



PANVA GAS HOLDINGS LIMITED

百江燃氣控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8132)

RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2004

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This announcement, for which the directors of Panva Gas Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Panva Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purposes only

HIGHLIGHTS

- For the three months ended 31 March 2004, the Group's turnover increased to approximately HK\$411,238,000, representing an increase of approximately 18% from the corresponding period last year.
- For the three months ended 31 March 2004, the Group's gross profit increased to approximately HK\$80,756,000, representing an increase of approximately 18% from the corresponding period last year.
- Net profit increased substantially to approximately HK\$46,211,000, representing an increase of approximately 23% from the corresponding period last year.

RESULTS

The board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2004, together with the comparative figures of the corresponding period in 2003, as follows:

		Three months ended 31 March	
		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		411,238	348,724
Cost of sales		(330,482)	(280,188)
Gross profit		80,756	68,536
Other revenue		3,335	61
Distribution costs		(9,646)	(7,352)
Administrative expenses		(17,562)	(12,346)
Other operating expenses		(1,164)	(56)
Profit from operations		55,719	48,843
Finance costs		(2,759)	(967)
Investment income	2	839	150
Profit from ordinary activities before taxation		53,799	48,026
Taxation	3	(1,842)	(1,528)
Profit before minority interests		51,957	46,498
Minority interests		(5,746)	(8,832)
Net profit for the period		46,211	37,666
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	4		
Basic		4.91	6.23
Diluted		4.53	4.78

Notes:

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares (the "Shares") have been listed on the GEM operated by the Stock Exchange since 20 April 2001.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquid petroleum gas ("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. INVESTMENT INCOME

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

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 PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain 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 those tax incentives into account.

4. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	46,211	37,666
Effect of dilutive potential shares:		
Interest on convertible note	1,853	740
Earnings for the purpose of diluted earnings per share	48,064	38,406
	Three months ended 31 March	
	2004	2003
	<i>No. of shares ('000)</i>	
Weighted average number of shares for the purpose of basic earnings per share	941,651	605,076
Effect of dilutive potential shares:		
Options	20,636	29,526
Convertible note	–	169,491
Convertible Bond	97,851	–
Weighted average number of shares for the purpose of diluted earnings per share	1,060,138	804,093

5. 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>	Assets Revaluation Reserve <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	49,593	(192)	1,101	2,077	4,973	150,313	207,865
Transfer	–	–	–	177	–	(177)	–
Net profit for the period	–	–	–	–	–	37,666	37,666
At 31 March 2003	<u>49,593</u>	<u>(192)</u>	<u>1,101</u>	<u>2,254</u>	<u>4,973</u>	<u>187,802</u>	<u>245,532</u>
At 1 January 2004	135,092	(1,277)	4,881	1,101	4,310	358,037	502,144
Addition during the period	–	–	–	41	–	–	41
Premium arising on issue of shares	605,280	–	–	–	–	–	605,280
Issue expenses in connection with the issues of shares	(28,260)	–	–	–	–	–	(28,260)
Disposal of subsidiary	–	2	–	–	–	–	2
Transfer	–	–	–	(7,031)	–	461	(6,570)
Net profit for the period	–	–	–	–	–	46,211	46,211
At 31 March 2004	<u>712,112</u>	<u>(1,275)</u>	<u>4,881</u>	<u>(5,889)</u>	<u>4,310</u>	<u>404,709</u>	<u>1,118,848</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004.

REVIEW OF OPERATIONS

The PRC economy continued to grow rapidly during the first quarter of 2004. Strong activities were seen in all major sectors, driven by growing private investment and buoying consumer and business confidence. According to preliminary figures, the PRC recorded a gross domestic product of RMB2,710.6 billion in the first quarter, a growth of 9.7% over the same period last year. The favourable economic environment provided good conditions for the Group to further expand its market share and enhance its economies-of-scale benefits.

The Group's businesses achieved remarkable results during the first quarter. Compared with the corresponding period last year, the Group's turnover for the three months ended 31 March 2004 increased by 18% to approximately HK\$411,238,000. Gross profit increased by 18% to approximately HK\$80,756,000 while net profit rose by 23% to approximately HK\$46,211,000.

Wholesale of LP Gas

Wholesale of LP Gas comprises the sale of LP Gas in bulk and in cylinders to wholesale customers by tank lorries and tank vessels, which accounts for approximately 55% of the Group's total turnover for the three months ended 31 March 2004. The turnover for this business segment for the period amounted to approximately HK\$227,019,000, a growth of 3.9% compared with the corresponding period last year.

Retail of LP Gas in Cylinders

The Group's retail business comprises the direct sale of LP Gas in cylinders to retail customers. For the three months ended 31 March 2004, retail sales grew by 32.7% to approximately HK\$92,159,000, accounting for approximately 22% of the Group's total turnover, while the number of end-user customers increased to approximately 1,813,000 households. The retail business has been gaining proportion in the Group's turnover mix and contributing favourably to the Group's profit. By capitalising on its economies-of-scale benefits and brand advantage, the retail business has further increased its market share and expanded its revenue base.

Sale of Piped Gas

During the first quarter of 2004, the Group maintained a strong growth for its piped gas business comprising the direct sales of piped LP Gas and piped natural gas to end-user households. Turnover of this business segment increased by 116.2% to approximately HK\$14,470,000, accounting for approximately 4% of the Group's aggregate turnover derived from the gas fuel businesses.

As at 31 March 2004, the Group had approximately 306,100 connected households of end-user customers for its sale of piped gas, an increase of approximately 195,400 connected households over the corresponding figure at 31 March 2003.

Gas Pipeline Development

The Group's gas pipeline development business includes mainly the construction and maintenance of piped gas stations, and direct connection of gas pipelines to end-user households for which the Group receives a connection fee. For the three months ended 31 March 2004, the Group received approximately HK\$71,846,000 in connection fee, an increase of approximately 42.9% over the corresponding period last year. The amount accounted for approximately 17% of the Group's total turnover for the period under review.

The Group has made gas pipeline development a long-term core business, and has been utilising the connection fees received for the further expansion of the pipelines to increase market penetration and expand the customer base. These laid a solid foundation for the Group to enjoy a growing source of revenue from the business. The Group is making strong efforts to safeguard and expand its customer base and to ensure that both residential and industrial/commercial users can enjoy a reliable supply of clean and safe energy in a convenient manner.

Acquisition of New Projects

During the three months ended 31 March 2004, the Group secured solid progress in negotiating for new projects in target regions, with some of them at the final stage of discussions and signing of formal agreements expected to take place in mid-2004. The Yuechi project in the Sichuan province has been concluded during the period under review.

Sichuan Yuechi Project

On 14 January 2004, the Group through its wholly-owned subsidiary Panriver Investments Company Limited ("Panriver Investments") entered into an acquisition agreement with the Municipal Government of Yuechi municipality of Sichuan Province to acquire a 90% equity interest in Yuechi Natural Gas Company ("Yuechi Gas") for a consideration of RMB37,000,000. Pursuant to the agreement, the Group was granted an exclusive right to develop piped natural gas in Yuechi for 30 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 economies-of-scale benefits and competitive advantages.

Located in Sichuan province, Yuechi municipality occupies an area of approximately 1,480 square kilometres with a population of approximately 1,100,000 and connectable natural gas households of approximately 290,000. Yuechi is situated in the shallow bowl of Sichuan Basin with rich natural gas resources, and is directly accessible to the state government's Yulu Natural Gas Pipeline. As such, Yuechi has an abundant supply of natural gas amounting to 300,000 cubic metres daily. Compared to other cities in Sichuan using natural gas as a domestic fuel, Yuechi municipality has a relatively low ratio of less than 10% in natural gas penetration, providing huge room for natural gas development.

Yuechi Gas is principally engaged in the processing and distribution of natural gas, the operating of natural gas metres, the design, installation and maintenance of natural gas pipelines and water heaters, and the sale of natural gas appliances. It operates the piped natural gas network in Yuechi including the construction of the main trunk and sub-branch networks, the connection of natural gas pipelines to individual households, and the supply of piped gas to industrial, commercial and residential users.

Business Integration and Management Enhancement

In view of the significant increase in acquired projects and the rapid development of the Group's existing businesses, the management has taken active measures to integrate the various operating companies in order to enhance the Group's overall efficiency. The Group is committed to exploring and promoting the best management practices and developing and nurturing talents with strong leadership to ensure that those capable staff members can take up management responsibilities promptly and efficiently. Moreover, the Group has been dedicating great efforts to cultivate a strong corporate culture, which has earned high respect in the industry.

Enhancements in Technology and Safety

During the first quarter of 2004, the Group's "Safety Engineering Division" in Nanjing has completed the master plan on technological development and begun implementation in accordance with last year's formulated strategy. Moreover, Nanjing Panva has fully implemented the use of bar codes and trademark colours to distinguish its gas cylinders with satisfactory results. These measures contributed to the stronger standing of PANVA brand products and strengthened the Group's corporate image as a "trustworthy expert" and a leading force in the PRC's gas fuel market.

Financial Position

The Group continued to enjoy a healthy financial position. As at 31 March 2004, the Group's cash and cash equivalent amounted to approximately HK\$894,135,000, The strong cash position enables the Group to undertake new development projects and further expand its operations.

As at 31 March 2004, the Group's bank loans and other borrowings amounted to approximately HK\$445,066,000, of which approximately HK\$374,635,000 arose from the Group's issue of 5-year convertible bonds in April 2003 arranged by Morgan Stanley & Co. International Limited. 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 period under review with a current ratio of approximately 6 times and a gearing ratio (total borrowings divided by total equity) of approximately 37%. If the 5-year convertible bonds were not taken into account, the Group's gearing ratio would be approximately 4%. With sufficient financial resources, the Group is well positioned to maintain a smooth operation for its businesses.

Contingent Liabilities

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

Prospects

Public utilities will become a major area of reform as urbanisation in the PRC heads a new direction, providing the Group with unprecedented development opportunities. In order to capture these opportunities, the Group will strengthen its efforts in the following areas:

- The Group will continue to adopt mergers and acquisitions as major means to participate in the reform of state-owned gas enterprises in order to accelerate its city piped gas development in target regions.
- The Group will further expand the business territories, market shares and end-user customer bases of its existing gas fuel operations by further improving their management and service standards.
- The Group will continue to improve the integration of its operating companies and enhance their management to further reduce their operating costs and increase their efficiencies.
- The Group will further strengthen its investment policies and processes and improve the structure, quality and profitability of the investment projects in order to generate satisfactory returns for shareholders.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.29 to 5.30 of the GEM Listing Rules. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee has 2 members comprising the 2 independent non-executive directors, Mr. Cheung Hon Kit and Mr. Li Xiao Ru.

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

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

By Order of the Board
Chen Wei
Managing Director

Hong Kong, 14 May 2004

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

As the date of this announcement, the Board comprises of 6 Executive Directors, namely Ou Yaping (Chairman), Chen Wei (Managing Director), Li Fujun, Shen Lian Jin, Tang Yui Man, Francis and Zhang Keyu,; 2 Non-executive Directors, namely Fok Kin-ning, Canning and To Chi Keung, Simon (alternate director to Mr. Fok); and 2 Independent Non-executive Directors, namely, Cheung Hon Kit and Li Xiao Ru.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.panva-gas.com.