



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 YEAR ENDED 31 DECEMBER 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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\$1,800,253,000 representing an increase of 23.50% from last year.
- Gross profit increased to approximately HK\$446,871,000 representing an increase of approximately 16.27% from last year.
- Net profit increased to approximately HK\$264,088,000 representing an increase of approximately 26.31% from last year.

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 2004.

RESULTS

The audited consolidated results of the Group for the year ended 31 December 2004 together with the comparative figures of 2003 are as follows:

	<i>NOTES</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	1,800,253	1,457,632
Cost of sales		<u>(1,353,382)</u>	<u>(1,073,289)</u>
Gross profit		446,871	384,343
Other operating income		15,963	4,218
Distribution expenses		(40,086)	(35,541)
Administrative expenses		(83,915)	(67,248)
Other operating expenses		<u>(2,655)</u>	<u>(1,134)</u>
Profit from operations		336,178	284,638
Loss on disposal of subsidiaries		(374)	(788)
Gain on partial disposal of a subsidiary		2,433	541
Finance costs		<u>(27,826)</u>	<u>(10,257)</u>
		310,411	274,134
Share of results of an associate		<u>83</u>	<u>—</u>
Profit before taxation		310,494	274,134
Taxation	3	<u>(19,711)</u>	<u>(22,875)</u>
Profit before minority interest		290,783	251,259
Minority interests		<u>(26,695)</u>	<u>(42,185)</u>
Net profit for the year		<u><u>264,088</u></u>	<u><u>209,074</u></u>
Earnings per share		HK cents	HK cents
Basic	4	<u><u>28.14</u></u>	<u><u>33.97</u></u>
Diluted	4	<u><u>26.38</u></u>	<u><u>30.36</u></u>

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 2004 is as follows:

	Sale and distribution of gas fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
Year ended 31 December 2004			
REVENUE			
External	<u>1,368,664</u>	<u>431,589</u>	<u>1,800,253</u>
SEGMENT RESULTS	<u>129,614</u>	<u>225,717</u>	355,331
Other operating income			15,963
Unallocated corporate expenses			<u>(35,116)</u>
Profit from operations			336,178
Loss on disposal of subsidiaries			(374)
Gain on partial disposal of a subsidiary			2,433
Finance costs			<u>(27,826)</u>
			310,411
Share of results of an associate			<u>83</u>
Profit before taxation			310,494
Taxation			<u>(19,711)</u>
Profit before minority interests			290,783
Minority interests			<u>(26,695)</u>
Net profit for the year			<u>264,088</u>

	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>
Year ended 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>

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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>310,494</u>	<u>274,134</u>
Tax at the applicable tax rate of 33% (2003:33%)	102,463	90,464
Tax effect of expenses that are not deductible for tax purpose	13,244	7,391
Tax effect of income that is exempted from PRC enterprise income tax in determining taxable profit	(73,571)	(58,444)
Effect of different tax rate of subsidiaries entitled to 50% reduction in PRC enterprise income tax rates and operating in different provinces	(23,621)	(21,907)
Tax effect of tax losses not recognised	<u>1,196</u>	<u>5,371</u>
Tax expenses	<u><u>19,711</u></u>	<u><u>22,875</u></u>

4. Earnings per share

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

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	264,088	209,074
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	<u>14,412</u>	<u>5,408</u>
Earnings for the purposes of diluted earnings per share	<u><u>278,500</u></u>	<u><u>214,482</u></u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	938,499,000	615,401,000
Effect of dilutive potential ordinary shares:		
Options	19,341,000	25,884,000
Convertible bonds	<u>97,851,000</u>	<u>65,234,000</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>1,055,691,000</u></u>	<u><u>706,519,000</u></u>

5. Depreciation and Amortisation

Depreciation on fixed assets amounted to approximately of HK\$38,447,000 (2003: HK\$21,553,000) during the year. Amortisation of intangible assets and goodwill amounted to approximately HK\$1,669,000 (2003: HK\$1,163,000) during the year.

6. Reserves

	Share Premium Reserve	Exchange Reserve	Capital Reserve	General Reserve	Asset Revaluation Reserve	Retained Earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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 and 1 January 2004	135,092	(1,277)	1,101	4,310	4,881	358,037	502,144
Exchange difference on translation of overseas operations and net loss not recognised in income statement	—	(3,179)	—	—	—	—	(3,179)
Premium arising on issue of shares	609,277	—	—	—	—	—	609,277
Expenses incurred in connection with the issue of convertible bonds	(32,032)	—	—	—	—	—	(32,032)
Transfer	—	—	—	1,248	—	(1,248)	—
Net profit for the year	—	—	—	—	—	264,088	264,088
At 31 December 2004	<u>712,337</u>	<u>(4,456)</u>	<u>1,101</u>	<u>5,558</u>	<u>4,881</u>	<u>620,877</u>	<u>1,340,298</u>

During the year, the Group secured solid growths for its businesses as well as major breakthroughs in new project developments, with a number of newly acquired city piped gas projects being not only large in size but huge in significance. While actively expanding new markets, the Group also made further efforts to enhance the management of its subsidiary companies. Such efforts included the establishment of special task forces led by professionals to standardise the companies' management practices, to regenerate their operations and corporate culture, and to develop a business model for the Group's optimum integration of its resources and activities.

Review of Operations

For the year ended 31 December 2004, the Group's turnover amounted to approximately HK\$1,800,253,000, representing an increase of approximately 23.50% compared with last year. Gross profit increased by 16.27% to HK\$446,871,000. Profit attributable to shareholders amounted to approximately HK\$264,088,000, representing an increase of approximately 26.31% over last year.

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. It remained as one of the Group's principal activities in 2004. Confronted by the rising costs of LP Gas during the year, the Group through strengthening its inventory turnover control and diversifying its purchase managed to reduce its operating costs. At the same time, the Group also increased the selling prices of its products. As a result, the operating risks brought by the rising costs of LP Gas were efficaciously alleviated. For the year ended 31 December 2004, the LP Gas wholesale business increased its turnover by 13.53% to approximately HK\$858,589,000, accounting for approximately 47.69% of the Group's total turnover.

Retail of LP Gas

This business comprises the direct sale of LP Gas in cylinders to end-user customers. During 2004, the end-user market was adversely affected by the rising prices of LP Gas. The Group responded with a two-thronged approach. On the one hand, it sought to reduce its purchase cost and maintain its market share by capitalising on its economies-of-scale advantage and brand-name prestige, while on the other hand it further strengthened its internal management and tightened its cost control. As a result of these measures, the Group was able to maintain the sales growth of the business and increased its market share. For the year ended 31 December 2004, turnover derived from the retail of LP Gas grew by 20.00% to approximately HK\$412,498,000, accounting for approximately 22.91% of the Group's total turnover.

As at 31 December 2004, the Group had approximately 2,100,000 households of end-user customers for its retail sale of LP Gas in cylinders, an increase of approximately 338,000 households or 19.18% over the corresponding figure at 31 December 2003. The increases in end-user customer and market share were mainly driven by the Group's quality service and brand prestige.

Sale of Piped Gas

This business comprises the direct sale of piped LP Gas and piped natural gas to end-user households. Turnover of the business increased by 118.79% to approximately HK\$66,467,000, accounting for approximately 3.69% of the Group's aggregate turnover derived from the gas fuel businesses in 2004.

The increase in turnover is mainly due to the rise in end-user customers driven by new piped gas connections and new city piped gas projects acquired during the year. As at 31 December 2004, the

Group had approximately 456,000 households of end-user customers for its sale of piped gas, an increase of approximately 261,800 households over the corresponding figure at 31 December 2003. The Group's piped gas projects covers a population of approximately 46,000,000 people.

Gas Pipeline Development

The Group's gas pipeline development business mainly includes the construction 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 2004, the Group received an aggregate of approximately HK\$431,589,000 in connection fee, an increase of approximately 34.97% over last year. The amount accounted for approximately 23.97% of the Group's total turnover in 2004, compared to approximately 21.94% last year.

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

Acquisition of New Projects

With diligent and coordinated efforts, the Group has successfully implemented its project development plan laid down in early 2004. Eight new piped gas projects were secured during the year. Among them, three projects were located in the Changchun city of Jilin province, the Anshan city of Liaoning province, and the Qiqihar city of Heilongjiang province, which represented the Group's major breakthroughs in the northeastern PRC region following years of preparation and negotiations. With the successful acquisition of these large and quality projects, the Group has gained major footholds for its strategic development in the northeastern PRC region. The Changchun project is particularly significant, which provides the Group further leverage in the PRC's gas fuel sector as well as an additional avenue to tap the capital market.

Apart from these three projects, the Group continued to make progress in the Sichuan province with five new projects acquired in the cities of Yuechi, Cangxi, Zhongjiang, Pengshan and Chengdu. Among them, the successful acquisition of a 13% interest in Chengdu City Gas Company Limited ("Chengdu City Gas") represented a significant move of the Group for its strategic development in the Sichuan province. The acquisition of these five high quality projects during the year gives further evidence that the Group has embarked on a solid track of rapid growth.

Sichuan Yuechi Project

During the year, the Group 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 year, 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.

Jilin Changchun Project

In August 2004, the Group entered into an ownership transfer agreement with Changchun Municipality State-owned Assets Administrative Bureau to acquire a 48% equity interest in Changchun Gas Holdings Limited ("Changchun Gas Holdings") for a consideration of RMB379,200,000. All necessary approvals were obtained in January 2005 and Changchun Gas Holdings became a Sino-foreign joint venture company with an operating period of 30 years.

Changchun Gas Holdings is a state-owned enterprise incorporated in the PRC. It holds 244,800,000 legal person shares representing 60.22% of the total issued capital of Changchun Gas Co., Ltd. ("Changchun Gas") the 'A' shares of which are listed on the Shanghai Stock Exchange.

Established in 1998, Changchun Gas was listed on the Shanghai Stock Exchange on 11 December 2000. Changchun Gas is principally engaged in the production and distribution of natural gas, coal gas, LP Gas, metallurgical coke and coke oil, and is the sole producer of metallurgical coke and coke

oil in the Changchun city. More than 80% of its products are sold to places outside Changchun. The piped gas products of Changchun Gas, including coal gas, natural gas and LP Gas, are supplied to urban users in the Changchun and Yanji cities of Jilin province, which command a market share of over 70% of the gas fuel consumption in the two cities.

Being the capital city of Jilin, Changchun is the political, economic and cultural centre of the province, with six districts and four municipalities under its jurisdiction. Changchun occupies an area of approximately 20,571 square kilometres, with a population of approximately 7,180,000 and connectable natural gas households of approximately 1,890,000. Under its 10th 5-year city development plan, Changchun will gradually switch from coal to gas fuel consumption in its city area in order to curb the pollution caused by direct coal burning. As such, it is expected that city piped gas user households will grow strongly in Changchun.

With the successful conclusion of the project, the Group has opened up the northeastern PRC piped gas market and laid a solid foundation for its further development in the region.

Sichuan Pengshan Project

During the year, the Group acquired from the Municipal Government of the Pengshan municipality of the Sichuan Province a 70% equity interest in Pengshan Natural Gas Company (“Pengshan Gas”) for a consideration of RMB21,000,000. As part of the acquisition, Pengshan Gas has been granted an exclusive right to operate piped natural gas business in the Pengshan municipality for 30 years. With the successful acquisition of Pengshan Gas, the Group has reinforced its competitive advantages and strengths in Sichuan while enhancing its economies-of-scale-benefits.

Located in southwestern Chengdu Plain, Pengshan municipality is part of the Meishan District with 18 counties under its jurisdiction. It occupies an area of approximately 465 square kilometres, with a population of approximately 320,000 and connectable natural gas households of approximately 85,000. Pengshan municipality is served by a strong transport network including the Chengkun Railway and the Chengya and Chengle Highways. Being only some 50 kilometres from the Chengdu city and part of the Chengdu Plain Economic Circle, Pengshan municipality offers good prospects for the development of industrial and commercial piped gas businesses.

Sichuan Zhongjiang Project

During the year, the Group acquired 100% equity interest in Zhongjiang Natural Gas Company (“Zhongjiang Gas”) for a consideration of RMB36,700,000. As part of the acquisition, Zhongjiang Gas has been granted an exclusive right to operate piped natural gas business in the Zhongjiang municipality for 30 years.

Zhongjiang municipality is under the jurisdiction of Deyang city. Located in the northern Sichuan Basin with Chengdu Plain to its west, Zhongjiang municipality is 35 kilometres from Deyang and 88 kilometres from Chengdu. It is at the heart of Sichuan’s well-developed economic zone, served by a convenient transport network including the Chengnan and Chengmian Highways and the Chengda Railway, which make Zhongjiang one of the municipalities that benefit early from the economic developments of small and medium cities in the vicinity. As at 2003, Zhongjiang municipality had a population of approximately 1,410,000 and connectable natural gas households of approximately 370,000. With the main natural gas pipeline now covering the whole municipality, Zhongjiang offers bright prospects for piped gas development.

Heilongjiang Qiqihar Project

On 10 November 2004, the Group entered into an agreement to acquire from the Municipal Government of the City of Qiqihar of the Heilongjiang Province both the Qiqihar Natural Gas Company and the Qiqihar Liquefied Gas Company. Pursuant to the acquisition agreement, the two gas companies are to be restructured into a new Sino-foreign joint venture company. The Group has taken up a 61.65% equity interest in the joint venture company for a total consideration of RMB70,500,000.

Qiqihar is the second largest city of Heilongjiang province and a provincial city directly under the auspices of the central government. It is the political, economic, technological, cultural, educational, commercial and transport hub of western Heilongjiang province, with seven districts, one city and eight municipalities under its jurisdiction. It is also one of the 13 larger provincial cities approved by the state council. Qiqihar has a population of approximately 5,600,000 and connectable natural gas households of approximately 1,480,000. It has access to an abundant supply of natural gas, with the Alaxin Gas Field only 60 kilometres away at Daxing county of Tailai municipality which, managed by the Daqing Oil Administration Bureau, has an oil reserve of over one billion cubic metres.

Following the heels of the Changchun project, the Qiqihar project represents the Group's further success in arraying into the northeastern PRC market. It has strengthened the Group's base in piped gas development in the region, facilitated the Group's further acquisition of other projects, and increased the Group's solid standing in the gas fuel market.

Sichuan Chengdu Project

On 30 November 2004, the Group won a tender and acquired a 13% interest in Chengdu City Gas for a consideration of RMB170,352,000.

Located in the Western Plain of Sichuan Basin, Chengdu is the capital of Sichuan province, the "fertile land of abundance". It occupies an area of approximately 12,300 square kilometres, with a population of approximately 11,000,000 and connectable natural gas households of approximately 2,890,000. Chengdu serves as the major hub of southwestern PRC, being a major inland city with prominence in trade and commerce, finance, technology, transportation and telecommunications. The surrounding area of Chengdu has been proved to be a huge source of natural gas, following the discovery of a major natural gas field in the Sichuan Basin with a reserve of 114.363 billion cubic metres and a production capacity of 87.832 billion cubic metres that rank it one of the super-large natural gas fields found in the PRC. Rising environmental consciousness leads to increasing popularity of compressed natural gas powered cars in Chengdu. Moreover, as Chengdu is a major tourism centre in southwestern PRC, its fast growing hospitality and food catering industries will help to boost commercial natural gas consumption. Hence there is huge room for the natural gas sector to develop in Chengdu.

Chengdu City Gas is principally engaged in the provision of natural gas to domestic and commercial users and the operation of the city gas pipeline network in the city of Chengdu of Sichuan province.

Liaoning Anshan Project

On 23 December 2004, the Group entered into an asset transfer agreement with Anshan City Public Utilities Management Bureau and Shanghai Jian Shi Hai Jia Investment Co., Ltd. to acquire a 51% equity interest in Anshan City Gas Company ("Anshan City Gas") for a total consideration of RMB70,490,000. Upon the granting of necessary approvals from relevant PRC authorities, Anshan City Gas will be changed into a Sino-foreign joint venture company and renamed Anshan Panva Gas Co., Ltd. with an exclusive right to operate piped natural gas business in Anshan city for 30 years.

Anshan, known as the “steel capital”, is an important steel production base in the PRC. Supported by a well-developed economy, strong industrial infrastructure and high consumer spending, Anshan ranks the third mightiest city in Liaoning province. It occupies an area of approximately 9,252 square kilometres, with a population of approximately 3,390,000 and connectable natural gas households of approximately 890,000.

Anshan City Gas is principally engaged in the development and operation of piped gas supply in the city of Anshan. Currently, such supply includes the provision of coked gas and natural gas, with the latter accounting for approximately 25% of the total household customers of Anshan City Gas.

Anshan City Gas is a piped gas supply enterprise without owning gas production facilities. The gas is provided by Anshan City Steel Group Company. Currently, the gas distributed by Anshan City Gas only accounts for approximately 5% of the total gas supply of Anshan City Steel Group Company. The latter sources its natural gas from the Liaohé Oil field, the third largest oil field in the PRC with a natural gas reserve that accounts for 10% of the total proven reserve of natural gas in the PRC.

Growing urbanisation is driving up the consumption of natural gas in the domestic as well as the commercial and industrial sectors in Anshan.

Corporate Culture

Adhering to its corporate values of “Tranquility, Stability, and Creativity”, the Group made further efforts in 2004 to become a knowledge-based organisation. During the year, various training courses, competitions and seminars were organised for its staff to promote knowledge learning, while department managers were strongly encouraged to pursue further studies to expand their expertise and strengthen their leadership. As a result, there was significant enhancement in the quality of the Group’s staff who became more all-rounded in knowledge with higher professional standards.

In March 2004, the Group organised a major conference for its project development teams to exchange views and gain new ideas on project development. The conference helped standardise the logistics in project evaluation and increase the professional skills of the team members. In April, a training course was organised for the middle management staff of the Group’s member companies including those from the joint ventures, as part of the Group’s ongoing efforts to enhance its management standards and to nourish new talents. In May, a training programme was held in the Ziyang city of Sichuan province on safety issues. Attended by the staff of the Group’s piped gas companies, the workshops brought improvements in safety management and safety standards of the companies. In June, a training programme was organised for the Group’s financial management teams on the implementation of “Panva’s Internal Accounting System and Financial Management System”, which resulted in significant enhancement in the Group’s overall financial management. In November, the Second Sales and Marketing Annual Conference was held in the Panva Management Institute, providing a valuable venue for the exchange of new ideas on the development of the gas fuel market and for the further strengthening of essential concepts and professional skills of the Group’s marketing teams. Apart from the above, the Group also organized a number of discussion panels on the subjects of corporate governance and staff development.

While encouraging the pursuit of knowledge, the Group also placed strong emphasis on the integration of its corporate culture by organising a variety of activities for its staff to promote a harmonious working and living environment. These efforts have fostered a stronger team spirit and higher creativity among the staff and brought significant enhancement to the Group’s core competitiveness.

Enhancements in Product Quality and Safety

The operations of the gas fuel industry involve the proper handling of highly inflammable products. It is a specialised industry that plays a major role in the safety and living conditions of the general public.

Ever since its establishment, the Group has been taking the safety issues as a top priority for its gas fuel businesses. The Group has been fully complying with the safety policies, rules and regulations and standards set by the state and local governments for gas fuel operations. It has developed a comprehensive and effective system to manage and monitor the safety of its products and services, which is implemented through an efficient network comprising the safety departments in individual companies, with specific requirements set on the details of safety compliance. A steering committee on safety issues has been set up with a responsibility system for the safety managers implemented, through which the Group has further enhanced its safety management.

The Group's strong emphasis on safety, together with the rising safety consciousness of its staff, has laid a solid foundation for the Group to stay ahead in safety assurance. During the year, the Group maintained a stable and safe supply of gas fuel to its customers. This helped sustain the quality of living in the various cities the Group serves, which resulted in great satisfaction among the citizens and the local governments and a higher standing of the Group as a reliable expert in the gas fuel products sector.

As the Group's businesses are rapidly expanding, it is becoming more essential to explore new gas technology in order to further enhance the Group's safety management. In this regard, the Group intends to establish a "Gas Technology Institute" in the coming future, which will build on the Group's existing research and development resources with the joining of high-calibre and experienced professionals from the gas field.

Issue of Guaranteed Senior Notes

On 16 September 2004, the Company successfully issued guaranteed senior notes in an aggregate principal amount of US\$200,000,000 due 2011 (the "US Notes") jointly arranged by Morgan Stanley & Co. International Limited ("Morgan Stanley") and Merrill Lynch Far East Limited. The US Notes have been rated BB+ and Ba1 by international rating agencies Standard and Poor's Rating Group, Inc. and Moody's Investors Services, Inc. respectively. The proceeds will be used to fund the Group's expansion in the piped gas business and the LP Gas business and as working capital. The successful fund-raising exercise has demonstrated the strong recognition of international investors on the Group's prospects and provided sufficient capital for the Group's future expansion.

On 23 September 2004, the Company entered into a US\$200,000,000 interest rate SWAP arrangement with an international financial institution whereby the Company receives a fixed interest rate at 8.25% per annum expiring on 22 September 2011 as long as the 6 months LIBOR in US\$ is within a certain range. At the same time, the Company has to pay an interest rate based on 6 months LIBOR in US\$ for the period from 23 September 2004 to 22 September 2005, and 6 months LIBOR in US\$ plus 3.72% but capped at a maximum of 12% for the period from 23 September 2005 to 22 September 2011.

Contingent Liabilities

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

Financial Position

As at 31 December 2004, the Group's cash and cash equivalents amounted to approximately HK\$2,174,503,000 which were mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

As at 31 December 2004, the Group's bank loans and other borrowings amounted to approximately HK\$1,984,714,000, of which approximately HK\$1,559,000,000 arose from the issue of the US Notes in September 2004 and approximately HK\$378,988,000 arose from the Group's issue of 5-year convertible bonds in April 2003 arranged by Morgan Stanley. The Group ended the year under review with a current ratio of approximately 11 times and is in a net cash position. With strong financial resources, the Group is well positioned to seize new development projects while maintaining a smooth operation for its businesses.

Total assets pledged in securing these bank loans had a net book value of approximately HK\$56,472,000 as at 31 December 2004.

Employees and Remuneration Policies

As at 31 December 2004, the Group had 3,271 employees, an increase of 9% 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. This remuneration policy serves to maximise the employees' potential and create value for the Group.

Prospects

The PRC economy has entered into a solid stage of rapid growth. With the further opening up of the energy sector, the accelerating reform of the state-owned enterprises and the better utilisation of energy resources, there will be a huge amount of new opportunities for the gas fuel industry. The Group believes that its businesses will continue to expand in 2005 and will derive additional benefits from its strong end-user customer bases in piped gas supply and LP Gas sales in cylinders.

In 2005, the Group will focus its efforts on the following areas:

- The Group will continue to strengthen its new project developments in Sichuan and the northeastern PRC region, where those cities in which the Group has secured projects will be used as footholds to expand into the regions. The Group will also further expand the markets of its existing operations and to seek cooperation and integration opportunities with the enterprises in the gas fuel sector.
- The Group will focus on parallel expansion of its piped gas business and the retail business of LP Gas in cylinders with an emphasis on the further development of their end-user customer bases. The Group will strive to exploit new opportunities in the PRC's major cities to further enhance its competitive advantages.
- The Group will strive to enhance the management and operations of its member companies by making further efforts to integrate their resources, to better utilise their gas supply and end-user sales networks, and to further improve their safety standards.
- The Group will make stronger efforts in staff training and human resource development with further enhancements in corporate culture and management in order to foster a professional workforce.

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 2004 (2003: Nil).

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.

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

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 3 members comprising 3 independent non-executive directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Ge Ming. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. When carrying out the review, the audit committee has obtained explanations from the management.

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

The Group would not have made such achievements in 2004 without the dedicated efforts of its staff. On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devoted efforts and diligence during the year.

By Order of the Board
CHEN Wei
Managing Director

Hong Kong, 17 March 2005

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
GE Ming

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.