

For Panva Gas Holdings Limited (the "Company" or Panva Gas) and its subsidiaries (collectively the "Group"), 2005 was a year of exceptional achievement marked by major breakthroughs in the Group's capital market initiative and business development. These breakthroughs included the successful listing of the Company's shares (the "Shares") on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Main Board"), the Group's solid progress in realigning its operations and management, and the further strengthening of the Group's strategic position in the northeastern and southern regions of the People's Republic of China (the "PRC") as a result of the Group's success in new project development.



OU Yaping
Chairman

The PRC's Natural Gas Market

The PRC economy remained robust in 2005 recording a growth of 9.9% in gross domestic product ("GDP"). This was the third year in a row that the PRC recorded an economic growth of close to 10%, which was accompanied by a real growth of 9.6% in average per capita disposable income in the towns and cities. As the economy strode forward, the PRC government introduced a series of new laws and regulations to reform the energy sector and to promote the use of clean and renewable energy in order to achieve sustainable growth and to build up a harmonious society. These favourable conditions and supportive government policies provided a strong drive to the development of the gas fuel sector.

The gas fuel sector in the PRC has entered into a stage of rapid growth. Blessed by the rising demand for natural gas and spurred by the opening up of the production chain, the natural gas sector is becoming more market-oriented and adopting higher standards. In February 2005, the State Council released a new policy paper outlining the "three symbols and six trends" in the development of non-public economy, which stated that "encouragement and support will be given to the entry of non-public capital into the infrastructure, public utilities and monopolised sectors, and other sectors and industries that are not forbidden by laws". At the same time, the PRC has begun drafting an Energy Law on oil and natural gas.

Moreover, the National Development and Reform Commission (NDRC) issued a notice on 26 December 2005 introducing reforms on the pricing mechanism of natural gas products. Under the new measures, the practice of using both government-set prices and government-adjust prices to determine the ex-factory prices of natural gas products has been replaced by a new pricing mechanism using only government-adjust prices. This resulted in the immediate increase in the ex-factory prices of natural gas products nationwide. The ex-factory prices will be subject to revision once every year with reference to the price changes in other replaceable fuels such as crude oil. Currently, the price of natural gas versus crude oil as measured by heat value is at a ratio of 1.05:1 in the international market compared to 0.4:1 in the PRC. This highlights the fact that the price of natural gas is significantly lower in the PRC and that there is large room for further price increases to reflect market realities.

In light of the PRC's further opening up of public utilities and the increasing adoption of market-oriented principles in the natural gas sector, large utility companies with strong competitiveness will be poised to grow further. Privatisation of state-owned utilities will continue to gain ground while large and efficient utility operators will be able to obtain higher profit margins.

CHAIRMAN'S STATEMENT

The PRC's Liquefied Petroleum Gas ("LP Gas") Market

The Group remains positive towards the outlook of the PRC's end-user market for LP Gas. In recent years, the PRC consumed as much as 30 million tonnes of LP Gas per year, of which approximately 70% was domestic consumption. Overall, domestic consumption of gas fuel products has been rising. While some cities have switched to natural gas, consumption of LP Gas has been growing rapidly in rural households, which accounted for 10% of total gas fuel consumption in 2004 against 4% in 1994. Given the higher costs required for the construction of natural gas pipelines and the inaccessibility to natural gas in some regions, LP Gas will remain an essential gas fuel in the PRC for a significant period of time.

Despite the higher purchasing costs of LP Gas products as a result of the rise in international oil prices, the Group's LP Gas business managed to report satisfactory results in 2005. This can be attributed to the Group's successful realignment of its operations and resources. On the one hand, the Group further strengthened its communications and co-operations with up-stream LP Gas suppliers. On the other hand, the Group took advantage of the price differences in LP Gas supplies across the PRC by adopting the "centralised pricing and centralised payment" policy in purchases which resulted in significant cost saving.

The Group's Development Strategies and Implementation

During the year, the Group continued to focus on the parallel expansion of the piped gas business and the LP Gas business. On the piped gas front, the Group secured a higher market share in the northeastern and southern PRC regions while achieved significant progress in new project development in the northern and southwestern PRC regions. As for the LP Gas business, the Group strengthened its market position and is actively exploring opportunities in large and medium sized cities that have strong potential.

In 2005, the Group further enhanced its strategic position in the northeastern PRC region by acquiring three new projects. As at December 2005, the Group had interests in six projects in the northeastern PRC region with a total accumulated investment of RMB760 million. Comprising the three provinces of Liaoning, Jilin and Heilongjiang, the northeastern PRC region occupies an area of nearly 800,000 kilometres. It is home to approximately 110 million people or 8% of the PRC's total population, and is a traditional base for the heavy industries. Following the launch of the central government's plan in August 2003 to revitalize the old industries in the northeastern PRC region, it is hopeful that the northeastern PRC region could become a major growth area similar to the Zhujiang Delta and the Changjiang Delta. Economic reforms are gaining momentum in the northeastern PRC region, marked by the increasing number of privatisations in the state sector that represent favourable opportunities to foreign investors.



CHAIRMAN'S STATEMENT

During the year, the Group acquired two gas companies in Qingyuan city and Shaoguan city of Guangdong province. As at December 2005, the Group had interests in three gas projects in Guangdong province with a total investment of RMB175 million. Guangdong is set to become a major market as well as a major source for liquefied natural gas, and has been included by the Group as a focal region for development. Guangdong maintained an annual economic growth of around 13.0% in recent years, and accounted for approximately 11.9% of the PRC's total economic



output in 2004. According to preliminary figures, Guangdong continued to rank as the PRC's top economic province in 2005 recording a GDP growth of 12.5% to RMB2,170.1 billion. This is equivalent to approximately US\$264.8 billion at the current exchange rate, making Guangdong well ahead of many major economies such as Singapore and Hong Kong. Guangdong is the largest manufacturing base as well as the largest ceramics producer and exporter of the PRC. With the import of liquefied natural gas to reach Guangdong after 2006, the ceramics industry is expected to play a more significant role in lifting the demand for gas fuel in the province. As such, gas fuel consumption is expected to grow strongly in Guangdong in the coming years.

Prospects

In view of the further reform of public utilities and the increasing adoption of market-oriented principles in the gas fuel sector of the PRC, large operators with high efficiency in operations is expected to enjoy greater advantages. While adhering to the principles of enhancing its economies of scale and operating efficiency, the Group is taking a two-pronged approach to increase its leading position in the market. On the one hand, the Group will dedicate more efforts to new project development. For the piped gas business, this means the further increase of the Group's market share in northeastern, southwestern and southern PRC regions and its expansion into other selective regions, while on the LP Gas front it precludes the Group's further penetration into major and medium PRC cities. On the other hand, the Group will make further endeavour to realign its operations and increase its economies-of-scale benefits, with the ultimate objective of generating higher returns for shareholders.

OU Yaping
Chairman

Hong Kong, 24 April 2006