

Annual Report

2004



Panva Gas Holdings Limited
百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Corporate Information

Board of Directors

Executive Directors

Mr. Ou Yaping (Chairman)
Mr. Tang Yui Man Francis (Vice Chairman)
Mr. Chen Wei (Managing Director)
Mr. Li Fujun
Mr. Shen Lian Jin
Mr. Zhang Keyu

Non-executive Directors

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

Independent Non-executive Directors

Mr. Cheung Hon Kit
Mr. Li Xiao Ru
Mr. Ge Ming

Authorised Representatives

Mr. Ou Yaping
Mr. Li Fujun

Compliance Officer

Mr. Li Fujun

Qualified Accountant

Mr. Yu Man To, Gerald, *MBA, CPA (Aust.), CPA*

Company Secretary

Mr. Lo Tai On

Audit Committee

Mr. Cheung Hon Kit
Mr. Li Xiao Ru
Mr. Ge Ming

Registered Office

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

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199 Des Voeux Road Central
Hong Kong
Telephone : (852) 2851 8425
Facsimile : (852) 2851 0970
Stock Code : 8132

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17th Floor
183 Queen's Road East
Wanchai
Hong Kong

Legal Advisers

(As to Hong Kong Law)
Woo, Kwan, Lee & Lo

(As to Cayman Islands Law)
Maples and Calder Asia

(As to the PRC Law)
Haiwen & Partners

Principal Bankers

Industrial and Commercial Bank of China (Asia) Ltd.
Hang Seng Bank Limited
Nanyang Commercial Bank Ltd., Hong Kong Branch
Bank of China, Shenzhen Branch

Websites

www.panva-gas.com
www.irasia.com/listco/hk/panvagass

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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33 Projects in 11 Provinces

Piped Gas:

a. Anhui	: 1
b. Guangdong	: 1
c. Heilongjiang	: 1
d. Jiangsu	: 1
e. Jilin	: 1
f. Liaoning	: 1
g. Shandong	: 1
h. Sichuan	: <u>11</u>
Total	: <u>18</u>

LP Gas:

a. Anhui	: 1
b. Guizhou	: 2
c. Hunan	: 7
d. Jiangsu	: 3
e. Shandong	: 1
f. Yunnan	: <u>1</u>
Total	: <u>15</u>

Financial Highlights

	2004 HK\$'000	2003 HK\$'000	Increase
Turnover	1,800,253	1,457,632	23.51%
Gross Profit	446,871	384,343	16.27%
Net Profit	264,088	209,074	26.31%
Shareholders' funds	1,434,523	580,054	147.31%
Total Assets	3,938,840	1,435,987	174.29%

	2004 HK Cent	2003 HK Cent	Increase/ (Decrease)
Earnings per share	28.14	33.97	(17.16)%
Net Asset Value per share	152.24	74.45	104.49%

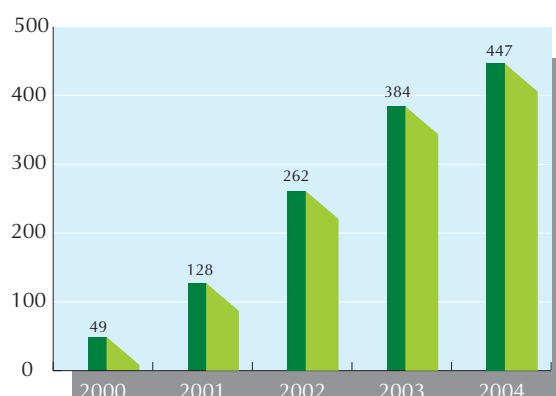
TURNOVER

HK\$ millions



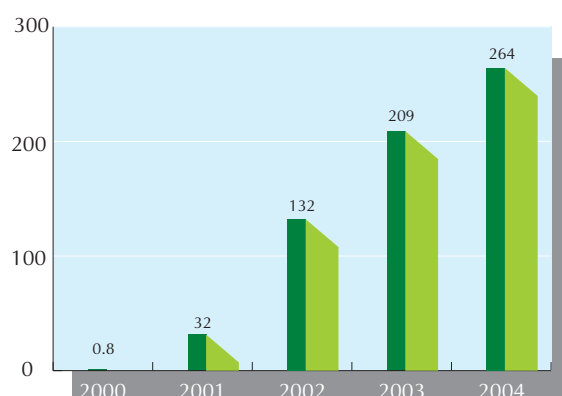
GROSS PROFIT

HK\$ millions

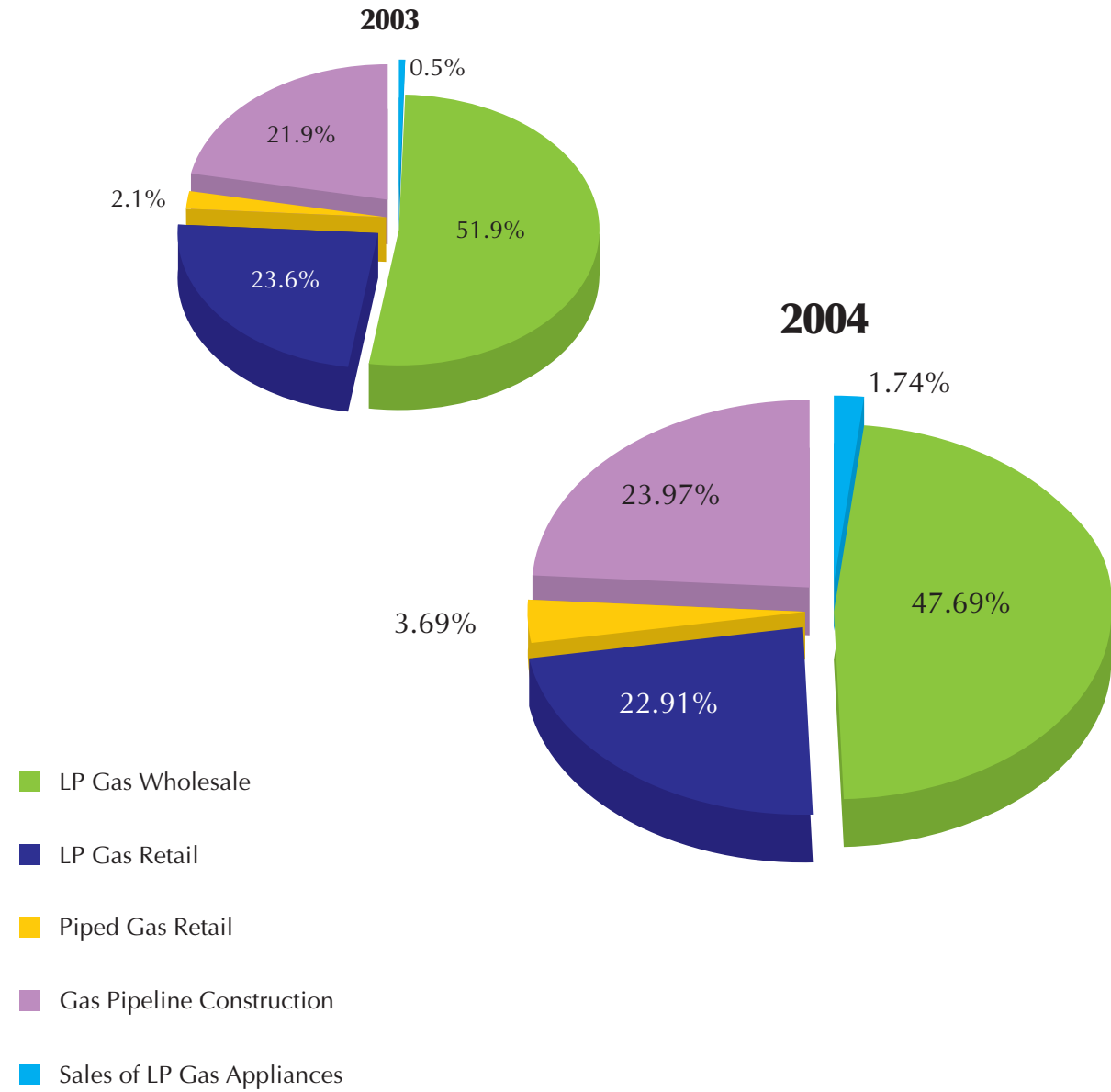


NET PROFIT

HK\$ millions

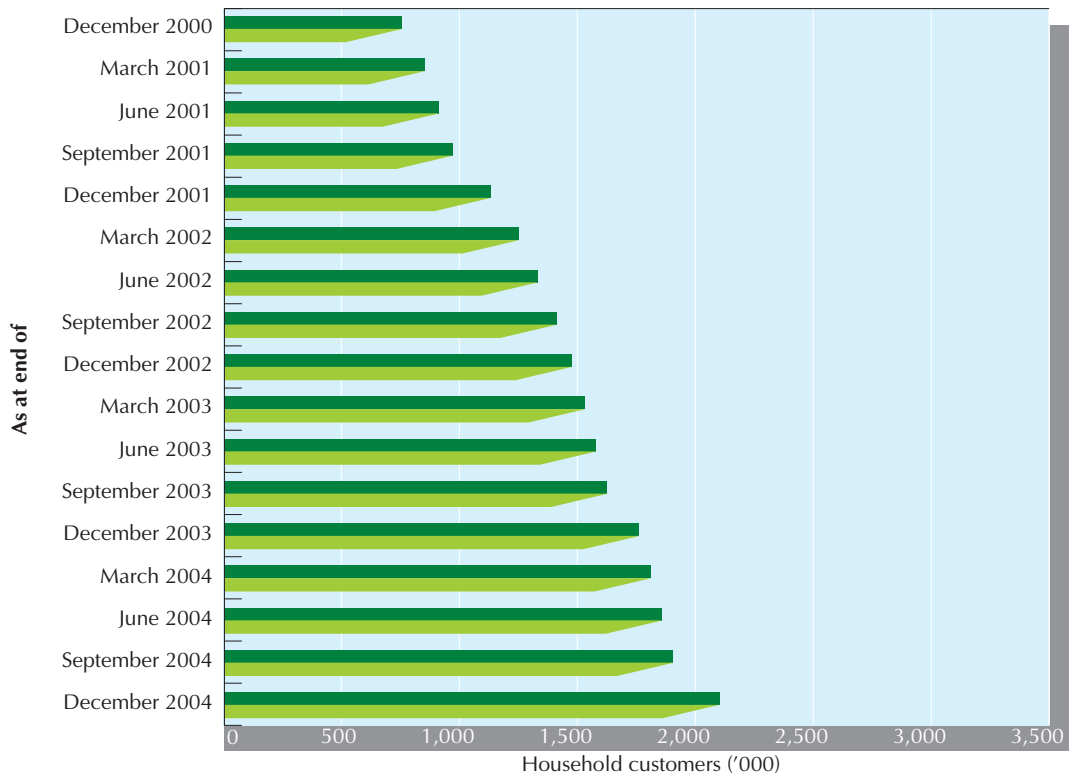


BREAKDOWN OF TURNOVER

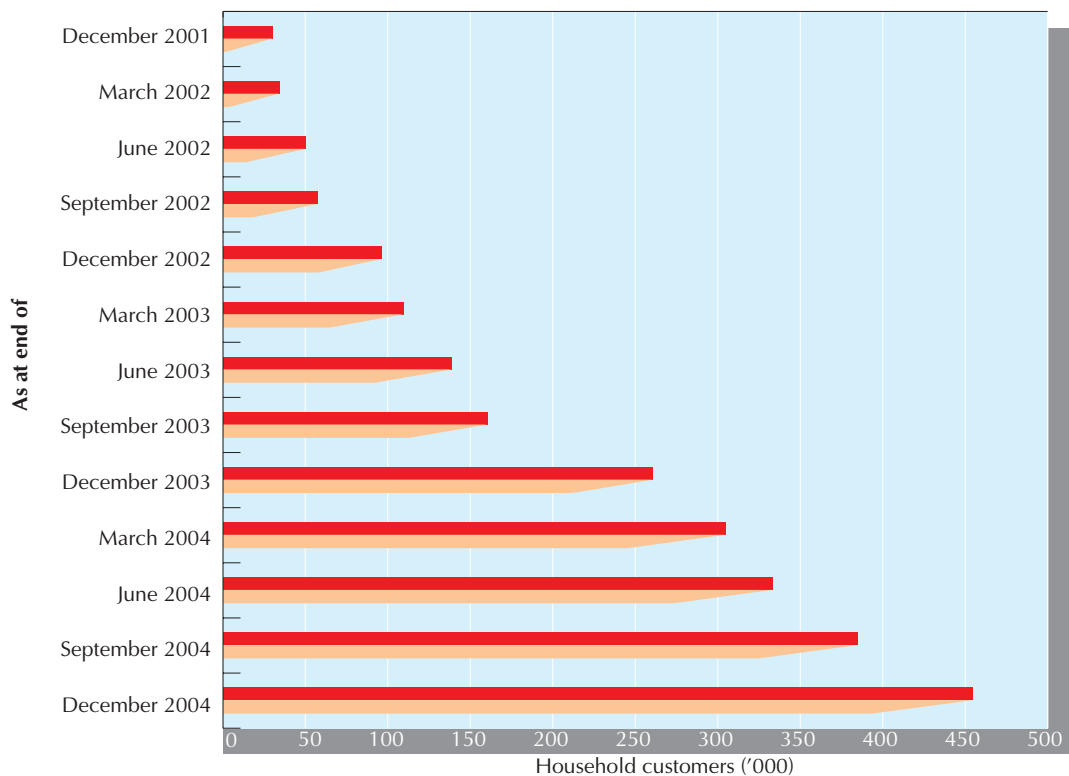


Financial Highlights

LP Gas Cylinder Customers



Piped Gas Customers



FINANCIAL SUMMARY

	For the year ended 31 December				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
RESULTS					
Turnover	<u>1,059,729</u>	<u>1,008,335</u>	<u>1,150,322</u>	<u>1,457,632</u>	<u>1,800,253</u>
Profit before taxation	6,483	68,499	178,303	274,134	310,494
Taxation	<u>(342)</u>	<u>—</u>	<u>(8,545)</u>	<u>(22,875)</u>	<u>(19,711)</u>
Profit before minority interests	6,141	68,499	169,758	251,259	290,783
Minority interests	<u>(5,313)</u>	<u>(36,806)</u>	<u>(37,220)</u>	<u>(42,185)</u>	<u>(26,695)</u>
Net profit for the year	<u>828</u>	<u>31,693</u>	<u>132,538</u>	<u>209,074</u>	<u>264,088</u>
	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic	0.17	5.59	21.97	33.97	28.14
Diluted	<u>N/A</u>	<u>4.89</u>	<u>17.44</u>	<u>30.36</u>	<u>26.38</u>

	As at 31 December		
	2002 HK\$'000	2003 HK'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Total assets	735,540	1,435,987	3,938,840
Total liabilities	(251,499)	(591,296)	(2,169,458)
Minority interests	<u>(215,668)</u>	<u>(264,637)</u>	<u>(334,859)</u>
Shareholders' funds	<u>268,373</u>	<u>580,054</u>	<u>1,434,523</u>

Notes:

- The results for the year ended 31 December 2000 have been prepared on a combined basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout the year concerned. The figures for the year ended 31 December 2000 have been extracted from the Company's prospectus dated 10 April 2001.
- The Company was incorporated in the Cayman Islands under the Laws of Cayman Islands on 16 November 2000. Accordingly, the only balance sheets for the Group that have been prepared over the past three years are presented above.



Mr. Ou Yaping
Chairman

For Panva Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), 2004 was a year in which new footholds were developed as well as the enhancement of the well being of its businesses. During the past year, the Group successfully withstood the test of the market and maintained its competitive advantages, with solid growth in operations as well as encouraging results in new project developments and management. In particular, the Group by drawing on years of experience has gained major breakthroughs in new project developments in the People's Republic of China (PRC) three major northeastern provinces. Also encouraging was the strong support and trust shown from investors in the capital market, which provided new vigour for the Group's thriving developments.

Development of the PRC Gas Sector

The PRC economy continued to expand at a solid and rapid momentum in 2004, recording a 9.5% year-on-year growth in gross domestic product that was by far its highest growth in more than a decade. Amidst the rapid growth of the economy, there are structural changes taking place in the PRC's energy consumption strata. Recognising the high importance of environmental protection and prompted by the peoples aspirations for higher living standards, the PRC government has been taking measures to reduce the reliance on coal and to increase gas fuel consumption. Driven by strong economic developments and supportive government policies, the PRC's gas fuel market provides a favourable environment for investors.

Natural Gas and City Pipelines

According to the forecasts of the Energy Research Institute of the State Planning Commission, the PRC will see a much stronger growth in natural gas demand against coal and oil consumption in the next 20 years. By 2020, its natural gas demand is expected to increase to 203.7 billion cubic metres, accounting for 10% of the country's total energy consumption compared to only 2.1% in 1998. Stretched global oil supply and severe air pollution brought by low-grade fuels also play a part in prompting the PRC government to accelerate natural gas development. On 1 October 2004, the "West to East Pipeline" officially commenced commercial operation. With a total length of 4,000 kilometres, the pipeline brings natural gas to 10 provinces across the PRC's eastern and western regions. On 16 November 2004, the Zhongwu Gas Pipeline commenced operation, transporting natural gas from the Sizhuan-Chongqing Basin to the Hubei and Hunan provinces. Other major pipelines such as the Shaanxi-Beijing Second Pipeline and the Hebei-Nanjing Pipeline will be completed within the next few years. Significant progress is also seen in offshore natural gas exploitation along the PRC's coastal regions, while imported liquefied natural gas ("LN Gas") is becoming a hot pursuit for companies to take advantage of the soaring demand. All in all, a nationwide natural gas pipeline network is taking shape in the PRC, with natural gas pipelines already developed in major PRC provinces and cities. Moreover, the PRC has been designated as a major export market for Russian natural gas, and Russia will export not less than 40 billion cubic metres of natural gas to the PRC and other Asian countries by 2020. Upon the implementation of the plan, the PRC will be the greatest beneficiary of Siberian natural gas exports, and the northeastern PRC region being the target market of such exports will offer huge potential for natural gas operations.



The Group has seized the huge opportunities arising from the PRC's rapid development of natural gas through active participations in state-owned gas enterprise reforms to expand its city gas projects. Such projects are located in major PRC cities with abundant natural gas resources and strong prospects for natural gas consumption. The Group has also accelerated its investment and merger and acquisition activities in the major markets of the PRC, focusing on the northeastern, southwestern, southern and central regions to expand its market shares and to provide value-added services to benefit customers. Moreover, the Group also strengthened its corporate governance and management and employed more high-calibre professionals, through which the Group was able to achieve

satisfactory results in new project developments and further enhanced the efficiency of the Group's member companies during 2004.

Liquefied Petroleum Gas Market

Affected by the sharp increases in international crude oil prices, oil fuel costs in the PRC hit record highs during 2004. However, this did not halt the PRC's growth momentum in liquefied petroleum gas ("LP Gas") consumption, which underpinned the attraction of the end-user market for this fuel category. The reality is that the PRC will remain a country with a high rural population and relatively low urbanisation for a significantly long period of time. Given that most of the PRC villages and small and medium-size towns will not have access to natural gas pipelines, it is highly likely that LP Gas will remain as the main alternative. Even in major PRC cities, there are commercial sectors such as the food catering industry which prefer LP Gas in cylinders to piped natural gas, as the former has the advantages of being high in heat value, easy to transport, and inexpensive in upfront investment. As such, the PRC will continue to provide ample room for the coexistence of LP Gas and pipe natural gas.

Being a major LP Gas supplier with an extensive end-user customer base in the PRC, the Group has strong operational and management experience in the field and commands a well-established supply and sales network. During 2004, rising oil prices worldwide led to steep increases in LP Gas production costs, bringing huge challenges to the Group's LP Gas operations. Facing these challenges, the Group took active measures to reduce its operating costs – such as the strengthening of control on inventory turnover, diversification in purchasing and adoption of more proactive management – while increased the selling prices of its products. By capitalising on its strong competitive advantages, the Group was able to alleviate the operating risks brought on by rising oil prices and gained satisfactory results.

Prospects

In view of the PRC government's policy to further open up the oil and gas sectors to foreign investors, in particular the natural gas production chain where the barrier to foreign investment will be removed, the western PRC region with its abundant resources of natural gas offers huge investment opportunities. The Group will strive to seize the opportunities arising from the state's Western Development Plan, focusing on the expansion of natural gas projects in markets such as Sichuan and Chongqing. Moreover, the Group will increase its investment and merger and acquisition activities in the northeastern PRC region by capitalising on the favourable policies offered by the state to



Chairman's Statement

revitalise the northeastern industrial base and the unprecedented opportunities arising from the transport of Russian natural gas to the region. The Group will continue to add high quality gas projects and increase its economies-of-scale advantages. 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.

Looking ahead, the Group will make additional efforts to seize the unprecedented opportunities brought by the PRC's public utilities reforms. The Group will actively expand its market, apply prudence in investment, and participate in good quality gas enterprises with strong growth potential through mergers and acquisitions with due regard to the state's natural gas development policy and the Group's internal corporate development strategy. Moreover, the Group will improve the integration of its acquired companies and maintain its overall economies-of-scale advantages in order to gain further development for the Group's businesses and continue maximising the returns for shareholders.



Appreciation

Last but not least, I would like to take this opportunity to thank our board members, customers and business associates for their strong support, and our staff for their high diligence during the past year. I would also like to thank our shareholders for their continual support and trust of the management team through all these years.

Ou Yaping

Chairman

Hong Kong, 17 March 2005



Mr. Chen Wei
Managing Director

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 the 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 largest city in the 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 Liaohe 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.

Managing Director's Report

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.

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

Directors and Officers



(From left to right)

Mr. Shen Lian Jin, Mr. Li Fujun, Mr. Zhang Keyu, Mr. Tang Yui Man Francis,
Mr. Chen Wei, Mr. Ou Yaping

Executive Directors

Mr. Ou Yaping, aged 43, is the chairman, founder and the ultimate controlling shareholder of the Company. He is also the chairman of Sinolink Worldwide Holdings Limited (“Sinolink”) and the vice chairman and an executive director of Enerchina Holdings Limited (“Enerchina”). He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC and is also the vice chairman of the board and a part-time professor of that institute. He was previously employed by a number of trading companies and investment companies in the PRC and Hong Kong. Mr. Ou has over 19 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Company. He has been an executive director since November 2000.

Mr. Tang Yui Man Francis, aged 42, is the vice chairman and an executive director of the Company. Mr. Tang is also the chief executive officer and an executive director of Sinolink and an executive director of Enerchina. He has a Bachelor’s degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang is a qualified accountant in the United States and has numerous years of experience in management, accounting and finance. He joined the Sinolink Group in March 1998 and is responsible for corporate planning, strategic development and financial planning and management of the Company. He has been an executive director since November 2001 and became the vice chairman in July 2004.

Mr. Chen Wei, aged 43, is the managing director of the Company. He is also an executive director of Sinolink. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC. He was previously employed by a number of other large organizations and has over 19 years of experience in engineering business administration, market development and management. Mr. Chen joined the Sinolink Group in February 1992 and is responsible for the overall development, management and strategic planning of the Company. He has been an executive director since January 2001.

Mr. Li Fujun, aged 42, is an executive director of the Company. He holds a Bachelor of Engineering degree from Tsinghua University and a Master of Economics degree from the University of International Business and Economics. He has 11 years of experience in project evaluation and strategic planning, investment analysis and engineering work, as well as project management and investment. Mr. Li joined the Sinolink Group in May 1994 and is responsible for strategic planning, investment and management of the gas fuel business of the Company. He has been an executive director since January 2001.

Mr. Shen Lian Jin, aged 41, is an executive director of the Company. He is also the President responsible for operations of Panriver Investments Company Limited, a wholly owned subsidiary of the Company. He holds a Bachelor of Arts degree in Chinese Language from Anhui Normal University in the PRC. Mr. Shen has 15 years of experience in operational management, business administration and market development. He joined the Company in 2000, and is responsible for Panva brand building, development and management of the Company's projects. He has been an executive director since April 2004.

Mr. Zhang Keyu, aged 46, executive director of the Company. He is also the President of Panriver Investments Company Limited. He graduated from the South Western University of Finance and Economics in the PRC. Mr. Zhang has 28 years of experience working in the government sector of the PRC and in investment management. He joined the Company in April 2003 and is currently responsible for the development and management of the Company's natural gas pipeline projects in the PRC. He has been an executive director since May 2003.

Non-executive Directors

Mr. Fok Kin-ning, Canning, aged 53, is a non-executive director of the Company. He holds a Bachelor of Arts degree and is a member of the Australian Institute of Chartered Accountants. Mr. Fok is the group managing director of Hutchison Whampoa Limited and a director of Cheung Kong (Holdings) Limited, both being substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Commission (the "SFO"). In addition, he is the chairman of Hutchison Telecommunications International Limited, Hutchison Harbour Ring Limited, Hutchison Telecommunications (Australia) Limited, Hutchison Global Communications Holdings Limited and Partner Communications Company Ltd., the deputy chairman of Cheung Kong Infrastructure Holdings Limited and the Co-Chairman of Husky Energy Inc. He is also a director of Hutchison International Limited, which is also a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Fok has been a non-executive director since December 2002.

Mr. To Chi Keung, Simon, aged 53, is an alternate director to Mr. Fok Kin-ning, Canning, a non-executive director of the Company. He holds a First Class honors degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Stanford University's Graduate School of Business. Mr. To is currently the managing director of Hutchison Whampoa (China) Limited. He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of Industrial Project Division and was appointed managing director in the following year. He has close to 31 years of management experience. Mr. To has been an alternate director to Mr. Fok since December 2002.

Independent Non-executive Directors

Mr. Cheung Hon Kit, aged 51, is an independent non-executive director of the Company. Mr. Cheung has over 27 years of experience in real estate development, the property business and corporate finance. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. He has worked in key executive positions in various leading property companies in Hong Kong. Currently, he is an executive director of ITC Corporation Limited and Paul Y-ITC Construction Holdings Limited and the managing director of Wing On Travel (Holdings) Limited. He is also a director of Hanny Holdings Ltd, Cyber On-Air Group Company Ltd., Skynet (International Group) Holdings Limited and Innovo Leisure Recreation Holdings Limited. He has been an independent non-executive director of the Company since January 2001.

Mr. Li Xiao Ru, aged 49, is an independent non-executive director of the Company. He was educated in Shanghai Foreign Language University in the PRC and received his Bachelor of Arts from Columbia University in the United States and his Jurist Doctor from New York University in the United States. He worked at major international law firms in both New York and Hong Kong and became a partner of Morrison & Foerster's Hong Kong in 2003. He was the managing director of Hong Kong Construction (Holdings) Limited, a company listed on the Stock Exchange of Hong Kong Limited, during the period from March 1998 to July 2001. Mr. Li is also an independent non-executive director of China HealthCare Holdings Limited and Great Wall Technology Co. Ltd. He has been an independent non-executive director of the Company since April 2003.

Mr. Ge Ming, aged 53, is an independent non-executive director of the Company. Mr. Ge has more than 22 years of experience in accounting and financial management. Mr. Ge holds a Master's degree in economics from the Research Institute of Fiscal Science attached to the Ministry of Finance, the PRC and is a member of China Institute of Certified Public Accountants. Mr. Ge is an executive director from CCAFM side in CCAFM – E & Y Management Services Limited and has distinctive knowledge of the business regulatory environment in the PRC as well in Hong Kong. Mr. Ge has not held any directorship in other publicly listed companies in the past three years. He has been an independent non-executive director of the Company since September 2004.

Compliance Officer

Mr. Li Fujun, aged 42, is an executive director of the Company.

Chief Financial Officer and Qualified Accountant

Mr. Yu Man To, Gerald, *MBA, CPA (Aust), CPA*, aged 38, is the chief financial officer and qualified accountant of the Company. Mr. Yu holds a Bachelor degree in business and a Masters degree in business administration and is a certified practising accountant in Australia and a certified public accountant in Hong Kong. He has over 15 years of experience in accounting, financial control and auditing. Mr. Yu joined the Group in 2000.

Company Secretary

Mr. Lo Tai On, aged 50, is the company secretary of the Company. He is member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in company secretarial field. Mr. Lo has been the company secretary of the Company since July 2004.

The directors present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 39.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2004 is set out on page 7.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Ou Yaping (Chairman)

Mr. Tang Yui Man Francis (Vice Chairman)

Mr. Chen Wei (Managing Director)

Mr. Lai Wen Guang (retired on 21 April 2004)

Mr. Lau Shi Wa (retired on 21 April 2004)

Mr. Li Fujun

Mr. Zhang Keyu

Mr. Shen Lian Jin (appointed on 21 April 2004)

Non-executive Directors:

Mr. Fok Kin-ning, Canning

Mr. To Chi Keung, Simon

(alternative director to Mr. Fok Kin-ning, Canning)

Mr. Zheng Dunxun (retired on 21 April 2004)

Independent Non-executive Directors:

Mr. Cheung Hon Kit

Mr. Li Xiao Ru

Mr. Ge Ming (appointed on 27 September 2004)

In accordance with the Article 99 of the Company's Articles of Association, Messrs. Shen Lian Jin and Ge Ming shall retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Subject to special resolution as referred to the notice of the annual general meeting of the Company dated 31 March 2005 being passed by Shareholders of the Company, in accordance with the Article 116 of the Company's Articles of Association, Messrs. Chen Wei, Cheung Hon Kit, Tang Yui Man Francis and Li Fujun shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Each of the independent non-executive directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Save as disclosed herein, none of the directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

At 31 December 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which require notification to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of SFO); or which are required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests and short positions in shares of the Company

Name of directors	Beneficial owner	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest/(short positions)	Approximate percentage of the Company's issued share capital
		Long positions / (Short positions)	Interest of controlled corporation	Other				
Chen Wei	4,160,000	—	—	4,160,000	8,040,000	12,200,000	1.29%	
Cheung Hon Kit	—	—	—	—	800,000	800,000	0.08%	
Ge Ming	—	—	—	—	800,000	800,000	0.08%	
Li Fujun	1,000,000	—	—	1,000,000	2,600,000	3,600,000	0.38%	
Li Xiao Ru	—	—	—	—	800,000	800,000	0.08%	
Ou Yaping	—	6,081,600	550,789,987	556,871,587	3,600,000	560,471,587	59.48%	
	—	(19,230,769)	—	(19,230,769)	—	(19,230,769)	(2.04%)	
				(Note)				
Shen Lian Jin	—	—	—	—	2,300,000	2,300,000	0.24%	
Tang Yui Man Francis	5,440,000	—	—	5,440,000	3,960,000	9,400,000	1.00%	
Zhang Keyu	—	—	—	—	2,000,000	2,000,000	0.21%	

Note:

The 556,871,587 shares represent (i) 381,298,462 shares held by Kenson Investment Limited ("Kenson"), a wholly-owned subsidiary of Sinolink. 59.49% interests of Sinolink are held by Asia Pacific Promotion Limited ("Asia Pacific"). Mr. Ou Yaping is the sole beneficial owner of Asia Pacific. Mr. Ou Yaping is deemed under the SFO to be interested in these Shares; (ii) 6,081,600 shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou Yaping; and (iii) 169,491,525 shares held by Supreme All Investments Limited ("Supreme All"). 100% interests of Supreme All are held by Sinolink. Mr. Ou Yaping is deemed under the SFO to be interested in these shares. Out of these 556,871,587 shares, 550,789,987 shares have been pledged with Morgan Stanley by Sinolink.

Kenson is under an obligation to transfer 19,230,769 shares of the Company to Hutchison International Limited ("Hutchison International") upon full exchange of HK\$62,500,000 redeemable note (the "Note") held by Hutchison International in accordance with the terms and conditions of the Note.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS - continued

(b) Directors' interest in share options granted by the Company

Pursuant to the Company's share option scheme, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain directors, the details of which as at 31 December 2004 were as follows:

Name of directors	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options as at 1.1.2004	Granted during the year	Exercised during the year	Number of shares subject to outstanding options as at 31.12.2004	Approximate percentage of the Company's issued share capital
Chen Wei	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,800,000	—	—	1,800,000	0.19%
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,800,000	—	—	1,800,000	0.19%
	13.11.2001	13.11.2002 - 13.02.2007	0.940	1,400,000	—	—	1,440,000	0.15%
	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	900,000	—	900,000	0.10%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	900,000	—	900,000	0.10%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	1,200,000	—	1,200,000	0.13%
Cheung Hon Kit	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	320,000	—	320,000	0.03%
Ge Ming	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	320,000	—	320,000	0.03%
Li Fujun	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,200,000	—	(280,000)	920,000	0.10%
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,200,000	—	—	1,200,000	0.13%
	13.11.2001	13.11.2002 - 13.02.2007	0.940	480,000	—	—	480,000	0.05%
Li Xiao Ru	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	240,000	—	240,000	0.03%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	320,000	—	320,000	0.03%
Ou Yaping	04.04.2001	01.01.2003 - 03.04.2011	0.475	1,800,000	—	—	1,800,000	0.19%
	04.04.2001	01.01.2004 - 03.04.2011	0.475	1,800,000	—	—	1,800,000	0.19%
Shen Lian Jin	04.04.2001	01.01.2004 - 03.04.2011	0.475	300,000	—	—	300,000	0.03%
	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	600,000	—	600,000	0.06%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	600,000	—	600,000	0.06%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	800,000	—	800,000	0.08%

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS - continued

(b) Directors' interest in share options granted by the Company - continued

Name of directors	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options as at 1.1.2004	Granted during the year	Exercised during the year	Number of shares subject to outstanding options as at 31.12.2004	Approximate percentage of the Company's issued share capital
Tang Yui Man	13.11.2001	13.11.2002 - 13.02.2007	0.940	960,000	—	—	960,000	0.10%
Francis	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	900,000	—	900,000	0.10%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	900,000	—	900,000	0.10%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	1,200,000	—	1,200,000	0.13%
Zhang Keyu	19.11.2004	31.12.2005 - 30.03.2011	3.500	—	600,000	—	600,000	0.06%
	19.11.2004	31.12.2006 - 30.03.2011	3.500	—	600,000	—	600,000	0.06%
	19.11.2004	31.12.2007 - 30.03.2011	3.500	—	800,000	—	800,000	0.08%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. These options represent personal interest held by the directors as beneficial owners.
3. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK\$4.01.
4. During the year, 12,400,000 options were granted to directors and no options to any director were cancelled or lapsed under the share option scheme. The closing price of the shares immediately before the date on which the options were granted was HK\$3.50.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS - continued

(c) Interests in shares in associated corporations

Name of directors	Name of associated corporations	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Interest in underlying shares pursuant to derivative	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation
		Interest of controlled corporation	Joint interest	Others					
Chen Wei	Sinolink	—	—	—	—	6,400,000	—	6,400,000	0.27%
Ou Yaping	Sinolink	1,374,222,000	6,475,920	—	1,380,697,920	—	14,000,000	1,394,697,920	59.77%
	Enerchina	40,515,000	—	1,147,680,775	1,188,195,775	2,288,000	—	1,190,483,775	51.96%
Tang Yui Man Francis	Enerchina	—	—	—	—	22,880,000	—	22,880,000	1.00%

Notes:

- These 1,374,222,000 shares and 14,000,000 underlying shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping, Chairman of the Company.
- The 1,188,195,775 shares in Enerchina represent the aggregate of: (i) the 612,402,966 shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 59.49% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all the shares in which Sinolink is interested); and (ii) the 575,792,809 shares held by Smart Orient Investment Limited ("Smart Orient"). 100% interests of Smart Orient are held by Sinolink. Mr. Ou Yaping is deemed under the SFO to be interested in these shares. Out of these 1,188,195,775 shares, 1,147,680,775 shares have been pledged with Morgan Stanley by Sinolink.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS - continued

(d) Interests in options to subscribe for shares of associated corporations

Pursuant to the share option schemes of the relevant associated corporations, certain directors were granted options to subscribe for the shares of the relevant associated corporations, details of which as at 31 December 2004 were as follows:

Name of directors	Name of associated corporation	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options as at 31.12.2004	Approximate percentage of the issued share capital of the associated corporation
Chen Wei	Sinolink	14.03.2002	01.12.2002 - 01.12.2005	0.560	6,400,000	0.27%
Ou Yaping	Enerchina	09.06.2004	09.06.2004 - 08.06.2014	0.440	2,288,000	0.10%
Tang Yui Man Francis	Enerchina	09.06.2004	09.06.2004 - 08.06.2014	0.440	22,880,000	1.00%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The options represent personal interests held by the directors as beneficial owners.

Save as disclosed above, none of the directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO), or which are required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, the following person(s) or corporations, other than the directors or chief executives of the Company as disclosed above, had an interest in the shares and underlying shares of the Company which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions and short positions in shares and underlying shares in the Company

Name of shareholders	Capacity	Interest in shares of the Company long positions/ (short positions)	Interest in underlying shares pursuant to debentures	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Asia Pacific	Interest of controlled corporation, other and beneficial owner	556,871,587 (19,230,769) <i>(Note 1)</i>	— —	556,871,587 (19,230,769)	59.10% (2.04%)
Sinolink	Other and interest of controlled corporation	550,789,987 (19,230,769) <i>(Note 1)</i>	— —	550,789,987 (19,230,769)	58.45% (2.04%)
Kenson	Other and beneficial owner	381,298,462 (19,230,769) <i>(Note 1)</i>	— —	381,298,462 (19,230,769)	40.47% (2.04%)
Morgan Stanley	Interest of controlled corporation	572,426,292 (15,739,524) <i>(Note 2)</i>	— —	572,426,292 (15,739,524)	60.75% (1.67%)
Deutsche Bank Aktiengesellschaft	Beneficial owner and holder of security interest in shares	72,475,282	—	72,475,282	7.69%
Hutchison International Limited	Beneficial owner	38,461,538	19,230,769	57,692,307 <i>(Note 3)</i>	6.12%
Hutchison Whampoa Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 3)</i>	6.12%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 4)</i>	6.12%

SUBSTANTIAL SHAREHOLDERS - continued

Long positions and short positions in shares and underlying shares in the Company - continued

Name of shareholders	Capacity	Interest in shares of the Company long positions/ (short positions)	Interest in underlying shares pursuant to share options/ debentures	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Li Ka-shing	Interest of controlled corporation and as founder of discretionary trusts	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustee Company Limited	Trustee	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Value Partners Limited	Investment manager	48,000,000 (Note 5)	—	48,000,000	5.09%
Cheah Cheng Hye	Interest of controlled corporation	48,000,000 (Note 5)	—	48,000,000	5.09%

Notes:

1. Sinolink is interested in the entire issued share capital of Kenson. Therefore, by virtue of Section 310 of Part XV of the SFO, the 381,298,462 shares in which Kenson is shown as being interested are included in and duplicate with interest in the shares of the Company held by Sinolink and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific. Mr. Ou Yaping is deemed under Part XV of the SFO to have an interest in the shares held by Kenson. In addition, 169,491,525 were shares held by Supreme All, a wholly-owned subsidiary of Sinolink. Therefore, Sinolink is deemed to be interested in 550,789,987 shares and these shares had been pledged with Morgan Stanley.

Kenson is under an obligation to transfer 19,230,769 shares to Hutchison International upon full exchange of the Note held by Hutchison International in accordance with the terms and conditions of the Note.

2. The interests of Morgan Stanley was attributable on account through a number of its wholly-owned subsidiaries and non-wholly-owned subsidiaries, including, Morgan Stanley International Incorporated (90% control) and Morgan Stanley Group (Europe) (98.3% control). Out of these 572,426,292 shares, 550,789,987 shares have been pledged by Sinolink.

SUBSTANTIAL SHAREHOLDERS - continued

- Hutchison International is interested in 38,461,538 shares and in the Note which is exchangeable into existing shares at the exchange price of HK\$3.25 (subject to adjustment) per share. Upon full exchange of the Note at the initial exchange price, Hutchison International shall be entitled to 19,230,769 shares and is accordingly interested in an aggregate of 57,692,307 shares.

Hutchison International is a wholly-owned subsidiary of Hutchison Whampoa Limited ("Hutchison Whampoa"). By virtue of Part XV of the SFO, Hutchison Whampoa is deemed to be interested in 57,692,307 shares.

- Certain subsidiaries of Cheung Kong (Holdings) Limited ("Cheung Kong") are entitled to exercise or control the exercise of more than one-third of the voting power at the general meeting of Hutchison Whampoa.

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and Cheung Kong is deemed to be interested in the 38,461,538 shares and in the Note representing 19,230,769 underlying shares both held by Hutchison International.

- These 48,000,000 shares are held by Value Partners Limited, a company which is 31.82% held by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these shares of the Company.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Save as disclosed herein, the directors are not aware of any persons who, as at 31 December 2004, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTIONS

(a) Pre-Listing Share Option Scheme

The Company has approved a pre-listing share option scheme (the "Pre-Listing Share Option Scheme") by resolutions of sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-Listing Share Option Scheme is to recognize the contribution of certain directors and employees of members of the Group and members of the Sinolink group to the growth of the Group and/or to the listing of the shares of the Company on GEM.

At 31 December 2004, the outstanding number of shares in respect which options had been granted under the Pre-Listing Share Option Scheme was 14,870,000 (2003: 20,640,000), representing 1.58% (2003: 2.65%) of the shares of the Company in issue at that date.

SHARE OPTIONS - continued

(a) Pre-Listing Share Option Scheme - continued

Share options (the "Pre-Listing Options") were granted in 2001 in consideration of HK\$1.00 per grant, at an exercise price of HK\$0.57, being the issue price of the shares of the Company on listing on GEM. The exercise price was subsequently adjusted to HK\$0.475 upon capitalization of shares in 2002. 50% of the Pre-Listing Options are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The pre-Listing Options are exercisable on a cumulative basis until the expiry date on 3 April 2011. The Pre-Listing Options were granted to recognize the past and present contributions of the grantees to the Group.

The Pre-Listing Share Option Scheme ended on the date on which dealings in the shares of the Company commenced on the GEM (i.e. 20 April 2001), and no further options will be offered or granted after that date. The provision of the Pre-Listing Share Option Scheme shall remain in full force and effect.

(b) Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares on the Stock Exchange on the date of grant and the nominal value of the shares.

The Scheme will remain in force for a period of 10 years commencing on 4 April 2001.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

At 31 December 2004, the outstanding number of shares in respect of which options had been granted under the Scheme was 28,769,000 (2003: 10,824,000), representing 3.05% (2003: 1.39%) of the shares of the Company in issue at that date.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time without prior approval from the Company's shareholders. No option may be granted to any one employee which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of shares of the Company issued and issuable under all the options which may be granted under the Scheme at the time it is proposed to grant the relevant options to that employee.

The Stock Exchange amended the requirements for share option schemes under the GEM Listing Rules. The new requirements have come into effect from 1 October 2001 and make some of the provisions of the Scheme no longer applicable. The board of directors of the Company will recommend to the shareholders of the Company for approval of a new share option scheme which complies with the new requirements under the GEM Listing Rules and the termination of the Scheme at the forthcoming annual general meeting.

Report of the Directors

SHARE OPTIONS - continued

(b) Share Option Scheme - continued

The following table discloses movements in the Company's share options during the year.

		Outstanding at 1.1.2004	Appointed as director during the year	Retired as director during the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2004
Category 1: Directors								
Chen Wei	Pre-Listing Options	3,600,000	—	—	—	—	—	3,600,000
	2001 Options	1,440,000	—	—	—	—	—	1,440,000
	2004 Options	—	—	—	3,000,000	—	—	3,000,000
Cheung Hon Kit	2004 Options	—	—	—	800,000	—	—	800,000
Ge Ming	2004 Options	—	—	—	800,000	—	—	800,000
Lai Wen Guang	Pre-Listing Options	2,400,000	—	(1,600,000)	—	(800,000)	—	—
	2001 Options	960,000	—	(960,000)	—	—	—	—
Lau Shi Wa	Pre-Listing Options	1,200,000	—	(600,000)	—	(600,000)	—	—
Li Fujun	Pre-Listing Options	2,400,000	—	—	—	(280,000)	—	2,120,000
	2001 Options	480,000	—	—	—	—	—	480,000
Li Xiao Ru	2004 Options	—	—	—	800,000	—	—	800,000
Ou Yaping	Pre-Listing Options	3,600,000	—	—	—	—	—	3,600,000
Shen Lian Jin	Pre-Listing Options	—	600,000	—	—	(300,000)	—	300,000
	2004 Options	—	—	—	2,000,000	—	—	2,000,000
Tang Yui Man Francis	2001 Options	960,000	—	—	—	—	—	960,000
	2004 Options	—	—	—	3,000,000	—	—	3,000,000
Zhang Keyu	2004 Options	—	—	—	2,000,000	—	—	2,000,000
Total directors		<u>17,040,000</u>	<u>600,000</u>	<u>(3,160,000)</u>	<u>12,400,000</u>	<u>(1,980,000)</u>	<u>—</u>	<u>24,900,000</u>
Category 2: Employees								
	Pre-Listing Options	7,440,000	(600,000)	2,200,000	—	(3,790,000)	—	5,250,000
	2001 Options	6,984,000	—	960,000	—	(2,183,000)	(1,072,000)	4,689,000
	2004 Options	—	—	—	8,800,000	—	—	8,800,000
Total employees		<u>14,424,000</u>	<u>(600,000)</u>	<u>3,160,000</u>	<u>8,800,000</u>	<u>(5,973,000)</u>	<u>(1,072,000)</u>	<u>18,739,000</u>
All categories		<u>31,464,000</u>	<u>—</u>	<u>—</u>	<u>21,200,000</u>	<u>(7,953,000)</u>	<u>(1,072,000)</u>	<u>43,639,000</u>

SHARE OPTIONS - continued

(b) Share Option Scheme - continued

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
Pre-Listing Options	04.04.2001	01.01.2003 - 03.04.2011	0.475
	04.04.2001	01.01.2004 - 03.04.2011	0.475
2001 Options	13.11.2001	13.02.2002 - 13.02.2007	0.940
	13.11.2001	13.05.2002 - 13.02.2007	0.940
	13.11.2001	13.11.2002 - 13.02.2007	0.940
2004 Options	19.11.2004	31.12.2005 - 30.03.2011	3.500
	19.11.2004	31.12.2006 - 30.03.2011	3.500
	19.11.2004	31.12.2007 - 30.03.2011	3.500

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The closing price of the shares immediately before 19 November 2004 the date of grant of 2004 Options was HK\$3.50.
3. The weighted average closing price of the shares immediately before the date on which the options were exercised on 6 January 2004 and 25 May 2004 were HK\$4.01 and HK\$3.82 respectively.
4. During the year, 21,200,000 options were granted and 1,072,000 options were lapsed under the share option schemes.
5. During the year, no options were cancelled under the share option schemes.
6. The price of the Company's shares disclosed for options granted is the closing price quoted on the Stock Exchange on the trading day immediately before the date of the grant of the respective options. The price of the Company's shares disclosed for the options exercised during the year is the weighted average of the closing prices quoted on the Stock Exchange immediately before the date of exercise of options.

The Directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2004, since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based on speculative assumptions would not be meaningful and would be misleading to shareholders.

Report of the Directors

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options mentioned above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 30 to the financial statements, there are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the GEM Listing Rules.

CONNECTED TRANSACTIONS

There were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

COMPETING INTERESTS

None of the directors or management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in any business which cause or may cause significant competition with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 76.65% of its operating costs for the year. Purchases from the largest supplier accounted for about 57.88% of its operating costs.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 December 2004.

All transactions between the Group and its customers were carried out on normal commercial terms.

DONATIONS

During the year, the Group made donations amounting to HK\$1,015,000.

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 5.28 to 5.30 of the GEM Listing Rules. The audit committee's principal duties are review and supervision of the Company's financial reporting process and internal control systems. The audit committee has three members comprising three independent non-executive directors, Messrs. Cheung Hon Kit, Li Xiao Ru and Ge Ming.

During the year, the audit committee held four meetings and performed the following duties:

1. reviewed and commented on the Company's draft quarterly financial reports.
2. met with the external auditors and participated in the reappointment and assessment of the performance of the external auditors.

BOARD PRACTICES AND PROCEDURES

With the exception 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, the Company has, during the year, 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.

The Company has adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

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

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

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Wei

Managing Director

Hong Kong, 17 March 2005

Deloitte.

德勤

TO THE SHAREHOLDERS OF PANVA GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 39 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	4	1,800,253	1,457,632
Cost of sales		(1,353,382)	(1,073,289)
Gross profit		446,871	384,343
Other operating income	5	15,963	4,218
Distribution expenses		(40,086)	(35,541)
Administrative expenses		(83,915)	(67,248)
Other operating expenses	6	(2,655)	(1,134)
Profit from operations	7	336,178	284,638
Gain on partial disposal of interest in a subsidiary		2,433	541
Loss on disposal of subsidiaries		(374)	(788)
Finance costs	9	(27,826)	(10,257)
		310,411	274,134
Share of results of an associate		83	—
Profit before taxation		310,494	274,134
Taxation	10	(19,711)	(22,875)
Profit before minority interests		290,783	251,259
Minority interests		(26,695)	(42,185)
Net profit for the year		264,088	209,074
		HK cents	HK cents
Earnings per share			
Basic	11	28.14	33.97
Diluted	11	26.38	30.36

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	12	1,063,321	615,788
Intangible asset	13	9,160	9,662
Goodwill	14	21,856	13,954
Negative goodwill	15	(40,125)	(18,022)
Interest in an associate	17	70,677	—
Investments in securities	18	10,415	7,906
		1,135,304	629,288
Current assets			
Inventories	19	39,677	36,374
Trade receivables	20	187,451	183,859
Other receivables, deposits and prepayments		401,905	218,411
Amounts due from minority shareholders	21	—	11,246
Bank balances and cash		2,174,503	356,809
		2,803,536	806,699
Current liabilities			
Trade payables	22	24,076	79,062
Other payables and accrued charges		131,443	68,709
Taxation		47,020	29,021
Amounts due to minority shareholders	21	16,495	3,414
Borrowings - amount due within one year	23	29,420	32,526
		248,454	212,732
Net current assets		2,555,082	593,967
Total assets less current liabilities		3,690,386	1,223,255
Non-current liabilities			
Borrowings - amount due after one year	23	1,921,004	378,564
		1,769,382	844,691
Minority interests		(334,859)	(264,637)
Net assets		1,434,523	580,054
Capital and reserves			
Share capital	25	94,225	77,910
Reserves	26	1,340,298	502,144
Shareholders' funds		1,434,523	580,054

The financial statements on pages 39 to 78 were approved and authorised for issue by the Board of Directors on 17 March 2005 and are signed on its behalf by:

Chen Wei
Director

Tang Yui Man Francis
Director

Balance Sheet of Panva Gas Holdings Limited

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	12	1,410	10
Investments in subsidiaries	16	64,100	64,100
		<u>65,510</u>	<u>64,110</u>
Current assets			
Other receivables, deposits and prepayments		28,646	1,633
Amounts due from subsidiaries	16	1,260,453	296,372
Bank balances and cash		1,342,825	197,758
		<u>2,631,924</u>	<u>495,763</u>
Current liabilities			
Other payables and accrued charges		39,333	3,203
Net current assets		<u>2,592,591</u>	<u>492,560</u>
Total assets less current liabilities		2,658,101	556,670
Non-current liabilities			
Borrowings	23	1,903,698	372,016
Net assets		<u>754,403</u>	<u>184,654</u>
Capital and reserves			
Share capital	25	94,225	77,910
Reserves	26	660,178	106,744
Shareholders' funds		<u>754,403</u>	<u>184,654</u>

Chen Wei
Director

Tang Yui Man Francis
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	HK\$'000
At 1 January 2003	268,373
Exchange differences arising on translation of financial statements of overseas operations not recognised in the consolidated income statement	(1,085)
Addition to general reserves	883
Issue of shares on conversion of convertible note	16,949
Issue of shares on conversion of convertible bonds	453
Premium arising on issue of shares	100,332
Expenses incurred in connection with issue of convertible bonds	(14,833)
Asset revaluation reserve realised on disposal of subsidiaries	(92)
Net profit for the year	<u>209,074</u>
At 31 December 2003	580,054
Exchange differences arising on translation of financial statements of overseas operations not recognised in the consolidated income statement	(3,179)
Issue of new shares	16,315
Premium arising on issue of shares	609,277
Expenses incurred in connection with issue of shares	(32,032)
Net profit for the year	<u>264,088</u>
At 31 December 2004	<u><u>1,434,523</u></u>

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	310,411	274,134
Adjustments for:		
Interest income	(13,126)	(3,303)
Interest expenses	19,464	10,176
Gain on partial disposal of interest in a subsidiary	(2,433)	(541)
Loss on disposal of subsidiaries	374	788
Amortisation of goodwill	1,167	790
Amortisation of intangible asset	502	373
Amortisation of premium payable on redemption of convertible bonds	6,972	—
Amortisation of direct issuance costs of guaranteed senior notes	1,270	—
Depreciation and amortisation of property, plant and equipment	38,447	21,553
Loss on disposal of property, plant and equipment	628	889
Negative goodwill released to income	(864)	(428)
Operating cash flows before movements in working capital	362,812	304,431
Increase in inventories	(1,591)	(11,410)
Increase in trade receivables	(1,827)	(90,237)
Increase in other receivables, deposits and prepayments	(137,288)	(91,842)
Decrease in amounts due from minority shareholders	11,246	30,030
Decrease in trade payables	(57,645)	(11,295)
Decrease in other payables and accrued charges	(37,452)	(2,856)
Cash generated from operations	138,255	126,821
Interest paid	(11,406)	(10,695)
Income taxes paid	(1,712)	(1,171)
NET CASH FROM OPERATING ACTIVITIES	125,137	114,955

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(285,655)	(190,505)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	27	(80,662)	(15,173)
Acquisition of an associate		(70,712)	—
Acquisition of additional interest in a subsidiary		(1,151)	(994)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	28	(86)	(3)
Interest received		10,601	3,222
Proceeds from disposal of property, plant and equipment		2,423	5,283
Proceeds from partial disposal of interest in a subsidiary		2,058	1,852
Proceeds from disposal of investments in securities		1,712	—
Purchase of intangible asset		—	(10,035)
Redemption of PRC bonds		—	187
Purchase of investments in securities		—	(5,144)
NET CASH USED IN INVESTING ACTIVITIES		(421,472)	(211,310)
FINANCING ACTIVITIES			
Proceeds from issue of guaranteed senior notes		1,559,000	—
Expenses paid in connection with the issue of guaranteed senior notes		(35,560)	—
Proceeds from issue of shares		625,592	389,750
Expenses paid in connection with the issue of shares		(32,032)	—
Expenses paid in connection with the issue of convertible bonds		—	(14,833)
New bank and other loans raised		46,773	26,146
Capital contribution from minority shareholders of subsidiaries		45,837	11,635
Repayment of bank and other loans		(85,304)	(32,251)
Dividends paid to minority shareholders of subsidiaries		(3,684)	(4,319)
Repayment to minority shareholders		(3,414)	(20,103)
NET CASH FROM FINANCING ACTIVITIES		2,117,208	356,025
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,820,873	259,670
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		356,809	98,224
EFFECT OF FOREIGN EXCHANGE RATES CHANGES		(3,179)	(1,085)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		2,174,503	356,809

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands ("BVI").

The principal activities of the Group are sale and distribution of Liquefied 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. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants, (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life of not more than twenty years. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a separate intangible asset.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of net assets of the associate plus the goodwill in so far as it has not already been written off, less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Property, plant and equipment

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost or valuation of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired term of the lease or over the term of the equity joint venture whichever is shorter.
Buildings	3% to 6%
Furniture and fixtures	18% to 20%
Gas pipelines	3%
Leasehold improvements	15%
Motor vehicles	6% to 18%
Plant and equipment	6% to 10%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. Costs on completed construction works are transferred to other categories of property, plant and equipment.

Exclusive operating right for city pipeline network

Exclusive operating right for city pipeline network is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating right is capitalised and amortised on a straight line basis over the estimated useful life of twenty years.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Convertible bonds

Convertible bonds are regarded as liabilities until conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible bonds, is recognised in the income statement so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period.

Interest rate swaps

Interest rate swaps of the Group are used for hedging purpose. To qualify as a hedge, the interest rate swap must effectively reduce the interest rate risk of the underlying asset or liability to which it is linked and be designated as a hedge at inception of the contract.

Net interest arising from interest rate swaps is accounted for on an accrual basis and are included in the related category of income and expense in the income statement on the same basis as that arising from the underlying hedging transactions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to income statement on a straight line basis over the terms of the respective leases.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits cost

Payments to the Group's defined contribution retirement benefit scheme, state-sponsored retirement plans and Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expenses as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised its operations into two business segments, namely sale and distribution of gas fuel and related products, and gas pipeline construction. The principal activities of the business segments are as follows:

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

Business segments - continued

	Sale and distribution of gas fuel and related products HK\$'000	Gas pipeline construction HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2003			
TURNOVER			
External sales	1,137,872	319,760	1,457,632
RESULT			
Segment results	67,201	224,866	292,067
Other operating income			4,218
Unallocated corporate expenses			(11,647)
Profit from operations			284,638
Gain on partial disposal of interest in a subsidiary			541
Loss on disposal of subsidiaries			(788)
Finance costs			(10,257)
Profit before taxation			274,134
Taxation			(22,875)
Profit before minority interests			251,259
Minority interests			(42,185)
Net profit for the year			209,074

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

No geographical segment analysis is shown as the Group's operating businesses are solely carried at the PRC.

5. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	13,126	3,303
Negative goodwill released to income	864	428
Net exchange gain	614	—
Sundry	1,359	487
	<u>15,963</u>	<u>4,218</u>

6. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Loss on disposal of property, plant and equipment	628	889
Donations	1,015	14
Sundry	1,012	231
	<u>2,655</u>	<u>1,134</u>

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (Note 8)	4,473	3,580
Other staff costs	41,172	30,717
Retirement benefits costs	5,118	3,751
Total staff costs	<u>50,763</u>	<u>38,048</u>
Amortisation of intangible asset (included under administrative expenses)	502	373
Amortisation of goodwill (included under administrative expenses)	1,167	790
Auditors' remuneration	1,549	1,392
Depreciation and amortisation of property, plant and equipment	38,447	21,553
Operating lease rentals in respect of land and buildings	<u>7,194</u>	<u>7,593</u>

Notes to the Financial Statements

For the year ended 31 December 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' emoluments:		
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	639	—
	639	—
Other emoluments for executive directors:		
Salaries and other benefits	3,705	3,189
Bonus	30	300
Retirement benefits scheme contributions	99	91
	3,834	3,580
Other emoluments for non-executive directors	—	—
Other emoluments for independent non-executive directors	—	—
	4,473	3,580

Details of directors' remuneration by individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Executive director A	2,112	2,081
Executive director B	562	535
Executive director C	410	238
Executive director D	272	—
Executive director E	272	—
Executive director F	158	—
Executive director G	48	726
Executive director H	—	—
Non-executive director I	—	—
Non-executive director J	—	—
Non-executive director K	—	—
Independent non-executive director L	300	—
Independent non-executive director M	300	—
Independent non-executive director N	39	—

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS - continued

Employees' emoluments:

For the year ended 31 December 2004, the five highest paid individuals of the Group included five directors (2003: four directors), details of their emoluments are included above.

The emoluments of the remaining highest paid individual for the year ended 31 December 2003, representing salaries and other benefits paid, amounted to HK\$603,000.

9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
bank and other borrowings wholly repayable within five years	11,047	10,176
bank and other borrowing not wholly repayable within five years	34,656	—
Amortisation of premium payable on redemption of convertible bonds	6,972	—
Amortisation of direct issuance costs of guaranteed senior notes	1,270	—
	<hr/> 53,945	<hr/> 10,176
Net interest receivable on interest rate swaps	(26,239)	—
	<hr/> 27,706	<hr/> 10,176
Bank charges	120	81
	<hr/> 27,826	<hr/> 10,257
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2004

10. 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 in the consolidated income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
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 purposes	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 rates of subsidiaries entitled to a 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 charge for the year	<u>19,711</u>	<u>22,875</u>

At the balance sheet date, the Group has estimated unused tax losses of HK\$49,559,000 (2003: HK\$43,304,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire within five years from the date of origination.

11. EARNINGS PER SHARE

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Gas pipelines HK\$'000	Motor vehicles HK\$'000	Plant and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP								
COST OR VALUATION								
At 1 January 2004	90,815	2,806	9,012	346,481	27,122	155,032	54,052	685,320
Additions	2,541	1,159	2,364	—	5,538	2,247	271,806	285,655
On acquisition of subsidiaries	15,872	—	538	173,854	725	2,735	9,801	203,525
Disposals	(959)	—	(347)	(629)	(2,405)	(1,039)	—	(5,379)
On disposal of subsidiaries	—	—	(27)	—	(90)	(139)	—	(256)
Transfer	530	—	(31)	300,714	—	145	(301,358)	—
At 31 December 2004	108,799	3,965	11,509	820,420	30,890	158,981	34,301	1,168,865
Comprising:								
At cost	—	3,965	11,509	820,420	30,890	158,981	34,301	1,060,066
At valuation - 2004	108,799	—	—	—	—	—	—	108,799
	108,799	3,965	11,509	820,420	30,890	159,981	34,301	1,168,865
DEPRECIATION AND AMORTISATION								
At 1 January 2004	7,317	22	2,889	11,903	10,743	36,658	—	69,532
Provided for the year	3,426	296	1,669	20,371	3,476	9,209	—	38,447
Eliminated on disposals	(38)	—	(245)	(5)	(1,672)	(368)	—	(2,328)
Eliminated on disposal of subsidiaries	—	—	(8)	—	(60)	(39)	—	(107)
At 31 December 2004	10,705	318	4,305	32,269	12,487	45,460	—	105,544
NET BOOK VALUES								
At 31 December 2004	98,094	3,647	7,204	788,151	18,403	113,521	34,301	1,063,321
At 31 December 2003	83,498	2,784	6,123	334,578	16,379	118,374	54,052	615,788

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis. Messrs. DTZ Debenham Tie Leung Limited are not connected with the Group.

12. PROPERTY, PLANT AND EQUIPMENT - continued

No professional valuation of the leasehold land and buildings was carried out at 31 December 2004 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the leasehold land and buildings had not been revalued they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at HK\$94,495,000 (2003: HK\$78,160,000).

The Group pledged its property, plant and equipment with an aggregate net book value of approximately HK\$56,472,000 (2003: HK\$43,963,000) to secure banking facilities granted to the Group.

	Plant and equipment HK\$'000
THE COMPANY	
COST	
At 1 January 2004	13
Additions	1,623
	<hr/>
At 31 December 2004	1,636
	<hr/>
DEPRECIATION	
At 1 January 2004	3
Provided for the year	223
	<hr/>
At 31 December 2004	226
	<hr/>
NET BOOK VALUES	
At 31 December 2004	1,410
	<hr/> <hr/>
At 31 December 2003	10
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2004

13. INTANGIBLE ASSET

	THE GROUP Exclusive operating right for city pipeline network HK\$'000
COST	
At 1 January 2004 and 31 December 2004	10,035
AMORTISATION	
At 1 January 2004	373
Provided for the year	502
At 31 December 2004	875
NET BOOK VALUES	
At 31 December 2004	<u>9,160</u>
At 31 December 2003	<u>9,662</u>

The Group's exclusive operating right for city pipeline network was purchased from third parties.

14. GOODWILL

	THE GROUP 2004 HK\$'000
COST	
At 1 January 2004	15,801
Arising on acquisition of subsidiaries	8,951
At 31 December 2004	<u>24,752</u>
AMORTISATION	
At 1 January 2004	1,847
Provided the year	1,049
At 31 December 2004	<u>2,896</u>
NET BOOK VALUES	
At 31 December 2004	<u>21,856</u>
At 31 December 2003	<u>13,954</u>

The goodwill, which arose from acquisition of subsidiaries, is amortised on a straight line basis over its estimated useful life of twenty years.

15. NEGATIVE GOODWILL

	THE GROUP
	2004
	HK\$'000
GROSS AMOUNT	
At 1 January 2004	18,569
Arising on acquisition of subsidiaries	22,646
Arising on acquisition of additional interest in a subsidiary	321
	<hr/>
At 31 December 2004	41,536
	<hr/>
RELEASED TO INCOME	
At 1 January 2004	547
Released during the year	864
	<hr/>
At 31 December 2004	1,411
	<hr/>
CARRYING AMOUNT	
At 31 December 2004	40,125
	<hr/> <hr/>
At 31 December 2003	18,022
	<hr/> <hr/>

The negative goodwill is released to income on a straight line basis over thirty years, being the remaining weighted average useful life of the depreciable assets acquired.

16. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY
	2004 & 2003
	HK\$'000
Unlisted investments, at cost	64,100
	<hr/> <hr/>

The amounts due from subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the Company's subsidiaries at 31 December 2004 are set out in note 35.

Notes to the Financial Statements

For the year ended 31 December 2004

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	35,377	—
Goodwill on acquisition of an associate (<i>Note</i>)	35,300	—
	<u>70,677</u>	<u>—</u>

Details of the Group's associate as at 31 December 2004 are as follows:

Name of associate	Place of establishment and operations	Percentage of equity interest attributable to the Group	Principal activities
Foshan Panva Gas Group Ltd. 佛山市燃氣集團有限公司	PRC - Sino-foreign equity joint venture	45%	Provision of LP Gas and related services and gas pipeline construction

Note:

Details of movements of goodwill on acquisition of an associate are as follows:

	THE GROUP HK\$'000
COST	
Arising from acquisition of an associate and balance at 31 December 2004	35,418
AMORTISATION	
Provided for the year and balance at 31 December 2004	(118)
NET BOOK VALUE	
At 31 December 2004	<u>35,300</u>

The goodwill is amortised on a straight line basis over its estimated useful economic life of twenty years.

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Investment securities		
Unlisted shares in the PRC, at cost	<u>10,415</u>	<u>7,906</u>

In the opinion of the directors, the investment securities are held for identified long-term strategic purpose and their carrying amounts are fully recoverable.

19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Finished goods	14,430	23,442
Consumables	<u>25,247</u>	<u>12,932</u>
	<u>39,677</u>	<u>36,374</u>

All inventories were stated at cost.

20. TRADE RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 90 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 to 90 days	184,318	132,853
91 to 180 days	841	46,872
181 to 360 days	1,798	2,430
Over 360 days	<u>494</u>	<u>1,704</u>
	<u>187,451</u>	<u>183,859</u>

Notes to the Financial Statements

For the year ended 31 December 2004

21. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

THE GROUP

The amounts are unsecured, interest-free and are repayable on demand.

22. TRADE PAYABLES

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 to 90 days	16,537	72,702
91 to 180 days	2,762	1,133
181 to 360 days	3,167	763
Over 360 days	1,610	4,464
	<hr/>	<hr/>
	24,076	79,062
	<hr/> <hr/>	<hr/> <hr/>

23. BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans - secured	26,941	32,863	—	—
Bank loans - unsecured	18,850	5,239	—	—
Other loans - unsecured	935	972	—	—
Convertible bonds (<i>Note a</i>)	378,988	372,016	378,988	372,016
Guaranteed senior notes (<i>Note b</i>)	1,524,710	—	1,524,710	—
	<u>1,950,424</u>	<u>411,090</u>	<u>1,903,698</u>	<u>372,016</u>
The maturity profile of the above borrowings is as follows:				
On demand or within one year	29,420	32,526	—	—
More than one year but not exceeding two years	17,306	3,929	—	—
More than two years but not exceeding five years	378,988	374,635	378,988	372,016
More than five years	1,524,710	—	1,524,710	—
	<u>1,950,424</u>	<u>411,090</u>	<u>1,903,698</u>	<u>372,016</u>
Less: Amount due within one year shown under current liabilities	(29,420)	(32,526)	—	—
Amount due after one year	<u>1,921,004</u>	<u>378,564</u>	<u>1,903,698</u>	<u>372,016</u>

Notes:

- (a) The convertible bonds were issued on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The conversion price at which each share shall be issued upon conversion was HK\$3.8043 per share (adjusted to account for the effect of the issue of additional new shares). The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum.

Notes to the Financial Statements

For the year ended 31 December 2004

23. BORROWINGS - continued

- (b) The Group issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date.

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Guaranteed Senior Notes	1,559,000	—
Less: Direct issuance costs (<i>Note 24</i>)	(34,290)	—
	<u>1,524,710</u>	<u>—</u>

- (c) The bank and other loans carry interest at the prevailing market rates.

24. DIRECT ISSUANCE COSTS OF GUARANTEED SENIOR NOTES

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Direct issuance costs incurred during the year	35,560	—
Less: Amortisation for the year	(1,270)	—
Balance at end of the year	<u>34,290</u>	<u>—</u>

The amount represents direct issuance costs incurred in relation to the Guaranteed Senior Notes as explained in note 23, as reduced by subsequent amortisation. The direct issuance costs are amortised on a straight line basis over the lives of the Guaranteed Senior Notes from the date of issue to their final maturity date.

25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.1 each		
Authorised:		
At 1 January 2003, 31 December 2003 and 31 December 2004	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2003	605,076,000	60,508
Issue of shares on conversion of convertible note	169,492,000	16,949
Issue of shares on conversion of convertible bonds	4,530,000	453
At 31 December 2003	779,098,000	77,910
Issue of shares on placing and subscription arrangements	155,200,000	15,520
Issue of shares on the exercise of share options	7,953,000	795
At 31 December 2004	942,251,000	94,225

Changes in the share capital of the Company during the year ended 31 December 2003 are as follows:

- (a) On 5 December 2003, the Company issued 169,491,525 shares of HK\$0.1 each in the Company upon conversion of HK\$100,000,000 convertible note by the noteholder at a conversion price of HK\$0.59.
- (b) During the year, 4,530,366 shares of HK\$0.1 each in the Company were issued for a total consideration of HK\$17,744,000 to the convertible bondholders at the conversion price of HK\$3.9169.

Changes in the share capital of the Company during the current year are as follows:

- (c) On 8 January 2004, the Company issued 155,200,000 shares of HK\$0.1 each pursuant to the agreements in respect of placing and subscription of shares of the Company that Sinolink Worldwide Holdings Limited ("Sinolink") placed 155,200,000 existing shares of the Company 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.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business and for general working capital purposes.

- (d) The Company allotted and issued a total of 5,770,000 and 2,183,000 shares of HK\$0.1 each for cash at the exercise prices of HK\$0.475 and HK\$0.94 per share respectively as a result of the exercise of share options.

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

Notes to the Financial Statements

For the year ended 31 December 2004

26. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	General reserves HK\$'000	Asset revaluation reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2003	49,593	(192)	1,101	2,077	4,973	150,313	207,865
Addition during the year	—	—	—	883	—	—	883
Exchange differences arising on translation of financial statements of overseas operations	—	(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 1 January 2004	135,092	(1,277)	1,101	4,310	4,881	358,037	502,144
Exchange differences arising on translation of financial statements of overseas operations	—	(3,179)	—	—	—	—	(3,179)
Premium arising on issue of shares	609,277	—	—	—	—	—	609,277
Expenses incurred in connection with the issue of shares	(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>

26. RESERVES - continued

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY			
At 1 January 2003	49,593	(14,043)	35,550
Premium arising on issue of shares	100,332	—	100,332
Expenses incurred in connection with the issue of convertible bonds	(14,833)	—	(14,833)
Net loss for the year	—	(14,305)	(14,305)
	<u> </u>	<u> </u>	<u> </u>
At 1 January 2004	135,092	(28,348)	106,744
Premium arising on issue of shares	609,277	—	609,277
Expenses incurred in connection with the issue of shares	(32,032)	—	(32,032)
Net loss for the year	—	(23,811)	(23,811)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004	<u>712,337</u>	<u>(52,159)</u>	<u>660,178</u>

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

Capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

The Company's reserves available for distribution represent the share premium and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium, net of accumulated losses of the Company of HK\$660,178,000 (2003: HK\$106,744,000).

Notes to the Financial Statements

For the year ended 31 December 2004

27. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% registered capital of Cangxi Panva Gas Co., Ltd., Daiyi Panva Gas Co., Ltd., and Zhongjiang Panva Gas Co., Ltd.. The Group also acquired 90% of the registered capital of Yuechi Panva Gas Co., Ltd.. These acquisitions have been accounted for by the acquisition method of accounting. The aggregate amount of goodwill and negative goodwill arising as a result of the acquisitions was HK\$8,951,000 and HK\$22,646,000 respectively.

	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	203,525	82,854
Investments in securities	4,221	2,010
Inventories	1,749	2,092
Trade receivables	1,794	288
Other receivables, deposits and prepayments	17,615	24,188
Bank balances and cash	3,405	543
Trade payables	(2,659)	(2,077)
Other payables and accrued charges	(65,958)	(51,634)
Borrowings	(46,183)	(30,580)
Minority interests	(3,252)	(1,273)
	114,257	26,411
Goodwill	8,951	—
Negative goodwill	(22,646)	(6,954)
Total consideration	100,562	19,457
Satisfied by		
Cash	84,067	15,716
Amounts due to minority shareholders	16,495	3,741
	100,562	19,457
Net cash outflow arising on acquisition:		
Cash consideration	(84,067)	(15,716)
Bank balances and cash acquired	3,405	543
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(80,662)	(15,173)

The subsidiaries acquired during the year contributed HK\$191,346,000 (2003: HK\$79,027,000) to the Group's turnover, and HK\$128,405,000 (2003: HK\$63,966,000) to the Group's profit from operations.

28. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	149	1,833
Inventories	37	114
Trade receivables	29	52
Other receivables, deposits and prepayments	173	94
Bank balances and cash	126	3
Trade payables	—	(1,061)
Other payables and accrued charges	(69)	(16)
Minority interests	(31)	(139)
Asset revaluation reserves	—	(92)
	<u>414</u>	<u>788</u>
Loss on disposal	(374)	(788)
	<u>40</u>	<u>—</u>
Total consideration		
Net cash inflow arising on disposal:		
Proceeds received on disposal	40	—
Bank balances and cash disposed of	(126)	3
	<u>86</u>	<u>3</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries		

29. MAJOR NON-CASH TRANSACTION

On 5 December 2003, the Company issued 169,492,000 shares of HK\$0.1 each in the Company upon exercise of HK\$100,000,000 convertible note held by Supreme All Investments Limited ("Supreme All"), a wholly-owned subsidiary of Sinolink. The new shares issued rank pari passu with the existing shares in all aspects.

Notes to the Financial Statements

For the year ended 31 December 2004

30. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

Name of related party	Nature of transactions	2004 HK\$'000	2003 HK\$'000
Sinolink (Note a)	Licence fee expense (Note d)	460	374
Shenzhen Sinolink Enterprises Co., Limited (Note b)	Rental expense (Note d)	325	380
Supreme All (Note c)	Convertible note interest (Note e)	—	2,811
		<u> </u>	<u> </u>

Notes:

- (a) Mr. Ou Yaping, director and shareholder of the Company, has a direct beneficial interest in this company.
- (b) It is a fellow subsidiary of the Company, of which Mr. Ou Yaping is a director.
- (c) It is a wholly-owned subsidiary of Sinolink.
- (d) Licence fee expense and rental expense were determined by the directors based on the directors' estimates of fair market value.
- (e) Interest of 3% is paid payable per annum.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	4,979	4,088
In the second to fifth years inclusive	10,602	12,602
Over five years	14,518	18,719
	<u> </u>	<u> </u>
	<u>30,099</u>	<u>35,409</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 30 years.

The Company had no operating lease commitment at the balance sheet date.

32. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of unpaid capital contribution of investment projects	<u>526,008</u>	<u>186,361</u>

The Company had no capital commitment at the balance sheet date.

33. SHARE OPTIONS

The Company's Pre-Listing Share Option Scheme (the "Pre-Listing Options") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 3 April 2011. Under the Pre-Listing Option Scheme and the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options				Outstanding at end of year
	Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	
For the year ended 31 December 2004	<u>31,464,000</u>	<u>21,200,000</u>	<u>(7,953,000)</u>	<u>(1,072,000)</u>	<u>43,639,000</u>
For the year ended 31 December 2003	<u>37,144,000</u>	<u>—</u>	<u>—</u>	<u>(5,680,000)</u>	<u>31,464,000</u>

Notes to the Financial Statements

For the year ended 31 December 2004

33. SHARE OPTIONS - continued

When the share options are exercised and new shares are issued, the share capital is increased by the nominal value of the new shares issued and the share premium account is increased by the remainder of the proceeds. No charge is recognised in the income statement in respect of the value of share options granted. Had all the outstanding share options been fully exercised on 31 December 2004, the Company would have received HK\$89,572,000 in proceeds. Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
Pre-Listing Options	04.04.2001	01.01.2003 - 03.04.2011	0.475
	04.04.2001	01.01.2004 - 03.04.2011	0.475
2001	13.11.2001	13.02.2002 - 13.02.2007	0.940
	13.11.2001	13.05.2002 - 13.02.2007	0.940
	13.11.2001	13.11.2002 - 13.02.2007	0.940
2004	19.11.2004	31.12.2005 - 30.03.2011	3.500
	19.11.2004	31.12.2006 - 30.03.2011	3.500
	19.11.2004	31.12.2007 - 30.03.2011	3.500

Nominal consideration for options granted during the year was received.

The market price of the shares of the Company on the dates of exercise of the share options during the year was at a range of HK\$3.82 to HK\$4.01 per share.

The vesting period of share options is from the date of grant until the commencement of the exercise period.

34. RETIREMENT BENEFITS SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions paid for the year ended 31 December 2004 amounted to approximately HK\$5,113,000 (2003: HK\$3,740,000).

The Group has joined a MPF Scheme for all its non-PRC employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. During the year, the Group made retirement benefits scheme contributions amounting to HK\$104,000 (2003: HK\$102,000).

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2004 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
DIRECTLY- OWNED SUBSIDIARY				
China Pan River Group Ltd.	BVI - Limited liability company	US\$12,821	100%	Investment holding
INDIRECTLY- OWNED SUBSIDIARIES				
<i>Investment holding companies</i>				
China Overlink Holdings Co., Limited	BVI - Limited liability company	US\$1	100%	Investment holding
Panriver Investments Company Limited 百江投資有限公司	PRC - Limited liability company	US\$30,000,000	100%	Investment holding
Singkong Investments Limited 盛港投資有限公司	Hong Kong - Limited liability company	HK\$10,000	100%	Investment holding
Sinolink LPG Investment Limited	BVI - Limited liability company	US\$1	100%	Investment holding
Sinolink Power Investment Limited	BVI - Limited liability company	US\$1	100%	Investment holding
<i>Operating subsidiaries</i>				
Auhui province				
Panva (Chizhou) Gas Co., Ltd. 池州百江燃氣有限公司	PRC - Sino-foreign equity joint venture	RMB20,000,000	60%	Provision of LP Gas and related services and gas pipeline construction
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas

Notes to the Financial Statements

For the year ended 31 December 2004

35. PARTICULARS OF SUBSIDIARIES - continued

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Guizhou province				
Pan River Gas (China Southwest) Co., Ltd. ("Panva Southwest") 百江西南燃氣有限公司	PRC - Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas
Pan River Gas (Zunyi) Co., Ltd. 遵義百江燃氣有限公司	PRC - Limited liability company	RMB4,200,000	50.10%	Wholesaling and retailing of LP Gas
Hunan province				
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC - Sino-foreign equity joint venture	RMB9,000,000	60%	Wholesaling and retailing of LP Gas
Changde Pan River Enterprises Co., Ltd. 常德百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Changsha Pan River Enterprises Co., Ltd. 長沙百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas
Xiang Tan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB10,000,000	60%	Wholesaling and retailing of LP Gas
Yi Yang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Yongzhou) Co., Ltd. 永州百江能源實業有限公司	PRC - Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas

35. PARTICULARS OF SUBSIDIARIES - continued

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangsu province				
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC - Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC - Sino-foreign equity joint venture	US\$1,010,000	77.95%	Provision of LP Gas and related services and gas pipeline construction
Yangzhou YPC & Panva Gas Co., Ltd. 揚州揚子石化百江燃氣有限公司	PRC - Limited liability company	RMB10,000,000	27.5% (Note 3)	Wholesaling and retailing of LP Gas
YPC & Panva Energy Company Limited ("Yangzi Panva") 揚子石化百江能源有限公司	PRC - Sino-foreign equity joint venture	US\$7,230,000	50% (Note 2)	Wholesaling and retailing of LP Gas
Shandong province				
Jinan Panva Gas Co., Ltd. 濟南百江燃氣有限公司	PRC - Sino-foreign equity joint venture	RMB100,000,000	51%	Provision of LP Gas and related services and gas pipeline construction
Sichuan province				
Cangxi Panva Gas Co., Ltd. 蒼溪百江燃氣有限公司	PRC - Limited liability company	RMB8,000,000	100%	Provision of natural gas and related services and gas pipeline construction
Dayi Panva Gas Co., Ltd. 大邑百江燃氣有限公司	PRC - Limited liability company	RMB3,300,000	100%	Provision of natural gas and related services and gas pipeline construction
Le Zhi Panva Gas Co., Ltd. 樂至百江燃氣有限公司	PRC - Limited liability company	RMB14,800,000	100%	Provision of natural gas and related services and gas pipeline construction

Notes to the Financial Statements

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35. PARTICULARS OF SUBSIDIARIES - continued

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC - Sino-foreign equity joint venture	RMB3,590,000	90%	Provision of natural gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd. 平昌百江燃氣有限公司	PRC - Limited liability company	RMB8,000,000	90%	Provision of natural gas and related services and gas pipeline construction
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC - Limited liability company	RMB5,000,000	99.5%	Provision of natural gas and related services and gas pipeline construction
Yuechi Panva Gas Co., Ltd. 岳池百江燃氣有限公司	PRC - Limited liability company	RMB8,000,000	90%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Panva Gas Co., Ltd. 中江百江燃氣有限公司	PRC - Limited liability company	RMB18,816,000	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司	PRC - Limited liability company	RMB9,890,000	90%	Provision of natural gas and related services and gas pipeline construction
Yunnan province				
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC - Limited liability company	RMB58,840,000	28.53% (Note 1)	Wholesaling and retailing of LP Gas

Notes:

1. Panva Southwest holds a 56.94% equity interest.
2. Yangzi Panva is a subsidiary of the Company because the Group has control over its board of directors.
3. Yangzi Panva holds a 55% equity interest.

None of the subsidiaries had issued any outstanding debts securities as at the balance sheet date.