



PANVA

Panva Gas Holdings Limited

百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

The **2nd** quarterly report

2 0 0 3

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. Li Xiao Ru

AUTHORISED REPRESENTATIVES

Mr. Ou Yaping
Mr. Li Fujun

COMPLIANCE OFFICER

Mr. Li Fujun

QUALIFIED ACCOUNTANT

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

COMPANY SECRETARY

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

AUDIT COMMITTEE

Mr. Cheung Hon Kit
Mr. Li Xiao Ru

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

AUDITORS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Room 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

(*As to Hong Kong Law*)
Woo, Kwan, Lee & Lo

(*As to Cayman Islands Law*)
Maples and Calder Asia

(*As to the PRC Law*)
Haiwen & Partners

PRINCIPAL BANKERS

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

WEBSITES

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

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

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

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The board of directors (the “Board”) of Panva Gas Holdings Limited (the “Company”) is pleased to announce that the Company and its subsidiaries (collectively the “Group”) recorded remarkable results for the six months ended 30 June 2003.

FINANCIAL HIGHLIGHTS

- The Group’s turnover increased to approximately HK\$703 million representing an increase of 41% from the same period last year.
- Gross profit increased to approximately HK\$146 million representing an increase of approximately 21% from the same period last year.
- Net profit increased to approximately HK\$83 million representing an increase of approximately 36% from the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Despite the impact brought by Severe Acute Respiratory Syndrome (“SARS”), the People’s Republic of China (“PRC”) economy remained on a solid track of rapid growth during the first half of 2003. Under these circumstances, notwithstanding certain impact from SARS borne on the Group’s project development, the Group managed to achieve overall satisfactory results for its businesses during the period. New projects were secured in target regions including the eastern PRC and Sichuan, market penetration and business operation were significantly enhanced, and solid improvement was made by all businesses ranging from city piped natural gas supply to the wholesale and retail of Liquefied Petroleum Gas (“LP Gas”) (together “Gas Fuel”). Compared with the corresponding period last year, the Group’s turnover for the six months ended 30 June 2003 increased by approximately 41% to approximately HK\$702,990,000, while gross profit increased by 21% to approximately HK\$146,309,000. The rise in gross profit was mainly attributable to the growth of the piped Gas Fuel business, which recorded a significant increase in end-user household customers as a result of the successful development of new projects and the continued broadening of customer base achieved by the existing projects. Another contributory factor was the sustained growth of end-user household customers recorded in the sale of LP Gas in cylinders. Net profit of the Group for the six months ended 30 June 2003 amounted to approximately HK\$83,016,000, representing an increase of approximately 36% from the corresponding period last year. The satisfactory results reflected the Group’s success in capitalising on its enhanced business management and development to further increase its competitiveness.

REVIEW OF OPERATIONS *(Cont'd)*

Wholesale of LP Gas

Wholesale of LP Gas includes the sale of LP Gas in bulk and sale of LP Gas in cylinders to wholesale customers by means of tank lorries or tank vessels. It remained as a major business of the Group, recording a turnover of approximately HK\$405,139,000 for the six months ended 30 June 2003, which accounted for approximately 58% of the Group's total turnover for the period, and represented an increase of approximately 35% compared with its turnover for the corresponding period last year.

Retail Sales

Included in retail sales are the sale of LP Gas in cylinders to retail customers, provision of piped LP Gas and provision of piped natural gas. Retail sales for the six months ended 30 June 2003 amounted to approximately HK\$173,103,000, which accounted for approximately 25% of the Group's total turnover for the period, and represented a growth of approximately 40% compared with retail sales recorded in the corresponding period last year. The figures reflected the Group's success in capitalising on its economy-of-scale benefits to capture and expand the end-user household market and the outstanding performance achieved by the retail operation of the piped Gas Fuel business. With the Group's further improvement in internal management and the successful development of new markets, retail sales continued to gain proportion in the Group's total turnover.

Through stronger efforts to develop piped Gas Fuel projects and the continuous improvement in customer service and management, the Group secured a further increase in market penetration. As at 30 June 2003, the Group's end-user household customers amounted to approximately 1,721,500 households, of which approximately 1,582,000 households were cylinder LP Gas users and approximately 139,500 households were piped Gas Fuel users, representing an increase of approximately 257,000 households and 88,500 households respectively from the corresponding figures as at 30 June 2002. The continued growth in end-user household customers reflected the Group's success in further capitalising on its economy-of-scale benefits to uphold its existing market share and develop new target markets. It laid a solid foundation for the Group to achieve more favourable results and to generate higher returns for shareholders.

Gas Pipeline Construction

For the six months ended 30 June 2003, revenue derived from the Gas Fuel pipeline construction business amounted to approximately HK\$115,404,000, accounting for approximately 16% of the Group's total turnover, representing an increase of approximately 68% when compared to the corresponding period last year.

PROGRESS OF GAS PIPELINES DEVELOPMENT PROJECTS

Capitalising on its advantages of having a strong management team and sophisticated operations, as well as a strengthened capital base resulted from the successful issue of convertible bonds, the Group has accelerated its project development in the piped Gas Fuel sector and the cylinder LP Gas sector, with satisfactory progress made in Sichuan and the southwestern and eastern PRC regions. Apart from the conclusion of the following projects, the Group has also reached co-operation arrangements with Gas Fuel operators in a number of PRC cities. Letters of intent have already been signed with some of these operators and finalisation of details is actively underway. The Group will strive to make significant progress in project development during the second half of this year.

Anhui Chizhou Gas Project

During the period under review, the Group through its wholly-owned subsidiary Pan River Investments Company Limited (“Pan River Investments”) has signed an agreement with Anhui Chizhou Gas Company Limited (安徽省池州燃氣有限責任公司) to form a joint venture in the Chizhou city of Anhui province. Pan River Investments will hold a 60% interest in the joint venture company, Chizhou Panva Gas Co., Ltd., which will have a registered capital of RMB20,000,000.

Anhui Chizhou Gas Company Limited is principally engaged in the production, distribution, infrastructure development, supply and sales of Gas Fuel in Chizhou, with an exclusive right to develop natural gas operation in the city for 50 years. It is developing a pipeline in Chizhou at a length of 16 kilometres, which is expected to commence natural gas supply by the end of 2005.

Located in the southern part of Anhui, with the Yangtze River to its north, Chizhou occupies an area of approximately 8,271 square kilometers with a total population of approximately 1,530,000. At present, Chizhou has a relatively low penetration ratio of 20% in the city central area and the future connectable household is expected to be 400,000. Hence the room for development is huge. Chizhou is also an eco-tourism city situated between Huangshan and Jiuhuashan, and its well-developed catering industry has strong demand for Gas Fuel. Moreover, Chizhou has a solid industrial infrastructure and is developing an industrial park, while some industrial enterprises in Huangshan also intend to get natural gas supply from Chizhou, which make the Chizhou gas sector looks even more promising. The aggregate consumption of natural gas in Chizhou alone is expected to reach 260,000,000 cubic metres by 2010. By securing the Chizhou project, the Group has demonstrated that it is further expanding its market share in the Yangtze River coastal area and accelerating its development in the piped natural gas supply sector.

PROGRESS OF GAS PIPELINES DEVELOPMENT PROJECTS *(Cont'd)*

Sichuan Lezhi Gas Project

Through Pan River Investments, the Group has signed an agreement with the local government of Lezhi county in Sichuan province to acquire the entire issued capital of Sichuan Lezhi Gas Corporation, (四川省樂至燃氣總公司) the name of which was subsequently changed to Lezhi Panva Gas Co., Ltd, for a consideration of RMB14,800,000. Pursuant to the agreement, the Group was granted an exclusive right to develop piped natural gas operation in Lezhi for 50 years. As a result of the acquisition, the Group has further increased its market share and strengthened its competitiveness in the piped natural gas sector in the Sichuan province. This will facilitate the Group's efforts to further capitalise on its economy-of-scale benefits and increase its competitive advantages.

Located in the middle part of the Sichuan Basin, Lezhi county occupies an area of approximately 1,424.5 square kilometers with a population of approximately 869,000 and a developed gas pipeline of approximately 90.8 kilometres in length. Compared to other cities in Sichuan that use natural gas as domestic fuel, Lezhi has a relatively low penetration ratio of 27% in the city central area and the future connectable household is expected to be 230,000, which provides huge room for natural gas development. Lezhi also offers good prospects for the development of industrial natural gas supply.

PANVA MANAGEMENT INSTITUTE

On 16 July 2003, Panva Management Institute held its formal opening ceremony in Nanjing with the first batch of students ready to take classes. Its establishment not only reflected the Group's strong emphasis on professional management and its solid approach in realising the aim, but also represented the Group's long-term strategy of equipping itself with a strong pool of talents for its future development.

Panva Management Institute will have lecturers that include local and overseas experts in the Gas Fuel industry, reputed professors from high schools and universities, and distinguished management members from the Group. It will provide systematic and integrated training as well as special workshops for the Group's staff.

The Institute marked a major step of the Group on its way to become the best Gas Fuel enterprise in the PRC. It also strengthened the Group's corporate identity as a "trustworthy expert" in the PRC's Gas Fuel market.

FINANCIAL POSITION

As at 30 June 2003, the Group's short-term bank loans and other borrowings amounted to approximately HK\$503,881,000, of which approximately HK\$390,000,000 (equivalent to approximately US\$50,000,000) arose from the Group's issue of 5-year convertible bonds in April 2003 with Morgan Stanley & Co. International Limited as the lead manager. The borrowings were mainly used to fund expansion in the piped Gas business and the LP Gas business and as working capital. The Group ended the period under review with a current ratio of approximately 3.3 times and a gearing ratio (short-term bank loans and other borrowings to equity) of approximately 1.5 times.

Total assets pledged in securing these bank loans have a net book value of approximately HK\$8,142,000 as at 30 June 2003. With the exception of the convertible bonds, all bank borrowings are denominated in Renminbi and as the Group's operations are carried out in the PRC, all receipts and payments in relation to the operations are denominated in Renminbi. The Group's 5-year convertible bonds are denominated in the United States dollars. Currently, no financial instruments are used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK\$452,336,000 as at 30 June 2003 and were mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

There were no material changes in the Group's employees' remuneration policies from that disclosed in the annual report of the Company for the year ended 31 December 2002.

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

The following is a summarised comparison of the actual business progress for the period from 1 January 2003 to 30 June 2003 (the "Review Period") and the business objectives for the Review Period as set out in the Prospectus.

| | 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 | Hangzhou Negotiation with a local LP Gas operator | Hangzhou Letter of intent signed with a local authority in Chunan county Chizhou Co-operation agreement signed |
| Automobile LP Gas market development | Nanjing Continue building automobile LP Gas filing stations and completed stations begin operations Kunming Continue building automobile LP Gas filing stations and completed stations begin operations Changsha Commence building automobile LP Gas filling stations | Nanjing Automobile LP Gas storage tank completed but not yet commenced operations Kunming Automobile LP Gas business still at planning stage with details to be finalised Changsha Project suspended due to premature market conditions |
| Market research | Completion of market research on the LP Gas automobile market in Guizhou | Market research completed |
| IMPROVING OPERATIONAL EFFICIENCY | Continue the implementation of the Enterprise Resources Planning System | The system is being implemented |
| BRAND BUILDING | Redesign marketing pamphlets and continue to advertise on television | Advertised on television |

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS (Cont'd)

| | Business objectives for the Review Period as set out in the Prospectus | Actual business progress for the Review Period |
|--|---|---|
| OPERATION FACILITIES (figures cumulative) | | |
| Storage tank capacity (m ³) | 42,000 | 35,000 |
| Tank train capacity (tonnes) | 4,550 | 4,050 |
| Tank lorry capacity (tonnes) | 500 | 355 |
| Cylinders truck capacity (tonnes) | 450 | 380 |
| No. of tank train unloading depot | 13 | 10 |
| No. of LP Gas vessel unloading platform | 2 | 2 |
| No. of retail outlets | 230 | 210 |
| No. of piped gas stations | 172 | 82 |
| No. of automobile LP Gas filling stations | 30 | 5 |
| HUMAN RESOURCES DEPLOYMENT (No. of staff) | | |
| Management | 220 | 150 |
| Finance and administration | 320 | 250 |
| Sales and distribution | 1,700 | 1,350 |
| Production, purchase and supply | 960 | 750 |
| Total | <u>3,200</u> | <u>2,500</u> |
| USE OF PROCEEDS | | |
| | HK\$ | HK\$ |
| Setting up of new joint venture in Changsha | 0 | 16,000,000 |
| Sales and marketing | 0 | 1,200,000 |
| General working capital | 0 | — |
| Total | <u>0</u> | <u>17,200,000</u> |

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS (Cont'd)**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 continuing negotiating on the details of the possible expansion of the retail market in Changsha with a potential joint venture partner. 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 hopes 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 variance is mainly due to the expansion of the retail business of Changsha Panva is still under negotiation.

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.



PROSPECTS

While the liquefied natural gas project in Guangdong has commenced development works, the “West to East Natural Gas Pipelines Project” has also entered into its final phase with gas transmission expected to gradually take place by the end of 2003 or early 2004. These are clear indications that the low-stream natural gas market in the PRC will embark on a stage of rapid growth in the coming years, which will provide the natural gas sector in the PRC with unprecedented opportunities. Hence, the directors and the management of the Company are highly confident about the Group’s future prospects.

By adhering to the plans laid down in early 2003, the Group has made steady progress both in new project development and the operations of its Gas Fuel businesses. Looking ahead, apart from further developing the piped natural gas market through mergers and acquisitions, the Group will continue to capitalise on its strong customer base to expand the wholesale and retail of LP Gas in cylinders. Not only will the Group continue to reinforce its position as the largest multi-regional Gas Fuel operator in the PRC, it will also strive to become one of the strongest Gas Fuel operators in the PRC. To this end, the Group will further strengthen its project development and procurement in the target regions comprising the southwestern, eastern and northeastern PRC regions, with further improvement in its management system to ensure that the projects meet the targets.

Internally, the Group will continue to implement a standardised financial and operational management system and accelerate the integration of the Group’s new ventures in terms of corporate culture and structure in order to maximise their returns to shareholders within the shortest timeframe. With the effective training commenced by Panva Management Institute, it is expected that the contribution of the Institute towards the Group’s corporate culture development and the joint ventures’ management enhancement will gradually become more apparent.

The directors and the management of the Company believe that, by capitalising on the rapid growth of the PRC’s Gas Fuel sector and the necessity of reform among PRC state-owned enterprises, the Group through smooth implementation of its initiatives will be able to gain more development projects and further expand its customer base. With the further strengthening of the PANVA brand name and the growth in end-user customers, the Group is poised to gain higher growth and generate favourable returns for shareholders.

By Order of the Board
Chen Wei
Managing Director

Hong Kong, 13 August 2003

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

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

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

DISCLOSURE OF INTERESTS *(Cont'd)*

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

Notes:

1. The 441,380,062 shares represent (i) 429,298,462 shares held by Kenson Investment Limited ("Kenson") (Kenson is a wholly-owned subsidiary of Sinolink Worldwide Holdings Limited ("Sinolink"). 67.60% interests of Sinolink are held by Asia Pacific Promotion Limited ("Asia Pacific"). Mr. Ou is the sole beneficial owner of Asia Pacific). Mr. Ou is deemed by SFO to be interested in these shares; and (ii) 12,081,600 shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou.
2. The 173,091,525 shares represent (i) 3,600,000 share options held by Mr. Ou and 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.

Details of the directors' interests in share options granted by the Company are set out under the heading "DIRECTORS' RIGHTS TO ACQUIRE SHARES".

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

DISCLOSURE OF INTERESTS (Cont'd)

Directors' right to acquire shares

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

| Name of Directors | Date of grant | Exercise period | Exercise price HK\$ | Number of shares subject to outstanding options as at 1 April 2003 | Number of Shares subject to outstanding options as at 30 June 2003 | Approximately percentage of the Company's issued share capital |
|------------------------------|---------------|-------------------------|------------------------|--|--|--|
| Mr. Chen Wei | 04.04.2001 | 01.01.2003 - 03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 04.04.2001 | 01.01.2004 - 03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 13.11.2001 | 13.11.2002 - 13.02.2007 | 0.94 | 1,440,000 | 1,440,000 | 0.24% |
| Mr. Lai Wen Guang | 04.04.2001 | 01.01.2003 - 03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 04.04.2001 | 01.01.2004 - 03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 13.11.2001 | 13.02.2002 - 13.02.2007 | 0.94 | 288,000 | 288,000 | 0.05% |
| | 13.11.2001 | 13.05.2002 - 13.02.2007 | 0.94 | 288,000 | 288,000 | 0.05% |
| | 13.11.2001 | 13.11.2002 - 13.02.2007 | 0.94 | 384,000 | 384,000 | 0.06% |
| Mr. Lau Shi Wa | 04.04.2001 | 01.01.2003 - 03.04.2011 | 0.475 | 600,000 | 600,000 | 0.10% |
| | 04.04.2001 | 01.01.2004 - 03.04.2011 | 0.475 | 600,000 | 600,000 | 0.10% |
| Mr. Li Fujun | 04.04.2001 | 01.01.2003 - 03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 04.04.2001 | 01.01.2004 - 03.04.2011 | 0.475 | 1,200,000 | 1,200,000 | 0.20% |
| | 13.11.2001 | 13.11.2002 - 13.02.2007 | 0.94 | 480,000 | 480,000 | 0.08% |
| Mr. Ou Yaping | 04.04.2001 | 01.01.2003 - 03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| | 04.04.2001 | 01.01.2004 - 03.04.2011 | 0.475 | 1,800,000 | 1,800,000 | 0.30% |
| Mr. Tang Yui Man, Francis | 13.11.2001 | 13.11.2002 - 13.02.2007 | 0.94 | 960,000 | 960,000 | 0.16% |

No share option was exercised by the above directors to subscribe for shares in the Company during the Relevant Period.

Note:

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

DISCLOSURE OF INTERESTS (Cont'd)
Directors' right to acquire shares (Cont'd)
Interests in shares in associated corporations

| Name of director | Name of associated corporation | Nature of interest | Number of shares held/ percentage of equity interest owned by the relevant Group members |
|-------------------------|---------------------------------------|---------------------------|---|
| Mr. Ou Yaping | Asia Pacific | Personal | 1 ordinary share |
| Mr. Ou Yaping | Kenson | Corporate | 1 ordinary share |

Interest in options to subscribe for shares of associated corporation

| Name of Directors | Name of associated corporation | Date of grant | Vesting period | Exercise period | Exercise price HK\$ | Number of share options held |
|---------------------------|---------------------------------------|----------------------|-------------------------|-------------------------|----------------------------|-------------------------------------|
| Mr. Chen Wei | Sinolink | 14.03.2002 | 14.03.2002 - 31.08.2002 | 01.09.2002 - 01.09.2004 | 0.67 | 6,000,000 |
| | | 14.03.2002 | 14.03.2002 - 30.11.2002 | 01.12.2002 - 01.12.2005 | 0.67 | 6,000,000 |
| Mr. Tang Yui Man, Francis | Sinolink | 15.06.2001 | 15.06.2001 - 31.05.2002 | 01.06.2002 - 01.06.2005 | 0.41 | 1,650,000 |
| | | 15.06.2001 | 15.06.2001 - 31.05.2002 | 01.06.2003 - 01.06.2006 | 0.41 | 1,650,000 |
| | | 09.10.2001 | 09.10.2001 - 02.10.2002 | 03.10.2002 - 03.10.2005 | 0.33 | 2,750,000 |
| | | 14.03.2002 | 14.03.2002 - 31.08.2002 | 01.09.2002 - 01.09.2004 | 0.67 | 1,900,000 |
| | | 14.03.2002 | 14.03.2002 - 30.11.2002 | 01.12.2002 - 01.12.2005 | 0.67 | 1,900,000 |

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

SUBSTANTIAL SHAREHOLDERS (Cont'd)*Notes:*

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

Mr. Ou is the sole beneficial shareholder of Asia Pacific. Mr. Ou is deemed under the SFO to have an interest in the shares held by Kenson.

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

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

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

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

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

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

COMPETING INTERESTS

None of the directors or management shareholders of the Company had any interest in any business, which may compete with the business of the Group.

SPONSOR'S INTERESTS

As at 30 June 2003, none of the Company's sponsor, Tai Fook Capital Limited, 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 right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the agreement dated 9 April 2001 and entered into between the Company and Tai Fook Capital Limited, Tai Fook Capital Limited is entitled to receive usual sponsorship fee for acting as the Company's retained sponsor for the period from 20 April 2001 to 31 December 2003.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee has 2 members comprising 2 independent non-executive directors, Mr. Cheung Hon Kit and Mr. Li Xiao Ru.

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

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

德勤 • 關黃陳方會計師行

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永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

INDEPENDENT REVIEW REPORT

To the Board of Directors of Panva Gas Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by Panva Gas Holdings Limited (the “Company”) to review the interim financial report set out on pages 21 to 30.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 “Interim financial report” issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT REVIEW REPORT *(Cont'd)***Review work performed**

We conducted our review in accordance with the Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Without modifying our review conclusion, we draw to your attention that the comparative condensed income statement for the six months ended 30 June 2002 and the condensed income statements for each of the three-month periods ended 30 June 2003 and 2002, and the comparative condensed cash flow statement and statement of changes in equity for the six months ended 30 June 2002 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 13 August 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended 30 June 2003

| | Notes | Six months ended 30 June | | Three months ended 30 June | |
|----------------------------------|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (unaudited) | <i>HK\$'000</i> (unaudited) |
| Turnover | 3 | 702,990 | 499,340 | 354,266 | 261,213 |
| Cost of sales | | (556,681) | (378,398) | (276,493) | (200,378) |
| Gross profit | | 146,309 | 120,942 | 77,773 | 60,835 |
| Other operating income | | 278 | 327 | 217 | 185 |
| Distribution costs | | (15,625) | (13,504) | (8,273) | (6,876) |
| Administrative expenses | | (24,921) | (27,018) | (12,575) | (13,569) |
| Other operating expenses | | (587) | (361) | (531) | (290) |
| Profit from operations | | 105,454 | 80,386 | 56,611 | 40,285 |
| Finance costs | | (3,564) | (1,556) | (2,597) | (799) |
| Investment income | 4 | 1,102 | 1,049 | 952 | 678 |
| Profit before taxation | | 102,992 | 79,879 | 54,966 | 40,164 |
| Taxation | 5 | (2,903) | (405) | (1,375) | (328) |
| Profit before minority interests | | 100,089 | 79,474 | 53,591 | 39,836 |
| Minority interests | | (17,073) | (18,534) | (8,241) | (7,632) |
| Net profit for the period | | 83,016 | 60,940 | 45,350 | 32,204 |
| | | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> | <i>HK cents</i> |
| Earnings per share | 7 | | | | |
| - Basic | | 13.72 | 10.13 | 7.49 | 5.34 |
| - Diluted | | 10.27 | 8.04 | 5.46 | 4.23 |

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 June 2003

| | | 30 June 2003 | 31 December 2002 |
|--|--------------|-------------------------|---------------------|
| | | HK\$'000 | HK\$'000 |
| | <i>Notes</i> | (unaudited) | (audited) |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 439,243 | 371,987 |
| Goodwill | | 14,349 | 14,744 |
| Negative goodwill | | (9,208) | (9,366) |
| Investments in securities | | 913 | 939 |
| | | 445,297 | 378,304 |
| Current assets | | | |
| Inventories | | 22,704 | 22,986 |
| Trade receivables | 9 | 66,435 | 93,386 |
| Other receivables, deposits and prepayments | | 150,929 | 101,364 |
| Amount due from minority shareholders | | 41,276 | 41,276 |
| Bank balances and cash | | 452,336 | 98,224 |
| | | 733,680 | 357,236 |
| Current liabilities | | | |
| Trade payables | 10 | 34,318 | 89,341 |
| Other payables and accruals | | 59,503 | 16,725 |
| Taxation | | 9,330 | 7,317 |
| Amounts due to minority shareholders | | 7,652 | 23,517 |
| Borrowings | 11 | 114,131 | 14,599 |
| | | 224,934 | 151,499 |
| Net current assets | | 508,746 | 205,737 |
| Total assets less current liabilities | | 954,043 | 584,041 |
| Non-current liabilities | | | |
| Borrowings | 11 | 389,750 | 100,000 |
| | | 564,293 | 484,041 |
| Minority shareholders | | (228,410) | (215,668) |
| Net assets | | 335,883 | 268,373 |
| Capital and reserves | | | |
| Share capital | 12 | 60,508 | 60,508 |
| Reserves | | 275,375 | 207,865 |
| Shareholders' funds | | 335,883 | 268,373 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

| | Share capital | Share premium | Exchange reserve | Asset revaluation reserves | Capital reserve | General reserves | Retained profits | Total |
|---|---------------|---------------|------------------|----------------------------|-----------------|------------------|------------------|-------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| At 1 January 2002 | 50,000 | 55,329 | (107) | 4,973 | 1,101 | 1,212 | 18,640 | 131,148 |
| Exchange difference on translation of overseas operations and net loss not recognised in income statement | — | — | (85) | — | — | — | — | (85) |
| Issue of shares | 505 | 4,267 | — | — | — | — | — | 4,772 |
| Bonus shares dividend | 10,003 | (10,003) | — | — | — | — | — | — |
| Transfer | — | — | — | — | — | 865 | (865) | — |
| Net profit for the year | — | — | — | — | — | — | 132,538 | 132,538 |
| At 1 January 2003 | 60,508 | 49,593 | (192) | 4,973 | 1,101 | 2,077 | 150,313 | 268,373 |
| Transfer | — | — | — | — | — | 177 | (177) | — |
| Net profit for the period | — | — | — | — | — | — | 37,666 | 37,666 |
| At 31 March 2003 | 60,508 | 49,593 | (192) | 4,973 | 1,101 | 2,254 | 187,802 | 306,039 |
| Exchange difference on translation of overseas operations and net loss not recognised in income statement | — | — | (1,083) | — | — | — | — | (1,083) |
| Issue expenses on convertible bond | — | (14,423) | — | — | — | — | — | (14,423) |
| Transfer | — | — | — | — | — | 482 | (482) | — |
| Net profit for the period | — | — | — | — | — | — | 45,350 | 45,350 |
| At 30 June 2003 | 60,508 | 35,170 | (1,275) | 4,973 | 1,101 | 2,736 | 232,670 | 335,883 |
| At 1 January 2002 | 50,000 | 55,329 | (107) | 4,973 | 1,101 | 1,212 | 18,640 | 131,148 |
| Issue of shares | 16 | 170 | — | — | — | — | — | 186 |
| Arising in the period | — | — | — | — | 1,060 | — | — | 1,060 |
| Transfer | — | — | — | — | — | 596 | (596) | — |
| Net profit for the period | — | — | — | — | — | — | 28,736 | 28,736 |
| At 31 March 2002 | 50,016 | 55,499 | (107) | 4,973 | 2,161 | 1,808 | 46,780 | 161,130 |
| Exchange difference on translation of overseas operations and net loss not recognised in income statement | — | — | 6 | — | — | — | — | 6 |
| Bonus shares dividend | 10,003 | (10,003) | — | — | — | — | — | — |
| Issue of shares | 489 | 4,097 | — | — | — | — | — | 4,586 |
| Arising in the period | — | — | — | — | (1,059) | — | — | (1,059) |
| Transfer | — | — | — | — | — | 234 | (234) | — |
| Net profit for the period | — | — | — | — | — | — | 32,204 | 32,204 |
| At 30 June 2002 | 60,508 | 49,593 | (101) | 4,973 | 1,102 | 2,042 | 78,750 | 196,867 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2003

| | Six months ended 30 June 2003 | Six months ended 30 June 2002 |
|---|--|-------------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Net cash from operating activities | 77,427 | 47,804 |
| Net cash used in investing activities | (76,895) | (28,984) |
| Net cash from (used in) financing activities | 354,663 | (73) |
| Net increase in cash and cash equivalents | 355,195 | 18,747 |
| Bank balances and cash at beginning of the period | 98,224 | 142,867 |
| Effect of foreign exchange rate changes | (1,083) | 6 |
| Bank balances and cash at end of the period | 452,336 | 161,620 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the six months ended 30 June 2003
1. GENERAL

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited.

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

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

In the current period, the Company has adopted Statement of Standard Accounting Practice No. 12 (Revised) "Accounting for income taxes" ("SSAP 12 (Revised)"), for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in the condensed financial statements. The adoption of the above standard has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustments were required.

Other than the above, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2002.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
3. SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods provided to outside customers during the period, net of discounts and returns, value-added tax and sales tax.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2003 is as follows:

| | Sale and distribution of Gas Fuel and related products <i>HK\$'000</i> | Gas pipeline construction <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|----------------------------------|--|---|---------------------------------|
| 30 June 2003 | | | |
| REVENUE | | | |
| External | 587,586 | 115,404 | 702,990 |
| SEGMENT RESULTS | 34,482 | 82,396 | 116,878 |
| Other operating income | | | 278 |
| Unallocated corporate expenses | | | (11,702) |
| Profit from operations | | | 105,454 |
| Finance costs | | | (3,564) |
| Investment income | | | 1,102 |
| Profit before taxation | | | 102,992 |
| Taxation | | | (2,903) |
| Profit before minority interests | | | 100,089 |
| Minority interests | | | (17,073) |
| Net profit for the period | | | 83,016 |
| 30 June 2002 | | | |
| REVENUE | | | |
| External | 430,463 | 68,877 | 499,340 |
| SEGMENT RESULTS | 33,346 | 57,368 | 90,714 |
| Other operating income | | | 326 |
| Unallocated corporate expenses | | | (10,654) |
| Profit from operations | | | 80,386 |
| Finance costs | | | (1,556) |
| Investment income | | | 1,049 |
| Profit before taxation | | | 79,879 |
| Taxation | | | (405) |
| Profit before minority interests | | | 79,474 |
| Minority interests | | | (18,534) |
| Net profit for the period | | | 60,940 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
4. INVESTMENT INCOME

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

5. TAXATION

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

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

Pursuant to the relevant laws and regulations in the PRC, certain 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.

The charge for the period can be reconciled to the profit per consolidated income statement as follows:

| | Six months ended 30 June | | Three months ended 30 June | |
|---|-----------------------------|------------------|-------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Profit before taxation | <u>102,992</u> | <u>79,879</u> | <u>54,966</u> | <u>40,164</u> |
| Tax at the applicable tax rate of 33% (2002: 33%) | 33,987 | 26,360 | 18,139 | 13,254 |
| Tax effect of deferred tax assets not recognised | 4,796 | 3,060 | 2,655 | 1,574 |
| Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit | (30,514) | (28,025) | (16,759) | (11,812) |
| Effect of different tax rates of subsidiaries entitling 50% from PRC enterprise income tax and operating in difference provinces | <u>(5,366)</u> | <u>(990)</u> | <u>(2,660)</u> | <u>(2,688)</u> |
| Tax expense | <u>2,903</u> | <u>405</u> | <u>1,375</u> | <u>328</u> |

At the balance sheet date, the Group has unused tax losses of HK\$14,534,000 (2002: HK\$9,273,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$8,371,000 (2002: HK\$4,915,000) that may be carried forward five years. Other losses may be carried forward indefinitely.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
6. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$9,276,000 (2002: HK\$8,683,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$395,000 (2002: HK\$1,645,000) was charged in respect of the Group's goodwill.

7. EARNINGS PER SHARE

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

| | Six months ended 30 June | | Three months ended 30 June | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Earnings for the purpose of basic earnings per share | 83,016 | 60,940 | 45,350 | 32,204 |
| Effect of dilutive potential shares: | | | | |
| Interest on convertible note and bond | 2,986 | 1,488 | 2,246 | 744 |
| Earnings for the purposes of diluted earnings per share | <u>86,002</u> | <u>62,428</u> | <u>47,596</u> | <u>32,948</u> |
| | | | | |
| | Six months ended 30 June | | Three months ended 30 June | |
| | 2003 Number of shares ('000) | 2002 Number of shares ('000) | 2003 Number of shares ('000) | 2002 Number of shares ('000) |
| Weighted average number of shares for the purpose of basic earnings per share | 605,076 | 601,427 | 605,076 | 602,800 |
| Effect of dilutive potential shares: | | | | |
| Options | 29,812 | 5,138 | 29,990 | 5,965 |
| Convertible note | 169,491 | 169,491 | 169,491 | 169,491 |
| Convertible bond | 33,190 | — | 66,379 | — |
| Weighted average number of shares for the purpose of diluted earnings per share | <u>837,569</u> | <u>776,056</u> | <u>870,936</u> | <u>778,256</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$77,997,000 (2002: HK\$98,113,000) on acquisition of property, plant and equipment.

At 30 June 2003, the directors have considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. 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:

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|-----------------|--------------------------------------|---------------------------------|
| 0 to 90 days | 48,164 | 84,343 |
| 91 to 180 days | 13,009 | 4,373 |
| 181 to 360 days | 1,711 | 1,607 |
| Over 360 days | 3,551 | 3,063 |
| | <u>66,435</u> | <u>93,386</u> |

10. TRADE PAYABLES

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

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|-----------------|--------------------------------------|---------------------------------|
| 0 to 90 days | 8,971 | 80,940 |
| 91 to 180 days | 7,643 | 115 |
| 181 to 360 days | 14,408 | 64 |
| Over 360 days | 3,296 | 8,222 |
| | <u>34,318</u> | <u>89,341</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
11. BORROWINGS

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|------------------------|--------------------------------------|---------------------------------|
| Bank loans (secured) | 1,970 | 2,438 |
| Bank loans (unsecured) | 12,161 | 12,161 |
| Convertible note | 100,000 | 100,000 |
| Convertible bond | 389,750 | — |
| | <u>503,881</u> | <u>114,599</u> |

The maturity of the above loans is as follows:

| | | |
|---|------------------|-----------------|
| On demand or within one year | 114,131 | 14,599 |
| More than one year but not exceeding two years | — | 100,000 |
| More than two years but not exceeding five years | 389,750 | — |
| | <u>503,881</u> | <u>114,599</u> |
| Less: Amount due within one year shown under current liabilities | <u>(114,131)</u> | <u>(14,599)</u> |
| Non-current portion | <u>389,750</u> | <u>100,000</u> |

The convertible 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. The outstanding unconverted principal amount of the note will be redeemed on 1 April 2004 at par. Interest of 3% is paid per annum.

The convertible bond was issued on 23 April 2003. The bond is convertible into shares of the Company from the 45th day commencing from the date of issue, up to 14 days prior to the fifth anniversary of the date of issuance. The price at which each share shall be issued upon conversion shall be HK\$3.9169 per share. The outstanding unconverted principal amount of the bond will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is paid per annum.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Cont'd)
For the six months ended 30 June 2003
12. SHARE CAPITAL

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Authorised: 2,000,000,000 shares of HK\$0.10 each | <u>200,000</u> | <u>200,000</u> |
| Issued and fully paid: 605,076,000 shares (2002: 605,076,000 shares) of HK\$0.10 each | <u>60,508</u> | <u>60,508</u> |

13. CAPITAL COMMITMENTS

| | 30 June 2003 HK\$'000 | 31 December 2002 HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Commitments for the interest in subsidiaries - contracted for but not provided for in the financial statements | <u>12,161</u> | <u>87,618</u> |

14. POST BALANCE SHEET EVENTS

Subsequent to the interim reporting date, the Group acquired entire registered capital of Sichuan Lezhi Gas Corporation, the name of which was subsequently changed to Lezhi Panva Gas Co., Ltd. for a consideration of approximately HK\$13,845,000, which will be satisfied in cash.

15. INTERIM DIVIDEND

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