



PANVA

# PANVA GAS HOLDINGS LIMITED

百江燃氣控股有限公司\*

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

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*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and on the website of Panva Gas at [www.panva-gas.com](http://www.panva-gas.com).*

\* For identification purposes only

## **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**

### **HIGHLIGHTS**

- For the Year ended 31 December 2002, the Group's turnover increased to approximately HK\$1,150,322,000, representing an increase of approximately 14.1% from the corresponding period last year.
- For the Year ended 31 December 2002, the Group's gross profit increased to approximately HK\$261,895,000 representing an increase of approximately 104.9% from the corresponding period last year.
- Net profit increased substantially to approximately HK\$132,538,000, representing an increase of approximately 3.18 times from the corresponding period last year.

### **CHAIRMAN'S STATEMENT**

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

#### **Development of the PRC Gas Sector**

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

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

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

The fight against environmental pollution has topped the PRC's agenda for securing a sustainable economic growth. There has been high enthusiasm across the country to accelerate natural gas development. Piped natural gas is particularly the case given the strong growing demand in the PRC for a more convenient supply of clean fuel. As such, the piped natural gas market has entered into a stage of rapid growth. In the next 10 years, a nationwide framework for piped natural gas will gain shape in the PRC, comprising the "five major pipelines" that connect the eastern, western, southern, northern and central parts of the country. The "eastern pipeline", to be completed in 2004, will supply natural gas mainly to the southern Zhejiang province and Shanghai. The "western pipeline" will transmit natural gas from Talimu and Sebei to Henan, Anhui, Jiangsu, Zhejiang and Shanghai, boasting an annual supply capacity of 12 billion cubic metres. The Kuche-Tabei region will be the major supplier for the western pipeline under the "West to East Natural Gas Pipelines Project" which is expected to be completed on schedule. The "southern pipeline" includes liquefied natural gas projects in Gaungdong and Fujian and is making solid progress. The "northern pipeline" is intended for bringing natural gas from Russia, with its main pipeline to go from Siberia to Tongzhou in the eastern suburb of Beijing, and an ancillary pipeline extending to Shandong. The "central pipeline" will tap the natural gas in Sichuan Basin and Shannxi-Gansu-Ningxia provinces and bring it to the Sichuan-Chongqing regions and the Yunnan-Guizhou areas in the southwest; the number of destinations is vigorously expanding. All in all, the PRC's new framework for natural gas development has already taken shape in 2002.

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

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

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

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

## **Business Development**

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

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

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

### **Prospects**

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

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

### **Appreciation**

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

**Ou Yaping**  
*Chairman*

Hong Kong, 24 March 2003

## MANAGING DIRECTOR'S REPORT

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

### Review of Operations

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$1,150,322,000, which represented an increase of approximately 14.1% from last year. The gross profit margin increased significantly from 12.68% in 2001 to 22.8% in 2002. The increase in gross profit margin was mainly attributable to significant increase in the higher margin gas pipeline construction business and growth in the proportion of the retail business which commands a higher gross profit margin than the wholesale operation. Profit attributable to shareholders was approximately HK\$132,538,000, representing a substantial increase of approximately 3.18 times from last year.

#### *Wholesale of LP Gas*

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

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

#### *Retail Sales*

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

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

## *Gas Pipeline Construction*

During the year, as part of its adopted strategy to help accelerate the piped gas business, the Group worked vigorously on the development of gas pipelines for its end-user household customers. The works mainly included construction and improvement of piped gas stations and networks, and direct connection of gas pipelines to end-user households. For each household connected, the Group received a connection fee of approximately RMB3,000 from the developer or the property management company. Revenue from the gas pipeline construction business increased to approximately HK\$166,482,000 in 2002, accounting for approximately 14.47% of the Group's total turnover. The higher gross profit margin of the gas pipeline construction business, coupled with the economy-of-scale benefits derived from the continuous increase in the number of piped gas companies and customers, contributed significantly to the Group's profitability. As the Group's companies are further enhancing their management and expanding their market share, the benefits will be more vivid in the coming future.

## **Group Structure**

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

### *Pengxi Panva*

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

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

### *Weiyuan Panva*

Through Pan River Investments Company Limited, the Group acquired all the certified assets of Weiyuan Natural Gas Co. Ltd. for a consideration of RMB23,000,000, with an exclusive right to develop natural gas operation in Weiyuan for a period of 30 years. Subsequent to the acquisition, Pan River Investments Company Limited transferred 10% of the assets to Ziyang Panva Gas Co. Ltd., the Group's 90% owned subsidiary, and held the remaining 90% interest.

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

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

### *Zunyi Panva*

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

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

## **Significant Events**

### *Hutchison invests in the Company*

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

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

### *Foray into natural gas exploration*

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

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

## **Progress of gas pipelines development projects**

During the year, the Group successfully forayed into the natural gas pipeline business in Sichuan whilst its Gaochun project in eastern PRC also commenced operation. By refocusing its development strategy and project development, the Group has achieved major breakthroughs, with three natural

gas subsidiaries and one LP Gas pipeline enterprise already in operation. As for new projects, the progress in Sichuan as well as in other provinces has been encouraging. The group is currently in discussion with more than 25 city gas pipeline network development projects in the PRC and has signed letters of intents with 13 cities. It is preliminarily estimated that approximately RMB1 billion (approximately HK\$935 million) would be invested in these related projects.

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

### **Banking facility arrangement with Shenzhen Bank of China**

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

### **Financial Position**

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

Total assets pledged in securing these loans have a net book value of approximately HK\$8,135,000 as at 31 December 2002. All borrowings are denominated in RMB and as the operation of the Group are carried out in the PRC, all receipts and payments in relation to the operation are denominated in 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\$98,224,000 as at 31 December 2002 and were 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 2002, the Group had 2,800 full time employees, of which approximately 99% are located in the PRC.

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

## **Prospects**

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

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

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

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

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

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

### **Appreciation**

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

By Order of the Board  
**Chen Wei**  
*Managing Director*

Hong Kong, 24 March 2003

## 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 2002, to 31 December 2002 (the “Review Period”).

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

	<b>Business objectives for the Review Period as set out in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<b>IMPROVING OPERATIONAL EFFICIENCY</b>	Continue the implementing an Enterprise Resources Planning System	Implementation of the Enterprise Resources Planning System commenced
	Completion of the overall LP Gas procurement plan for the year 2003	Procurement plan for LP Gas and natural gas for the year 2003 completed
	Completion of the feasibility study on the development of electronic business operation platform	Feasibility study on the development of electronic business operation platform completed
<b>BRAND BUILDING</b>	Continue to advertise on television and advertise on roadside billboards in major cities	Advertisements were made in some cities
<b>OPERATION FACILITIES</b> (figures cumulative)		
Storage tank capacity (cubic metres)	38,000	26,000
Tank train capacity (tonnes)	3,850	4,050
Tank lorry capacity (tonnes)	435	280
Cylinders truck capacity (tonnes)	420	380
No. of tank train unloading depot	12	10
No. of LPG vessel unloading platform	2	1
No. of retail outlets	220	205
No. of piped gas stations	144	50
No. of automobile filling stations	20	1

## HUMAN RESOURCES DEPLOYMENT

### No. of staff

Management	180	150
Finance and administration	280	258
Sales and distribution	1,500	1,385
Production, purchase and supply	<u>840</u>	<u>780</u>
Total	<u><u>2,800</u></u>	<u><u>2,573</u></u>

### USE OF PROCEEDS

	HK\$	HK\$
Setting up of new joint venture in Changsha	16,000,000	–
Sales and marketing propaganda	3,100,000	500,000
General working capital	<u>–</u>	<u>–</u>
	<u><u>19,100,000</u></u>	<u><u>500,000</u></u>

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

### **The Changsha Project**

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

### **Operational Facilities**

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

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

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

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

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

## RESULTS

The audited consolidated results of the Group for the year ended 31 December 2002 together with the comparative figures in 2001 are as follows:

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

Notes:

## 1. Basis of Preparation

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. Its intermediate holding company is Sinolink Worldwide Holdings Limited, a company which was incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Asia Pacific Promotion Limited, a limited company incorporated in the BVI.

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

### *Business segments*

An analysis of the Group's turnover for the year ended 31 December 2002 is as follows:

	<b>Sales and distribution of gas fuel and related products</b> <i>HK\$'000</i>	<b>Gas pipeline construction</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>31 December 2002</b>				
REVENUE				
External	983,840	166,482	–	1,150,322
Inter-segment	–	–	–	–
Total revenue	<u>983,840</u>	<u>166,482</u>	<u>–</u>	<u>1,150,322</u>
SEGMENT RESULTS	<u>55,791</u>	<u>128,338</u>	<u>–</u>	184,129
Other revenue				946
Unallocated corporate expenses				<u>(5,362)</u>
Profit from operations				<u>179,713</u>
<b>31 December 2001</b>				
REVENUE				
External	998,145	10,190	–	1,008,335
Inter-segment	–	–	–	–
Total revenue	<u>998,145</u>	<u>10,190</u>	<u>–</u>	<u>1,008,335</u>
SEGMENT RESULTS	<u>66,638</u>	<u>5,280</u>	<u>–</u>	71,918
Other revenue				1,959
Unallocated corporate expenses				<u>(7,207)</u>
Profit from operations				<u>66,670</u>

### *Geographical segments*

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

### **3. Investment income**

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

### **4. Taxation**

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

2002	2001
<i>HK\$'000</i>	<i>HK\$'000</i>

The charge comprises:

Profits tax for the subsidiaries in the PRC	<u>8,545</u>	<u>—</u>
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In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from its first profitable year of operations, followed by a 50% reduction from the third to fifth years.

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 for the year is based on the following data:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<b>132,538</b>	31,693
Effect of dilutive potential shares:		
Interest on convertible note	<u>3,000</u>	<u>2,236</u>
Earnings for the purpose of diluted earnings per share	<u><b>135,538</b></u>	<u>33,929</u>
Weighted average number of shares for the purpose of basic earnings per share	<b>603,272,000</b>	566,802,000
Effect of dilutive potential shares:		
Share options	<b>4,197,000</b>	–
Convertible note	<u>169,492,000</u>	<u>127,119,000</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u><b>776,961,000</b></u>	<u>693,921,000</u>

The weighted average number of shares for the purpose of basic earnings per share and for the purpose of diluted earnings per share for 2001 has been restated to reflect the effect of bonus issue of shares.

## 6. Gain on sale of investments

There was no sale of investments during the year. Gain on sale of investment in PRC government bond amounted to approximately HK\$363,000 during the 2001.

## 7. Depreciation and Amortisation

Depreciation on fixed assets amounted to approximately of HK\$19,125,000 (2001: HK\$16,088,000) during the year. Amortisation of intangible assets amounted to approximately HK\$790,000 (2001: 267,000) during the year.

## 8. Reserve

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	General reserves HK\$'000	Asset revaluation reserves HK\$'000	(Accumulated losses) retained profit HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2001	-	(107)	-	802	-	(12,643)	(11,948)
Arising the year	-	-	1,101	-	-	-	1,101
Premium arising on the Group Reorganisation	53,600	-	-	-	-	-	53,600
Reduction on capitalisation of shares	(30,000)	-	-	-	-	-	(30,000)
Premium arising on issue of shares by means of placing	44,650	-	-	-	-	-	44,650
Expenses incurred in connection with the issue of shares	(12,921)	-	-	-	-	-	(12,921)
Surplus on revaluation	-	-	-	-	4,973	-	4,973
Transfer	-	-	-	410	-	(410)	-
Net profit for the year	-	-	-	-	-	31,693	31,693
At 31 December 2001	55,329	(107)	1,101	1,212	4,973	18,640	81,148
Premium arising on issue of shares	4,267	-	-	-	-	-	4,267
Bonus shares dividend	(10,003)	-	-	-	-	-	(10,003)
Exchange reserve on consolidation	-	(85)	-	-	-	-	(85)
Transfer	-	-	-	865	-	(865)	-
Net profit for the year	-	-	-	-	-	132,538	132,538
At 31 December 2002	<u>49,593</u>	<u>(192)</u>	<u>1,101</u>	<u>2,077</u>	<u>4,973</u>	<u>150,313</u>	<u>207,865</u>

## FINAL DIVIDEND

In light of the enormous investment opportunities in the city piped gas networks in the PRC, the Board does not recommend the payment of a final cash dividend for the year ended 31 December 2002.

## **SPONSOR'S INTERESTS**

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

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

## **COMPETING INTERESTS**

Mr. ZHENG Dunxun, non-executive director of the Company, is also a director Sinochem Hong Kong (Holdings) Co., Ltd. ("Sinochem"). The business of Sinochem consists of LPG 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**

During the year, the Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules, 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.

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

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