



PANVA

# PANVA GAS HOLDINGS LIMITED

百江燃氣控股有限公司\*

(Stock Code: 1083)

## 2005 RESULTS ANNOUNCEMENT

### Financial Highlights:

- The Group's turnover increased to approximately HK\$2,324,100,000 representing an increase 29.1% from last year.
- Gross profit increased to approximately HK\$689,560,000 representing an increase of approximately 54.3% from last year.
- Profit for the year amounted to approximately HK\$155,777,000 representing a decrease of approximately 45.4% from last year.

The board of directors (the "Board" or "Directors") of Panva Gas Holdings Limited (the "Company") is pleased to announce that the Company and its subsidiaries (collectively the "Group") recorded remarkable operational results for the year ended 31 December 2005.

## RESULTS

The audited consolidated results of the Group for the year ended 31 December 2005 together with the comparative figures of 2004 are as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	2,324,100	1,800,253
Cost of sales		<u>(1,634,540)</u>	<u>(1,353,382)</u>
Gross profit		689,560	446,871
Other income	4	81,822	38,066
Distribution costs		(56,849)	(40,086)
Administrative expenses		(165,487)	(85,441)
Other operating expenses		(4,578)	(2,655)
Gain on partial disposal of interest in a subsidiary		–	2,433
Loss on disposal of a subsidiary		–	(374)
Share of results of associates		20,829	83
Finance costs	5	(116,173)	(27,099)
Changes in fair value of derivative financial instruments		<u>(208,127)</u>	<u>–</u>
Profit before taxation		240,997	331,798
Taxation	7	<u>(35,064)</u>	<u>(19,711)</u>
Profit for the year		<u>205,933</u>	<u>312,087</u>
Attributable to:			
Equity holders of the parent		155,777	285,368
Minority interests		<u>50,156</u>	<u>26,719</u>
		<u>205,933</u>	<u>312,087</u>
		HK cents	HK cents
Earnings per share	8		
– basic		<u>16.53</u>	<u>30.41</u>
– diluted		<u>–</u>	<u>28.33</u>

**CONSOLIDATED BALANCE SHEET**  
**AT 31 DECEMBER 2005**

	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Non-current assets		
Property, plant and equipment	<b>1,675,834</b>	1,019,796
Prepaid lease payments	<b>83,548</b>	36,216
Intangible asset	<b>8,969</b>	9,160
Goodwill	<b>55,412</b>	24,485
Interests in associates	<b>465,734</b>	70,795
Available-for-sale investments	<b>189,806</b>	–
Investments in securities	<b>–</b>	10,415
Pledged bank deposits	<b>202,916</b>	77,950
	<b><u>2,682,219</u></b>	<u>1,248,817</u>
Current assets		
Inventories	<b>66,865</b>	39,677
Trade receivables	<b>493,235</b>	187,451
Other receivables, deposits and prepayments	<b>690,298</b>	401,905
Prepaid lease payments	<b>2,717</b>	1,266
Bank balances and cash	<b>986,411</b>	2,096,553
	<b><u>2,239,526</u></b>	<u>2,726,852</u>
Current liabilities		
Trade payables	<b>246,955</b>	24,076
Other payables and accrued charges	<b>196,984</b>	131,443
Taxation	<b>72,134</b>	47,020
Amounts due to minority shareholders	<b>30,343</b>	16,495
Derivative financial instruments	<b>327,680</b>	–
Borrowings – amount due within one year	<b>86,770</b>	29,420
	<b><u>960,866</u></b>	<u>248,454</u>
Net current assets	<b><u>1,278,660</u></b>	<u>2,478,398</u>
Total assets less current liabilities	<b><u>3,960,879</u></b>	<u>3,727,215</u>
Non-current liabilities		
Borrowings – amount due after one year	<b><u>1,928,535</u></b>	<u>1,871,927</u>
Net assets	<b><u><u>2,032,344</u></u></b>	<u><u>1,855,288</u></u>
Capital and reserves		
Share capital	<b>94,225</b>	94,225
Reserves	<b><u>1,548,501</u></b>	<u>1,427,989</u>
Equity attributable to equity holders of the parent	<b>1,642,726</b>	1,522,214
Minority interests	<b><u>389,618</u></b>	<u>333,074</u>
Total equity	<b><u><u>2,032,344</u></u></b>	<u><u>1,855,288</u></u>

## 1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

### **Business combinations**

In the current year, the Group has adopted HKFRS 3 “Business Combinations” with retrospective application for business combinations for which the agreement date is on or after 1 January 2002. The principal effects of the application of HKFRS 3 to the Group are summarised below:

#### *Goodwill*

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2002 eliminated the carrying amount of the related accumulated amortisation of HK\$267,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2002 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2002 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged since 1 January 2002. Comparative figures for 2004 has been restated (see note 2 for the financial impact).

In the current year, the Group has also applied HKAS 21 “The Effects of Changes in Foreign Exchange Rates” which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisition of that foreign operations has been translated at the closing rate at 31 December 2005. There is no material impact on the Group’s translation reserve in respect of such transaction.

#### *Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)*

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill at 1 January 2002 presented as deduction from assets with a corresponding increase to retained earnings (see note 2 for the financial impact).

### **Share-based payments**

In the current year, the Group has applied HKFRS 2 “Share-Based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors and employees’ share options of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see note 2 for the financial impact).

## **Financial instruments**

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

### *Convertible bonds*

The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instruments that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The Group has made a retrospective application in accordance with the requirements of HKAS 32 and comparative figures have been restated accordingly (see note 2 for the financial impact).

### *Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, the Group classified its investments in securities as “investment securities”, which were securities held for an identified long-term strategic purpose, and were measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. “Available-for-sale financial assets” are carried at fair value, with changes in fair values recognition in equity. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition.

### *Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. “Other financial liabilities” are carried at amortised cost using the effective interest method after initial recognition. Accordingly, an adjustment to increase the Group’s retained earnings and to reduce the carrying amount of the Group’s guaranteed senior loan notes on 1 January 2005 of HK\$226,000 was made in accordance with the transitional provision of HKAS 39.

### *Derivatives and hedging*

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that are not held for hedging purposes, on 1 January 2005, the Group recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005, amounting to HK\$101,355,000 with a corresponding debit to retained earnings (see note 2 for the financial impact).

### Owner-occupied leasehold interest in land and buildings

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

In addition, the Group has changed its accounting policy and elected for stating the buildings elements of the Group at cost less accumulated depreciation rather than at their revalued amount. The change in this accounting policy has been applied retrospectively in accordance with the requirements of HKAS 8 Accounting policies, changes in accounting estimates and errors.

## 2. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 2005 are summarised below:

	31.12.2004 <i>HK\$'000</i> (originally stated)	Reclassification <i>HK\$'000</i>	Retrospective adjustments <i>HK\$'000</i>	31.12.2004 <i>HK\$'000</i> (restated)	Opening adjustments <i>HK\$'000</i>	1.1.2005 <i>HK\$'000</i> (restated)
Balance sheet items						
Property, plant and equipment	1,063,321	–	(43,525)	1,019,796	–	1,019,796
Prepaid lease payments	–	–	37,482	37,482	–	37,482
Negative goodwill	(40,125)	–	40,125	–	–	–
Goodwill	21,856	–	2,629	24,485	–	24,485
Interests in associates	35,300	–	118	35,418	–	35,418
Derivative financial instruments	–	–	–	–	(101,335)	(101,335)
Convertible bonds	(378,988)	–	49,077	(329,911)	–	(329,911)
Guaranteed senior notes	(1,524,710)	–	–	(1,524,710)	226	(1,524,484)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total effect on assets and liabilities	<u>(823,346)</u>	<u>–</u>	<u>85,906</u>	<u>(737,440)</u>	<u>(101,109)</u>	<u>(838,549)</u>
Retained earnings	620,877	–	30,992	651,869	(101,109)	550,760
Share premium	712,337	–	10,497	722,834	–	722,834
Asset revaluation reserve	4,881	–	(4,881)	–	–	–
Share option reserve	–	–	2,733	2,733	–	2,733
Convertible bonds reserve	–	–	48,350	48,350	–	48,350
Minority interests	–	334,859	(1,785)	333,074	–	333,074
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total effect on equity	<u>1,338,095</u>	<u>334,859</u>	<u>85,906</u>	<u>1,758,860</u>	<u>(101,109)</u>	<u>1,657,751</u>
Minority interests	<u>334,859</u>	<u>(334,859)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The cumulative effects of the application of the new HKFRSs and changes in accounting policies as at 31 December 2003 and 2004 are summarised below:

	31.12.2003 <i>HK\$ '000</i> (originally stated)	Reclassification <i>HK\$ '000</i>	Retrospective adjustments <i>HK\$ '000</i>	31.12.2003 <i>HK\$ '000</i> (restated)	Opening adjustments <i>HK\$ '000</i>	1.1.2004 <i>HK\$ '000</i> (restated)
Retained earnings	358,037	–	9,712	367,749	–	367,749
Share premium	135,092	–	10,497	145,589	–	145,589
Asset revaluation reserve	4,881	–	(4,881)	–	–	–
Convertible bonds reserve	–	–	48,350	48,350	–	48,350
Minority interests	–	264,637	(1,809)	262,828	–	262,828
	<u>498,010</u>	<u>264,637</u>	<u>61,869</u>	<u>824,516</u>	<u>–</u>	<u>824,516</u>
Total effect on equity						
Minority interests	<u>264,637</u>	<u>(264,637)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The effects of changes in accounting policies on the consolidated income statement are summarised as follows:

	HKAS 8 & HKAS 17 <i>HK\$ '000</i>	HKFRS 2 <i>HK\$ '000</i>	HKAS 32 & HKAS 39 <i>HK\$ '000</i>	HKFRS 3, HKAS 36 & HKAS 38 <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
<b>For the year ended 31 December 2004</b>					
Increase in staff costs and related expenses	–	(2,733)	–	–	(2,733)
Decrease in amortisation and depreciation of property, plant and equipment	40	–	–	–	40
Increase in minority interests' share of results for the year	(24)	–	–	–	(24)
Decrease in amortisation of goodwill	–	–	–	1,167	1,167
Increase in release of negative goodwill to consolidated income statement	–	–	–	22,103	22,103
Decrease in effective interest on the Group's borrowings	–	–	727	–	727
	<u>16</u>	<u>(2,733)</u>	<u>727</u>	<u>23,270</u>	<u>21,280</u>

**For the year ended 31 December 2005**

Increase in staff costs and related expenses	–	(16,129)	–	–	(16,129)
Decrease in amortisation and depreciation of property, plant and equipment	40	–	–	–	40
Increase in minority interests' share of results for the year	(24)	–	–	–	(24)
Decrease in amortisation of goodwill	–	–	–	4,986	4,986
Increase in release of negative goodwill to consolidated income statement	–	–	–	13,721	13,721
Increase in effective interest on the Group's borrowings	–	–	(7,262)	–	(7,262)
Losses arising from changes in fair value of derivative financial instruments	–	–	(208,127)	–	(208,127)
	<u>16</u>	<u>(16,129)</u>	<u>(215,389)</u>	<u>18,707</u>	<u>(212,795)</u>

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective as at 31 December 2005. The directors of the Company anticipate that the application of these standards, interpretations and amendments will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

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

Sale and distribution of gas fuel and related products – Sale of liquefied petroleum gas (“LP Gas”) in bulk and in cylinders, provision of piped LP Gas and natural gas (“Gas Fuel”), and sale of Gas Fuel

Gas pipeline construction – Construction of gas pipelines

The Group’s operation by business segment is as follows:

	<b>Sale and distribution of gas fuel and related products</b> <i>HK\$’000</i>	<b>Gas pipeline construction</b> <i>HK\$’000</i>	<b>Consolidated</b> <i>HK\$’000</i>
For the year ended 31 December 2005			
REVENUE			
External	<u>1,612,032</u>	<u>712,068</u>	<u>2,324,100</u>
Segment results	<u>174,712</u>	<u>406,044</u>	580,756
Other income			81,822
Unallocated corporate expenses			(118,110)
Finance costs			(116,173)
Share of results of associates			20,829
Changes in fair value of derivative financial instruments			<u>(208,127)</u>
Profit before taxation			240,997
Taxation			<u>(35,064)</u>
Profit for the year			<u><u>205,933</u></u>

The assets and liabilities of the Group are substantially attributable to sale and distribution of gas fuel and related products, an analysis of segment assets and liabilities is not presented.

### Geographical segments

No geographical segment analysis is shown as the Group's operating businesses are solely carried out in the PRC and assets are solely located in the PRC.

	<b>Sale and distribution of gas fuel and related products</b> <i>HK\$'000</i>	<b>Gas pipeline construction</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
For the year ended 31 December 2004			
REVENUE			
External	<u>1,368,664</u>	<u>431,589</u>	<u>1,800,253</u>
Segment results	<u>129,614</u>	<u>225,717</u>	355,331
Other income			38,066
Unallocated corporate expenses			(36,642)
Gain on partial disposal of interest in a subsidiary			2,433
Loss on disposal of a subsidiary			(374)
Finance costs			(27,099)
Share of results of an associate			<u>83</u>
Profit before taxation			331,798
Taxation			<u>(19,711)</u>
Profit for the year			<u>312,087</u>
<b>4. OTHER INCOME</b>			
	<b>2005</b> <i>HK\$'000</i>		2004 <i>HK\$'000</i>
Interest income	<b>42,275</b>		13,126
Dividend income from available-for-sale investments	<b>5,104</b>		–
Gain on disposals of available-for-sale investments	<b>4,177</b>		–
Discounts on acquisition	<b>15,168</b>		22,967
Net exchange gain	<b>12,772</b>		614
Sundry	<b>2,326</b>		<u>1,359</u>
	<u><b>81,822</b></u>		<u>38,066</u>

## 5. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on:		
– bank and other borrowings wholly repayable within five years	4,752	11,047
– bank and other borrowings not wholly repayable within five years	–	28,486
– convertible bonds	22,782	13,685
– senior notes	132,404	–
	<u>159,938</u>	<u>53,218</u>
Net interest receivable on interest rate swaps	(43,988)	(26,239)
	<u>115,950</u>	<u>26,979</u>
Bank charges	223	120
	<u>116,173</u>	<u>27,099</u>

## 6. DEPRECIATION AND AMORTISATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amortisation of intangible asset (included under administrative expenses)	428	502
Depreciation and amortisation of property, plant and equipment	<u>63,297</u>	<u>36,936</u>

## 7. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The charge comprises:		
PRC Enterprise Income Tax		
– current year	41,243	19,711
– overprovision in prior years	(6,179)	–
	<u>35,064</u>	<u>19,711</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is 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 of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC enterprise income tax has been provided for after taking these tax incentives into account.

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before taxation	<u>240,997</u>	<u>331,798</u>
Tax at the applicable rate of 33% (2004: 33%) (Note)	79,529	109,493
Tax effect of expenses that are not deductible for tax purposes	111,212	13,508
Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit	(86,108)	(80,865)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provinces	(61,917)	(23,594)
Tax effect of share of results of associates	(6,873)	(27)
Tax effect of utilisation of tax losses not previously recognised	(244)	–
Tax effect of tax losses not recognised	5,644	1,196
Overprovision of taxation in previous years	<u>(6,179)</u>	<u>–</u>
Taxation for the year	<u>35,064</u>	<u>19,711</u>

*Note:* The tax rate of 33% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for both years.

At the balance sheet date, the Group has estimated unused tax losses of HK\$68,291,000 (2004: HK\$49,559,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire within five years from the date of origination.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share, being profit for the year attributable to equity holders of the Company	155,777	285,368
Effect of dilutive potential shares:		
Effective interest on convertible bonds	<u>22,782</u>	<u>13,685</u>
Earnings for the purposes of diluted earnings per share	<u>178,559</u>	<u>299,053</u>
	<b>Number of shares</b>	
	<b>'000</b>	<b>'000</b>
Weighted average number of shares for the purposes of basic earnings per share	<u>942,251</u>	<u>938,499</u>
Effect of dilutive potential shares:		
Share options	17,725	19,341
Convertible bonds	97,851	97,851
	<u>115,576</u>	<u>117,192</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>1,057,827</u>	<u>1,055,691</u>

The conversion of the Company's outstanding convertible bonds did not have dilution effect on earnings per share for the year since the conversion would result in an increase in earnings per share.

The following table summarises the impact on basic and diluted earnings per share as a result of the changes in accounting policies:

	Basic earnings per share		Diluted earnings per share	
	2005 <i>HK cents</i>	2004 <i>HK cents</i>	2005 <i>HK cents</i>	2004 <i>HK cents</i>
Reported figures before adjustments	39.11	28.14	–	26.38
Adjustments arising from the changes in accounting policies	(22.58)	2.27	–	1.95
Restated	<u>16.53</u>	<u>30.41</u>	<u>–</u>	<u>28.33</u>

## BUSINESS REVIEW

The Group made significant progress in operations management and project development in 2005. During the year, cost of sales was successfully kept in check through better realignment of resources despite the rising prices of LP Gas. The piped gas business also achieved encouraging results on target, with new development projects secured in seven PRC cities.

### Review of Operations

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK\$2,324,100,000, an increase of 29.1% over the previous year. Gross profit increased by 54.3% to approximately HK\$689,560,000. Due to impact of the changes in fair value of derivative financial instruments, profit attributable to equity holders of the parent decreased by 45.4% to approximately HK\$155,777,000.

### Sale of LP Gas in Bulk

Sale of LP Gas in bulk comprises the direct sale of LP Gas to wholesale customers in large quantities which are delivered by tank lorries and tank vessels. It remained a principal activity of the Group in 2005, benefiting from the Group's strong efforts to further realign its resources. Such efforts included the strengthening of communications and co-operations with up-stream enterprises on the one hand and the standardization of purchasing on the other hand. By centralising purchases, maintaining inventory at reasonable levels, expanding sourcing and reducing transportation costs, the Group has successfully contained its cost of sales. As a result, the wholesale business maintained solid development despite the rising costs of LP Gas in the PRC. For the year ended 31 December 2005, the business recorded a turnover of HK\$854,189,000 which was approximately the same as last year, accounting for approximately 36.8% of the Group's total turnover.

### Retail of LP Gas

This business comprises the direct sale of LP Gas in cylinders to end-user customers. During the year, rising prices of LP Gas coupled with strained supply in some of the PRC cities presented severe challenges to gas fuel operators. Small and medium sized LP Gas firms with low efficiencies were driven out of the market. As a result, the Group was able to secure a solid growth in sales as well as a higher market share in the retail of LP Gas. Turnover derived from the business grew by 39.3% to approximately HK\$574,474,000 in 2005, accounting for approximately 24.7% of the Group's total turnover.

As at 31 December 2005, the Group had approximately 2,300,000 households of end-user customers covering 8,740,000 people for its retail sale of LP Gas in cylinders, an increase of approximately 200,000 households over the corresponding figure at 31 December 2004.

### Sale of Piped Gas

This business comprises the direct sale of piped natural gas, piped LP Gas and piped coal gas to end-user households. Turnover of the business increased by 130.3% to approximately HK\$153,102,000, accounting for approximately 6.6% of the Group's aggregate turnover derived from the gas fuel businesses in 2005.

As at 31 December 2005, the Group had approximately 753,000 households of end-user customers for its sale of piped gas, an increase of approximately 297,000 households over the corresponding figure at 31 December 2004. The increase in end-user customers was due to new piped gas connections as well as new city piped gas projects acquired during the year.

### **Gas Pipeline Construction**

The Group's gas pipeline construction business mainly includes the development and maintenance of piped gas stations and networks through which the Group provides direct connection of piped gas to end-user households and receives a connection fee. For the year ended 31 December 2005, the Group received approximately HK\$712,068,000 in connection fee, an increase of approximately 65% over last year. The amount accounted for approximately 30.6% of the Group's total turnover in 2005, compared to approximately 24.0% last year.

The Group has made gas pipeline construction a long-term core business, which not only brings revenue at a higher gross profit margin but also facilitates the expansion of piped gas distribution. While making solid efforts to increase its penetration in the existing piped gas market, the Group is also striving to obtain more piped gas projects by leveraging on the gas pipeline development business.

### **Administrative Expenses**

The Group's administrative expenses increased significantly from HK\$85,441,000 to HK\$165,487,000 in 2005, representing an increase of approximately 93.7%. This is because of the amortisation of share option expenses increased from HK\$2,733,000 in 2004 to HK\$16,129,000 in 2005 in connection with the share options granted in November 2004. Legal and professional increased from HK\$1,675,000 in 2004 to HK\$21,510,000 in 2005 due to professional fees incurred for the switch from the growth enterprise market ("GEM") to the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005. Staff cost also increased from HK\$27,424,000 in 2004 to HK\$40,257,000 in 2005, mainly due to the increased number of operating subsidiaries in 2005.

### **Acquisition of New Projects**

The Group continued to accelerate its new project development in 2005 and gained major breakthroughs and achievements. On the piped gas front, the Group further strengthened its strategic position in Sichuan and the northeastern PRC region while increased its market penetration in Guangdong, the number one PRC province in terms of economic development. A total of seven projects were secured during the year concerning piped gas distribution and gas pipeline construction in cities that included Jianyang in Sichuan province, Tieling, Chaoyang and Benxi in Liaoning province, and Shaoguan and Qingyuan in Guangdong province. Moreover, discussions on several major LP Gas projects have reached final stages and are expected to be concluded in 2006.

### **Sichuan Jianyang Project**

The Group through its wholly-owned subsidiary Panriver Investments Company Limited ("Panriver Investments") entered into an acquisition agreement with Jianyang Development Bureau to acquire 100% equity interest in Jianyang Natural Gas Company for a consideration of RMB28,500,000. Lezhi Panva Gas Co., Ltd., another wholly-owned subsidiary of the Group, has taken up a 10% interest in Jianyang Natural Gas Company which was renamed as Jianyang Panva Gas Company Limited ("Jianyang Panva Gas"). As part of the acquisition, Jianyang Panva Gas was granted an exclusive right to operate natural gas business in Jianyang city for 30 years.

Jianyang occupies an area of approximately 2,215 square kilometres, with a population of approximately 1,430,000 and connectable natural gas households of approximately 376,000. Located in the western part of Sichuan Basin, Jianyang is 55 kilometres from Chengdu, the provincial capital of Sichuan, and adjacent to the state-endorsed Chengdu Economic and Technological Development Zone. As such, Jianyang is well positioned to benefit from the eastern and southern developments of Chengdu. Armed with provincial-class tourism, economic and technological development zones, Jianyang is a city with highly promising prospects in the Chengdu Plain Economic Circle. Its prime location, outstanding competitive advantages, strong economic infrastructure and well-integrated strengths provide a favourable market for natural gas development.

Jiayang Panva Gas is principally engaged in the provision of natural gas, with ancillary businesses that include the design and installation of natural gas facilities, the repair and maintenance of natural gas utensils, the retail of natural gas equipment and parts, and the retail of building materials.

### **Shandong Jinan Project**

Panriver Investments has entered into a joint venture agreement with Jinan City Gas Company (“Jinan Gas”) and an independent third party in relation to the establishment of Shandong Panva Gas Co. Ltd. (“Shandong Panva”) to operate the piped natural gas businesses in the Jiancheng District, the western part of Jinan city, Shandong province, with an exclusive operating right for 30 years. According to the agreement, Shandong Panva will have a registered capital of RMB400,000,000, of which Jinan Gas will contribute 50% or RMB200,000,000, Panriver Investments will contribute 48% or RMB192,000,000, and the independent third party will contribute 2% or RMB8,000,000.

As major province of the PRC, Shandong has a well-developed economy and is one of the eminent coastal provinces open to foreign investment. Being the capital city of Shandong province, Jinan is the political, economic and cultural centre of the province. It ranks among the “Top 50” PRC cities in terms of economic strength and the “Best 40” PRC cities in terms of investment environment. It enjoys a sub-provincial city status granted by the State, with five districts, four municipalities and one city under its jurisdiction. Jinan occupies an area of 8,227 kilometres with a total population of approximately 5,820,000, of whom 2,700,000 reside in the city district. The operational area of Shandong Panva will cover a population of 1,150,000 accounting for approximately 50% of the population in the Jiancheng District. It is expected that the population in the Jiancheng District will grow to 2,000,000 by 2020 with connectable natural gas households of 525,000. The Group has obtained the necessary approvals for the project subsequent to 31 December 2005.

### **Liaoning Benxi Project**

Panriver Investments has entered into an asset transfer agreement with the Benxi People’s Government State Assets Supervision & Management Committee (the “Benxi People’s Government”) to acquire 80% of the state-owned equity right of Benxi Town Gas Company (“Benxi Town Gas”) at a consideration of RMB78,200,000, which holds a 30-year concession to operate the piped coal gas business in Benxi, Liaoning province. Panriver Investments and the Benxi People’s Government have established a new joint venture company named Panva Benxi Gas Company Ltd. (“Panva Benxi”) which has a registered capital of RMB97,800,000.

Benxi is well-known for its steel, coal, medical, chemical and mechanical industries. Located near the city of Shenyang, the capital city of Liaoning province, Benxi occupies an area of approximately 8,420 square kilometres with a population of over 1,560,000, of whom 790,000 reside in the city district. Benxi recorded a GDP of RMB29,360 million in 2004. With economic revitalisation and urbanisation gaining pace in the northeastern PRC, Benxi is expected to record a steady increase in piped coal gas users providing strong profit growth potential for Panva Benxi.

Panva Benxi is principally engaged in the provision of piped coal gas and the installation of related facilities in Pingshan district, Mingshan district and part of Xihu district in Benxi. The Group has obtained the necessary approvals for the project subsequent to 31 December 2005.

### **Liaoning Tieling Project**

Panriver Investments has entered into an asset transfer agreement with the Tieling Rural Construction Committee (“Tieling Rural Construction”) to acquire 80% of the state-owned equity right of Tieling Town Gas Company (“Tieling Town Gas”) for a consideration of RMB39,368,000, which holds a 30-year concession to operate the piped gas business in Tieling, Liaoning province. Panriver Investments and Tieling Rural Construction will establish a new joint venture company named Tieling Panva Gas Co. Ltd. (“Tieling Panva”) which will have a registered capital of RMB49,210,000.

Located in the northern area of Liaoning province, Tieling is part of the hinterland to Liaodong Peninsula and a major producing area of grain and livestock in the province. Tieling has 29 kinds of mineral resources and accounts for 30% of the coal reserve in Liaoning province. Tieling occupies an area of approximately 13,000 square kilometres with a population of over 3,000,000, of whom 435,000 reside in the city district. Tieling recorded a GDP of RMB216,100,000 in 2004. There are large reserves of coal mine and coal bed methane in the vicinity of Tieling which provide a reliable supply of coal gas to Tieling Panva.

Tieling Panva will be principally engaged in the provision and sale of piped gas, the planning, construction, design and installation of gas pipelines, the provision of gas fuel to automobile, the construction of gas fuel refilling stations, and the sale of gas fuel household appliances. The Group has obtained the necessary approvals for the project subsequent to 31 December 2005.

### **Liaoning Chaoyang Project**

Panriver Investments has entered into an asset transfer agreement with the Chaoyang People's Government State Assets Supervision & Management Committee (the "Chaoyang People's Government") to acquire 90% of the state-owned equity right of Chaoyang Town Gas Company ("Chaoyang Town Gas") for a consideration of RMB80,324,000, which holds a 30-year concession to operate the piped gas and LP Gas businesses in Chaoyang, Liaoning province. Panriver Investments and Chaoyang People's Government will establish a new joint venture company named Chaoyang Panva Gas Co. Ltd. ("Chaoyang Panva") which will have a registered capital of RMB89,249,000.

Located in the western part of Liaoning province, Chaoyang is rich in mineral resources and has the largest iron reserve in western Liaoning. Chaoyang occupies an area of approximately 20,000 square kilometres with a population of over 3,360,000, and ranks the top city of Liaoning province in terms of labour resources. It is also one of the ten major gold producing areas in the PRC.

Chaoyang Panva will be principally engaged in the desulphurization, purification, storage, pressure regulating and transportation of coal gas, the engineering, installation, maintenance and sale of gas fuel household appliances, and the provision of LP Gas. The Group has obtained the necessary approvals for the project subsequent to 31 December 2005.

### **Guangdong Qingyuan and Shaoguan Projects**

In December 2005, Panriver Investments entered into an asset transfer agreement with three companies in the PRC to acquire 100% of Shaoguan Keguang Piped Gas Co Ltd ("Shaoguan Keguang") and 80% of Qingyuan Beike Languang Piped Gas Co. Ltd ("Qingyuan Beike") for a total consideration of RMB124,800,000, which hold a 30-year concession to operate the piped gas business in Shaoguan and Qingyuan, Guangdong province.

Located in northern Guangdong province, Shaoguan is the hub of heavy industry in Guangdong. It occupies an area of 18,385 square kilometres with a population of approximately 3,130,000 in 2002. Shaoguan Keguang is principally engaged in the development, construction and operation of piped gas, gas fuel facilities and technology development, the sale, operation and refilling of gas cylinders, the sale of electronic appliances, the sale, installation, testing and maintenance of gas fuel household appliances, and piped gas engineering and installation.

Qingyuan is located in the mid-north region of Guangdong province. Being part of the midstream and downstream area of Beijiang, Qingyuan is served by an extensive transportation network. It occupies an area of 19,500 square kilometres with a population of approximately 3,899,700 in 2003. In 2004, Qingyuan recorded a GDP growth of 19.6% over 2003, ranking it the strongest city in Guangdong province in terms of economic growth. Qingyuan Beike is principally engaged in the development, construction and operation of city piped gas, and the sale of gas fuel household appliances, kitchenware, electronic appliances and etc. As of the date of this announcement, the Group is still awaiting regulatory approvals for the companies.

### **Available for sale investments**

Available for sale investments is mainly made up of the Group's investment in Chengdu City Gas Co., Ltd.

## **Corporate Culture**

During the year, the Panva Professional Managers Club has been formally established. This organisation aims to foster stronger ties among the Group's professional managers and provide them with a venue to share their life experience and management expertise. The Panva Professional Managers Club has successfully organised the first competition on painting, calligraphy and photography and the 2005 Panva Forum. During the year, the Company also launched e-Bulletin, an electronic interactive platform designed for the enhancement of internal communications between the Company and its staff.

New mileage was gained in the Group's staff training programmes, marked by the wider variety of subjects and more in-depth contents. The extensive subjects ranged from management (for instance the course on "Earnings Models of LP Gas Enterprises") and technology to professional know-how such as gas safety, financial analysis, legal matters such as the "New Company Law", and personal quality enhancement such as the course on "Corporate Manners". Classes were held in multiple manners, such as intensive workshops on business and administration learning, overseas inspection trips, panel discussions, and internal and external talks and seminars.

## **Enhancement of Safety in Operations**

Safety is the paramount concern of the Group in carrying out its gas fuel operations. During the year, apart from organising several training courses and fire drills to enhance safety management, the Group also launched various programmes to educate customers and promote gas safety in the communities, families and schools.

The Group also achieved new breakthroughs in operations management. The headquarters was positioned as the centre of strategic planning and decision as well as cultural and service development for the Group's overall operations. Apart from exercising hands-on management of all regional operations and targeting their specific needs, the Group also strengthened its realignment of resources and adopted centralised purchases to capitalise on the Group's economies-of-scale advantages.

More stringent control was adopted in the Group's piped gas operations to reduce production costs and increase the accountability of the management teams. On the external front, "one-stop" service was introduced to the communities emphasizing continued improvement and innovation to enhance the Group's brand name prestige.

While capitalising on its economies-of-scale advantages, the Group also adopted various means to distinguish itself in the bulk LP Gas market. This was achieved through the introduction of new high-end products and the provision of strong technological support, which significantly increased the value of the Group's product range. Presently, the Group's wide variety of products include clean LP Gas, high clean LP automobile gas, industrial LP Gas, high power mixed gas and propane.

In the retail market, the Group launched unique promotional drives for its LP Gas leveraging on the Group's strong brand name, effective operational system and sophisticated management. In the wholesale market, the Group continued to keep abreast of market development and make improvements to its sales operations by paying attention to the feedback of major customers.

## **Listing of the Company on the Main Board of the Stock Exchange**

As announced on 3 May 2005, the Company had applied to the Stock Exchange for the listing of the Company's shares on the Main Board by way of introduction (the Listing"), with Merrill Lynch (Asia Pacific) Limited acting as the Company's sponsor. The Stock Exchange subsequently approved the Listing. Following the passing of an ordinary resolution by shareholders at the Company's extraordinary general meeting to approve the Listing, the last day of dealings in the Company's Shares on the GEM was 7 December 2005 and dealings in the Company's shares on the Main Board commenced at 9:30 a.m. on 8 December 2005. The stock code of the Company is 1083.

## **Contingent Liabilities**

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

## **Financial Position**

As at 31 December 2005, the Group's cash and cash equivalents amounted to approximately HK\$986,411,000 which were mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 31 December 2005, the Group's bank loans and other borrowings amounted to approximately HK\$2,015,305,000, of which approximately HK\$1,916,042,000 arose from the issue of guaranteed senior notes in September 2004 and the Group's issue of 5-year convertible bonds in April 2003. The Group ended the year under review with a current ratio of approximately 2.3 times and a gearing ratio (net debt to equity holders to the parent) of approximately 50.3%. The strong financial position enables the Group to undertake new development projects.

Total assets pledged in securing these bank loans had a net book value of approximately HK\$40,432,000 as at 31 December 2005.

In September 2004, the Company issued the guaranteed senior notes, which carry a fixed interest rate of 8.25%. With a substantial amount raised from the guaranteed senior notes, there is a cost of carry for amounts that have not been invested by the Company and in order to reduce such a carrying cost, the Company entered into an interest rate swap agreement with Morgan Stanley Capital Services Inc. ("Morgan Stanley Swap") in September 2004 and a subsequent swap agreement with Credit Suisse First Boston ("CSFB Swap") in March 2005. Pursuant to the terms of the swaps, the Company's effective interest rate liability for the guaranteed senior notes is subject to changes in LIBOR (in the case of the Morgan Stanley Swap) and in the USD 30-year CMS and USD 2-year CMS constant maturity swap rate, or CMS rate (in the case of the CSFB Swap).

Although the Company implemented certain mechanism into the structure of the two swaps to mitigate the rising interest rates, the magnitude and pace of short term interest rate hikes were out of our expectation and to certain extent market expectation. A poor judgment by the management has resulted in higher interest expenditure in 2006; however the impact of the higher interest rate for 2006 was offset by the interest savings enjoyed by the Company in 2004 and 2005.

In addition, the Company has adopted HKAS 39, governing the recognition and measurement of financial instruments, with effect from 1 January 2005. Under HKAS 39, from 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, which include the Morgan Stanley Swap and the CSFB Swap, changes in fair value must be recognized in the Company's profit and loss account for the period in which they arise.

The fair value of these swaps as at 31 December 2005 was estimated to be approximately negative HK\$328 million, which was based on market prices quoted from financial institutions for equivalent instruments on 31 December 2005. This amount includes derivatives recognized at fair value of approximately negative HK\$101 million as at 1 January 2005, which was recognized as a loss in the Company's consolidated income statement, and changes in the fair value of interest rate swaps of approximately HK\$208 million, which was recognized as a loss in the Company's consolidated income statement for the year ended 31 December 2005.

The management of the Company will continue to evaluate and monitor the impact of the interest rate swaps and will reduce the exposures caused by the interest rate swaps to their minimal.

## **Employees and Remuneration Policies**

As at 31 December 2005, the Group had 3,818 employees, an increase of 16.72% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

## **PROSPECTS**

Looking ahead, the Group will further enhance its corporate culture and social contribution in 2006 while focusing on the following development works:

- Further expanding the Group's economies-of-scale through mergers and acquisitions and new project development;
- Prudently seeking for new projects of higher investment returns while adhering to the Group's well-tested selection criteria;
- Focusing on the development of piped gas projects while expanding the Group's LP Gas business in selective PRC cities;
- Further standardising the Group's operations and enhancing the returns of existing projects through effective cost reduction measures and realignment of resources; and
- Strengthening the Group's co-operations with up-stream enterprises to ensure a reliable gas fuel supply.

## **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 dividend for the year ended 31 December 2005 (2004: Nil).

## **PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year.

## **CORPORATE GOVERNANCE**

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices ("Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

During the year, the Company has complied with the code provisions as set out in the Code except that the chairman and other members of the audit committee were unable to attend the annual general meeting of the Company held on 21 April 2005 because they were out of Hong Kong at that time for their personal business commitment. This does not meet with the first sentence of the code provision E.1.2 of the Code which provides that the chairman of the board should arrange for chairman of audit committee or another member of the committee or their appointed delegate to be available to answer questions at the annual general meeting.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2005, all Directors have complied with the required standard set out in the Model Code.

## **AUDIT COMMITTEE**

The Company has an audit committee (“Audit Committee”) which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The members of the Audit Committee are Messrs. CHEUNG Hon Kit, GE Ming and LI Xiao Ru. The Audit Committee meets regularly with the Company’s senior management and the Company’s auditors to consider the Company’s financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The annual results of the Group for the year ended 31 December 2005 had been audited by the Company’s auditors, Deloitte Touche Tohmatsu, and had been reviewed by the Audit Committee.

## **Appreciation**

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devoted efforts in 2005. I would also like to thank the family members of our staff for their support and understanding during the year.

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

Hong Kong, 24 April 2006

At the date of this announcement, the Board comprises:

### *Executive Directors:*

OU Yaping (*Chairman*)  
TANG Yui Man Francis (*Vice-chairman*)  
CHEN Wei (*Managing Director*)  
LI Fujun  
SHEN Lian Jin  
ZHANG Keyu

### *Non-executive Directors:*

FOK Kin-ning, Canning  
TO Chi Keung, Simon  
(*alternate director to Mr. Fok Kin-ning, Canning*)

### *Independent Non-executive Directors:*

CHEUNG Hon Kit  
GE Ming  
LI Xiao Ru

\* *for identification purpose only*