪百江燃氣有限公司	Corporate	90%	3
Mr. Ou Yaping	Weiyuan Panva 威遠百江燃氣有限公司	Corporate	99.5%	3
Mr. Ou Yaping	Shenzhen Fuhuade Electric Power Co., Ltd.	Corporate	30%	3
Mr. Ou Yaping	Shenzhen Sinolink Enterprises Co., Ltd.	Corporate	80%	3
Mr. Ou Yaping	Shenzhen Sinolink Property Management Co., Ltd.	Corporate	75%	3

(iii) Interests in shares in associated corporations – *Continued*

Name of director	Name of associated corporation	Nature of interest	Number of shares held/ percentage of equity interest owned by the relevant Group members	Note
Mr. Ou Yaping	Enerchina Holdings Limited (Formerly known as Silvernet Group Limited)	Corporate	29.99%	4
Mr. Ou Yaping	Sinolink	Corporate	67.63%	1
Mr. Ou Yaping	Wuhu Pan River Jiangbei Enterprises Co., Ltd. 蕪湖百江江北能源有限公司	Corporate	51%	3
Mr. Ou Yaping	Xiangtan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	Corporate	55%	3
Mr. Ou Yaping	Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	Corporate	50%	2, 3
Mr. Ou Yaping	Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	Corporate	60%	3
Mr. Ou Yaping	Yongzhou Pan River Enterprises Co., Ltd. 永州百江能源實業有限公司	Corporate	60%	3
Mr. Ou Yaping	Ziyang Panva 資陽百江燃氣有限公司 (Formerly known as Ziyang Gas Company 資陽燃氣總公司)	Corporate	90%	3

Note:

1. These shares are held by Kenson in which Mr. Ou Yaping, through Asia Pacific, a company wholly-owned by Mr. Ou Yaping, and Sinolink, a company in which Asia Pacific holds approximately 67.63%, holds more than 50%. Therefore, Mr. Ou Yaping is deemed (by virtue of the SDI Ordinance) to be interested in these shares.

2. Yangzi Panva is a subsidiary of the Company because the Company has control over the board of directors.

3. Mr. Ou Yaping is deemed (by virtue of the SDI Ordinance) to be interested in the shares of these companies.

4. These shares are held by Sinolink, a company in which Asia Pacific holds approximately 67.63%. Therefore, Mr. Ou Yaping is deemed (by virtue of the SDI Ordinance) to be interested in these shares.

Save as disclosed above, none of the directors and their respective associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register as at 31 December 2002 maintained under Section 29 of the SDI Ordinance or which are required, pursuant to rules 5.40 to 5.49 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Share Options

(a) Pre-Listing Share Option Scheme

Pursuant to a Pre-Listing Share Option Scheme approved by resolutions of the sole shareholder of the Company dated 4 April 2001, share options (the "Pre-Listing Options") were granted in last year at an exercise price of HK$0.57, the issue price of the Company's shares on listing on GEM. The exercise price was subsequently adjusted to HK$0.475 upon capitalisation of shares in last year. 50% of the Pre-Listing Options are exercisable from 1 January 2003 with the remaining 50% exercisable on 1 January 2004. The Pre-Listing Options are exercisable on accumulative basis until the expiry date on 3 April 2011. The Pre-Listing Options were granted to recognised the past and present contributions of the grantees to the Group.

At 31 December 2002, the outstanding number of shares in respect of which options had been granted under the Pre-Listing Share Option Scheme was 23,440,000 (2001: 24,840,000), representing 3.87% (2001: 4.97%) of the shares of the Company in issue at that date.

(b) Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the sole shareholder of the Company dated 4 April 2001 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares on the Stock Exchange on the date of grant and the nominal value of the shares.

The Scheme will terminate on 3 April 2011.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

At 31 December 2002, the outstanding number of shares in respect of which options had been granted under the Scheme was 13,704,000 (2001: 18,780,000), representing 2.26% (2001: 3.76%) of the shares of the Company in issue at that date.

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

The total number of shares in respect of which options may be granted under the Pre-Listing Share Option Scheme and the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The following tables disclose movements in the Company's share options during the year.

	Option type	Outstanding at 1.1.2002 Before adjustment	Outstanding at 1.1.2002 After adjustment	Exercised during year	Lapsed during year	Outstanding at 31.12.2002
Category 1: Directors						
Mr. Ou Yaping	Pre-Listing Options	3,000,000	3,600,000	–	–	3,600,000
Mr. Chan Wei	Pre-Listing Options	3,000,000	3,600,000	–	–	3,600,000
	2001	3,000,000	3,600,000	2,160,000	–	1,440,000
Mr. Lai Wen Guang	Pre-Listing Options	2,000,000	2,400,000	–	–	2,400,000
	2001	800,000	960,000	–	–	960,000
Mr. Lau Shi Wa	Pre-Listing Options	1,000,000	1,200,000	–	–	1,200,000
Mr. Li Fujun	Pre-Listing Options	2,000,000	2,400,000	–	–	2,400,000
	2001	1,000,000	1,200,000	720,000	–	480,000
Mr. Tang Yui Man, Francis	2001	2,000,000	2,400,000	1,440,000	–	960,000
Mr. Yim Chu Leung (resigned)	Pre-Listing Options	1,000,000	1,000,000	–	1,000,000	–
Total Directors		18,800,000	22,360,000	4,320,000	1,000,000	17,040,000

Category 2: Employees

	Option type	Outstanding at 1.1.2002 Before adjustment	Outstanding at 1.1.2002 After adjustment	Exercised during year	Lapsed during year	Outstanding at 31.12.2002
	Pre-Listing Option	8,900,000	10,640,000	–	400,000	10,240,000
	2001	8,850,000	10,620,000	756,000	–	9,864,000
Total Employees		17,750,000	21,260,000	756,000	400,000	20,104,000

The share options numbers outstanding at beginning of year have been adjusted to reflect the effect of bonus share dividend issued during the year.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$1.7.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price Before adjustment *HK$*	Exercise price After adjustment *HK$*
Pre-Listing Options	04.04.2001	20 months	01.01.2003 – 03.04.2011	0.57	0.475
	04.04.2001	32 months	01.01.2004 – 03.04.2011	0.57	0.475
2001	13.11.2001	3 months	13.02.2002 – 13.02.2007	1.13	0.94
	13.11.2001	6 months	13.05.2002 – 13.02.2007	1.13	0.94
	13.11.2001	12 months	13.11.2002 – 13.02.2007	1.13	0.94

The share options number outstanding at beginning of year and the exercise prices have been adjusted to reflect the effect of bonus share dividend issued during the year.

Arrangements to Purchase Shares or Debentures

Other than the share options mentioned above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

Other than as disclosed in note 28 to the financial statements, there is no contracts of significance to, which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

There were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

Substantial Shareholders

As at 31 December 2002, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company directly or indirectly according to the register of substantial shareholders required to be maintained under section 16(1) of the SDI Ordinance:

Name	Number of shares	Approximate percentage of holding	Note
Kenson	429,298,462	70.95%	1
Sinolink	429,298,462	70.95%	1
Asia Pacific	441,380,062	72.95%	1
Mr. Ou Yaping via Asia Pacific	441,380,062	72.95%	1
Hutchison International Limited	76,923,076	12.71%	2
Hutchison Whampao Limited	76,923,076	12.71%	2

Notes:

(1) The shares in which Kenson is shown as being interested are included in and duplicate with interest in the shares held by Sinolink and Asia Pacific.

Mr. Ou is the sole beneficial shareholder of Asia Pacific, and hence Mr. Ou is deemed under the SDI Ordinance to have an interest in the Shares held by Kenson.

(2) Hutchison International Limited ("HIL") is a wholly owned subsidiary of Hutchison Whampao Limited ("HWL"), the interests of HIL are recorded as the interests of HWL.

HIL interest in 38,461,538 shares of the Company and HK$125,000,000 redeemable note (the "Note") exchangeable into existing shares of HK$0.10 each in the issued share capital of the Company at the exchange price of HK$3.25 (subject to adjustment) per share. Upon full exchange of the Note at the initial exchange price, HIL will be entitled to 38,461,538 shares in the Company. HIL shall have interest in an aggregate of 76,923,076 shares in the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

Sponsor's Interests

None of the Company's sponsor, Tai Fook Capital Limited (the "Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2002.

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

Competing Interests

Mr. ZHENG Dunxun, non-executive director of the Company, is also a director of Sinochem Hong Kong (Holdings) Co., Ltd. ("Sinochem"). The business of Sinochem consists of LP Gas related business, which may compete indirectly with a part of the business of the Group.

Save as disclosed in this section, none of the directors or management shareholders of the Company have any interest in any business, which may compete with the business of the Group.

Major Customers and Suppliers

During the year, the five largest customers of the Group accounted for less than 30% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 73.71% of its operating costs for the year. Purchases from the largest supplier accounted for about 51.57% of its operating costs.

Save as disclosed above, none of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 December 2002.

All transactions between the Group and its customers were carried out on normal commercial terms.

Audit Committee

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee has two members comprising two independent non-executive directors, Mr. Cheung Hon Kit and Mr. Sun Hiu Lu.

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

1. reviewed and commented on the Company's draft quarterly financial reports.

2. met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

Donations

During the year, the Group made other donations amounting to HK$2,000.

Board Practices and Procedures

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

Pre-Emptive Rights

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Auditors

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

On behalf of the Board
Chen Wei
Managing Director

Hong Kong, 24 March 2003

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

To the Members of Panva Gas Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 38 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 24 March 2003

Consolidated Income Statement

For the year ended 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
Turnover	4	**1,150,322**	1,008,335
Cost of sales		**(888,427)**	(880,502)
Gross profit		**261,895**	127,833
Other operating income	5	**946**	1,959
Distribution expenses		**(27,015)**	(21,845)
Administrative expenses		**(54,295)**	(38,259)
Other operating expenses	6	**(1,818)**	(3,018)
Profit from operations	7	**179,713**	66,670
Gain on disposal of a subsidiary		**–**	283
Finance costs	8	**(3,216)**	(2,571)
Investment income	9	**1,806**	4,117
Profit before taxation		**178,303**	68,499
Taxation	11	**(8,545)**	–
Profit before minority interests		**169,758**	68,499
Minority interests		**(37,220)**	(36,806)
Net profit for the year		**132,538**	31,693
		HK cents	HK cents
Earnings per share			
Basic	12	**21.97**	5.59
Diluted	12	**17.44**	4.89

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002	2001
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	13	**371,987**	218,130
Goodwill	15	**14,744**	13,073
Negative goodwill	16	**(9,366)**	–
Investments in securities	17	**939**	595
		378,304	231,798
Current assets			
Inventories	18	**22,986**	26,021
Trade receivables	19	**93,386**	66,682
Other receivables, deposits and prepayments		**101,364**	58,545
Amount due from minority shareholders	20	**41,276**	4,059
Bank balances and cash		**98,224**	142,867
		357,236	298,174
Current liabilities			
Trade payables	21	**89,341**	19,235
Other payables and accruals		**16,725**	86,945
Taxation		**7,317**	–
Amounts due to minority shareholders	20	**23,517**	7,267
Borrowings	22	**14,599**	3,274
		151,499	116,721
Net current assets		**205,737**	181,453
Total assets less current liabilities		**584,041**	413,251
Non-current liability			
Borrowings	22	**100,000**	100,000
		484,041	313,251
Minority interests		**(215,668)**	(182,103)
Net assets		**268,373**	131,148
Capital and reserves			
Share capital	23	**60,508**	50,000
Reserves	24	**207,865**	81,148
Shareholders' funds		**268,373**	131,148

The financial statements on pages 38 to 75 were approved and authorised for issue by the Board of Directors on 24 March 2003 and are signed on its behalf by:

Chen Wei
Director

Li Fujun
Director

Balance Sheet of Panva Gas Holdings Limited (the "Company")

At 31 December 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current assets			
Investments in subsidiaries	14	**64,100**	64,100
Current assets			
Other receivables, deposits and prepayments		**1,063**	133
Amount due from subsidiaries	14	**128,447**	104,079
Bank balances and cash		**6,060**	34,076
		135,570	138,288
Current liabilities			
Accrued charges		**3,612**	1,475
Net current assets		**131,958**	136,813
Total assets less current liabilities		**196,058**	200,913
Non-current liabilities			
Borrowings	22	**100,000**	100,000
Net assets		**96,058**	100,913
Capital and reserves			
Share capital	23	**60,508**	50,000
Reserves	24	**35,550**	50,913
		96,058	100,913

Chen Wei
Director

Li Fujun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Asset revaluation reserves HK$'000	Capital reserve HK$'000	General reserves HK$'000	(Accumulated losses) retained profit HK$'000	Total HK$'000
At 1 January 2001	–	–	(107)	–	–	802	(12,643)	(11,948)
Arising in the year	–	–	–	–	1,101	–	–	1,101
Arising on the Group Reorganisation	10,500	53,600	–	–	–	–	–	64,100
Capitalisation of shares	30,000	(30,000)	–	–	–	–	–	–
Arising on issue of shares by means of placing	9,500	44,650	–	–	–	–	–	54,150
Expenses incurred in connection with the issue of shares	–	(12,921)	–	–	–	–	–	(12,921)
Surplus on revaluation	–	–	–	4,973	–	–	–	4,973
Transfer	–	–	–	–	–	410	(410)	–
Net profit for the year	–	–	–	–	–	–	31,693	31,693
At 31 December 2001	50,000	55,329	(107)	4,973	1,101	1,212	18,640	131,148
Exchange difference on translation of overseas operations and net loss not recognised in income statement	–	–	(85)	–	–	–	–	(85)
Issue of shares	505	4,267	–	–	–	–	–	4,772
Bonus shares dividend	10,003	(10,003)	–	–	–	–	–	–
Transfer	–	–	–	–	–	865	(865)	–
Net profit for the year	–	–	–	–	–	–	132,538	132,538
At 31 December 2002	60,508	49,593	(192)	4,973	1,101	2,077	150,313	268,373

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Notes	2002	2001
		HK$'000	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		**178,303**	68,499
Adjustments for:			
Depreciation		**19,125**	16,088
Loss on disposal of property, plant and equipment		**1,009**	174
Deficit on revaluation of property, plant and equipment		**–**	1,851
Gain on disposal of a subsidiary		**–**	(283)
Gain on disposal of investments		**–**	(363)
Amortisation of goodwill		**790**	267
Negative goodwill released to income		**(119)**	–
Interest income		**(1,806)**	(4,117)
Interest expenses		**3,170**	2,488
Operating cash flows before movements in working capital		**200,472**	84,604
Increase in trade receivables		**(25,922)**	(56,166)
Decrease (increase) in inventories		**3,161**	(9,430)
Increase in other receivables, deposits and prepayments		**(42,172)**	(42,543)
Increase in amounts due from minority shareholders		**(37,217)**	(4,059)
Increase (decrease) in trade payables		**66,987**	(20,122)
(Decrease) increase in other payables and accruals		**(106,727)**	24,851
Cash generated from (used in) operations		**58,582**	(22,865)
Income taxes paid		**(1,228)**	–
Interest paid		**(1,623)**	(1,731)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**55,731**	(24,596)
INVESTING ACTIVITIES			
Interest received		**2,545**	5,168
Purchase of property, plant and equipment		**(98,113)**	(44,130)
Proceeds from sale of property, plant and equipment		**1,851**	1,051
Proceeds for disposal of investments		**–**	1,673
Disposal of a subsidiary	*25*	**–**	(34)
Acquisition of subsidiaries (net cash and cash equivalents acquired)	*26*	**(33,322)**	(7,048)
NET CASH USED IN INVESTING ACTIVITIES		**(127,039)**	(43,320)

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	2002	2001
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Proceeds from issue of shares	**4,772**	54,150
Share issued expenses	**–**	(12,921)
Net proceeds from subscription monies	**4,772**	41,229
New bank loans raised	**12,161**	561
Repayment of bank loans	**(1,496)**	–
Dividends paid by a subsidiary to minority shareholder	**(5,313)**	(3,357)
Advance from immediate holding company	**–**	733
Advance from (repayment to) minority shareholders	**16,250**	(26,301)
Contribution from minority shareholders	**376**	43,079
CASH FROM FINANCING ACTIVITIES	**26,750**	55,944
DECREASE IN CASH AND CASH EQUIVALENTS	**(44,558)**	(11,972)
BANK BALANCES AND CASH AT BEGINNING OF YEAR	**142,867**	154,839
EFFECT ON FOREIGN EXCHANGES RATES CHANGES	**(85)**	–
BANK BALANCES AND CASH AT THE END OF YEAR	**98,224**	142,867

For the year ended 31 December 2002

1. General

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

The principal activities of the Group are sale and distribution of Liquefied Petroleum Gas ("LP Gas") and natural gas in the People's Republic of China ("PRC") including the sale of LP Gas in bulk and in cylinders, the provision of piped LP Gas and natural gas, construction of gas pipelines, and the sale of LP Gas and natural gas household appliances.

2. Adoption of Statements of Standard Accounting Practice

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. The adoption of these standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. Significant Accounting Policies – *Continued*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in joint ventures

A joint venture is treated as a subsidiary if the Group can control the composition of the board of directors.

3. Significant Accounting Policies – *Continued*

Revenue recognition

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

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases.

Rentals payable in respect of operating leases are charged to income statement on a straight-line basis over the terms of the respective leases.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. Significant Accounting Policies – *Continued*

Property, plant and equipment

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rate per annum:

Leasehold land	Over the unexpired term of the lease or over the term of equity joint venture whichever is shorter
Buildings	3% to 6%
Leasehold improvement	15%
Plant and equipment	6% to 10%
Furniture, fixtures and equipment	18% to 20%
Motor vehicles	6% to 18%
Gas pipelines	3%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction works are transferred to property, plant and equipment.

3. Significant Accounting Policies – *Continued*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment in securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Inventories

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

Construction contracts

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

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

3. Significant Accounting Policies – *Continued*

Convertible note

Convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

Taxation

The charge for taxation is based on the results for the year 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 financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

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

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

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong and state – sponsored retirement plan for its employees in the PRC.

4. Business and Geographical Segments

Business segments

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

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

An analysis of the Group's turnover and contribution to profit from operations for the year ended 31 December 2002 is as follows:

	Sale and distribution of gas fuel and related products *HK$'000*	Gas pipeline construction *HK$'000*	Consolidated *HK$'000*
31 December 2002			
REVENUE			
External	983,840	166,482	1,150,322
SEGMENT RESULTS	55,791	128,338	184,129
Other operating income			946
Unallocated corporate expenses			(5,362)
Profit from operations			179,713
Finance costs			(3,216)
Investment income			1,806
Profit before taxation			178,303
Taxation			(8,545)
Profit before minority interests			169,758
Minority interests			(37,220)
Net profit for the year			132,538

4. Business and Geographical Segments – *Continued*

	Sale and distribution of gas fuel and related products	Gas pipeline construction	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
31 December 2001			
REVENUE			
External	998,145	10,190	1,008,335
SEGMENT RESULTS	66,638	5,280	71,918
Other operating income			1,959
Unallocated corporate expenses			(7,207)
Profit from operations			66,670
Gain on disposal of a subsidiary			283
Finance costs			(2,571)
Investment income			4,117
Profit before minority interests			68,499
Minority interests			(36,806)
Net profit for the year			31,693

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

Geographical segments

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly no geographical segments is presented.

For the year ended 31 December 2002

5. Other Operating Income

	2002 HK$'000	2001 HK$'000
Exchange gain	–	123
Insurance claimed	–	233
Negative goodwill released to income	119	–
Sundry income	827	1,603
	946	1,959

6. Other Operating Expenses

	2002 HK$'000	2001 HK$'000
Deficit on revaluation of property, plant and equipment	–	1,851
Donations	2	19
Loss on disposal of property, plant and equipment	1,009	174
Sundries	807	974
	1,818	3,018

7. Profit from Operations

	2002 HK$'000	2001 HK$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,077	981
Staff costs		
Directors' fee	–	–
Directors' emoluments *(Note 10)*	3,238	1,993
Staff costs, excluding directors' emoluments	30,614	28,936
Retirement benefits scheme contributions	4,508	3,449
	38,360	34,378
Amortisation of goodwill (included in administrative expenses)	790	267
Depreciation	19,125	16,088
Operating lease rentals in respect of property, plant and equipment	3,834	4,730

8. Finance Costs

	2002 HK$'000	2001 HK$'000
Interest expenses on bank and other loans and convertible note wholly repayable within five years	**3,170**	2,488
Bank charges	**46**	83
	3,216	2,571

9. Investment Income

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

10. Directors' and Employees' Emoluments

	2002 HK$'000	2001 HK$'000
Directors' emoluments:		
Fees:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**–**	–
	–	–
Other emoluments (executive directors):		
Salaries and other benefits	**2,897**	1,993
Bonus	**250**	–
Retirement benefits scheme contributions	**91**	–
Total emoluments	**3,238**	1,993

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

For the year ended 31 December 2001, salaries and other benefits paid to the four executive directors were HK$932,000, HK$722,000, HK$320,000 and HK$19,000 respectively.

10. Directors' and Employees' Emoluments – *Continued*

Employees' emoluments:

Of the five highest paid individuals include three (2001: three) directors of the Company. The emoluments of the remaining two (2001: two) individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**326**	895

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

	Number of employees	
	2002	2001
Up to HK$1,000,000	**2**	2

11. 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.

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Profits tax for the subsidiaries in the PRC	**8,545**	–

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

Deferred taxation has not been provided for in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

12. Earnings per Share

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

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Profit for the year	**132,538**	31,693
Earnings for the purposes of basic earnings per share	**132,538**	31,693
Effect of dilutive potential ordinary shares:		
Interest on convertible loan notes	**3,000**	2,235
Earnings for the purposes of diluted earnings per share	**135,538**	33,928
Weighted average number of ordinary shares for the purposes of basic earnings per share	**603,272,000**	566,802,000
Effect of dilutive potential ordinary shares:		
Options	**4,197,000**	–
Convertible loan notes	**169,492,000**	127,119,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**776,961,000**	693,921,000

The computation of basic and diluted earnings per share in 2001 has been adjusted for the effect of bonus share dividend paid and the adjustment on the conversion price of convertible note during the year.

13. Property, Plant and Equipment

	Medium term leasehold land and buildings in the PRC	Leasehold improvements	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Gas pipelines	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Group								
COST OR VALUATION								
At 1 January 2002	60,911	18	23,523	137,762	4,357	24,655	–	251,226
Acquired on acquisition of subsidiaries	4,296	–	69,604	3,339	15	127	348	77,729
Additions	10,448	–	61,364	23,419	726	2,156	–	98,113
Disposals	(48)	–	(1,790)	(1,011)	(62)	(854)	–	(3,765)
Reclassification	–	–	–	(17,036)	–	–	17,036	–
Transfer	–	–	(140,463)	836	–	–	139,627	–
At 31 December 2002	75,607	18	12,238	147,309	5,036	26,084	157,011	423,303
Comprising:								
At cost	–	18	12,238	147,309	5,036	26,084	157,011	347,696
At valuation								
31 December 2002	75,607	–	–	–	–	–	–	75,607
	75,607	18	12,238	147,309	5,036	26,084	157,011	423,303
DEPRECIATION								
At 1 January 2002	2,871	4	–	21,161	1,275	7,785	–	33,096
Provided for the year	2,083	2	–	10,313	771	3,213	2,743	19,125
Eliminated on disposal	(8)	–	–	(255)	(42)	(600)	–	(905)
Reclassification	–	–	–	(2,370)	–	–	2,370	–
At 31 December 2002	4,946	6	–	28,849	2,004	10,398	5,113	51,316
NET BOOK VALUES								
At 31 December 2002	70,661	12	12,238	118,460	3,032	15,686	151,898	371,987
At 31 December 2001	58,040	14	23,523	116,601	3,082	16,870	–	218,130

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis. Messrs. DTZ Debenham Tie Leung Limited are not connected with the Group.

13. Property, Plant and Equipment – *Continued*

No professional valuation of the leasehold land and buildings was carried out at 31 December 2002 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the leasehold land and buildings had not been revalued they would have been included in these financial statements at historical cost less accumulated depreciation at HK$66,322,000 (2001: HK$52,523,000).

The Group had pledged property, plant and equipment with net book value of approximately HK$8,135,000 (2001: HK$8,337,000) to secure banking facilities granted to the Group.

14. Investments in Subsidiaries/Amount Due from Subsidiaries

	The Company
	2002 & 2001
	HK$'000
Unlisted shares	64,100

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 34.

15. Goodwill

	The Group 2002 *HK$'000*
COST	
At 1 January 2002	13,340
Arising on acquisition during the year	2,461
At 31 December 2002	15,801
AMORTISATION	
At 1 January 2002	267
Charge for the year	790
At 31 December 2002	1,057
NET BOOK VALUE	
At 31 December 2002	14,744
At 31 December 2001	13,073

The amortisation period adopted for goodwill is 20 years.

16. Negative Goodwill

	The Group 2002 *HK$'000*
GROSS AMOUNT	
Arising on acquisition during the year and at 31 December 2002	9,485
RELEASED TO INCOME	
Released in the year and at 31 December 2002	119
CARRYING AMOUNT	
At 31 December 2002	9,366

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

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

17. Investments in Securities

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares in the PRC, at cost	**752**	408
PRC bonds, at cost	**187**	187
	939	595

18. Inventories

	The Group	
	2002	2001
	HK$'000	*HK$'000*
COST		
Finished goods	**11,512**	20,077
Consumables	**11,474**	5,944
	22,986	26,021

19. Trade Receivables

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

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

	The Group	
	2002	2001
	HK$'000	*HK$'000*
0 to 90 days	**84,343**	63,553
91 to 180 days	**4,373**	576
181 to 360 days	**1,607**	247
Over 360 days	**3,063**	2,306
	93,386	66,682

20. Amount Due from/to Minority Shareholders

	2002	2001
	HK$'000	*HK$'000*
Current:		
Amounts due from minority shareholders	**41,276**	4,059
Amounts due to minority shareholders	**23,517**	7,267

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

21. Trade Payables

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

	The Group	
	2002	2001
	HK$'000	*HK$'000*
0 to 90 days	**80,940**	11,983
91 to 180 days	**115**	2,324
181 to 360 days	**64**	3,277
Over 360 days	**8,222**	1,651
	89,341	19,235

22. Borrowings

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans (secured)	**2,438**	2,713	**–**	–
Bank loans (unsecured)	**12,161**	–	**–**	–
Other loans	**–**	561	**–**	–
Convertible note	**100,000**	100,000	**100,000**	100,000
	114,599	103,274	**100,000**	100,000
The maturity of the above loans is as follows:				
On demand or within one year	**14,599**	3,274	**–**	–
More than one year but not exceeding two years	**100,000**	–	**–**	–
More than two years but not exceeding five years	**–**	100,000	**100,000**	100,000
	114,599	103,274	**100,000**	100,000
Less: Amount due within one year shown under current liabilities	**(14,599)**	(3,274)	**–**	–
Non-current portion	**100,000**	100,000	**100,000**	100,000

The convertible loan note was issued on 4 April 2001. The note is convertible into shares of the Company from the date of issue up to the third anniversary of the date of issuance. The price at which each share shall be issued upon conversion shall be HK$0.59 per share (adjusted to account for effect of bonus issue of shares). The outstanding unconverted principal amount of the note will be redeemed on 1 April 2004 at par. Interest of 3% is paid per annum.

23. Share Capital

	Number of shares		Share capital	
	2002	2001	**2002**	2001
			HK$'000	*HK$'000*
Authorised:				
Shares of HK$0.1 each				
Balance as at 1 January	**2,000,000,000**	–	**200,000**	–
On incorporation	**–**	1,000,000	**–**	100
Increase during the period	**–**	1,999,000,000	**–**	199,900
Balance as at 31 December	**2,000,000,000**	2,000,000,000	**200,000**	200,000
Issued and fully paid:				
Balance as at 1 January	**500,000,000**	–	**50,000**	–
Allotted and issued nil paid on incorporation	**–**	1	**–**	–
Issued in consideration for the acquisition of the issued share capital of China Pan River Group Limited	**–**	104,999,999	**–**	10,500
Issued by capitalisation of the share premium account	**–**	300,000,000	**–**	30,000
Issued on placing of new shares	**–**	95,000,000	**–**	9,500
Share option exercised	**5,043,000**	–	**505**	–
Bonus share dividend	**100,033,000**	–	**10,003**	–
Balance as at 31 December	**605,076,000**	500,000,000	**60,508**	50,000

23. Share Capital – *Continued*

Notes:

The Company was incorporated on 16 November 2000 with an authroised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. On 10 January 2001, one share was allotted and issued nil paid to the initial subscriber.

Pursuant to the resolution passed by the Sole Shareholder on 4 April 2001:

(a) the authorised share capital was increased from HK$100,000 to HK$200,000,000 by creation of additional 1,999,000,000 shares of HK$0.1 each.

(b) the Company allotted and issued 104,999,999 shares for the acquisition of the entire issued share capital of China Pan River Group Limited pursuant to the Group Reorganisation.

(c) the Company allotted and issued a total of 300,000,000 shares credited as fully paid at par to Kenson Investment Limited ("Kenson") by way of capitalisation of the sum of HK$30,000,000 standing to the credit of the share premium account of the Company.

On 17 April 2001, the Company placed 95,000,000 shares of HK$0.1 each to the institutional investors, at a price of HK$0.57 per share and the directors were authorised to allot and issued the new shares in connection with the Placing.

On 26 April 2002, the Company issued 100,033,000 shares of HK$0.1 each in the Company as bonus issue of shares on the basis of one new share of HK$0.1 each for every five existing shares held by the shareholders of the Company by the way of capitalising of the sum of HK$10,003,300 standing to the credit of the share premium account of the Company.

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

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

24. Reserves

	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	General reserves HK$'000	Asset revaluation reserves HK$'000	(Accumulated losses) retained profit HK$'000	Total HK$'000
THE GROUP							
At 1 January 2001	–	(107)	–	802	–	(12,643)	(11,948)
Arising the year	–	–	1,101	–	–	–	1,101
Premium arising on the Group Reorganisation	53,600	–	–	–	–	–	53,600
Reduction on capitalisation of shares	(30,000)	–	–	–	–	–	(30,000)
Premium arising on issue of shares by means of placing	44,650	–	–	–	–	–	44,650
Expenses incurred in connection with the issue of shares	(12,921)	–	–	–	–	–	(12,921)
Surplus on revaluation	–	–	–	–	4,973	–	4,973
Transfer	–	–	–	410	–	(410)	–
Net profit for the year	–	–	–	–	–	31,693	31,693
At 31 December 2001	55,329	(107)	1,101	1,212	4,973	18,640	81,148
Exchange differences on translation of overseas operations and net loss not recognised in income statement	–	(85)	–	–	–	–	(85)
Premium arising on issue of shares	4,267	–	–	–	–	–	4,267
Bonus shares dividend	(10,003)	–	–	–	–	–	(10,003)
Transfer	–	–	–	865	–	(865)	–
Net profit for the year	–	–	–	–	–	132,538	132,538
At 31 December 2002	49,593	(192)	1,101	2,077	4,973	150,313	207,865

24. Reserves – *Continued*

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
At 1 January 2002	–	–	–
Premium arising on the Group Reorganisation	53,600	–	53,600
Premium arising on issue of shares by means of placing capitalisation issue of shares	(30,000)	–	(30,000)
Premium arising on issue of shares by means of placing	44,650	–	44,650
Expenses incurred in connection with the issue of shares	(12,921)	–	(12,921)
Net loss for the year	–	(4,416)	(4,416)
At 31 December 2001	55,329	(4,416)	50,913
Premium arising on issue of shares	4,267	–	4,267
Bonus shares dividend	(10,003)	–	(10,003)
Net loss for the year	–	(9,627)	(9,627)
At 31 December 2002	49,593	(14,043)	35,550

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

Capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium, net of accumulated losses of the Company of HK$35,550,000 (2001: HK$50,913,000).

For the year ended 31 December 2002

25. Disposal of a Subsidiary

In July 2001, the Group disposed of a subsidiary, Wuhu Pan River Sanpeng LPG Co., Ltd. and its net assets at the date of disposal and at 31 December 2001 were as follows:

Net assets disposed of:

	2002	2001
	HK$'000	*HK$'000*
Property, plant and equipment	–	1,554
Inventories	–	134
Trade receivables	–	109
Bank balances and cash	–	34
Other receivables, deposits and prepayments	–	60
Trade payables	–	(260)
Other payables and accruals	–	(708)
Minority interests	–	(706)
	–	217
Write back of impairment loss made in prior year	–	(500)
Gain on disposal	–	283
Total consideration	–	–
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	–	(34)

26. Acquisition of Subsidiaries

During the year, the Group acquired 90% and 99.5% of the registered capital of Pengxi Panva Gas Co., Ltd. and Weiyuan Panva Gas Co., Ltd.. Both acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill and negative goodwill arising as a result of the acquisitions was HK$2,461,000 and HK$9,485,000 respectively.

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	**77,729**	24,516
Other investment	**344**	782
Inventories	**126**	2,144
Trade receivables	**782**	55
Other receivables, deposits and prepayments	**1,386**	2,536
Bank and cash balances	**1,033**	6,984
Trade payables	**(3,119)**	(2,345)
Other payables and accruals	**(34,960)**	(32,421)
Borrowings	**(660)**	–
Minority interests	**(1,282)**	(1,559)
	41,379	692
Goodwill	**2,461**	13,340
Negative goodwill	**(9,485)**	–
Total consideration	**34,355**	14,032
Satisfied by cash	**34,355**	14,032
Net cash outflow arising on acquisition:		
Cash consideration	**(34,355)**	(14,032)
Bank balances and cash acquired	**1,033**	6,984
	(33,322)	(7,048)

The subsidiaries acquired during the year contributed HK$71,036,000 to the Group's turnover, and HK$56,329,000 to the Group's profit from operations.

27. Major Non-Cash Transaction

On 26 April 2002, the Company issued 100,033,000 shares of HK$0.1 each in the Company as bonus issue of shares on the basis of one new share of HK$0.1 each for every five existing shares held by the shareholders of the Company by the way of capitalising of the sum of HK$10,003,300 standing to the credit of the share premium account of the Company. The new shares rank pari passu with the existing shares in all respects.

28. Related Party Transactions

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

Name of related party	Nature of transactions	2002 HK$'000	2001 HK$'000
Sinolink Worldwide Holdings Limited *(Note a)*	Licence fee expense	374	339
Shenzhen Sinolink Enterprises Co., Limited *(Note b)*	Rental expense *(Note d)*	370	279
Kenson *(Note c)*	Convertible note interest	3,000	2,235

Notes:

(a) Mr. Ou Yaping, a director and shareholder of the Company, has direct beneficial interest in this company.

(b) It is a fellow subsidiary of the Company, of which Mr. Ou Yaping is a director.

(c) It is the immediate holding company of the Company, of which Mr. Ou Yaping is a director.

(d) Rental expense was determined by the directors based on the directors' estimates of fair market value.

29. Contingent Liabilities

The Group and the Company had no contingent liabilities as at 31 December 2002.

30. Operating Lease Commitments

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

	THE GROUP		THE COMPANY	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**4,558**	1,156	**170**	150
In the second to fifth years inclusive	**9,602**	531	**–**	–
Over five years	**20,724**	30,061	**–**	–
	34,884	31,748	**170**	150

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

31. Capital Commitments

	THE GROUP	
	2002	2001
	HK$'000	*HK$'000*
Commitments for the interest in subsidiaries		
– contracted for but not provided in the financial statements	**87,618**	88,591

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

For the year ended 31 December 2002

32. Share Options

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

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

	Outstanding at beginning of year		Exercised during the year	Granted during the year	Lapsed during the year	Outstanding at end of year
	Before Adjustment	After Adjustment				
For the year ended 31.12.2002	**36,550,000**	**43,620,000**	**5,076,000**	**–**	**1,400,000**	**37,144,000**
For the year ended 31.12.2001	–	–	–	39,050,000	2,500,000	36,550,000

When the share options are exercised and new shares are issued, the share capital is increased by the nominal value of the new shares issued and the share premium account is increased by the remainder of the proceeds. No charge is recognised in the income statement in respect of the value of share options granted. Had all the outstanding share options been fully exercised on 31 December 2002, the Company would have received HK$24,015,760 in proceeds. The market value of the shares issued based on the closing price HK$2.75 per share as at 31 December 2002 was HK$102,146,000.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price Before adjustment HK$	Exercise price After adjustment HK$
Pre-Listing Options	04.04.2001	20 months	01.01.2003 – 03.04.2011	0.57	0.475
	04.04.2001	32 months	01.01.2004 – 03.04.2011	0.57	0.475
2001	13.11.2001	3 months	13.02.2002 – 13.02.2007	1.13	0.94
	13.11.2001	6 months	13.05.2002 – 13.02.2007	1.13	0.94
	13.11.2001	12 months	13.11.2002 – 13.02.2007	1.13	0.94

The share options number outstanding at beginning of year and the exercise prices have been adjusted to reflect the effect of bonus share dividend issued during the year.

33. Retirement Benefits Scheme

The Group companies operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Company is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2002 amounted to approximately HK$4,407,000 (2001: HK$3,388,000).

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

The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

During the year, the Group made retirement benefits scheme contributions amounting to HK$101,000 (2001: HK$61,000).

34. Particulars of Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2002 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Directly- owned subsidiary				
China Pan River Group Ltd.	BVI – Limited liability company	1 share of US$1	100%	Investment holding
Indirectly- owned subsidiaries				
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	55%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI – Limited liability company	1 share of US$1	100%	Investment holding
Chuzhou YPC & Panva Energy Co., Ltd. 滁州揚子百江能源有限公司	PRC – Sino-foreign equity joint venture	RMB1,000,000	30% *(Note 2)*	Wholesaling and retailing of LP Gas
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US$1,010,000	77.95%	The provision of LP Gas and related services and gas pipeline construction
Nanling Pan River LPG Co., Ltd. 南陵百江液化氣有限責任公司	PRC – Limited liability company	RMB2,000,000	30.25% *(Note 3)*	Wholesaling and retailing of LP Gas
Panriver Investments Company Limited 百江投資有限公司	PRC – Limited liability company	US$30,000,000	100% *(Note 1)*	Investment holding

34. Particulars of Subsidiaries – *Continued*

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC – Limited liability company	RMB58,840,000	28.53% *(Note 4)*	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changsha) Co., Ltd. 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas
Pan River Gas (China Southwest) Co., Ltd. ("Panva Southwest") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB16,000,000	50.1%	Wholesaling and retailing of LP Gas
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB3,590,000	90%	The provision of natural gas and related services and gas pipeline construction
Singkong Investments Limited 盛港投資有限公司	Hong Kong – Limited liability company	10,000 ordinary shares of HK$1 each	100%	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	1 share of US$1	100%	Investment holding

34. Particulars of Subsidiaries – *Continued*

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Sinolink Power Investment Limited	BVI – Limited liability company	1 share of US$1	100%	Investment holding
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	99.5%	The provision of natural gas and related services and gas pipeline construction
Wuhu Pan River Jiangbei Enterprises Co., Ltd. 蕪湖百江江北能源有限公司	PRC – Limited liability company	RMB500,000	28.05% *(Note 5)*	Wholesaling and retailing of LP Gas
Xiangtan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	55%	Wholesaling and retailing of LP Gas
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yongzhou Pan River Enterprises Co., Ltd. 永州百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US$7,230,000	50% *(Note 6)*	Wholesaling and retailing of LP Gas
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司 (Formerly known as Ziyang Gas Company 資陽燃氣總公司)	PRC – Sino-foreign equity joint venture	RMB9,890,000	90%	The provision of natural gas and related services and gas pipeline construction

34. Particulars of Subsidiaries – *Continued*

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Zunyi Pan River Gas Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	50.1%	Wholesaling and retailing of LP Gas

Notes:

1. Panriver Investments Company Limited is a wholly owned enterprise with a tenure of 50 years. At the date of this report, Panriver Investments Company Limited has outstanding unpaid registered capital contribution of US$9,000,000 which needs to be paid by 9 March 2003. The deadline is automatically extended 1 month to 9 April 2003 by concession. Panriver Investments Company Limited is applying to further extend the deadline to 10 June 2003.

2. Yangzi Panva holds 60% equity interest therein.

3. Pan River Enterprise (Wuhu) Co., Ltd. holds 55% equity interest therein.

4. Panva Southwest holds 56.94% equity interest therein.

5. Pan River Enterprise (Wuhu) Co., Ltd. holds 51% equity interest therein.

6. Yangzi Panva is a subsidiary of the Group because the Group has control over the board of directors.

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting ("Annual General Meeting") of the shareholders of Panva Gas Holdings Limited ("the Company") will be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 24 April 2003 at 2:30 p.m. for the following purposes:

1. to receive and consider the audited financial statements and the reports of the directors of the Company ("Directors") and auditors for the year ended 31 December 2002;

2. to re-elect Directors and to authorize the board of directors to fix their remuneration;

3. to re-appoint auditors and to authorise the Directors to fix their remuneration;

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

"**THAT**:

(a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to allot, issue and deal with additional shares of HK$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

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

"**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("Securities and Futures Commission") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:–

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

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

"**THAT** conditional upon resolutions no. 4 and 5 above being passed, the unconditional general mandate granted to the Directors to allot, issue and deal with additional shares and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to resolution no. 4 above be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of the said resolution."

7. To transact any other business if necessary.

By Order of the Board
Panva Gas Holdings Limited
Yu Man To, Gerald
Company Secretary

Hong Kong, 24 March 2003

Principal place of business:
Room 2501-2502,
Vicwood Plaza,
199 Des Voeux Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the member so desires.

3. In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be deposited with the principal place of business of the Company at Room 2501-2502, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof.