



# **PANVA GAS HOLDINGS LIMITED**

**百江燃氣控股有限公司\***

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

## **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2003**

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\* For identification purposes only

The board of directors (the “Board”) of Panva Gas Holding Limited (the “Company”) is pleased to announce that the Company and its subsidiaries (collectively the “Group”) recorded remarkable results for the year ended 31 December 2003.

The year 2003 was a highly rewarding one for the Group. With its gas fuel operations achieving encouraging results in project and business developments on the heels of their strong performance in previous years, the Group has gained strong endorsement in the capital market and won a faithful following.

During the year, the Group continued to gain ground for its natural gas business by securing further penetration in the city piped gas market and attaining significant improvements in operation. At the same time, the Group made new miles in the retail and wholesale of liquefied petroleum gas (“LP Gas”) in cylinders and in bulk. In a nutshell, all major businesses of the Group were exceptional during the year under review.

## **REVIEW OF OPERATIONS**

For the year ended 31 December 2003, the Group’s turnover amounted to approximately HK\$1,457,632,000, representing an increase of approximately 27% over last year, while the gross profit margin rose to 26% against 2002’s 23%. Profit attributable to shareholders amounted to approximately HK\$209,074,000, representing a substantial increase of approximately 58%. The increase in net profit was mainly attributable to the continued strengthening in management and operation, the further unleashing of internal might, and the active strategies adopted in market development. With the successful enhancements of services and managerial skills, the underlying businesses were able to gain a solid increase in market share, which contributed favourably to the Group’s profit growth.

## **WHOLESALE OF LP GAS**

Wholesale of LP Gas remained as one of the Group’s principal activities in 2003, recording a turnover of approximately HK\$756,264,000 that was 6.48% higher than last year. The business accounted for approximately 51.88% of the Group’s total turnover in 2003, a reflection of its significant role being one of the Group’s major sources of income. The business is made up of sales of LP Gas in bulk and in cylinders to wholesale customers by tank lorries or tank vessels.

## **RETAIL OF LP GAS IN CYLINDER**

During the year, the Group continued to take active measures to reinforce and expand its retail sales of LP Gas in cylinders with satisfactory results. Its turnover for the year grew by 42.16% to approximately HK\$343,738,000, accounting for approximately 23.58% of the Group’s total turnover in 2003. The retail business has been gaining proportion in the Group’s turnover breakdown and contributing favourably to the Group’s profit. Included in retail sales are the direct sale of LP Gas in cylinders to retail customers. By capitalising on its economy-of-scale benefits, the retail business was able to further increase its market share and expand its revenue base.

As at 31 December 2003, the Group had approximately 1,762,000 households of end-user customers for its retail sale of LP Gas in cylinders, an increase of approximately 282,000 households over the corresponding figure at 31 December 2002. The continued growth in end-user household customers can be attributed to the higher market shares captured by the Group in target segments, the enhancement in customer service and the strengthening of customer base. It also reflected the Group's success in leveraging on its brand prestige and economy-of-scale benefits to become the largest gas fuel supplier and service provider in the PRC with the largest number of customers.

## **SALE OF PIPED GAS**

During 2003, the Group secured a significant increase in market share for its piped gas business comprising the direct sales of piped LP Gas and piped natural gas to end-user households. Turnover of the business increased by 106.48% to approximately HK\$30,379,000, accounting for approximately 2.08% of the Group's aggregate turnover derived from the gas fuel businesses for 2003.

As at 31 December 2003, the Group had approximately 261,800 households of end-user customers for its sale of piped gas, an increase of approximately 164,800 households over the corresponding figure at 31 December 2002.

## **GAS PIPELINE DEVELOPMENT**

The Group's gas pipeline development business includes mainly the construction and maintenance of piped gas stations and networks and direct connection of gas pipelines to end-user households for which the Group receives a connection fee. For the year ended 31 December 2003, the Group received an aggregate of approximately HK\$319,760,000 in connection fee, an increase of approximately 92.07% over last year. The amount accounted for approximately 21.94% of the Group's total turnover in 2003, compared to approximately 14.47% last year.

As at 31 December 2003, the total number of end-user households serviced by the Group amounted to approximately 2,023,800 households, an increase of 28% compared with approximately 1,577,000 households serviced at 31 December 2002.

The gas pipeline development business not only commands a higher gross profit margin, but also provides a stable source of revenue for the Group as the connection fees received are used for the further expansion of the pipelines to increase penetration and expand the customer base. As such, the Group has made it a long-term core business and has taken measures to safeguard its existing customer base and to secure new customers. The paramount aim is to ensure that both domestic and industrial users can enjoy a reliable supply of clean and safe energy in a convenient manner.

## **ACQUISITION OF NEW PROJECTS**

During 2003, the Group by capitalising on its strong financial resources, premier brand name, high reputation and core competitive advantages, had won the trust of business partners in a number of target cities, which enabled the Group to stay ahead and seized a number of new project opportunities. The year saw the Group achieve major breakthroughs in the Sichuan province and the southern, eastern and northeastern regions of the PRC, gaining access to a number of good-quality projects. The Group signed formal contracts on 7 of them, comprising the ones in Chizhou, the Anhui province; Lezhi and Pingchang, the Sichuan province; Jinan, the Shandong province; and Foshan, the Guangdong province. These projects are related to the distribution of LP Gas and gas pipeline development, with an aggregate amount of RMB320,000,000 in contractual value. Moreover, the Group entered into framework agreements or memorandum of understanding with gas fuel operators in 5 cities including Harbin, the Heilongjiang province; Yibin, Jianyang and Yuechi, the Sichuan province; and Benxi, the Liaoning province – which involved total investments by the Group at an aggregate amount of RMB880,000,000. In January 2004, the Group signed a formal contract for the project in Yuechi, the Sichuan province. Currently, the Group is engaged in discussions concerning 15 new projects, some of which are expected to be concluded within this year.

### **SICHUAN LEZHI GAS PROJECT**

During the year, the Group through its wholly-owned subsidiary Panriver Investments Company Limited (“Panriver Investments”) signed an agreement with the local government of the Lezhi county in Sichuan province to acquire the entire issued capital of Sichuan Lezhi Gas Company (whose name was subsequently changed to Lezhi Panva Gas Co., Ltd.) for a consideration of RMB14,800,000. Pursuant to the agreement, the Group was granted an exclusive right to develop piped natural gas operation in Lezhi for 50 years. As a result of the acquisition, the Group has further increased its market share and strengthened its competitiveness in the piped natural gas sector in Sichuan, which significantly enhanced the Group’s economy-of-scale benefits and competitive advantages.

Located in the middle part of the Sichuan Basin, Lezhi county occupies an area of approximately 1,424.5 square kilometres with a population of approximately 869,000 and a completed gas pipelines of approximately 90.8 kilometres in length. Compared to other cities in Sichuan that use natural gas as a domestic fuel, Lezhi has a relatively low ratio of natural gas penetration, which accounts for only 27% of the total households in the entire central city area. Approximately 230,000 connectable households are on the target board, providing huge room for natural gas development. Lezhi also offers good prospects for the development of industrial natural gas supply.

### **ANHUI CHIZHOU GAS PROJECT**

During the year, the Group through Panriver Investments signed an agreement with Anhui Chizhou Gas Company Limited to form a Sino-foreign joint venture in the Chizhou city of Anhui province. Panriver Investments holds a 60% interest in the joint venture company, Chizhou Panva Gas Co., Ltd. (“Chizhou Panva Gas”), which has a registered capital of RMB20,000,000.

Chizhou Panva Gas is principally engaged in the production, distribution, infrastructure development, supply and sale of natural gas and LP Gas in Chizhou, with an exclusive right to develop natural gas operation in the city for 50 years. It is developing a pipeline in Chizhou at a length of 16 kilometres, which will supply LP Gas until natural gas is accessible by the end of 2005.

Located in the southern part of Anhui, with the Yangtze River to its north, Chizhou occupies an area of approximately 8,271 square kilometres with a total population of approximately 1,530,000. At present, only 20% of the households in the central area of Chizhou have access to natural gas, and approximately 400,000 households fall under the future connectable category, which underline the huge room for development. Chizhou is also an eco-tourism city situated between Huangshan and Jiuhuashan, and its well-developed catering industry has a strong demand for gas fuel. Moreover, Chizhou has a solid industrial infrastructure with an industrial park under construction, and some industrial enterprises in Huangshan are intending to get natural gas supply from Chizhou, which make the prospects of the Chizhou gas sector even more promising. The aggregate consumption of natural gas in Chizhou alone is expected to reach 260,000,000 cubic metres by 2010. By securing the Chizhou project, the Group has demonstrated that it is further expanding its market share in the Yangtze River coastal area and accelerating its development in the piped natural gas supply sector.

#### **SICHUAN PINGCHANG GAS PROJECT**

During the year, the Group through Panriver Investments acquired a 90% interest in Sichuan Pingchang Gas Company which subsequently changed its name to Pingchang Panva Gas Co., Ltd. (“Pingchang Panva”) in the Pingchang county of Sichuan province. Pingchang Panva has been granted an exclusive right to natural gas development and operation in Pingchang for a period of 30 years.

Located in northeastern Sichuan, Pingchang county is part of the Bazhong city in the Sichuan province with a total population of approximately 890,000. Currently, piped natural gas has a less than 20% penetration in Pingchang, hence the room for further development is huge. Under the local government’s town planning schedule, Pingchang will be developed into a medium-sized city by 2010 and adorned with “city” status.

#### **SHANDONG JINAN LP GAS PROJECT**

During the year, the Group through Panriver Investments signed an agreement with Shandong Jinan Gas Co. Ltd. (“Jinan Gas”) to set up a Sino-foreign joint venture in the Jinan city of Shandong province. Panriver Investments holds a 70% interest in the joint venture company, Jinan Panva LPG Co. Ltd. (“Jinan Panva LPG”), which has a registered capital of RMB60,000,000. Jinan Panva LPG is principally engaged in the storage, processing, transportation and sale of LP Gas. Jinan Panva LPG is finalising its asset appraisal and other preparation works for its incorporation.

## **SHANDONG JINAN PIPED GAS PROJECT**

During the year, Panriver Investments entered into a framework agreement in Hong Kong with Jinan Gas for developing and operating a gas pipeline network in the western part of the city of Jinan (the “Western District”). In November 2003, a formal agreement, which replaced the framework agreement, was signed between Panriver Investments and Jinan Gas to set up a Sino-foreign joint venture company, Jinan Panva Gas Co. Ltd. (“Jinan Panva Gas”) to undertake the project. Jinan Panva Gas has a registered capital of RMB100,000,000, of which Panriver Investments and Jinan Gas have a 51% and 49% interest respectively. Jinan Panva Gas has obtained approval for incorporation and has been granted business licenses by local authorities.

Based on the local government’s city planning schedule, the Western District will have a population of 600,000, with 150,000 connectable households for piped gas. Jinan Panva Gas will be equipped with state of the art facilities and equipment for the construction of gas pipelines, and the transportation, storage and supply of gas fuel. Jinan Panva Gas has an exclusive right for the piped gas operation in the Western District for a period of 50 years.

The two Jinan gas projects have significantly enhanced the Group’s market competitiveness and provided a springboard for the Group to further expand into other northern PRC provinces and cities. They represent good guidance and reference as well as strong stepping-stones for the Group to foray into the gas sector in Jinan and other PRC northern cities. The Directors believe that this strategy will help increase the Group’s market share and leverage in the gas market of the PRC.

## **FOSHAN GAS PROJECT**

During the year, the Group through Panriver Investments and Sinolink Power Investment Limited (“Sinolink Power”), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Foshan Construction and Transportation Assets Management Company Limited (“Foshan CTAM”), pursuant to which the Group acquired an aggregate of 45% equity interest in Foshan Gas Company (“Foshan Gas”) from Foshan CTAM for a total consideration of RMB75,400,000.

Located in the southern-central part of the Guangdong province, Foshan occupies an area of approximately 3,813.64 square kilometres with a population of approximately 3,358,500. It recorded a gross domestic product (“GDP”) of approximately RMB117 billion in 2002, which accounted for approximately 10% of the total GDP of the Guangdong province for the year. Both LP Gas in cylinders and piped gas are available in Foshan. However, piped gas is currently accessible to only 27% of Foshan’s households, which represents huge room for development.

Guangdong is a relatively well-developed province of the PRC. A natural gas terminal is under development in the Shenzhen city of Guangdong, which upon completion is expected to bring significant benefits to the development of natural gas supply in Guangdong. The Foshan project laid a strong foothold for the Group to further develop the gas market in Guangdong and the PRC southern region.

## **Sichuan Dayi gas project**

During the year, the Group through Panriver Investments entered into a share transfer agreement with the Finance Bureau of Dayi County, pursuant to which Panriver Investments agreed to acquire the entire equity interest of Dayi Gas Company and 50 years of exclusive operation rights in respect of the supply of natural gas in the Dayi county for a consideration of RMB13,000,000.

Dayi is a county of Sichuan, the PRC province that is rich in natural resources. Located near the city of Chengdu, the provincial capital of Sichuan, Dayi commands favourable geographical advantages. It occupies an area of approximately 1,548 square kilometres and has a population of approximately 500,000, with connectable natural gas household users of approximately 130,000 households. The local government of Dayi plans to accelerate the development of Dayi and grows it into the “backyard garden” of Chengdu, which provides favourable prospects for the supply of natural gas to both domestic and industrial users in the county. By securing the Dayi project, the Group has further strengthened its position in the gas fuel market of Sichuan and facilitated its further penetration into this strategically important marketplace.

## **CORPORATE CULTURE**

During 2003, the Group continued to promote and strengthen its corporate values of “Tranquility, Stability, and Creativity” and to infuse these values into the Group’s daily operations and staff’s conduct. These efforts have generated a strong team spirit and common beliefs among the Group’s staff members who become more positive and proactive in carrying out their duties, and brought forward creative ideas to the benefit of the Group’s long-term development.

## **ENHANCEMENTS IN PRODUCT QUALITY AND SAFETY**

During the year, as part of the means to further enhance the know-how and safety standards of its gas operations, the Group established a “Safety Engineering Division” in Nanjing and devised a master plan for its projects on the development and utilisation of advanced technology. Moreover, the Group pioneered the use of bar codes on its gas cylinders during the year and obtained approval from government authorities to use trademark colours to distinguish its gas cylinders. The Group also established a “Physics and Chemistry Research Laboratory” in Nanjing as a further means to ensure the quality of its gas fuel products. These measures are expected to give the Group further technological advantages and contribute to the stronger standing of PANVA brand products.

## **PANVA MANAGEMENT INSTITUTE**

In July 2003, the Group established the Panva Management Institute in Nanjing, a facility that serves the multi purposes of providing staff training, hosting talks on professional subjects, organising cultural and educational activities, and nurturing talents for the Group. Its establishment not only reflects the Group's strong emphasis on professional management and its solid approach in realising the aim, but also represents the Group's long-term strategy of equipping itself with a strong pool of talents for its future development. It provides a strong platform for the Group to further promote its corporate culture and enhance its management expertise. The Institute is now operating at full steam and providing a number of training programmes for the Group's staff.

Headed by Mr. Chen Wei, the Managing Director of the Company, the integrated Panva Management Institute provides training on various subjects, including professional know-how, management and administration expertise, technical skills, sales and marketing techniques and corporate culture development. Its lecturers comprise local and overseas experts in the gas fuel industry, reputed professors from high schools and universities, and distinguished management members of the Group. Apart from offering systematic and integrated training programmes, the Institute also organise special workshops for the Group's staff. The Panva Management Institute marked a major step of the Group on its way to become the best gas fuel enterprise in the PRC. It also strengthened the Group's corporate identity as a "trustworthy expert" in the PRC's gas fuel market.

## **STANDARD & POOR'S RATING**

The Group's rapid development has caught the attention of international gas operators and institutional investors. In April 2003, the Group was assigned a "BB+" foreign currency corporate credit rating and a stable outlook by international credit agency Standard & Poor's, which reflected the Group's leading position in the LP Gas and piped gas markets in the PRC, and its sound financial status. The Group was the first GEM-listed company awarded a credit rating by the authoritative agency, giving proof to the Group's overall strength and reflecting a strong recognition of the Group's years of solid and rapid development. The rating provided strong and additional support for the Group to further develop the gas fuel market and enhanced the Group's brand name in the PRC.

## **ISSUE OF CONVERTIBLE BONDS**

In order to take advantage of the expected accelerating growth in the PRC's gas fuel market, the Group has been undertaking a further number of projects in more target regions in the PRC, which requires additional funding resources. In April 2003, the Group successfully issued convertible bonds at an aggregate principal amount of US\$50,000,000 (approximately HK\$390,000,000) on the Luxembourg Stock Exchange. The issue was arranged by Morgan Stanley & Co. International Limited ("Morgan Stanley") acting as the lead manager. Out of the net proceeds, approximately 70% and 20% respectively were used to fund expansion in the piped gas business and the LP Gas business, whereas the remaining 10% was used as working capital. The successful fund-raising exercise has greatly facilitated the Group's further expansion in market share, and once again demonstrated the strong recognition of international investors on the Group's prospects.



## **PLACING AND SUBSCRIPTION OF SHARES**

In December 2003, the Group's parent company Sinolink Worldwide Holdings Limited ("Sinolink") placed 155,200,000 existing shares of the Company through Morgan Stanley and Merrill Lynch Far East Limited to independent investors at HK\$4.00 per share and subscribed for the same number of new shares issued by the Company at the same price per share, which was completed in January 2004. The placing was well received in the capital market and was participated by a number of institutional investors, which further strengthened the relationships of the Group with the investing community, whereas the subscription raised more than US\$80 million (approximately HK\$620 million) for the Company. As a result of the placing and the subscription, the Company's shareholder base and capital base were broadened, which enhanced the Group's profile in the capital market and strengthened its financial position. The Group intends to apply the majority of the net proceeds from the subscription to fund the expansion of its piped gas business in the future.

## **CONTINGENT LIABILITIES**

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

## **FINANCIAL POSITION**

The Group maintained a healthy financial position throughout the year 2003. As at 31 December 2003, the Group's cash and cash equivalents amounted to approximately HK\$356,809,000, which excluded the net proceeds of approximately HK\$589 million from the placing of the Company's new shares in January 2004. The Group's cash and cash equivalents are mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

The Group's bank loans and other borrowings amounted to approximately HK\$411,090,000, of which approximately HK\$372,016,000 arose from the Group's issue of 5-year convertible bonds in April 2003. The borrowings were mainly used to fund expansion in the piped gas business and the LP Gas business and as working capital. The Group ended the year under review with a current ratio of approximately 3.79 times and a gearing ratio of approximately 71%. If the 5-year convertible bonds is not taken into account, the Group's gearing ratio was approximately 7%. With strong financial resources, the Group is well poised to seize new development projects while maintaining a smooth operation for its businesses.

Total assets pledged in securing these banks loans had a net book value of approximately HK\$43,963,000 as at 31 December 2003. All bank borrowings are denominated in Renminbi and as the Group's operations are carried out in the PRC, all receipts and payments in relation to the operations are denominated in Renminbi. In addition, the Group's 5-year convertible bonds are denominated in the United States dollars. Currently, no financial instruments are used for hedging purpose.

Panriver Investments has been granted credit lines at an aggregate amount of approximately RMB6 billion by the Bank of China, Shenzhen Branch. With the two fund raising exercises made in 2003, the Group raised an aggregate of approximately US\$130 million, which reflected the confidence of international investors and banks on the Group's current and future business prospects and laid a solid foundation for the Group's future financing arrangements.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2003, the Group had 2,995 full time employees, an increase of 16% from one year ago. Approximately 99% of the Group's full time employees are located in the PRC. The Group remunerates its employees based on individual's performance and capability. On top of promotion opportunities and other incentives, the Group also provides its staff with various training opportunities. The Group has also developed a systematic staff development programme to facilitate the Group's further advancement in technology and management.

## **PROSPECTS**

The next two decades are likely to see the PRC economy maintaining a strong growth momentum. By providing strong support to the energy sector and making it a major category of state development, the PRC government aims to bring forward a transformation of the country's energy strata with an emphasis on "high efficiency, economical values, environmentally friendliness, and safety". To seize the huge opportunities arising from these developments, the Group has decided to strengthen its efforts in the following areas:

- The Group will further expand the business territories, market shares and end-user customer bases of its existing gas operations by further improving their management and service standards in order to capitalise on the business opportunities arising from the development of the PRC's energy sector.
- The Group will accelerate its market expansion in the Sichuan province and the eastern, southern and northeastern regions of the PRC through mergers and acquisitions for which significant opportunities are available as a result of the reforms being pursued by state-owned gas enterprises.
- The Group will further improve its service and technology levels and join hands with the PRC local governments to help enhance the business practices and safety standards in the LP Gas market.
- The Group will further strengthen its internal management through the introduction of standardised management systems and stronger control on investment policies and capital deployments, in order to generate solid and satisfactory returns for shareholders in the years to come.

## RESULTS

The audited consolidated results of the Group for the year ended 31 December 2003 together with the comparative figures in 2002 are as follows:

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	2	<b>1,457,632</b>	1,150,322
Cost of sales		<b>(1,073,289)</b>	(888,427)
Gross profit		<b>384,343</b>	261,895
Other revenue		<b>4,218</b>	2,752
Distribution costs		<b>(35,541)</b>	(27,015)
Administrative expenses		<b>(67,248)</b>	(54,295)
Other operating expenses		<b>(1,134)</b>	(1,818)
Profit from operations		<b>284,638</b>	181,519
Loss on disposal of subsidiaries		<b>(788)</b>	–
Gain on partial disposal of a subsidiary		<b>541</b>	–
Finance costs		<b>(10,257)</b>	(3,216)
Profit from ordinary activities before taxation		<b>274,134</b>	178,303
Taxation	3	<b>(22,875)</b>	(8,545)
Profit before minority interests		<b>251,259</b>	169,758
Minority interests		<b>(42,185)</b>	(37,220)
Net profit for the year		<b>209,074</b>	132,538
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	4	<b>33.97</b>	21.97
Diluted	4	<b>30.36</b>	17.44

Notes:

## 1. Basis of Preparation

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of the Stock Exchange. Its intermediate holding company is Sinolink Worldwide Holdings Limited, a company which was incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Asia Pacific Promotion Limited, a limited company incorporated in the British Virgin Islands.

The principal activities of the Group are the sale and distribution of LP Gas and natural gas in the People's Republic of China ("PRC") including the sale of LP Gas in bulk and in cylinders, the provision of piped LP Gas and natural gas, construction of gas pipelines, and the sale of LP Gas and natural gas household appliances.

## 2. Turnover

An analysis of the Group's turnover for the year ended 31 December 2003 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>
31 December 2003			
REVENUE			
External	<u>1,137,872</u>	<u>319,760</u>	<u>1,457,632</u>
SEGMENT RESULTS	<u>67,201</u>	<u>224,866</u>	292,067
Other operating income			4,218
Unallocated corporate expenses			<u>(11,647)</u>
Profit from operations			284,638
Loss on disposal of subsidiaries			(788)
Gain on partial disposal of a subsidiary			541
Finance costs			<u>(10,257)</u>
Profit before taxation			274,134
Taxation			<u>(22,875)</u>
Profit before minority interests			251,259
Minority interests			<u>(42,185)</u>
Net profit for the year			<u>209,074</u>

	<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>
31 December 2002			
REVENUE			
External	<u>983,840</u>	<u>166,482</u>	<u>1,150,322</u>
SEGMENT RESULTS	<u>55,791</u>	<u>128,338</u>	184,129
Other operating income			2,752
Unallocated corporate expenses			<u>(5,362)</u>
Profit from operations			181,519
Finance costs			<u>(3,216)</u>
Profit before taxation			178,303
Taxation			<u>(8,545)</u>
Profit before minority interests			169,758
Minority interests			<u>(37,220)</u>
Net profit for the year			<u><u>132,538</u></u>

As over 90% of the assets of the Group are attributable to sale and distribution of gas fuel and related products, an analysis of segment assets and liabilities is not presented.

### **Geographical segments**

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly no information on geographical segments is presented.

### **3. Taxation**

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor 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 for the year has been provided for after taking these tax incentives into account.

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

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit before taxation	<u><b>274,134</b></u>	<u>178,303</u>
Tax at the applicable tax rate of 33% (2002: 33%)	<b>90,464</b>	58,840
Tax effect of tax assets not recognised	<b>12,762</b>	7,603
Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit	<b>(58,444)</b>	(45,815)
Effect of different tax rates of subsidiaries entitled to 50% reduction in PRC enterprise income tax rates and operating in different provinces	<u><b>(21,907)</b></u>	<u>(12,083)</u>
Tax expense	<u><b>22,875</b></u>	<u>8,545</u>

#### 4. Earnings per share

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit for the year	<u><b>209,074</b></u>	<u>132,538</u>
Earnings for the purposes of basic earnings per share	<b>209,074</b>	132,538
Effect of dilutive potential ordinary shares:		
Interest on convertible note	–	3,000
Interest on convertible bonds	<b>5,408</b>	–
Earnings for the purposes of diluted earnings per share	<u><b>214,482</b></u>	<u>135,538</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>615,401,000</b>	603,272,000
Effect of dilutive potential ordinary shares:		
Options	<b>25,884,000</b>	4,197,000
Convertible note	–	169,492,000
Convertible bonds	<b>65,234,000</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><b>706,519,000</b></u>	<u>776,961,000</u>

## 5. Depreciation and Amortisation

Depreciation on fixed assets amounted to approximately of HK\$21,553,000 (2002: HK\$19,125,000) during the year. Amortisation of intangible assets amounted to approximately HK\$1,163,000 (2002: 790,000) during the year.

## 6. Reserves

	Share Premium Reserve <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Capital Reserve <i>HK\$'000</i>	General Reserve <i>HK\$'000</i>	Asset Revaluation Reserve <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	55,329	(107)	1,101	1,212	4,973	(18,640)	81,148
Premium arising on issue of shares	4,267	-	-	-	-	-	4,267
Bonus shares dividend	(10,003)	-	-	-	-	-	(10,003)
Exchange reserve on consolidation	-	(85)	-	-	-	-	(85)
Transfer	-	-	-	865	-	(865)	-
Net profit for the year	-	-	-	-	-	132,538	132,538
At 31 December 2002 and 1 January 2003	49,593	(192)	1,101	2,077	4,973	150,313	207,865
Addition during the year	-	-	-	883	-	-	883
Exchange difference on translation of overseas operations and net loss not recognised in income statement	-	(1,085)	-	-	-	-	(1,085)
Premium arising on issue of shares	100,332	-	-	-	-	-	100,332
Expenses incurred in connection with the issue of convertible bonds	(14,833)	-	-	-	-	-	(14,833)
Disposal of subsidiaries	-	-	-	-	(92)	-	(92)
Transfer	-	-	-	1,350	-	(1,350)	-
Net profit for the year	-	-	-	-	-	209,074	209,074
At 31 December 2003	<u>135,092</u>	<u>(1,277)</u>	<u>1,101</u>	<u>4,310</u>	<u>4,881</u>	<u>358,037</u>	<u>502,144</u>

## FINAL DIVIDEND

In light of the enormous investment opportunities in the city piped gas networks in the PRC, the Board does not recommend the payment of a final dividend for the year ended 31 December 2003.

## **SPONSOR'S INTERESTS**

None of the Company's sponsor, Tai Fook Capital Limited ("the Sponsor"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2003.

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

## **COMPETING INTERESTS**

None of the directors or management shareholders of the Company have any interest in any business, which may compete with the business the Group.

## **BOARD PRACTICES AND PROCEDURES**

During the year, the Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

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

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

## **APPRECIATION**

On behalf of the Board, I would like to express our gratitude to the Group's staff for their devoted efforts and diligence during the year.

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

Hong Kong, 15 March 2004

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