



PANVA GAS HOLDINGS LIMITED

(百江燃氣控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1083)

2006 RESULTS ANNOUNCEMENT

Financial Highlights:

- The Group's turnover increased to approximately HK\$2,642.9 million representing an increase 13.7% from last year.
- Gross profit decreased to approximately HK\$404.7 million representing a decrease of approximately 41.3% from last year.
- A loss attributable to shareholders of approximately HK\$256.3 million, a significant decrease when compared to a profit of approximately HK\$155.8 million recorded last year.

The board of directors (the "Board" or "Directors") of Panva Gas Holdings Limited (the "Company") presents audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

* *for identification purpose only*

RESULTS

The audited consolidated results of the Group for the year ended 31 December 2006 together with the comparative figures of 2005 are as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Turnover	3	2,642,916	2,324,100
Cost of sales		<u>(2,238,179)</u>	<u>(1,634,540)</u>
Gross profit		404,737	689,560
Other income		87,373	81,822
Distribution and selling expenses		(85,423)	(56,849)
Administrative expenses		(309,384)	(165,487)
Other expenses		(10,632)	(4,578)
Share of results of associates		(13,664)	20,829
Changes in fair value of derivative financial instruments		(124,151)	(208,127)
Finance costs	4	<u>(178,422)</u>	<u>(116,173)</u>
(Loss) profit before taxation	5	(229,566)	240,997
Taxation	6	<u>(17,073)</u>	<u>(35,064)</u>
(Loss) profit for the year		<u>(246,639)</u>	<u>205,933</u>
Attributable to:			
Equity holders of the Company		(256,334)	155,777
Minority interests		<u>9,695</u>	<u>50,156</u>
		<u>(246,639)</u>	<u>205,933</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss) earnings per share	7		
– Basic		<u>(27.13)</u>	<u>16.53</u>

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006

	<i>NOTES</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		2,356,654	1,675,834
Prepaid lease payments		150,785	83,548
Intangible assets		136,527	8,969
Goodwill		68,641	55,412
Interests in associates		644,940	465,734
Available-for-sale investments		170,528	189,806
Pledged bank deposits		–	202,916
		3,528,075	2,682,219
Current assets			
Inventories		96,737	66,865
Prepaid lease payments		4,592	2,717
Trade receivables	8	132,673	493,235
Other receivables, deposits and prepayments		395,619	690,298
Amounts due from minority shareholders		4,421	–
Bank balances and cash		614,479	986,411
		1,248,521	2,239,526
Current liabilities			
Trade payables	9	151,279	246,955
Other payables and accrued charges		373,259	196,984
Taxation		81,846	72,134
Amounts due to minority shareholders		25,352	30,343
Derivative financial instruments	10	–	327,680
Borrowings – amount due within one year	11	110,964	86,770
		742,700	960,866
Net current assets		505,821	1,278,660
Total assets less current liabilities		4,033,896	3,960,879
Non-current liabilities			
Borrowings – amount due after one year	11	1,951,751	1,928,535
Deferred taxation		43,140	–
		1,994,891	1,928,535
Net assets		2,039,005	2,032,344
Capital and reserves			
Share capital	12	95,830	94,225
Reserves		1,440,808	1,548,501
Equity attributable to equity holders of the Company		1,536,638	1,642,726
Minority interests		502,367	389,618
Total equity		2,039,005	2,032,344

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2006

Attributable to equity holders of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	94,225	722,834	(4,456)	2,733	1,101	5,558	48,350	550,760	1,421,105	333,074	1,754,179
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	49,715	-	-	-	-	-	49,715	9,387	59,102
Profit for the year	-	-	-	-	-	-	-	155,777	155,777	50,156	205,933
Total recognised income and expense for the year	-	-	49,715	-	-	-	-	155,777	205,492	59,543	265,035
Recognition of equity-settled share based payments	-	-	-	16,129	-	-	-	-	16,129	-	16,129
Transfer	-	-	-	-	-	6,276	-	(6,276)	-	-	-
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	24,096	24,096
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(21,237)	(21,237)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(5,858)	(5,858)
	-	-	-	16,129	-	6,276	-	(6,276)	16,129	(2,999)	13,130
At 31 December 2005 and 1 January 2006	94,225	722,834	45,259	18,862	1,101	11,834	48,350	700,261	1,642,726	389,618	2,032,344
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	101,849	-	-	-	-	-	101,849	18,533	120,382
Loss (profit) for the year	-	-	-	-	-	-	-	(256,334)	(256,334)	9,695	(246,639)
Total recognised income and expense for the year	-	-	101,849	-	-	-	-	(256,334)	(154,485)	28,228	(126,257)
Issue of shares	1,605	42,747	-	(1,376)	-	-	(3,867)	-	39,109	-	39,109
Recognition of equity-settled share based payments	-	-	-	9,288	-	-	-	-	9,288	-	9,288
Transfer	-	-	-	-	-	4,998	-	(4,998)	-	-	-
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	94,027	94,027
Capital contribution from of minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	5,758	5,758
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(10,764)	(10,764)
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	(4,500)	(4,500)
	1,605	42,747	-	7,912	-	4,998	(3,867)	(4,998)	48,397	84,521	132,918
At 31 December 2006	<u>95,830</u>	<u>765,581</u>	<u>147,108</u>	<u>26,774</u>	<u>1,101</u>	<u>16,832</u>	<u>44,483</u>	<u>438,929</u>	<u>1,536,638</u>	<u>502,367</u>	<u>2,039,005</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2006

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), amendments of Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs has no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ⁸
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions ⁶
HK(IFRIC) – INT 12	Service concession arrangements ⁷

- ¹ Effective for annual periods beginning on or after 1 January 2007.
- ² Effective for annual periods beginning on or after 1 March 2006.
- ³ Effective for annual periods beginning on or after 1 May 2006.
- ⁴ Effective for annual periods beginning on or after 1 June 2006.
- ⁵ Effective for annual periods beginning on or after 1 November 2006
- ⁶ Effective for annual periods beginning on or after 1 March 2007.
- ⁷ Effective for annual periods beginning on or after 1 January 2008.
- ⁸ Effective for annual periods beginning on or after 1 January 2009.

3. SEGMENT INFORMATION

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. These divisions are the basis on which the Group reports its primary segment information. The principal activities of the business segments are as follows:

Sales and distribution of gas fuel and related products	–	Sale of LPG in bulk and in cylinders, provision of piped LPG and natural gas, and sale of LPG and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipelines

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

	Sale and distribution of gas fuel and related products <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the year ended 31 December 2006			
REVENUE			
External	<u>2,311,696</u>	<u>331,220</u>	<u>2,642,916</u>
Segment results	<u>33,384</u>	<u>30,634</u>	64,018
Other income			87,373
Unallocated corporate expenses			(64,720)
Finance costs			(178,422)
Share of results of associates			(13,664)
Changes in fair value of derivative financial instruments			<u>(124,151)</u>
Loss before taxation			(229,566)
Taxation			<u>(17,073)</u>
Loss for the year			<u>(246,639)</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 People's Republic of China ("PRC") and assets are solely located in the PRC.

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>205,933</u>

4. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
– bank and other borrowings wholly repayable within five years	3,454	4,752
– bank and other borrowings not wholly repayable within five years	4,446	–
– convertible bonds	25,097	22,782
– senior notes	131,336	132,404
	<u>164,333</u>	159,938
Net interest expense (income) on interest rate swaps	<u>12,874</u>	(43,988)
	177,207	115,950
Bank charges	<u>1,215</u>	223
	<u>178,422</u>	<u>116,173</u>

5. (LOSS) PROFIT BEFORE TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	12,138	17,411
Share-based expenses for other staff	4,468	6,696
Other staff costs	124,433	55,798
Retirement benefit scheme contributions (excluding directors)	17,841	6,909
	<hr/>	<hr/>
Total staff costs	158,880	86,814
	<hr/>	<hr/>
Amortisation of intangible assets (included under administrative expenses)	4,107	428
Auditor's remuneration	6,327	2,855
Depreciation of property, plant and equipment	104,584	63,297
Operating lease rentals in respect of land and buildings	10,927	7,859
Release of prepaid lease payments	4,922	1,505
Allowance for doubtful debts	40,000	–
Share of tax of associates (included in share of results of associates)	12,597	3,573
	<hr/> <hr/>	<hr/> <hr/>

6. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The charge comprises:		
PRC Enterprise Income Tax		
– current year	17,475	41,243
– under (over) provision in prior years	810	(6,179)
Deferred taxation (credit)	(1,212)	–
	<hr/>	<hr/>
	17,073	35,064
	<hr/> <hr/>	<hr/> <hr/>

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.

7. (LOSS) EARNINGS PER SHARE

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(Loss) earnings for the purposes of basic (loss) earnings per share, being (loss) profit for the year attributable to equity holders of the Company	<u>(256,334)</u>	<u>155,777</u>
	No. of shares <i>'000</i>	<i>'000</i>
Weighted average number of shares for the purposes of basic (loss) earnings per share	<u>944,809</u>	<u>942,251</u>

No diluted (loss) earnings per share has been presented in both years as the outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or conversion would result in a decrease in loss per share (2005: increase in earning per share).

8. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 90 days to its customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 to 90 days	66,021	487,560
91 to 180 days	62,970	696
181 to 360 days	3,682	1,815
Over 360 days	–	3,164
	<u>132,673</u>	<u>493,235</u>

The fair values of the Group's trade receivables at 31 December 2006 approximate to the corresponding carrying amounts.

9. TRADE PAYABLES

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 to 90 days	80,366	233,753
91 to 180 days	30,384	4,266
181 to 360 days	13,954	2,737
Over 360 days	26,575	6,199
	<hr/> 151,279 <hr/>	<hr/> 246,955 <hr/>

The fair values of the Group's trade payables at 31 December 2006 approximate to the corresponding carrying amounts.

10. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2005, the Group entered into two interest rate swaps to manage its interest cost. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
US\$200,000,000	22 September 2011	From 8.25% to MAX (USD LIBOR BBA +3.72%, 12%)
US\$200,000,000	22 September 2011	From (0, 7.12 x Spread rate * +0.01%) to 8.25%

* Where:

“Spread Rate” means the rate (expressed as a percentage per annum) calculated in accordance with the following formula:

US\$30 year CMS – US\$2 year CMS

“US\$30 year CMS” means 30-year US\$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period; and

“US\$2 year CMS” means 2-year US\$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period.

The fair value of swaps entered into was estimated at HK\$327,680,000 at 31 December 2005. These amounts are based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. Changes in the fair value of interest rate swaps during the year ended 31 December 2005 of HK\$208,127,000 have been recognised in the consolidated income statement.

During the current year, the Group early terminated the interest rate swaps arrangements and the loss in changes in fair value of HK\$124,151,000 has been recognised in the consolidated income statement by reference to the settlement price of HK\$433,612,000 at the time of termination.

11. BORROWINGS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank loans – secured	11,473	20,163
Bank loans – unsecured	24,527	–
Other loans – unsecured	119,823	79,100
Convertible bonds (Note a)	349,506	362,116
Guaranteed senior notes (Note b)	1,557,386	1,553,926
	<u>2,062,715</u>	<u>2,015,305</u>
Carrying amount repayable:		
On demand or within one year	110,964	86,770
More than one year but not exceeding two years	355,324	48,389
More than two years but not exceeding five years	29,218	360,690
More than five years	1,567,209	1,519,456
	<u>2,062,715</u>	<u>2,015,305</u>
Less: Amount due within one year shown under current liabilities	<u>(110,964)</u>	<u>(86,770)</u>
Amount due after one year	<u>1,951,751</u>	<u>1,928,535</u>

Notes:

- (a) The Company issued the 2% convertible bonds of US\$50,000,000 on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The convertible bonds were listed on Luxembourg Stock Exchange. The convertible price at which each share shall be issued upon conversion is HK\$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for, subdivision on consolidation of shares, bonus issues, right issues and other dilutive events. The outstanding unconverted principal amount of the bonds US\$43,880,000 (2005: US\$47,725,000) will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48%. At 31 December 2006, the market value of the convertible bonds amounted to US\$48,707,000 (equivalent to approximately of HK\$379,913,000). During the year, US\$3,845,000 of the convertible bonds were converted into ordinary shares of the Company.
- (b) The Group issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the “Guaranteed Senior Notes”) on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company’s shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 31 December 2006, the market value of the Guaranteed Senior Notes amounted to US\$216,166,000 (equivalent to approximately of HK\$1,686,095,000).

(c) The bank and other loans carry fixed interest at a range of 4.0% – 6.0% (2005: 2.0% – 4.8%) per annum.

The fair value of the Group's bank and other borrowings, except to those disclosed above, approximates to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

12. SHARE CAPITAL

	2006
	HK\$'000
Authorised:	
2,000,000,000 shares of HK\$0.10 each	200,000
Issued and fully paid:	
958,303,336 shares of HK\$0.10 each	95,830

A summary of the movements in the issued capital of the Company is as follows:

	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January and 31 December 2005	942,250,891	94,225
Issue of shares on exercise of share options	8,169,000	817
Issue of shares on conversion of convertible bonds	7,883,445	788
At 31 December 2006	958,303,336	95,830

During the year ended 31 December 2006, the Company allotted and issued 2,710,000, 4,529,000 and 930,000 shares of HK\$0.10 each for cash at the exercise price of HK\$0.475, HK\$0.940 and HK\$3.500 per share respectively as a result of the exercise of share options.

During the year ended 31 December 2006, US\$3,845,000 of the issued convertible bonds were converted into 7,883,445 shares of HK\$0.10 each of the Company at HK\$3.8043 per share.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

13. CAPITAL COMMITMENTS

	2006	2005
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of unpaid capital contribution to investment projects	–	146,533
Acquisition of property, plant and equipment	27,838	142,030

14. ACQUISITION OF SUBSIDIARIES

- (a) On 1 January 2006, the Group acquired 61.67%, 90% and 80% equity interest in Qiqihar Panva Gas Co. Ltd. (“Qiqihar”), Chaoyang Panva Gas Co. Ltd. (“Chaoyang”) and Tieling Panva Gas Co. Ltd. (“Tieling”), respectively at an aggregate consideration of HK\$182,583,000.

The net assets acquired in the transaction, and the goodwill on acquisition or discount arising, are as follows:

	Acquirees’ carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Net assets acquired:			
Property, plant and equipment	280,371	–	280,371
Prepaid lease payments	30,682	–	30,682
Intangible assets	–	65,154	65,154
Inventories	18,711	–	18,711
Trade receivables	9,381	–	9,381
Other receivables, deposits and prepayments	6,153	–	6,153
Amounts due from minority shareholders	7,650	–	7,650
Bank balances and cash	76,252	–	76,252
Trade payables	(32,461)	–	(32,461)
Other payables and accrued charges	(86,442)	–	(86,442)
Amounts due to minority shareholders	(1,831)	–	(1,831)
Borrowings	(107,510)	–	(107,510)
Deferred taxation	(973)	(21,501)	(22,474)
	<u>199,983</u>	<u>43,653</u>	243,636
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			<u>(15,678)</u>
			<u>182,583</u>
Satisfied by:			
Cash consideration			163,923
Transfer from available-for-sale investments			<u>18,660</u>
			<u>182,583</u>
Net cash outflow arising on acquisition:			
Cash consideration			163,923
Bank balances and cash acquired			<u>(76,252)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>87,671</u>

- (b) On 1 March 2006, the Group acquired 100% equity interest in 深圳北科蘭光能源系統技術有限責任公司 (“Beike Lan Guang Group”) at a consideration of HK\$85,750,000.

	Acquirees’ carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Net assets acquired:			
Property, plant and equipment	105,906	–	105,906
Prepaid lease payments	8,342	–	8,342
Intangible assets	–	37,170	37,170
Inventories	3,510	–	3,510
Trade receivables	353	–	353
Other receivables, deposits and prepayments	60,602	–	60,602
Bank balances and cash	821	–	821
Trade payables	(3,443)	–	(3,443)
Other payables and accrued charges	(102,250)	–	(102,250)
Borrowings	(3,604)	–	(3,604)
Deferred taxation	–	(12,266)	(12,266)
	<u>70,237</u>	<u>24,904</u>	95,141
Minority interests			(5,649)
Discount on acquisition			<u>(3,742)</u>
			<u>85,750</u>
Satisfied by:			
Cash consideration			<u>85,750</u>
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			<u>(821)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>84,929</u>

- (c) On 1 July 2006, the Group acquired 90% equity interest in 阜新百江燃氣有限公司 Fuxin Panva Gas Co., Ltd. (“Fuxin”) at a consideration of HK\$71,334,000.

	Acquirees’ carrying amount before acquisition	Fair value adjustments	Fair value
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Net assets acquired:			
Property, plant and equipment	66,315	–	66,315
Prepaid lease payments	12,792	–	12,792
Intangible assets	–	24,426	24,426
Inventories	2,212	–	2,212
Trade receivables	586	–	586
Other receivables, deposits and prepayments	663	–	663
Amounts due from minority shareholders	10,466	–	10,466
Bank balances and cash	161	–	161
Trade payables	(7,318)	–	(7,318)
Other payables and accrued charges	(13,293)	–	(13,293)
Tax payable	(43)	–	(43)
Borrowings	(4,463)	–	(4,463)
Deferred taxation	–	(8,061)	(8,061)
	<u>68,078</u>	<u>16,365</u>	84,443
Minority interests			(8,444)
Discount on acquisition			(4,665)
			<u>71,334</u>
Satisfied by:			
Cash consideration			51,330
Other payables			20,004
			<u>71,334</u>
Net cash outflow arising on acquisition:			
Cash consideration			51,330
Bank balances and cash acquired			(161)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>51,169</u>

- (d) On 1 October 2006, the Group acquired 50% equity interest in 杭州百江液化氣有限公司 Hangzhou Panva LPG Co., Ltd. (“Hangzhou”) at a consideration of HK\$24,631,000.

The Group controls more than half of its board of directors of Hangzhou and regards Hangzhou as a subsidiary.

	Acquirees’ carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$’000	HK\$’000	HK\$’000
Net assets acquired:			
Property, plant and equipment	16,168	–	16,168
Inventories	5,551	–	5,551
Trade receivables	5,925	–	5,925
Other receivables, deposits and prepayments	18,330	–	18,330
Bank balances and cash	7,059	–	7,059
Trade payables	(669)	–	(669)
Other payables and accrued charges	(5,911)	–	(5,911)
	<u>46,453</u>	<u>–</u>	<u>46,453</u>
Minority interests			(23,226)
Goodwill			<u>1,404</u>
Total consideration satisfied by cash			<u>24,631</u>
Net cash outflow arising on acquisition:			
Cash consideration			24,631
Bank balances and cash acquired			<u>(7,059)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>17,572</u>

These transactions have been accounted for by the purchase method of accounting.

The discount on acquisitions of approximately HK\$24 million is attributable to the acquisitions of 61.67% equity interest in Qiqihar, 100% equity interest of Beike Lan Guang Group and 90% equity interest in Fuxin. The discount on acquisitions arising from acquisition of subsidiaries was attributable to the ability of the Group in negotiating the agreed terms of transactions with the vendors.

The subsidiaries acquired during the year contributed HK\$313,724,000 to the Group’s turnover and a profit of HK\$29,452,000 to the Group’s loss for the period between the date of acquisition and the balance sheet date.

The goodwill on acquisitions of Chaoyang, Tieling and Hangzhou represents value obtainable from synergies with the Group, expertise the Group brings to the proposition and access to respective markets that the acquisitions provide to the Group.

15. POST BALANCE SHEET EVENT

Pursuant to a sale and purchases agreement (the “Agreement”) entered into by the Company with Hong Kong and China Gas (China) Company Limited (“HK&CG (China)”), a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“HKCG”), and HKCG, the Company has agreed to purchase from HK&CG (China) the entire issued share capital of eight companies (“Target Companies”) and to purchase and take assignment of the outstanding loans due from the Target Companies to HK&CG (China) or its associates (within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange) as at the completion subject to the terms and conditions of the Agreement (the “Acquisition”). In consideration of the Acquisition, the Company has allotted and issued 772,911,729 ordinary shares of HK\$0.10 each in the capital of the Company agreed to, each credited as fully paid, to HK&CG (China).

The Target Companies hold, collectively, equity interest varying from 27% to 100% in ten companies established in the PRC. These PRC companies operate in various cities in the PRC including Qingdao, Zibo, Longkou, Weifang, Weihai, Taian, Maanshan and Anqing. They are all engaged in the operation of piped gas assets and related business in the PRC.

Details of the transactions are set out in the circular of the Company dated 30 January 2007. The above transactions were approved by the shareholders pursuant to the ordinary resolution passed at the extraordinary general meeting of the Company held on 15 February 2007 of the Company.

The Acquisition was completed on 1 March 2007. Immediately upon completion, HK&CG (China) owns approximately 43.97% of the issued share capital of the Company and becomes the single largest shareholder of the Company.

BUSINESS REVIEW

The year 2006 was a major milestone in the Group’s history. During the year, The Hong Kong and China Gas Company Limited (“HKCG”) entered into an agreement with the Company pursuant to which the Company acquired equity interests in 10 PRC piped gas companies and took assignment of their shareholder loans from HKCG while HKCG became the single largest shareholder of the Company. At the same time, the Group also made favourable progress in its business development.

Review of Operations

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK\$2,642.9 million, an increase of 13.7% over the previous year. Gross profit decreased by 41.3% to approximately HK\$404.7 million. The Group recorded earnings before interests, taxation, depreciation and amortisation (EBITDA) of approximately HK\$181.7 million and a loss attributable to equity holders of the Company of approximately HK\$256.3 million, a significant decrease from HK\$155.8 million profit recorded last year.

The decrease in gross profit was mainly due to the fewer number of new piped gas user connections recorded during the year when compared to last year and the lower average connection fee income per connection for our projects in the northeastern part of the PRC when compared to the Sichuan area.

The loss attributable to equity holders of the parent is mainly attributed from the loss in fair value on the two interest rate swaps of approximately HK\$124.2 million, increase in the interest expenses of approximately HK\$61.3 million, increase in the distribution, and selling and administrative expenses of approximately HK\$172.5 million and a fewer number of new piped gas user connections recorded during the period when compared to the same period last year. However, the loss was slightly offset by the discount on acquisition of subsidiaries and additional interests of a subsidiary of approximately HK\$28.6 million.

Loss in the fair value on the two interest rate swaps

The loss in fair value of the two interest rate swaps during the year amounted to approximately HK\$124.2 million (approximately US\$15.9 million). On 21 and 22 September 2006, both swaps were terminated at an aggregate value of US\$55.95 million (approximately HK\$433.6 million).

Interest expenses

In 2005, the interest rate swaps generated a net savings of approximately HK\$44.0 million, however in 2006 the interest rate swaps generated a net outflow of approximately HK\$12.9 million contributing to an increase in interest expense of approximately HK\$61.3 million during the year.

Distribution and selling and administrative expenses

Distribution and selling and administrative expenses increased significantly to approximately HK\$394.8 million, an increase of approximately 77.6% when compared to last year, of which total staff costs and depreciation charges increased by approximately HK\$72.1 million and HK\$41.3 million respectively. The increase was mainly attributable to the newly acquired and established operating subsidiaries and the increase in the allowance for doubtful debts during the year. Although the new operating subsidiaries contributed in terms of turnover and gross profit, these operating subsidiaries are currently being transformed from a state owned enterprise (“SOE”) to a Panva company, it is expected that the Group will not immediately enjoy the benefits of the efficiency and effectiveness of such transformation measures.

The eight new subsidiaries completed during the year contributed approximately HK\$80.8 million to the increase in the distribution and selling and administrative expenses.

Allowance for doubtful debts of HK\$40 million were charged to the profit and loss during the year. The increase in such a provision represents a more prudent approach adopted by the Group on the outstanding receivables such as deposits paid to suppliers.

Sale of Piped Gas

Sale of Piped Gas 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 144.5% to approximately HK\$374.3 million, accounting for approximately 14.2% of the Group’s aggregate turnover derived from the gas fuel businesses in 2006. The rapid growth of the piped gas business underlines the Group’s shift towards a utility business model with the sale of piped gas becoming a significant source of income.

As at 31 December 2006, the Group had approximately 1,333,600 households of end-user customers for its sale of piped gas, an increase of approximately 581,000 households over 31 December 2005.

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 2006, the Group recorded a turnover of approximately HK\$331.2 million in connection fee, which accounted for approximately 12.5% of the Group's total turnover during the year. Representing a decrease of approximately 53.5% when compared to last year.

The total number of connected households as at 31 December 2006 amounted to approximately 1,333,600 households, an increase of approximately 581,000 households from the year end of 2005, of which approximately 466,100 households were existing customers of the newly acquired subsidiaries and approximately 114,900 households were connected by the Group during the period. The number of new connections made by the Group during the year decreased by approximately 42.0% when compared with last year's 198,000 newly connected households.

The decrease in connection fee income was caused by various factors, including the lower connection fee per connection from our projects in the northeastern part of the PRC when compared to the Sichuan area, the high penetration of urban city centers in some early acquired projects, the slowdown of local property development as a result of the latest wave of austerity measures, and the ongoing transformation of a number of SOEs projects acquired in late 2005. The transformation includes the implementation of a new marketing strategy requiring the new companies to actively get new connections instead of passively waiting for customers to knock on our doors.

Sale of LP Gas

Sale of LP Gas business comprises the sale of LP Gas in bulk to wholesale customers and the retail of LP Gas to end-user households and industrial and commercial customers. Despite the higher costs of LP Gas during 2006, the Group's LP Gas business maintained a solid growth. For the year ended 31 December 2006, turnover derived from the sale of LP Gas in bulk amounted to approximately HK\$1,110.8 million, accounting for approximately 42.0% of the Group's total turnover, representing an increase of approximately 30.0% when compared to last year. The retail business increased its turnover by approximately 37.5% to HK\$790.0 million, accounting for approximately 29.9% of the Group's total turnover.

As at 31 December 2006, the Group had approximately 2,570,000 households of end-user customers covering approximately 10 million people for its retail sale of LP Gas in cylinders, an increase of approximately 270,000 households over 31 December 2005.

Acquisition of New Projects

In 2006, the Group agreed to acquire equity interests in 10 PRC companies and take assignment of their shareholder loans from HKCG for a total consideration of HK\$2,913.9 million to be satisfied by the Company's issue of new shares to HKCG. Moreover, the Group leveraged on its competitive advantages and acquired the Fuxin piped gas project in Liaoning, which further strengthened the Group's strategic position in the northeastern PRC region. Furthermore, the Group's acquisition of a LP Gas project in Hangzhou gave it stronger control and more leading edge in this market.

On 4 December 2006, HKCG and the Company announced that the Company agreed to acquire the entire issued share capital of each of the eight companies held by Hong Kong & China Gas (China) Limited ("HK&CG (China)") (collectively the "Target Companies"), which hold equity interests in 10 PRC companies that are engaged in piped gas fuel businesses. The Company also agreed that it will take assignment of the outstanding loans due from the Target Companies to HK&CG (China) or its associates, being approximately HK\$568.1 million, together with all interest accrued thereon, if any. In consideration of the acquisition (which includes taking assignment of the shareholder loans), the Company agreed to issue approximately 773 million new shares to HK&CG (China), which represented 43.97% of the enlarged issued share capital of the Company. The resolutions related to the agreement were approved at the extraordinary general meeting of the Company and the completion of the agreement took place on 1 March 2007, upon which HK&CG (China) became the single largest shareholder of the Company. The Target Companies are private companies incorporated in the British Virgin Islands and are wholly-owned subsidiaries of HK&CG (China). They are namely: Hong Kong & China Gas (Yantai) Limited, Hong Kong & China Gas (Qingdao) Limited, Hong Kong & China Gas (Anqing) Limited, Hong Kong & China Gas (Taian) Limited, Hong Kong & China Gas (Maanshan) Limited, Hong Kong & China Gas (Weihai) Limited, Hong Kong & China Gas (Weifang) Limited, and Hong Kong & China Gas (Zibo) Limited. These eight companies hold

equity interests in the following 10 PRC companies, which are either wholly-owned foreign enterprises or sino-foreign joint ventures:

Name of the PRC Company	Address	Scope of Operations	Foreign Equity Holder	Interest Held by Foreign Equity Holder	Registered Capital
Longkou Hong Kong and China Gas Company Limited	8th Floor, Jiu Ding Building, Wang Cheng, Longkou, Shandong province	The construction and operation of city gas facilities, the production, processing, transportation, and selling of piped gas (non coal gas) (no engagement in the production and operation of dangerous chemicals without prior approval and the required licenses), the production and selling of kitchenware and related equipment, and the provision of related services in Longkou	Hong Kong & China Gas (Yantai) Limited	100%	RMB42.0 million

Name of the PRC Company	Address	Scope of Operations	Foreign Equity Holder	Interest Held by Foreign Equity Holder	Registered Capital
Qingdao Zhongji Hong Kong and China Gas Company Limited	North end, Chengxisilu, Jimo, Qingdao	The investing, construction and operation of city gas facilities including piped gas networks and related facilities, the production, processing, transportation, and selling of piped gas (including substitute for natural gas, LP Gas and such natural gas to be introduced in the future), the production and selling of kitchenware and related equipment, the provision of after sales services, and the engagement in other related businesses in Jimo	Hong Kong & China Gas (Qingdao) Limited	90%	RMB18.5 million
Anqing Hong Kong and China Gas Company Limited	294 Yenminlu, Anqing	The investing, construction and operation of piped gas facilities, the production, processing, transportation, and selling of piped gas (including cylindered gas), the wholesale and retail of LP Gas, condensed natural gas, the operation of automobile gas filling stations, the production and selling of kitchenware, meters and related equipment, the provision of design, installation, maintenance and repair services for gas facilities, and the engagement in other related businesses in Anqing (upon receiving the authorisation certificates)	Hong Kong & China Gas (Anqing) Limited	50%	RMB73.0 million

Name of the PRC Company	Address	Scope of Operations	Foreign Equity Holder	Interest Held by Foreign Equity Holder	Registered Capital
Qingdao Dong Yi Hong Kong and China Gas Company Limited	197 Xianggangdonglu, Qingdao High and New Technology Development Park	The investing, construction and operation of piped gas facilities, management networks and other ancillary facilities, and the production of kitchenware in Qingdao High and New Technology Development Park (upon receiving the authorisation certificates)	Hong Kong & China Gas (Qingdao) Limited	60%	RMB30.0 million
Taian Taishan Hong Kong and China Gas Company Limited	50 Longtanlu, Taian	The construction of piped gas networks, the storage, processing and supply of city piped gas and cylindered gas, the installation and maintenance of gas equipment and ancillary equipment (no business shall be conducted during the preparation period in 18 February 2004-17 August 2004)	Hong Kong & China Gas (Taian) Limited	50%	RMB80.0 million
Maanshan Hong Kong and China Gas Company Limited	30 Hudongchonglu, Maanshan	The production, transportation, and selling of piped gas, the provision of services (including customer service), the construction and operation of city gas projects (including piped gas networks), the design and operation of city gas projects (including piped gas networks)	Hong Kong & China Gas (Maanshan) Limited	50%	US\$13.0 million (fully paid up)

Name of the PRC Company	Address	Scope of Operations	Foreign Equity Holder	Interest Held by Foreign Equity Holder	Registered Capital
Weihai Hong Kong and China Gas Company Limited	3 Qingdaobeilu, Weihai, Shandong province	The construction and operation of piped natural gas and related facilities, the production, processing, storage, transportation, and selling of piped natural gas, the design, production and selling of gas equipment, kitchenware, meters and related equipment, the provision of after sales service, and the design, construction, operation and management of gas storage, transportation and supply facilities	Hong Kong & China Gas (Weihai) Limited	50%	RMB99.2 million
Weifang Hong Kong and China Gas Company Limited	889 Weizhoulu, Kuimin District, Weifang	The provision of design, installation, supply, maintenance and other related services for city piped gas networks, the storage, processing and supply of city piped gas and cylindered gas, the installation and maintenance of gas equipment and ancillary equipment, and no business shall be conducted during the preparation period	Hong Kong & China Gas (Weifang) Limited	50%	RMB140.0 million
Zibo Hong Kong and China Gas Company Limited	Xipo, Yuhuangshan, Zibo High and New Technology Development Park	The construction and operation of piped natural gas networks and storage facilities, the selling of natural gas, the provision of design, production, selling, installation and maintenance services for kitchenware and other ancillary equipment, and the provision of after sales services (upon receiving the authorisation certificates)	Hong Kong & China Gas (Zibo) Limited	50%	RMB56.0 million

Name of the PRC Company	Address	Scope of Operations	Foreign Equity Holder	Interest Held by Foreign Equity Holder	Registered Capital
Zibo Lubo Gas Company Limited	North Front, Liuquanlu, Zibo High and New Technology District	The construction and operation of piped natural gas networks and storage facilities, the selling and supply of natural gas, the production of kitchenware and other gas equipment, the selling of products produced by the company (upon receiving the authorisation certificates)	Hong Kong & China Gas (Zibo) Limited	27%	RMB50.0 million

Being the birthplace of Confucius and Mencius, Shandong is a cradle of Chinese civilization. A major province situated in the eastern coast of the PRC, Shandong borders the Huanghe Economic Belt and Bohai Economic Rim and is the meeting point of the northern and eastern PRC regions. It is expected that Shandong will record a growth of 14.5% in GDP in 2006 and rank as the second province after Guangdong that has an economic output of over RMB2,000 billion. Shandong already reported a growth of more than 15% in GDP in 2004 and 2005.

Fuxin Project

In June 2006, the Group through its wholly-owned subsidiary Panriver Investments Company Limited (“Panriver Investments”) entered into an asset transfer agreement with Fuxin City Utilities and Housing Bureau to acquire a 90% equity interest in Fuxin Panva Gas Co., Ltd. (“Fuxin Gas”). Panriver Investments will make a total investment of RMB74,330,000 and will be granted an exclusive right to operate gas businesses in Fuxin for 30 years.

Located in the northwestern part of Liaoning province, Fuxin city is 170 kilometres from Shenyang city. Fuxin covers an area of 10,355 square kilometres with a population of 1,930,000. Known as the “City of Coal and Power”, Fuxin is renowned for its rich resources and is one of the major energy bases in the PRC. It has a large number of coal mines each boasting an annual production of over 10 million tonnes and is home to major coal-fired electricity plants each carrying a capacity of 700,000 kilowatts. Apart from coal and charcoal, more than 400 kinds of metallic and non-metallic substances have been found in Fuxin. Major modern gold and agate refineries are established in the city. Fuxin is the production and processing base of agate in the PRC accounting for more than 50% of the country’s agate reserve. The city is also very rich in coal-bed methane (natural gas formed in coal mines), which provides an abundant supply for future development of city gas projects.

Fuxin Gas is principally engaged in the development, construction and operation of city piped gas project, and the sale of gas appliances, kitchenware and household electronics. The Group has obtained the necessary approval for the Fuxin project during the year.

Hangzhou Project

In June 2006, Panriver Investments entered into an asset transfer agreement with Hangzhou Gas (Group) Company to acquire a 50% equity interest in Hangzhou LPG Co., Ltd (“Hangzhou LPG”) for a consideration of RMB25,000,000. Upon completion of the acquisition, Hangzhou LPG will be restructured as a sino-foreign joint venture company and renamed as Hangzhou Panva LPG Company Limited.

Located in the Yangzi River Delta, Hangzhou is the capital city of Zhejiang Province enjoying a sub-provincial status. It is also renowned for its tourism, cultural and historical attractions. There is strong potential for the development of LP Gas business in Hangzhou both in the domestic and industrial and commercial sectors. Hangzhou recorded a GDP of RMB344.1 billion in 2006, an increase of 14.3% over the previous year, which also represented the 16th year of double-digit growth in the GDP growth of the city. Major industrial enterprises of Hangzhou recorded a revenue growth of 24.5% to RMB665 billion during the year, which ranked Hangzhou the PRC’s third industrial sub-provincial city following Shenzhen and Guangzhou. The rapid economic growth coupled with a blossoming processing industry provided huge business potential for the LP Gas sector. As a city famous for travel and leisure activities, Hangzhou received 36.82 million tourists in 2006, and the strong establishment of hotels and restaurants and significant flowing population generated substantial demand for the commercial consumption of LP Gas. As at 31 December 2006, the registered population of Hangzhou city amounted to 6,663,100, including an urban population of 4,141,700. The citizens in the city and suburb areas of Hangzhou have high living standards and strong consumption power. Moreover, there is basically a unified system in the infrastructure across the city, which gives more accessibility to LP Gas distribution for major towns and villages and the vicinity. Another major advantage of the acquisition of Hangzhou LPG is the operational synergies. Hangzhou LPG mainly uses tank trucks to purchase and transport LP Gas. Given that Hangzhou is only some 500 kilometres from Nanjing, Hangzhou LPG and joined hands with Panva Yangzi and Panva Nanjing to source LP Gas so as to reduce purchasing costs. As such, the acquisition is a valuable addition to the Group both in terms of market development and sourcing.

Hangzhou LPG is principally engaged in the wholesale and retail of LP Gas, the sale and maintenance of gas appliances, and the provision of other value-added services. In 2005, the company’s sales volume of LP Gas accounted for about 30% to 40% of the market share in Hangzhou. The Group has obtained the necessary approval for the Hangzhou project during the year.

Available for sale investments

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

Corporate Culture

Panva Corporate Magazine and Panva Institute of Management are the two major means through which the Group cultivates its corporate culture. In 2006, Panva Corporate Magazine was changed from a bi-monthly to a monthly publication. In May, it was granted the “Best Corporate Culture Communication Award” by Nanfang Daily Group, which evaluates the quality of corporate communication of the internal magazines published by the participating enterprises. The Group is particularly pleased with the Award as this is the first time that it participates in the contest in the six years since Panva Corporate Magazine has been published. In November, Panva Corporate Magazine was granted the “Innovative Award of Quality Corporate Publication” in the “2006 Northern Quality Enterprises Internal Communications Award”. The honour represents a recognition of the communication model of “Example Plus Information” that is adopted by Panva Corporate Magazine.

In May, the Group held its first EMBA course in Beijing Science and Engineering University and the first batch of students comprising 30 management officers of the Group attended class. Jointly organised by the Group and the University, the course is a good reflection of Panva’s corporate culture, which emphasizes not only the value of openness but also the importance of learning as an essential means to achieve openness. The course also represents the Group’s beginning of cooperation with the University and its launch of another major platform for enhancing internal communications among the Group’s enterprises.

In late 2006, Panva Institute of Management opened a branch school at the Group’s premises in Shenyang. The new school, with technological know-how support from the Group’s Changchun subsidiary company, serves as a valuable venue for sharing knowledge and exchanging ideas among the Group’s local staff. It emphasizes multi-discipline study, equality of communication, and freedom of expression, providing a convenient location to the Group’s managers in the northeastern PRC region to elevate their technical and managerial skills.

Apart from organising standardised professional training courses, the Group also held forums for the staff of its subsidiaries to promote exchange of ideas and enhancement of corporate culture. In September, the third Panva Forum was held in Beijing addressing the theme of “Professionalism and Teamwork”. For the first time, the Forum introduced debate and drama as a means to stimulate discussion. The Forum has staged a highly successful and essential gathering for the Group’s managers to share their experience, improve their skills, and explore the important concepts of management and administration. During the year, the Group also organised “Panva First Work Meeting on Human Resources”, “Panva First Financial Forum”, and “Panva Brand Investment Seminar”. As a result of these forums, the Group’s managers have become more forthcoming and innovative, and attained higher professionalism.

Customer Service and Safety Management

During the year, the Group achieved major breakthroughs in customer service. In March, Nanjing Panva and China Unicom Nanjing Co Ltd jointly issued a smart card, the Panva Unicom Value Card, which received favourable response from the public. In February 2007, Shenzhen Huaxinlian Investment Limited Liability Company, an associate of Panriver Investments, was approved by the Ministry of Information Industry to use the special number “95007” for customer service. The Group’s first batch of companies operating in eight PRC provinces will enter into cooperation agreements with Shenzhen Huaxinlian Investment Limited Liability Company to use the number, which will enable a unified hotline number for all customers using the Group’s gas fuel services. The eight provinces include Jiangsu, Anhui, Shandong, Hunan, Guangdong, Guizhou, Yunnan, and Sichuan, where over 40 companies of the Group are providing gas fuel services. In the future, as the Group unify its service hotline across the country, more coordinated services can be provided to customers. This will help the Group enhance its software and hardware for better customer service and strengthen the Group’s position as a nationwide brand for gas fuel operations in the PRC.

As regard to engineering requirements, the Group has devoted significant efforts in implementing the “Engineering Management Manual”. Staff members at some of the Group’s piped gas companies have been each equipped with one manual and they have made necessary changes to the engineering operations. For instance, the unclear signage and human damage on the vaulted facilities of the long gas pipelines have been amended and repaired.

To promote safety awareness, the Group’s joint venture companies have organised fire drills with the local fire department authorities. Some joint venture companies have taken the safety campaign to schools, communities, food caterers and entertainment venues and conduct site inspections of gas supply facilities to ensure safety.

Contingent Liabilities

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

Financial Position

As at 31 December 2006, the Group’s cash and cash equivalents amounted to approximately HK\$614.5 million which were mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

As at 31 December 2006, the Group’s bank loans and other borrowings amounted to approximately HK\$2,062.7 million, of which approximately HK\$1,906.9 million 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 1.7 times and a gearing ratio (net debt to equity attributable to shareholders of the parent company) of approximately 94.2%.

Total assets pledged in securing these bank loans had a net book value of approximately HK\$30.0 million as at 31 December 2006.

Employees and Remuneration Policies

As at 31 December 2006, the Group had 7,988 employees, an increase of 4,170 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's integration with HKCG is expected to bring the following benefits to the Group:

- It further strengthens the Group's position as a leading operator of piped gas business in the PRC. After the transactions, the Group will have a robust portfolio of 35 piped gas projects in 32 cities serving over 1.7 million users in the PRC.
- It creates a super-regional footprint across the northeastern and eastern PRC regions for the Group, which will be able to extend its presence across the near contiguous provinces of Heilongjiang, Jilin, Liaoning, Shandong, Anhui and Jiangsu in addition to the Group's significant operations in the Sichuan province.
- With HKCG as a significant shareholder in Panva, the Group stands to benefit from HKCG's experience, operational expertise and considerable financial resources and focus on operational improvements and enhance internal controls and risk management. It also creates operational synergies such as the centralization of capital expenditure management and leverage with vendors, suppliers and service providers.
- HKCG's considerable financial strength and financial management experience will enable the Group to reduce its funding costs in future development;
- With the combined efforts in marketing and the expanded networks and assets, the two companies can support and complement each other while each develops its own best platform to maximise the operational synergies and brand advantages;
- HKCG has strong track record and experience in safety management and engineering, which will be beneficial to the Group to improve its operational standards in a systematic and scientific manner;
- By having access to HKCG's operational expertise, business know-how and managerial support, the Group capitalizing on its own strength will be able to bring its operations to a new stage of higher competitiveness and further strengthen its leading position in the gas fuel business; and

- The Group will be able to realign its internal resource, reduce its purchasing costs and improve its operating efficiencies.

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 2006 (2005: 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

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange during the year ended 31 December 2006.

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 who held office during 2006, the Company confirmed that in respect of the year ended 31 December 2006, those 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, Li Xiao Ru and Zhang Ke. 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 2006 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 2006. 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
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 19 April 2007

At the date of this announcement, the Board comprises:

Executive Directors:

Chan Wing Kin, Alfred (*Chairman*)
Wong Wai Yee, Peter (*Chief Executive Officer*)
Ho Hon Ming, John (*Company Secretary*)
Chen Wei
Kwan Yuk Choi, James
Ou Yaping
Shen Lian Jin
Tang Yui Man Francis
(*alternate director to Ou Yaping*)

Independent Non-executive Directors:

Cheung Hon Kit
Li Xiao Ru
Zhang Ke

Please also refer to the published version of this announcement in South China Morning Post.