



PANVA GAS HOLDINGS LIMITED

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group's turnover decreased slightly to approximately HK\$1,008.3 million representing a decrease of 4.85% from last year.
- Gross profit increased substantially by approximately 162.61% to HK\$127.8 million.
- Net profit increased substantially to approximately HK\$31.7 million representing an increase of approximately 3,727.7% from last year.
- Wholesale of Liquefied Petroleum Gas ("LP Gas") decreased by approximately 17.21% from last year. The decrease was mainly due to a supplier of the Group having to undergo a major maintenance overhaul once every two years, thus reducing the supply of LP Gas.
- Retail sales for the year increased significantly to approximately HK\$189.7 million representing an increase of approximately 98.85% from last year.
- The Group commenced the provision of gas pipelines construction works during the year.
- The Board proposes a bonus issue of shares on the basis of one bonus share for every five existing shares held.

CHAIRMAN'S STATEMENT

On behalf of Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I am pleased to present to shareholders the Group's first annual report since its listing on GEM.

Year 2001 was a significant year and a year of outstanding performance for the Group.

The Company's shares (the "Shares") were listed on GEM on 20 April 2001 through a placing of 95,000,000 new shares. The capital market responded favourably to the listing, as reflected by the share price performance. The net proceeds arising from the placing amounted to approximately HK\$41,229,000. The listing not only increased the Group's financial stability but also increased its business development opportunities.

The Group's turnover was approximately HK\$1,008,335,000, which is in line with that of last year. Profit attributable to shareholders increased substantially to approximately HK\$31,693,000. Earnings per share were 6.71 cents compared to 0.20 cents in 2000.

Review of the Environment

Realising that a reduction in environmental pollution can significantly benefit economic growth, the People's Republic of China (the "PRC") government has initiated an ongoing strategy to protect the environment while catering for people's livelihoods. This involves timely policies and measures to restructure and enhance the energy sector, to speed up the development of premium energy, and to encourage end-users to switch to quality energy. In the urban areas, clean and efficient energy products such as LP Gas and natural gas are replacing coal and petrol as the major energy sources for transportation and domestic use. All these have brought great opportunities for the Group's businesses and facilitated its developments.

Moreover, with the economic growth and improvement in living standards in recent years, the PRC citizens can now afford more expensive quality energy products such as oil, gas and electricity, and become more discriminating in their choice of products in the market. This has further benefited the Group's business development in the PRC. Building on a solid customer base and capitalising on a growing market, the Group enjoys huge growth potential in the PRC market.

During 2001, the PRC's "West to East Natural Gas Pipelines Project" proceeded at great speed, leading to a significant growth in the natural gas market and an increase in upper-stream production and transportation. As the PRC government is further speeding up the Project in 2002 while local cities are expanding their urban infrastructure developments, the Group will be able to strengthen its foundations to sustain a solid growth in its PRC operations.

Under the PRC government's planning, year 2001 and the subsequent years will be a period of rapid urbanisation in the country. This will generate a strong demand for infrastructural facilities and provide a powerful impetus to the growth of relevant industries such as housing, transportation, water and gas supply. Among them, the housing and transportation industries will be significant driving forces to most other industries and the related sectors. In addition, the increase in urbanisation will lead directly to changes in income distribution and consumption habits. Presently, most urban households in the PRC have met the basic needs of clothing and food and certain appliances. They are now heading towards better housing, transportation and living standards. In the coming years, a new round of consumption focusing on home and vehicle purchases will emerge and grow rapidly, which will be a major driving force to the growth of various industries. It is expected that the construction and real estate industries will grow at a rate at least five percentage points higher than the national GDP growth.

Given this background, the demand of PRC citizens for gas, in particular piped gas, will markedly increase along the anticipated strong growth in home purchase and replacement. This expected scenario fully matches with the Group's development strategy of focusing on gas pipelines construction in the coming years. Moreover, increasing industrial and commercial activities will ensure the continuing growth of gas demand from these sectors and will benefit the Group, which is further expanding its gas businesses in these sectors.

The PRC is taking active measures to restructure its regional economies. For instance, the PRC's government is promoting the development of the south-western region of the PRC with the aim of enhancing its economic growth. To capitalise on this trend, the Group has increased the share capital of Pan River Gas (China Southwest) Co., Ltd. ("Panva Southwest") and established Panva Gas (Yunnan) Co., Ltd. ("Yunnan Panva") in 2001. The Group believes that its projects in the western region will continue to enable the Group to enjoy good returns.

Gas Resources

In 2001, the PRC government carried out the second round of oil and gas assessment, which confirmed the rich resources of natural gas in the country. It is estimated that a total of 38,000 billion cubic metres of natural gas is available in 69 basins and regions, with 2,000 billion cubic metres being confirmed. Regions that are estimated to possess natural gas resources of more than 1,000 billion cubic metres include Talimu, Sichuan, Shanxi-Gansu-Ningxia, Donghai, Bohaiwan, Yinggewan, southeast Hainan, Zhujiangkou, Zhungeer and Chaidamu. Given the enormous size of these reserves, the PRC will eventually be among the major country in natural gas resources. This will further strengthen the foundations of the development in down low-stream natural gas market and related production industries. However, the current annual output of natural gas in the PRC only amounts to 27 billion cubic metres and accounts for a mere 3% in one-off-use energy resources. Despite the forecast output level of 50 billion to 60 billion cubic metres in year 2005, it is still much lower than the average output amount in Asia or the world. This situation creates tremendous opportunities for the Group in developing gas related businesses along the main pipelines of natural gas supply in the PRC.

Prospects

I believe that the Company is entering a period of high growth. Equipped with a proficient management team, high quality assets generating a stable income, a renowned reputation and a respected brand name, the Company should enjoy a higher return than its trade counterparts.

With a strong cash balance of over HK\$143 million that can be used to fund future expansion, the Group will continue to focus on the enhancement of its LP Gas operations and natural gas operations, including infrastructural development, sale and distribution, transportation and storage, and related services. The Group will also, if necessary, participate in acquisitions and mergers to swiftly expand its market share. Given the continuous rise in the living standards in the PRC, the PRC government's commitment to environmental protection and the use of green energy sources, the Group will be able to capitalise on its competitive advantages to generate higher returns to shareholders.

Appreciation

I wish to express my sincere thanks and gratitude to the other Board members and all staff for the outstanding results achieved during the year.

Ou Yaping
Chairman

Hong Kong, 22 March 2002

MANAGING DIRECTOR'S REPORT

The strategy of the Group has gradually been reflected in the financial results of the Group in 2001.

Review of Operations

For the year ended 31 December 2001, the Group recorded a turnover of approximately HK\$1,008,335,000, representing a slight decrease of approximately 4.85% from the previous year. The gross profit margin increased significantly from 4.59% in 2000 to 12.68% in 2001. The increase in gross profit margin was mainly attributable to the increase in the proportion of the retail business of the Group which commands a higher gross profit margin than the wholesale operation. Profit attributable to shareholders increased significantly to approximately HK\$31,693,000 from approximately HK\$828,000 last year.

Group Structure

During the year, the Group underwent a reorganisation to rationalise the Group structure by rolling the operating subsidiaries in the PRC into the Group's wholly-owned PRC incorporated investment holding company, Panriver Investments Company Limited ("Panriver Investments").

The Group added two new operating subsidiaries during the year, namely Yunnan Panva and Ziyang Gas Company. One other operating subsidiary in Nanjing is currently being established. During the year, Pan River Gas (Guizhou) Co., Ltd. increased its registered capital and changed its name into Panva Southwest.

Panva Southwest

Panva Southwest, a Sino-foreign equity joint venture which is indirectly owned as to 50.1% by the Company, increased its registered capital from RMB16,000,000 (equivalent to approximately HK\$14,967,259) to RMB57,500,000 (equivalent to approximately HK\$53,788,587). The Board believes that Panva Southwest is ideally positioned to utilise the scale economy and strengthen the Group's competitive advantage by strategically managing the development in the south-western region of the PRC. Yunnan Panva is under the direct management of Panva Southwest.

Yunnan Panva

The Group through Panva Southwest entered into a joint venture agreement with two independent third parties to set up Yunnan Panva, a Sino-foreign equity joint venture in Kunming, Yunnan Province in the PRC, to engage in the sale and distribution of LP Gas and LP Gas related products. The capital contribution of Panva Southwest was RMB33,500,000 (equivalent to approximately HK\$31,337,699) representing approximately 56.94% of the registered capital of Yunnan Panva.

To facilitate the contribution of the amount of RMB33,500,000 to Yunnan Panva, Panva Southwest increased its registered capital and as a result the Company contributed approximately RMB20,000,000 (equivalent to approximately HK\$18,709,073) to the capital of Panva Southwest pro-rata to its percentage of attributable interests in Panva Southwest and the other joint venture partner of Panva Southwest contributed RMB20,000,000 (equivalent to approximately HK\$18,709,073) to the capital of Panva Southwest. Out of the Company's contribution of RMB20,000,000 (equivalent to approximately HK\$18,709,073), approximately HK\$18,000,000 was funded by the net proceeds from the placing of 95,000,000 Shares pursuant to the prospectus of the Company dated 10 April 2001 (the "Prospectus") and the remaining balance in the amount of approximately HK\$709,073 was funded by internal resources of the Group.

Ziyang Gas Company

During the year, the Group officially commenced the provision of natural gas and natural gas related products and services by acquiring 90% equity interest in Ziyang Gas Company, a reformed state-owned enterprise established in the city of Ziyang (資陽市), Sichuan Province in the PRC. Total consideration for the acquisition was RMB15,000,000 (equivalent to approximately HK\$14,031,805) which was funded by internal resources of the Group.

Ziyang is located approximately 90 Kilometres southeast of Chengdu in the Sichuan province of the PRC covering an area of approximately 8,000 square kilometres. The city has a population of 4.9 million with an urban population of approximately 200,000. The penetration rate of natural gas pipeline is only 30% in urban area, and 1.5% for the entire city.

Ziyang Gas Company is principally engaged in the provision of natural gas to the city of Ziyang and is also responsible for the construction, maintenance, ownership and operation of the city pipeline network of Ziyang. The total length of the pipeline under construction is approximately 328 km. As part of the acquisition, the government of Ziyang has granted a 50-year exclusive operation rights to Ziyang Gas Company.

Gaochun Joint Venture

The Group through Panriver Investments and Nanjing Panva LPG Company Ltd. ("Nanjing Panva"), a 55% indirectly owned subsidiary of the Company, entered into an agreement with the local government of Gaochun (高淳縣). Gaochun is a suburb of the city of Nanjing in the Jiangsu province in the PRC with a population of approximately 430,000 covering an area of approximately 802 square kilometres with an urban population of approximately 110,000. In accordance with the terms of the agreement, Panriver Investments and Nanjing Panva are to establish a Sino-foreign equity joint venture in Gaochun ("Gaochun Panva") with its principal business being the exclusive development, construction, ownership and operation of gas pipelines in Gaochun. The registered capital and total investment of the joint venture is US\$1,010,000 (equivalent to approximately HK\$7,807,300) with Panriver Investments holding 51% of the registered capital and Nanjing Panva holding the remaining 49%. The local government of Gaochun will grant Gaochun Panva certain benefits such as exclusive operation, tax relieves, and so on.

Wholesale of LP Gas

Included in wholesale of LP Gas are sale of LP Gas in bulk and sale of LP Gas in cylinders to wholesale customers. Wholesale of LP Gas is the Group's main business activity recording a turnover of approximately HK\$796,241,000, representing a decrease of approximately 17.21% from the turnover of approximately HK\$961,751,000 recorded last year. This is mainly due to 揚子石油化工有限公司 (“Yangzi Petrochemical”), the supplier of LP Gas to a subsidiary of the Company, namely Yangzi Petrochemical Baijiang Energy Co., Ltd. (“Yangzi Panva”) is required to undergo a major maintenance overhaul scheduled once every two years in July 2001. As a result, LP Gas available for sale was reduced affecting the turnover of the Group. In view of this, Yangzi Panva arranged to source LP Gas from other suppliers, however, the pricing was not more favourable than Yangzi Petrochemical hence Yangzi Panva reduced its overall purchase.

Sale of LP Gas in cylinders to wholesale customers is supplemental to the Group's retail business as it provides a revenue source by utilizing the Group's cylinders filling facilities.

Retail sales

Included in retail sales are sale of LP Gas in cylinders to retail customers, the provision of piped LP Gas, and the provision of piped natural gas. During the year, the Group made significant efforts to expand its retail business. For the year ended 31 December 2001, retail sales amounted to approximately HK\$189,687,000, representing a significant increase of approximately 98.85% from last year. Nanjing Panva, an operating subsidiary of the Company which commenced operations in October 2000, accounted for most of the increase.

The Group's end-user household customers are now estimated to be over 1,150,000 households, an increase of approximately 43.75% when compared to last year. The increase is a reflection of the Group's commitment to expand its retail operations by strengthening its customer management and the continuous improvement of customer services.

Although the provision of piped LP Gas and piped natural gas accounted for less than 1% of total turnover in 2001, it has increased substantially when compared to previous year. Together with the sale of LP Gas in cylinders to retail customers, the provision of piped gas will be the main focus of expansion for the Group in the coming years.

Gas pipeline construction

During the year, the Group commenced the provision of gas pipelines construction for end-user customers in support of the piped gas provision business. Through the construction of piped gas stations, main pipelines and branch gas pipeline networks, the Group is able to supply LP Gas directly into the homes of the end-user customers. Gas pipelines construction works are usually contracted with property developers or property management companies for which the Group receives a one-off connection fee in the range of between RMB2,000 to RMB3,200 for each household connected.

For the year ended 31 December 2001, revenue received from the gas pipeline construction business amounted to approximately HK\$10,191,000, accounting for approximately 1% of total turnover.

The Group has established a “Piped Gas Task Force” to centralise the management, planning, evaluation, development and control of the gas pipelines construction operations of the Group. Since its establishment, the Piped Gas Task Force has completed detailed studies on the piped gas markets in the Jiangsu, Zhejiang, Shangdong, and Sichuan provinces. The Group has commenced the feasibility evaluation of possible piped gas development projects and has commenced discussions with certain local operators on the possible business partnerships in some of these areas. The Group intends to devote significant effort on the expansion of the gas pipeline construction business in the coming years.

Land Acquisition

The government allocated land currently occupied by Yangzi Panva’s LP Gas storage station was acquired from the land authorities during the year for a total consideration of approximately RMB12,922,000 (equivalent to approximately HK\$12,088,000) which was funded by internal resources of the Group.

Financial Position

The Group’s short term bank and other borrowings increased slightly from approximately HK\$2,713,000 in 2000 to approximately HK\$3,274,000 in 2001. Borrowings are mainly used as working capital by some operating subsidiaries in the PRC. The Group ended the year with a current ratio of approximately 2.55 times and a gearing (short term bank and other borrowings to equity) of approximately 2.50%.

Total assets pledged in securing these loans have a net book value of approximately HK\$8,337,000 as at 31 December 2001. All borrowings are denominated in RMB and as the operation of the Group is carried out in the PRC, all receipts and payments in relation to operation is denominated in RMB. 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\$142,867,000 as at 31 December 2001 and are mostly denominated in RMB, 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 2001, the Group had 2,433 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 individual's performance. Other benefits, such as medical and retirement benefits, are also provided.

Prospects

Given the continuing strong growth of the PRC economy, which proved to be the world's rare bright spot in the past year, we have reason to believe that the PRC's energy and environmental protection sectors will continue to benefit from such favourable environment and continue to develop rapidly. Hence, the management is highly confident about the Group's prospects. The remarkable performance of the Group's businesses during the year has convinced the Board that the existing projects will continue to flourish in a strong manner.

Building on established solid foundations, the Group will further expand the LP Gas and related businesses, strengthen its corporate management and improve its development planning, with the ultimate objective of generating satisfactory returns for shareholders. The Group will focus on further increasing its solid retail customer base by concentrating on the development of gas pipelines construction projects and the natural gas operations.

Looking ahead, the Group will strive to accomplish the following plans:

- Given the enormous market potential in south-western PRC and the established policy of the PRC government to develop the region, the Group will expedite its penetration into this market through Panva Southwest and Yunnan Panva. By further increasing its market share in the gas market and developing gas-related projects, in particular city natural gas pipeline projects through equity investment or acquisitions, the Group can benefit from the expected rapid economic development of the western region. With the "West to East Natural Gas Pipelines Project" moving in full steam, natural gas will account for an increasingly higher share of the PRC's energy market. Hence, the Group has increased its pace in the preparation works for the development of the south-western and eastern regions. These include project investigations, assessments and negotiations as well as the strengthening of related human and capital resources to ensure that the launch of the projects meets or exceeds the target.

- The Group will ensure that all its operating subsidiaries have clear operation targets and detailed development plans and will closely monitor their implementations. It will capitalise on its organisational advantages to exercise overall control on allocation of resources. Consolidation and rationalisation measures will be introduced to the Hunan joint ventures covering capital and human resources management, marketing and purchasing in order to maximise the Group's economy-of-scale benefits from operating in the Hunan region. The Group will also adopt a standard management system throughout its subsidiaries, in particular a unified financial management system with appropriate auditing and control measures. By strengthening the management of the subsidiaries' finance and responsible staff, the Group will be able to reinforce the solid foundation already established. As for brand and retail services management, the Group will revise its retail services manual to adopt unified standards on product quality and service quality. At the same time, the Group will increase its human resources management efforts which will include the development of an effective evaluation and incentive system, the implementation of various training programmes and systematic recruitment drives. Through these measures, the Group aims to further develop the end-user retail market and increase its market share. By having a higher influence and leverage in the marketplace, the Group will be able to sustain a continued growth in its profitability.

Appreciation

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

By Order of the Board
Chen Wei
Managing Director

Hong Kong, 22 March 2002

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary comparison of the actual business progress for the period from 1 July 2001, to 31 December 2001 (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	Guizhou Hunan Anhui Jiangsu Yunnan Sichuan
Setting up operating subsidiary	Kunming Joint venture operation begins Changsha The enlarged retail business in Changsha commences operation Chongqing Negotiation with a local LP Gas operator	Kunming Joint venture operation begins Changsha Currently in discussion with a local LP Gas operator on details of the joint venture agreement to expand the retail business of Changsha Chongqing Negotiation commenced with several potential operators Ziyang, Sichuan Acquisition agreement signed and commenced operation Gaochun, Nanjing Joint venture agreement signed

Market research	Completion of market research on the LP Gas market in Wuhan and Chongqing	Market research completed on Wuhan and Chongqing
	Completion of market research on the LP Gas automobile market in Kunming	Market research completed on Kunming
IMPROVING OPERATIONAL EFFICIENCY	Completion of the feasibility study on the implementing an Enterprise Resources Planning System	The feasibility study was completed during the Review Period
	Completion of the overall procurement plan for the year 2002	Procurement plan for the year 2002 completed
	Commence the negotiation and development of a telephone ordering / payment system in Changsha and Guiyang	Negotiation commenced
	Completion of the centralisation and computerisation of the customer database at operating subsidiaries level	Out of the 15 operating subsidiaries of the Group, 12 have implemented computerised customer database
BRAND BUILDING	Advertise in local newspaper in major cities	Advertisements were made in some cities

	Business objectives for the Review Period as set out in the Prospectus	Actual business progress for the Review Period
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OPERATION FACILITIES

(figures cumulative)

Storage tank capacity (cubic metres)	32,000	26,000
Tank train capacity (tonnes)	2,450	4,050
Tank lorry capacity (tonnes)	295	250
Cylinders truck capacity (tonnes)	350	360
No. of tank train unloading depot	10	10
No. of LPG vessel unloading platform	2	1
No. of retail outlets	190	198
No. of piped gas stations	56	28
No. of automobile LPG filling stations	—	—

HUMAN RESOURCES

DEPLOYMENT

No. of staff

Management	115	130
Finance and administration	230	238
Sales and distribution	1,240	1,315
Production, purchase and supply	715	750
Total	2,300	2,433

USE OF PROCEEDS

Setting up of new joint venture in Kunming	—	18,000,000
Setting up of new joint venture in Changsha	16,000,000	
Sales and marketing propaganda	1,100,000	250,000
General working capital	2,000,000	2,200,000
	<u>19,100,000</u>	<u>20,450,000</u>

VARIANCES BETWEEN THE BUSINESS OBJECTIVES AS SET OUT IN THE PROSPECTUS AND THE ACTUAL BUSINESS PROGRESS FOR THE REVIEW PERIOD

The Kunming Project

The proceeds in setting up of a joint venture in Kunming was intended to be used in the first half of the year, however as the joint venture agreement was signed on 1 July 2001, the use of proceeds was shifted to the second half of the year.

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 Pan River Enterprises (Chang-sha) Co., Ltd. (“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.

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

RESULTS

The audited consolidated results of the Group for the year ended 31 December 2001 together with the comparative figures in 2000 are as follows:

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Turnover	2	1,008,335	1,059,729
Cost of sales		(880,502)	(1,011,052)
Gross profit		127,833	48,677
Other revenue		1,959	487
Distribution costs		(21,845)	(19,335)
Administrative expenses		(38,259)	(25,610)
Other operating expenses		(3,018)	(847)
Profit (loss) from operations		66,670	3,372
Gain on disposal of a subsidiary		283	—
Finance costs		(2,571)	(319)
Investment income	3	4,117	3,430
Profit (loss) from ordinary activities before taxation		68,499	6,483
Taxation	4	—	(342)
Profit (loss) before minority interests		68,499	6,141
Minority interests		(36,806)	(5,313)
Net profit (loss) for the year		31,693	828
Dividends		—	—
Profit (loss) for the year, retained		31,693	828
		HK cents	HK cents
Earnings (loss) per share			
Basic	5	6.71	0.20
Diluted	5	5.54	N/A

Notes:

1. Group Reorganisation and Basis of Preparation of Financial Statements

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 have been listed on GEM operated by the Stock Exchange since 20 April 2001.

Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the Shares on GEM (the “Reorganisation”), the Company acquired the entire issued share capital of China Pan River Group Limited, the then holding company of the subsidiaries included in the Reorganisation, and became the holding company of the Group on 4 April 2001.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice 27 Accounting for Group Reconstruction issued by the Hong Kong Society of Accountants.

Further details of the Reorganisation are set out in the Prospectus.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of LP Gas and natural gas in the 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. Turnover

As the Group is engaged mainly in the sale and distribution of LP Gas and natural gas, and over 90% of the consolidated turnover and trading results of the Group for the year is derived from the PRC, an analysis of the consolidated turnover and trading results of the Group by business and geographical location is not presented.

3. Investment income

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

4. Taxation

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

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

Panva Southwest and Yangzi Panva are exempted from income tax for the two years from 1 January 2000 to 31 December 2001 and are taxable at concessionary tax rates of 12% and 16.5% respectively for the three years ending 31 December 2004.

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

Deferred taxation has not been provided for in the financial statements, as there were no significant timing differences arising during the periods.

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the assumption that the Reorganisation had been effective on 1 January 2000 on the following data:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	31,693	<u>828</u>
Effect of dilutive potential shares:		
Interest on convertible note	<u>2,235</u>	
Earnings for the purpose of diluted earnings per share	<u>33,928</u>	
Weighted average number of shares for the purpose of basic earnings per share	472,335,000	<u>405,000,000</u>
Effect of dilutive potential shares:		
Convertible note	<u>140,351,000</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>612,686,000</u>	

There were no potential dilutive ordinary shares in existence for the year ended 31 December 2000 and therefore, no diluted earnings per share is presented.

6. Gain on sale of investments

Gain on sale of investment in PRC government bond amounted to approximately HK\$363,000 during the year (2000: Nil).

7. Depreciation and Amortisation

Depreciation on fixed assets amounted to approximately of HK\$16,088,000 (2000: HK\$11,451,000) during the year. Amortisation of intangible assets amounted to approximately HK\$267,000 (2000: Nil) during the year.

8. Reserves

	Share Premium Reserve HK\$'000	Exchange Reserve HK\$'000	Assets Revaluation Reserve HK\$'000	Capital Reserve HK\$'000	Statutory Reserve HK\$'000	Enterprise Expansion Reserve HK\$'000	Retained Earnings HK\$'000	Total HK\$'000
At 1 January 2000	—	166	—	—	535	267	(13,471)	(12,503)
Exchange difference on translation of overseas operation	—	(273)	—	—	—	—	—	(273)
Profit for the year	—	—	—	—	—	—	828	828
At 31 December 2000 and 1 January 2001	—	(107)	—	—	535	267	(12,643)	(11,948)
Issue of shares	68,250	—	—	—	—	—	—	68,250
Share issue expense	(12,921)	—	—	—	—	—	—	(12,921)
Contribution from a minority shareholder	—	—	—	1,101	—	—	—	1,101
Surplus on revaluation	—	—	4,973	—	—	—	—	4,973
Transfer	—	—	—	—	205	205	(410)	—
Profit for the year	—	—	—	—	—	—	31,693	31,693
At 31 December 2001	<u>55,329</u>	<u>(107)</u>	<u>4,973</u>	<u>1,101</u>	<u>740</u>	<u>472</u>	<u>18,640</u>	<u>81,148</u>

FINAL DIVIDEND

The Board does not recommend the payment of a final cash dividend for the year ended 31 December 2001.

PROPOSED BONUS ISSUE OF SHARES

The Board proposes a bonus issue (“Bonus Issue”) of shares (“Bonus Shares”) of HK\$0.10 each, credited as fully paid by way of capitalisation of part of the Company’s share premium account, on the basis of one Bonus Share for every five existing shares held by the shareholders of the Company (the “Shareholders”) whose names appear on the registers of members of the Company on the record date for determination of entitlements to the Bonus Issue, conditional on Shareholders’ approval at the annual general meeting, the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Bonus Shares. The Registers of Members of the Company will be closed from Friday, 19 April 2002 to Monday, 22 April 2002, both dates inclusive, and the record date for entitlement to the Bonus Issue will be Monday, 22 April 2002. An announcement setting out details of the proposed bonus issue of the share will be issued in due course.

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 2001.

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 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 the Group.

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 since the listing of the Company's shares on the GEM of the Stock Exchange on 20 April 2001, 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.

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. Sun Hiu Lu. Mr. Yim Chun Leung, resigned as the non-executive director on 1 March 2002.

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

During the period from 20 April 2001, the date of the listing of the Company on GEM, to the date of this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the day of its posting.

Website: <http://www.panva-gas.com>