



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 SIX MONTHS ENDED 30 JUNE 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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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

- The Group's turnover increased to approximately HK\$848,634,000 representing an increase of 20.71% from the same period last year.
- Gross profit increased by approximately to HK\$171,416,000 representing an increase of approximately 17.16% times from the same period last year.
- Net profit increased to approximately HK\$95,356,000 representing an increase of approximately 14.86% from the same 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 six months ended 30 June 2004, together with the comparative figures of the corresponding period in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2004

	<i>Notes</i>	Six months ended 30 June		Three months ended 30 June	
		2004 <i>HK\$'000</i> (unaudited)	2003 <i>HK\$'000</i> (unaudited)	2004 <i>HK\$'000</i> (unaudited)	2003 <i>HK\$'000</i> (unaudited)
Turnover	3	848,634	702,990	437,396	354,266
Cost of sales		(677,218)	(556,681)	(346,736)	(276,493)
Gross profit		171,416	146,309	90,660	77,773
Other operating income		4,965	1,380	791	1,169
Distribution costs		(19,440)	(15,625)	(9,794)	(8,273)
Administrative expenses		(35,871)	(24,921)	(18,309)	(12,575)
Other operating expenses		(1,574)	(587)	(410)	(531)
Profit from operations		119,496	106,556	62,938	57,563
Finance costs		(5,155)	(3,564)	(2,396)	(2,597)
Profit before taxation		114,341	102,992	60,542	54,966
Taxation	4	(6,206)	(2,903)	(4,364)	(1,375)
Profit before minority interests		108,135	100,089	56,178	53,591
Minority interests		(12,779)	(17,073)	(7,033)	(8,241)
Net profit for the period		95,356	83,016	49,145	45,350
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6				
– Basic		10.20	13.72	5.22	7.49
– Diluted		9.40	10.27	4.81	5.46

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2004

	<i>Notes</i>	30.6.2004 <i>HK\$'000</i> (unaudited)	31.12.2003 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	7	810,373	615,788
Intangible assets		9,411	9,662
Goodwill	8	22,287	13,954
Negative goodwill		(16,189)	(18,022)
Investments in securities		7,980	7,906
		<u>833,862</u>	<u>629,288</u>
Current assets			
Inventories		33,600	36,374
Trade receivables	9	132,177	183,859
Other receivables, deposits and prepayments		393,030	218,411
Amount due from minority shareholders		–	11,246
Bank balances and cash		854,286	356,809
		<u>1,413,093</u>	<u>806,699</u>
Current liabilities			
Trade payables	10	32,704	79,062
Other payables and accruals		94,350	68,709
Taxation		34,415	29,021
Amounts due to minority shareholders		6,548	3,414
Borrowings – due within one year	11	96,071	32,526
		<u>264,088</u>	<u>212,732</u>
Net current assets		<u>1,149,005</u>	<u>593,967</u>
Total assets less current liabilities		1,982,867	1,223,255
Non-current liabilities			
Borrowings – due after one year	11	392,923	378,564
		<u>1,589,944</u>	844,691
Minority shareholders		<u>(320,974)</u>	<u>(264,637)</u>
Net assets		<u>1,268,970</u>	<u>580,054</u>
Capital and reserves			
Share capital	12	94,225	77,910
Reserves		1,174,745	502,144
Shareholders' funds		<u>1,268,970</u>	<u>580,054</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Exchange reserve HK\$'000 (unaudited)	Asset revaluation reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	General reserve HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
At 1 January 2003	60,508	49,593	(192)	4,973	1,101	2,077	150,313	268,373
Issue of shares on conversion of convertible note	16,949	-	-	-	-	-	-	16,949
Issue of shares on conversion of convertible bonds	453	-	-	-	-	-	-	453
Addition during the year	-	-	-	-	-	883	-	883
Expenses incurred in connection with issue of convertible bonds	-	(14,833)	-	-	-	-	-	(14,833)
Disposal of subsidiaries	-	-	-	(92)	-	-	-	(92)
Premium arising on issue of shares	-	100,332	-	-	-	-	-	100,332
Exchange difference on translation of overseas operations	-	-	(1,085)	-	-	-	-	(1,085)
Transfer	-	-	-	-	-	1,350	(1,350)	-
Net profit for the year	-	-	-	-	-	-	209,074	209,074
At 1 January 2004	77,910	135,092	(1,277)	4,881	1,101	4,310	358,037	580,054
Share options exercised	795	-	-	-	-	-	-	795
Issue of new shares	15,520	-	-	-	-	-	-	15,520
Premium arising on issue of shares	-	605,505	-	-	-	-	-	605,505
Expenses incurred in connection with issue of shares	-	(28,260)	-	-	-	-	-	(28,260)
Transfer	-	-	-	-	-	409	(409)	-
Net profit for the period	-	-	-	-	-	-	95,356	95,356
At 30 June 2004	<u>94,225</u>	<u>712,337</u>	<u>(1,277)</u>	<u>4,881</u>	<u>1,101</u>	<u>4,719</u>	<u>452,984</u>	<u>1,268,970</u>
At 1 January 2003	60,508	49,593	(192)	4,973	1,101	2,077	150,313	268,373
Exchange difference on translation of overseas operations	-	-	(1,083)	-	-	-	-	(1,083)
Expenses incurred in connection with issue of convertible bonds	-	(14,423)	-	-	-	-	-	(14,423)
Transfer	-	-	-	-	-	659	(659)	-
Net profit for the period	-	-	-	-	-	-	83,016	83,016
At 30 June 2003	<u>60,508</u>	<u>35,170</u>	<u>(1,275)</u>	<u>4,973</u>	<u>1,101</u>	<u>2,736</u>	<u>232,670</u>	<u>335,883</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended 30 June 2004 <i>HK\$'000</i> (unaudited)	Six months ended 30 June 2003 <i>HK'000</i> (unaudited)
Net cash (used in) from operating activities	(18,866)	77,427
Net cash used in investing activities	(165,727)	(76,895)
Net cash from financing activities	682,070	354,663
	<hr/>	<hr/>
Net increase in cash and cash equivalents	497,477	355,195
Bank balances and cash at beginning of the period	356,809	98,224
Effect of foreign exchange rate changes	–	(1,083)
	<hr/>	<hr/>
Bank balances and cash at end of the period	<u>854,286</u>	<u>452,336</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. GENERAL

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (Revised) Chapter 22 of the Cayman Islands. The shares of the Company are listed on the GEM operated by the Stock Exchange.

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

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with Statement of Standard Accounting Practice No. 25 (“SSAP 25”) “Interim Financial Reporting”.

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods provided to outside customers during the period, net of discounts and returns, value-added tax and sales tax.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2004 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>
30 June 2004			
REVENUE			
External	<u>700,119</u>	<u>148,515</u>	<u>848,634</u>
SEGMENT RESULTS			
	<u>33,797</u>	<u>87,703</u>	121,500
Other operating income			4,965
Unallocated corporate expenses			<u>(6,969)</u>
Profit from operations			119,496
Finance costs			<u>(5,155)</u>
Profit before taxation			114,341
Taxation			<u>(6,206)</u>
Profit before minority interests			108,135
Minority interests			<u>(12,779)</u>
Net profit for the period			<u>95,356</u>
30 June 2003			
REVENUE			
External	<u>587,586</u>	<u>115,404</u>	<u>702,990</u>
SEGMENT RESULTS			
	<u>34,482</u>	<u>82,396</u>	116,878
Other operating income			1,380
Unallocated corporate expenses			<u>(11,702)</u>
Profit from operations			106,556
Finance costs			<u>(3,564)</u>
Profit before taxation			102,992
Taxation			<u>(2,903)</u>
Profit before minority interests			100,089
Minority interests			<u>(17,073)</u>
Net profit for the period			<u>83,016</u>

The Group's operations are situated in the PRC and its revenue was derived principally from there. Accordingly, no geographical segment information is presented.

4. TAXATION

Six months ended 30 June		Three months ended 30 June	
2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000

The charge comprises:

Profit for the period				
PRC, excluding Hong Kong	6,206	2,903	4,364	1,375

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries established in the PRC 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 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 is ranging from 12% to 16.5%. The charge of PRC enterprise income tax for the period has been provided for after taking these tax incentives into account.

5. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$15,203,000 (2003: HK\$9,276,000) was charged in respect of the Group's property, plant and equipment and total amortisation of HK\$619,000 (2003: HK\$395,000) was charged to administrative expenses in respect of the Group's goodwill. The negative goodwill amounted to HK\$284,000 (2003: HK\$158,000) was released to the income statement for the period.

6. EARNINGS PER SHARE

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

Six months ended 30 June		Three months ended 30 June		
2004	2003	2004	2003	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Earnings for the purpose of basic earnings per share	95,356	83,016	49,145	45,350
Effect of dilutive potential shares:				
Interest on convertible note and bond	3,619	2,986	1,766	2,246
Earnings for the purposes of diluted earnings per share	98,975	86,002	50,911	47,596

6. EARNINGS PER SHARE (*Continued*)

	Six months ended		Three months ended	
	30 June		30 June	
	2004	2003	2004	2003
	Number of shares ('000)		Number of shares ('000)	
Weighted average number of shares for the purpose of basic earnings per share	934,705	605,076	941,891	605,076
Effect of dilutive potential shares:				
Options	20,023	29,812	19,350	29,990
Convertible note	–	169,491	–	169,491
Convertible bonds	97,851	33,190	97,851	66,379
	<u>1,052,579</u>	<u>837,569</u>	<u>1,059,092</u>	<u>870,936</u>
Weighted average number of shares for the purpose of diluted earnings per share	1,052,579	837,569	1,059,092	870,936

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$211,546,000 (2003: HK\$77,997,000) on acquisition of property, plant and equipment.

At 30 June 2004, the directors have considered the carrying amount of the Group's leasehold land and buildings carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. GOODWILL

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Balance at the beginning of period	13,954	14,349
Addition	8,952	–
Amortisation	(619)	(395)
	<u>22,287</u>	<u>13,954</u>
Balance at the end of period	22,287	13,954

9. 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 reporting date:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	85,139	132,853
91 to 180 days	24,571	46,872
181 to 360 days	20,501	2,430
Over 360 days	1,966	1,704
	<u>132,177</u>	<u>183,859</u>

10. TRADE PAYABLES

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

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	26,069	72,702
91 to 180 days	3,241	1,133
181 to 360 days	428	763
Over 360 days	2,966	4,464
	<u>32,704</u>	<u>79,062</u>

11. BORROWINGS

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Bank loans (secured)	22,591	32,863
Bank loans (unsecured)	84,331	5,239
Other loans (unsecured)	10,056	972
Convertible bonds	372,016	372,016
	<u>488,994</u>	<u>411,090</u>

The maturity of the above borrowings is as follows:

On demand or within one year	96,071	32,526
More than one year but not exceeding two years	19,597	3,929
More than two years but not exceeding five years	373,326	374,635
	<u>488,994</u>	411,090
Less: Amount due within one year shown under current liabilities	<u>(96,071)</u>	<u>(32,526)</u>
Amount due after one year	<u>392,923</u>	<u>378,564</u>

The convertible bond was issued on 23 April 2003. The bond is convertible into shares of the Company from the 45th day commencing from the date of issue, up to 14 days prior to the fifth anniversary of the date of issuance. The price at which each share shall be issued upon conversion shall be HK\$3.8043 per share. The outstanding unconverted principal amount of the bond will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is paid per annum.

12. SHARE CAPITAL

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Shares of HK\$0.10 each		
<i>Authorised:</i>		
2,000,000,000 shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
942,250,891 shares (2003: 779,097,891 shares) of HK\$0.10 each	<u>94,225</u>	<u>77,910</u>
	<i>Number of shares</i>	<i>HK\$'000</i>
Number of shares at the beginning of period	779,097,891	77,910
Share options exercised	7,953,000	795
Issue of new shares	<u>155,200,000</u>	<u>15,520</u>
Number of shares at the end of period	<u>942,250,891</u>	<u>94,225</u>

13. CAPITAL COMMITMENTS

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Commitments for the investments in subsidiaries		
– contracted for but not provided for in the financial statements	<u>135,847</u>	<u>186,361</u>

14. INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2004.

15. ACQUISITIONS

The Group acquired 90% and 100% of the issued share capital of Yuechi Panva Gas Company Limited and Daiyi Panva Gas Company Limited respectively for an aggregate cash consideration of HK\$47 million. These transactions have been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	37,821
Goodwill arising on acquisition	<u>8,952</u>
Cash consideration	<u><u>46,773</u></u>
Net cash outflow arising on acquisition	
Cash consideration	46,773
Bank balances and cash acquired	<u>(2,146)</u>
	<u><u>44,627</u></u>

The subsidiaries acquired during the period contributed HK\$37,520,000 to the Group's turnover and HK\$23,158,000 to the Group's profit from operations.

REVIEW OF OPERATIONS

During the first half of 2004, the PRC government took macroeconomic measures to rein in investment activities in the steel, metal smelting, real estate and infrastructure industries with notable results. Although such measures were aimed at specific industries and sectors, the impact was felt at various degrees across the whole country. Against this background, the Group managed to sustain a healthy growth by further expanding its business territory and market share through the implementation of a proven market development strategy, and by dedicating stronger efforts to improve its management and operations. For the six months ended 30 June 2004, the Group's turnover amounted to approximately HK\$848,634,000, representing an increase of 20.71% over the same period last year. Gross profit increased by 17.16% to approximately HK\$171,416,000 while net profit rose by 14.86% to approximately HK\$95,356,000.

Wholesale of Liquefied Petroleum Gas (“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. It remained as a core business of the Group, accounting for approximately 55.27% of the Group’s total turnover for the six months ended 30 June 2004. The turnover recorded by this business segment for the period amounted to approximately HK\$469,035,000, a growth of 15.77% compared with the same period last year.

Retail Business

The Group’s retail business comprises the direct sale of LP Gas in cylinders and the provision of piped LP Gas and piped natural gas to retail customers. For the six months ended 30 June 2004, turnover derived from the retail business grew by 24.17% to approximately HK\$214,945,000, accounting for approximately 25.33% of the Group’s total turnover during the period.

Gas Pipeline Development

The Group’s gas pipeline development business mainly includes the construction of low and medium pressure pipelines and pressure-regulating stations, through which the Group provides direct connection of piped gas to end-user households and receives a connection fee. For the six months ended 30 June 2004, turnover derived from the gas pipeline development business grew by 28.7% amounted to approximately HK\$148,515,000, accounting for approximately 17.5% of the Group’s total turnover.

Progress of Gas Pipeline Development Projects

With environmental protection drawing more attention in the PRC, there is growing consensus in favour of the development of the gas fuel sector. Leveraging its competitive advantages, the Group continued its pace of project development in the piped and cylindered gas sectors, and made progress in the northeastern, southern and southwestern PRC regions. Apart from the conclusion of two new projects during the period under review, the Group is currently finalising several new projects. The Group expects to make further progress in project development during the second half of the year.

Sichuan Yuechi Project

The Group through its wholly-owned subsidiary Panriver Investments Company Limited (“Panriver Investments”) acquired from the Municipal Government of the Yuechi municipality of the Sichuan Province a 90% equity interest in Yuechi Natural Gas Company, which was subsequently renamed as Yuechi Panva Gas Company Limited (“Yuechi Panva Gas”), for a consideration of RMB37,000,000. Pursuant to the agreement, the Group was granted an exclusive right to operate piped natural gas business 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 upper crust of Sichuan Basin with rich natural gas resources, and is directly accessible to the state government's major 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 Panva Gas is principally engaged in processing and distributing natural gas, operating natural gas meters, designing, installing and maintaining natural gas pipelines and water heaters, and marketing natural gas appliances. Its operation in the piped natural gas network in Yuechi includes 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 and commercial users.

Sichuan Cangxi Project

During the period, the Group acquired from the Municipal Government of the Cangxi municipality of the Sichuan Province 100% equity interest in Cangxi Natural Gas Company, which was subsequently renamed as Cangxi Panva Gas Company Limited ("Cangxi Panva Gas"), for a consideration of RMB18,800,000. Pursuant to the agreement, the Group was granted an exclusive right to operate piped natural gas business in Cangxi for 30 years. With the successful acquisition of Cangxi Gas and the formation of Yuechi Panva Gas, the Group has established two strategic arms in the northern and eastern regions of Sichuan, which will facilitate the Group's further development of natural gas operations in the regions and in their vicinity.

Located at the northern border of Sichuan Basin, Cangxi municipality occupies an area of approximately 2,330 square kilometres with a population of approximately 780,000 and connectable natural gas households of approximately 200,000. Cangxi Panva Gas has access to an abundant supply of high quality natural gas in the surrounding area, which amounts to an aggregate reserve of approximately 5 billion cubic metres. Cangxi is a municipality earmarked for eco-development, where the use of coal fuel has been banned in its town area. Its primary energy sources are natural gas and electricity, which provides favourable prospects for natural gas development.

Cangxi Panva Gas is principally engaged in the supply of natural gas, the construction of natural gas pipelines, and the sale of natural gas and LP Gas appliances.

Financial Position

As at 30 June 2004, the Group's cash and cash equivalent amounted to approximately HK\$854,286,000, bank loans and other borrowings amounted to approximately HK\$488,994,000, of which approximately HK\$372,016,000 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 5.4 times and is in a net cash position.

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 RMB6,000,000,000 by the Bank of China, Shenzhen Branch.

Employees and Remuneration Policies

As at 30 June 2004, the Group had 3,236 full time employees, an increase of 8.01% from the end of last year. 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.

Contingent Liabilities

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

PROSPECTS

In view of the rising call for environmental protection in the PRC, liquid gas in particular liquefied natural gas (“LNG”) is poised to further increase its market share in the PRC’s energy consumption market. Several major LNG projects are being finalised in the coastal areas of Guangdong, Fujian and Zhejiang provinces. The proliferation of major operators in the upper stream will facilitate the expansion of the downstream LNG market. The Group will continue the effort in capturing such opportunities, further penetrate the untapped market and enhance its quality of service.

The Group will continue to strengthen its piped gas development business in the southwestern, southern, eastern and northeastern PRC regions and to secure more high quality piped gas projects. While focusing on the development of the piped gas sector, the Group will also continue to invest in and actively expand its LP Gas businesses including the retail of LP Gas in cylinders and the wholesale of LP Gas in bulk. The objective is to further expand the Group’s end-user customer base and profitability by capitalising on the Group’s brand-name advantage.

With a rapidly growing economy and increasing urbanisation, the PRC offers huge room for the development of the gas fuel sector. In spite of the competition and challenges ahead, there will be substantial amount of opportunities in the PRC’s gas fuel market. Moving forward, the Group believes, with its expanding market share and further enhancement in operating efficiency, the Group is well positioned to deliver value and returns to shareholders in the coming years.

COMPETING INTERESTS

None of the directors or management shareholders of the Company have any interest in any business, which may compete with the business of 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 has 2 members comprising 2 independent non-executive directors, Mr. Cheung Hon Kit and Mr. Li Xiao Ru. The audit committee’s principal duties are the review and supervision of the Company’s financial reporting process and internal control systems, including a general review of the unaudited interim financial report for the six months ended 30 June 2004. In carrying out this review, the audit committee has obtained explanations from management. At the request of the Board, the Group’s external auditors have carried out a review of the unaudited interim financial report in accordance with the Statement of Auditing Standards No. 700 issued by the Hong Kong Society of Accountants.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinions of the directors, the Company has complied with the code of best practice as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the relevant period.

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, 13 August 2004

At the date of this announcement, the Board comprises of:

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

CHEUNG Hon Kit
LI Xiao Ru

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for 7 days from the day of its posting.