

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Panva Gas Holdings Limited**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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## **PANVA GAS HOLDINGS LIMITED**

**百江燃氣控股有限公司\***

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

(Stock Code: 8132)

### **MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF INTERESTS IN CHANGCHUN GAS HOLDINGS LIMITED**

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A notice convening the EGM to be held at the Board Room, 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong at 11:00 a.m. on 11 May 2005 is set out on pages 135 and 136 of this circular. Shareholders of the Company are advised to read the notice and to complete and return the accompanying proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the EGM to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for 7 days from the date of its posting.

25 April 2005

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## CHARACTERISTICS OF GEM

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

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

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

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## DEFINITIONS

*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“Acquisition”	the acquisition of 48% shareholding in Changchun Gas Holdings under the Sale and Purchase Agreement
“Acquisition Resolution”	the ordinary resolution as set out in the notice of the EGM, which is set out on pages 135 and 136 of this circular.
“Articles of Association”	the articles of association of the Company as amended, supplemented or modified from time to time
“Board”	board of directors of Panva Gas
“BVI”	the British Virgin Islands
“Changchun Gas Holdings”	Changchun Gas Holdings Limited (長春燃氣控股有限公司), a company incorporated on 25 March 2004 in the PRC
“Changchun Listed”	Changchun Gas Co., Ltd. (長春燃氣股份有限公司), a company incorporated on 8 June 1993 in the PRC, the A shares of which are listed on the SSE
“Directors”	directors of the Company
“Enerchina”	Enerchina Holdings Limited (Stock Code: 622), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“EGM”	the extraordinary general meeting of the Company to be held on 11 May 2005, the notice of which is set out on pages 135 and 136 of this circular
“Enlarged Panva Gas Group”	the Panva Gas Group immediately after completion of the Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Groups”	Sinolink Group, including the Panva Gas Group
“HK GAAP”	generally accepted accounting principles applicable in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

## DEFINITIONS

“Kenson”	Kenson Investment Limited, a company incorporated in the BVI and a wholly-owned subsidiary of Sinolink
“Latest Practicable Date”	20 April 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LP Gas”	liquefied petroleum gas
“Panriver Investments”	Panriver Investments Company Limited, a wholly owned subsidiary of Panva Gas established in the PRC
“Panva Gas” or the “Company”	Panva Gas Holdings Limited (Stock Code: 8132), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
“Panva Gas Group”	Panva Gas and its subsidiaries
“Party A”	Changchun Municipality State-owned Assets Administrative Bureau (長春市人民政府國有資產監督管理委員會), a local government authority responsible for the administration of the state owned assets within the city of Changchun
“Party C”	Shenzhen Hua Fu Investment Co., Ltd. (深圳市華孚能源投資有限公司), an independent third party, being a company incorporated in the PRC, the business activity of which is investment holding
“PRC”	the People’s Republic of China
“PRC GAAP”	the accounting principles and financial regulations applicable to enterprises established in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement entered into on 27 August 2004 by Panriver Investments, Party A and Party C whereby Party A agrees to transfer 48% and 2% respectively of the shareholding of Changchun Gas Holdings to Panriver Investments and Party C
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sinolink”	Sinolink Worldwide Holdings Limited (Stock Code: 1168), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

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## DEFINITIONS

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“Sinolink Group”	Sinolink and its subsidiaries, excluding Panva Gas Group
“SSE”	The Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme All”	Supreme All Investments Limited, a company incorporated in the BVI and a wholly-owned subsidiary of Sinolink
“USA”	the United States of America
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



**PANVA GAS HOLDINGS LIMITED**

**百江燃氣控股有限公司\***

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

(Stock Code: 8132)

*Executive Directors:*

OU Yaping (*Chairman*)

TANG Yui Man Francis (*Vice Chairman*)

CHEN Wei (*Managing Director*)

LI Fujun

SHEN Lian Jin

ZHANG Keyu

*Non-executive Directors:*

FOK Kin-ning, Canning

TO Chi Keung, Simon

*(alternate director to Mr. FOK Kin-ning, Canning)*

*Independent Non-executive Directors:*

CHEUNG Hon Kit

LI Xiao Ru

GE Ming

*Registered Office:*

Ugland House, P.O. Box 309

George Town, Grand Cayman

Cayman Islands, British West Indies

*Head office and principal place of  
business in Hong Kong:*

28th Floor, Vicwood Plaza

199 Des Voeux Road Central

Hong Kong

25 April 2005

*To the shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO  
THE ACQUISITION OF INTERESTS IN  
CHANGCHUN GAS HOLDINGS LIMITED**

The Company and Sinolink jointly issued an announcement dated 27 August 2004 that Panriver Investments, a wholly-owned subsidiary of Panva Gas, had entered into the Sale and Purchase Agreement with Party A and Party C. To the best of the knowledge, information and belief of the Board, having made all reasonable enquiries, both Party A and Party C and their respective ultimate beneficial owners are third parties independent of the Company and are not connected persons, and are not connected with any of the directors, chief executive, substantial shareholders, initial management shareholders of the Company or any of their respective associates.

\* For identification purpose only

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## LETTER FROM THE BOARD

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The total assets attributable to the Acquisition constitute approximately 27.21% of the total assets of Panva Gas. Therefore the Acquisition constitutes a major transaction of Panva Gas under Chapter 19 of the GEM Listing Rules. Since Panva Gas is a subsidiary of Sinolink, the Acquisition also constitutes a discloseable transaction under Chapter 14 of the Listing Rules for Sinolink.

### SALE AND PURCHASE AGREEMENT

**Date:** 27 August 2004

**Parties:**

Panriver Investments the purchaser, a wholly-owned subsidiary of Panva Gas, the principal business of which is investment holding

Party C the purchaser, an independent third party, being a company incorporated in the PRC, the business activity of which is investment holding

Party A the vendor, a local government authority responsible for the administration of state owned assets within the city of Changchun, being the legal and beneficial owner of 100% shareholding in Changchun Gas Holdings

Pursuant to the Sale and Purchase Agreement, Party A will transfer 48% and 2% of its equity interest in Changchun Gas Holdings to Panriver Investments and Party C respectively for a total consideration of RMB379,200,000 and RMB15,800,000 respectively. The consideration represents a premium of approximately 34% over the registered capital of Changchun Gas Holdings and a premium of approximately 24% over the unaudited consolidated net asset value of Changchun Gas Holdings as at 30 June 2004. The Directors consider that the consideration was fair and reasonable having regard to the potential earnings enhancement of the Company. Based on the unaudited consolidated net asset value of Changchun Gas Holdings as at 30 June 2004, the consideration was determined as a result of negotiations between the parties on an arms-length basis and on normal commercial terms.

### CONDITION

The Sale and Purchase Agreement was conditional upon the obtaining of the necessary approvals from the relevant PRC authorities. All necessary approvals have been obtained on 26 January 2005 and therefore the Sale and Purchase Agreement was completed on that day. The new business licence of Changchun Gas Holdings was issued on 1 February 2005.

### PAYMENT TERMS

In accordance with the Sale and Purchase Agreement, the payment terms for Panriver Investments were as follows:

- RMB75,840,000 representing 20% of the consideration shall be paid within five (5) working days after signing of the Sale and Purchase Agreement;



## LETTER FROM THE BOARD

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- RMB265,440,000 representing 70% of the consideration shall be paid within five (5) working days after obtaining all necessary approvals for the Acquisition from the relevant PRC government authorities; and
- RMB37,920,000 representing 10% of the consideration shall be paid within three (3) working days after obtaining the new business registration licence of Changchun Gas Holdings.

Since the necessary approvals and business registration licence of Changchun Gas Holdings have now been obtained, all consideration have now been fully paid by Panriver Investments.

### FUNDING

The consideration for the Acquisition was primarily financed out of the internal resources of Panva Gas. As at 31 December 2004, Panva Gas had approximately HK\$2,174,503,000 cash and bank balances.

### INFORMATION ON CHANGCHUN GAS HOLDINGS, PARTY A AND CHANGCHUN LISTED

Changchun Gas Holdings currently holds, as its sole investment, approximately 60% interest in Changchun Listed, a company incorporated in the PRC, the A shares of which are listed on the SSE. Upon completion of the Acquisition, Changchun Gas Holdings has become a sino-foreign equity joint venture company and owned as to 50% by Party A, as to 48% by Panriver Investments and as to 2% by Party C.

The principal business of both Changchun Gas Holdings and Changchun Listed include operation of the piped gas network in the city of Changchun, including the construction of the main trunk, sub-branch networks and the connection into individual households, the supply of piped gas to industrial, commercial and residential users, and the processing, transportation, storage, wholesale, retail and logistic services of coal gas, natural gas and LP Gas and related services.

Party A is Changchun Municipality State-owned Assets Administrative Bureau (長春市人民政府國有資產監督管理委員會), which is a local government authority responsible for the administration of the state owned assets within the city of Changchun.

Gas pipelines construction works began in 1928 in the city of Changchun, however it was not until the 1950s that a company owned and operated by the municipal government of Changchun was established to operate the gas pipeline network in the city of Changchun. In 2000, assets related to the gas pipeline operation in the city of Changchun were injected into Changchun Listed, the A shares of which were listed on the SSE on 11 December 2000 and has been beneficially owned by Party A as to 60.22%.

### FINANCIAL INFORMATION ON CHANGCHUN GAS HOLDINGS

Changchun Gas Holdings is a PRC incorporated company established on 25 March 2004 with an initial registered capital of RMB30,000,000. On 28 April 2004, Changchun Gas Holdings entered into an equity transfer agreement whereby 244,800,000 shares in Changchun Listed (the “Transferred Shares”) were transferred to Changchun Gas Holdings from another company wholly owned and controlled by Party A. Based on the net asset value of Changchun Gas Holdings as at 31 December 2003 the transfer

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was valued at RMB559,781,467, thus the paid-up capital of Changchun Gas Holdings was increased by the same amount. The transfer was completed in July 2004 and its unaudited consolidated net assets value as at 31 July 2004 was RMB589,746,000. Before and after the transfer, the ultimate control of the Transferred Shares is still Party A (i.e. under the same common control before and after the transfer). Therefore, the accountants' report on Changchun Gas Holdings as set out in Appendix 2 of this circular was prepared on the basis that the existing structure had been in place throughout the three financial years ended 31 December 2004 (the "Relevant Period"). The accountants' report on Changchun Gas Holdings as set out in Appendix 2 of this circular was prepared on the basis of the consolidated management accounts of Changchun Gas Holdings. Such consolidated management accounts were prepared by the directors of Panva Gas, based on the audited accounts of Changchun Listed prepared in PRC GAAP and the books and records of Changchun Listed.

Extracts of the audited accounts of Changchun Listed for each of the three financial years ended 31 December 2004 are set out in Appendix 3 of this circular. Such accounts were prepared in accordance with accounting principles generally accepted in the PRC.

Since Panriver Investments has only acquired 48% of Changchun Gas Holdings which will be accounted for as an associated company in the financial statements of Panva Gas, only 48% of such profit will be attributed to the Panva Gas Group's income statement and the Board does not expect the Acquisition will have any immediate material impact on the earnings and assets and liabilities of the Groups.

The following is a summary of the financial information of Changchun Gas Holdings prepared according to HK GAAP on a consolidated basis for each of the three financial years ended 31 December 2004:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,092,745	763,966	442,134
Profit before taxation	248,981	121,389	75,890
Net profit for the year	128,178	91,203	57,853
Total assets	1,550,389	1,371,149	1,154,337
Net current assets	305,142	170,201	219,300
Net assets	681,237	559,781	493,060
Bank balances and cash	97,751	118,375	99,970
Bank borrowings	81,000	96,000	100,000
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Current ratio (times)	1.85	1.49	1.93
Gearing ratio (bank borrowings to equity)	12%	17%	20%

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In preparing the consolidated management accounts of Changchun Gas Holdings, an adjustment was made to the consolidated accounts to conform with HK GAAP. Such adjustment relates to discounts on payment of debt of Changchun Listed, which is the principal difference between HK GAAP and PRC GAAP that is applicable to the present transaction.

During the Relevant Period, Changchun Listed received discounts on payment of debt, which under PRC GAAP Changchun Listed would be allowed to book directly into capital reserve, whereas under HK GAAP, such discounts would be booked into the profit and loss account. Such discounts amounted to approximately RMB5,970,000, RMB4,995,000 and RMB1,123,000 for the years ended 31 December 2002, 31 December 2003 and 31 December 2004 respectively, which were directly credited into capital reserve of Changchun Listed under PRC GAAP. Such discounts would be adjusted to the profit and loss account from the capital reserve when the accounts of Changchun Listed were adjusted to conform to HK GAAP for the Relevant Period. The adjustment does not have an impact on the net asset value of Changchun Listed because the adjustment results in an increase in net profit, thus retained earnings, and a decrease in the capital reserve.

In general, the major differences between HK GAAP and PRC GAAP are described in Appendix 3 of this circular. However for Changchun Listed, these differences did not apply during the Relevant Period and the only relevant difference is discount on payment of debt of Changchun Listed.

### ACCOUNTS OF CHANGCHUN LISTED AND CHANGCHUN GAS HOLDINGS

Since the Acquisition constituted a major transaction for Panva Gas, under the GEM Listing Rules an accountants' report was required in respect of Changchun Gas Holdings. In order to prepare an accountants' report in respect of Changchun Gas Holdings, the reporting accountants needed to perform an audit on the accounts of Changchun Listed, being the sole investment of Changchun Gas Holdings. However the Company's request to allow its reporting accountants to perform an audit of Changchun Listed was refused. Such request was made by Changchun Gas Holdings on behalf of the Company to Changchun Listed but was rejected by Changchun Listed for the following principal reasons:

- a. Changchun Listed argued that since the shares of Changchun Listed, which form the majority of the assets of Changchun Gas Holdings, are listed on SSE, shareholders are able to gain access to its audited accounts (prepared under PRC GAAP) as Changchun Listed is obliged to publish such accounts in the public domain.
- b. Since the Company was only acquiring 48% equity interest and thus only a minority interest in Changchun Gas Holdings, it could not directly instruct Changchun Listed to open its books of account for audit purposes by the Company.
- c. At the time of beginning the process of preparation of this circular back in August 2004, Changchun Listed being a company listed on SSE, had only recently published its accounts for the year ended 31 December 2003 and thus they argued that a further audit was unnecessary.

## LETTER FROM THE BOARD

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- d. Since the management of Changchun Listed was not familiar with the requirements of HK GAAP and the reporting requirements of the GEM Listing Rules, they were reluctant to allow the Company's reporting accountants to inspect the accounts of Changchun Listed since the financial statements of Changchun Listed had already been published.
- e. If the Company's reporting accountants were to conduct an audit on Changchun Listed, Changchun Listed was concerned that such audit would be deemed to be providing more information than Changchun Listed was providing to its own shareholders. In such circumstances, Changchun Listed may have to make disclosure of such additional information under the rules and regulations of the SSE. Changchun Listed was of the view that such additional disclosure was not necessary and thus it was not willing to incur any costs in relation thereto.

Since the Company had completed the Acquisition in late January 2005, the Company would have been able to gain access to the books and records of Changchun Gas Holdings and could have instructed its reporting accountants to perform an audit of the accounts of Changchun Listed, but the Company chose not to do so. The Company chose not to do so since even if the reporting accountants had been able to perform an audit of the accounts of Changchun Listed for the year ended 31 December 2004, the reporting accountants would still have only been able to issue a disclaimed opinion since they would not have been able to perform an audit of the accounts of Changchun Listed for the years ended 31 December 2002 and 31 December 2003.

In the circumstances, the reporting accountants of the Company issued a disclaimed opinion in respect of the accountants' report on Changchun Gas Holdings. Such report and the relevant qualifications are set out in Appendix 2 of this circular. However, the Company's shareholders are reminded to take caution when reading and analysing such accountants' report as set out in Appendix 2 since it is qualified.

Although the accountants' report on Changchun Gas Holdings as set out in Appendix 2 of this circular has been qualified, Panva Gas has taken reasonable steps to ensure the fairness and reasonableness of the Consolidated Management Accounts (as defined in Appendix 2 of this circular) including conducting inspection of the books and records of Changchun Listed. Prior to the signing of the Sale and Purchase Agreement, the relevant parties had been conducting negotiations for approximately 2 years, during which time substantial due diligence was conducted by the Company (including the inspection of the accounts of Changchun Listed) and review of the legal, accounting and personnel document and files. By such due diligence, the Company is satisfied that the internal controls of Changchun Listed are sufficient and that the books and records of Changchun Listed have been properly maintained and updated.

Furthermore since the major asset of Changchun Gas Holdings is its 60% shareholding in Changchun Listed, which is a company listed on the SSE, and which would be subject to the rules and regulations of the SSE, including public disclosure requirements.

As added comfort for the Company, it is agreed with Changchun Gas Holdings and Changchun Listed that as from 2005, Changchun Listed will let the auditors of the Company to, jointly with the auditor of Changchun Listed, perform an audit of the accounts of Changchun Listed.

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## LETTER FROM THE BOARD

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As stated above, as from 2005, Changchun Listed and Changchun Gas Holdings have agreed with the Company to let the auditors of the Company to conduct audit together with the Company so that it would be able to prepare the account of Changchun Listed under the accounting standards generally accepted in Hong Kong. After the completion of the Acquisition, it is expected that the auditors of the Company would be able to gain access to all the books and records of Changchun Gas Holdings and Changchun Listed for the purpose of its preparation of their audited accounts under the accounting standards generally accepted in Hong Kong. The Company intends to perform full audits on Changchun Gas Holdings and its subsidiaries including Changchun Listed for the financial year ended 31 December 2005 onward.

### **Liquidity and Financial Resources**

Bank borrowings of Changchun Gas Holdings and its subsidiaries are secured by the sale of gas and are mainly used to fund expansion in the piped gas business and as working capital during the Relevant Period.

### **Foreign Currency Exposure**

Since all bank borrowings are denominated in RMB and as the operations of Changchun Gas Holdings and its subsidiaries are carried out in the PRC, all receipts and payments in relation to the operations are denominated in RMB, the exposure to foreign exchange rates fluctuations is considered to be low. No financial instruments are used for hedging purpose during the Relevant Period.

### **Business Review**

As Changchun Gas Holdings is a holding company established on 25 March 2004 which does not have any other businesses, the following business review will be based on Changchun Listed for the Relevant Period. Changchun Listed has currently divided its operations into three business segments, namely the provision of piped coal gas, natural gas and LP Gas and the sale of household gas appliances (“Gas Fuel Business”), the sale of coking coal and coking oil (“Coking Coal Business”) and the construction of gas pipelines and the conversion of coal gas pipelines to use natural gas (“Gas Pipeline Construction Business”).

#### *Gas Fuel Business*

During the Relevant Period, revenue recorded from the sale and distribution of gas fuel and related products amounted to approximately RMB173,131,000, RMB202,369,000 and RMB285,562,000 representing approximately 39%, 26% and 26% of the total turnover of Changchun Listed. Although the revenue from the Gas Fuel Business increased in monetary terms, decreases in terms of percentage to total turnover is due to significant increases in the other two businesses. The increase in revenue during the Relevant Period is mainly due to the increase in customer base resulted from more customers being connected to use piped gas.

### *Coking Coal Business*

During the Relevant Period, revenue recorded from the sale and distribution of coking coal and related products amounted to approximately RMB172,555,000, RMB386,963,000 and RMB676,150,000 representing approximately 39%, 51% and 62% of the total turnover of Changchun Listed. Revenue from the Coking Coal Business decreased slightly as a percentage of total turnover from 2001 to 2002 was mainly due to a higher increase in revenue from the Gas Pipeline Construction Business. However, the Coking Coal Business experienced significant increases of approximately 124% from 2002 to 2003 and approximately 75% for 2004 when compared to 2003. The significant increase was mainly due to an increased demand for steel related products and as coking coal is one of the main materials in steel processing, the price of coking coal increased as a result.

### *Gas Pipeline Construction Business*

The Gas Pipeline Construction Business mainly includes the construction of low and medium pressure pipelines and pressure-regulating stations, through which Changchun Listed provides direct connection of piped gas to end-user households and receives a connection fee. During the Relevant Period, revenue recorded from the Gas Pipeline Construction Business amounted to approximately RMB96,448,000, RMB174,634,000 and RMB131,033,000 representing approximately 22%, 23% and 12% of total turnover Changchun Listed respectively. Revenue decreased as a percentage of total turnover during 2004 when compared to 2003 was due to the significant increase in the Coking Coal Business. The significant increase of approximately 81% from 2002 to 2003 was mainly due to an increase in the number of new connections. The decrease in revenue from 2003 to 2004 was due to a decrease in the number of household customer connected in 2004.

## **MAJOR TRANSACTION AND COMPLETION**

According to Rule 19.44 of the GEM Listing Rules, shareholders' approval for a major transaction shall be given by a majority vote at a general meeting of the shareholders of an issuer. However subject to certain other conditions set out therein being met and subject to Rule 19.86 of the GEM Listing Rules, the Stock Exchange may accept a written approval from a shareholder who holds more than 50% of the voting rights of an issuer. Rule 19.86 of the GEM Listing Rules provides: "Shareholders' approval is required for an acquisition that requires an accountants' report where the reporting accountants can only give a qualified opinion in the accountants' report in respect of the acquisition of the businesses or companies... ..". "In such cases, the Stock Exchange will not accept a written shareholders' approval for the transaction, but will require a general meeting to be held to consider the transaction." The Company however entered into the Sale and Purchase Agreement without a condition precedent that the Acquisition shall be subject to shareholder's approval for the following reasons:—

1. Kenson and Supreme All who are a closely allied group of shareholders who together hold more than 58% in the nominal value of the shares in the Company giving the right to attend and vote at the EGM, who does not have to abstain from voting in relation to the Acquisition had already given its approval to the Acquisition and had also confirmed that they would vote in favour of any resolutions proposed in relation to the Acquisition should a shareholder's meeting be held (the "Written Approval");

## LETTER FROM THE BOARD

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2. at the time of entering into the Sale and Purchase Agreement, the directors of the Company believed that the Company should be able to include an accountants' report in respect of Changchun Gas Holdings with an unqualified opinion in its circular to shareholders;
3. even if the Company was not able to include an accountants report in respect of Changchun Gas Holdings with an unqualified opinion in its circular to shareholders, the Company believed that they would be able to obtain a waiver from the Stock Exchange under Rule 19.67(4)(a)(i) of the GEM Listing Rules. It is provided under Rule 19.67(4)(a)(i) that the Stock Exchange may be prepared to relax the requirement for an accountants' report where the company in question will not become a subsidiary of the listed issuer. The Company made its main submission (the "Main Submission") to the Stock Exchange on 5 October 2004 together with supporting submissions dated 15 October 2004 and 3 November 2004 in support of the Main Submission. Despite such submissions, on 12 November 2004 the Stock Exchange formally refused the requested waiver. The Stock Exchange also reminded the Company that if the reporting accountants can only give a qualified opinion in the accountants' report on Changchun Gas Holdings, in accordance with Rule 19.86 of the GEM Listing Rules, the Stock Exchange would not accept a written shareholders' approval for the acquisition of Changchun Gas Holdings, but will require a general meeting to be held to consider the Acquisition.

Although the Written Approval had been obtained, after the Sale and Purchase Agreement had been entered into, the directors of the Company realized that the accountants' report on Changchun Gas Holdings would only contain a qualified opinion for the reasons listed out below under the paragraph headed "Accounts of Changchun Listed and Changchun Gas Holdings". Since as stated above, the Company was not able to obtain a waiver from the Stock Exchange in relation to Rule 19.67(4)(a)(i) of the GEM Listing Rules and since the accountants' report would contain a qualified opinion, the Stock Exchange did not accept the Written Approval. In the circumstances, the EGM is required to be convened to consider and approve the Acquisition. Since Kenson and Supreme All who together hold more than 50% of the voting rights of the Company has already given an undertaking to vote in favour of any resolution to approve the Acquisition, the directors of the Company expect that the Acquisition Resolution will be duly passed.

The Acquisition was completed on 26 January 2005 without the Acquisition being formally approved by the shareholders of the Company in general meeting. Immediately prior to the completion of the Acquisition, the Company had requested the relevant parties to the Acquisition whether they would be willing to extend the completion for the Acquisition so that the Company would be able to convene a shareholders' meeting in relation to the Acquisition. Since the parties had already entered into a legally binding contract in relation to the Acquisition, the other parties to the Sale and Purchase Agreement insisted that the Sale and Purchase Agreement be completed in accordance with its original terms and conditions.

Because (1) the Acquisition was already approved by Kenson and Supreme All who together hold more than 50% of its voting rights in accordance with the Written Approval; and (2) whether or not the Acquisition is completed before or after the convening of the EGM, the Acquisition would still be approved by its shareholders at the EGM, the directors of the Company believe that they are in compliance with the GEM Listing Rules in relation to the Acquisition since the directors of the Company believe that ultimately the transaction would be approved by the shareholders of the Company.

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## LETTER FROM THE BOARD

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The Stock Exchange was only informed of the completion of the Acquisition on 20 April 2005. The Stock Exchange has taken the view that the Company is not in compliance with the GEM Listing Rules in relation to major transactions since shareholders' approval was not obtained by convening a general meeting and because the Acquisition was completed (on 26 January 2005) before the approval of the Acquisition by the Company's shareholders at the EGM. Therefore the Stock Exchange will look into the matter.

### REASONS FOR THE ACQUISITION

Panva Gas is principally engaged in the sale and distribution of natural gas and LP Gas in the Eastern, Central, Northeastern, Southern and Southwest regions of the PRC and as part of its strategy in business development, Panva Gas expands through mergers and acquisitions. In addition to its current operation in eleven provinces in the PRC, Panva Gas through the Acquisition establishes its presence in the province of Jilin and further expands its piped gas operations. Changchun city is the capital of Jilin province, with an urban population of about 3 million people, and serves as the major hub for the North Eastern part of the PRC. The Acquisition will serve as the springboard for Panva Gas in its future business development in the North Eastern part of the PRC. Having conducted due diligence work on Changchun Gas Holdings and Changchun Listed and based on the consolidated net asset value of Changchun Gas Holdings as at 30 June 2004 together with the market research result regarding the future market development, the Directors believe that the Acquisition and terms thereof are fair and reasonable and in the interests of the shareholders of the Company as a whole.

At present, the Company does not have any plans to acquire the remaining 50% of the equity interest in Changchun Gas Holdings. The proportion made by each of the parties was determined as a result of negotiation between the parties on an arm's length basis and on normal commercial terms, taking into account of their respective internal resources and the future development of the joint venture. To the best knowledge of the Directors, Party A does not have any intention to dispose of its remaining 50% equity interests in Changchun Gas Holdings in the near future.

### GENERAL

The total assets attributable to the Acquisition constitutes approximately 27.21% of the total assets of Panva Gas. Therefore, the Acquisition constitutes a major transaction of Panva Gas under Chapter 19 of the GEM Listing Rules.

Since the Acquisition is a major transaction, an accountant's report on the company being acquired (i.e. Changchun Gas Holdings) in accordance with Chapter 7 of the GEM Listing Rules is set out in Appendix 2 of this circular.

Although the Acquisition is a major transaction under the GEM Listing Rules, no valuation and information on Changchun Gas Holdings is required under Chapter 8 of the GEM Listing Rules because Changchun Gas Holdings' assets does not consist solely or mainly of property but consists mainly of shares in Changchun Listed.



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## LETTER FROM THE BOARD

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As Panva Gas Group will only hold 48% equity interest in Changchun Gas Holdings and with only 2 board seats out of 6 board members of Changchun Gas Holdings (Party A and Party C will have the right to appoint 3 board members and 1 board member of Changchun Gas Holdings respectively), the Panva Gas Group does not have control over its management, therefore it will be accounted for as an associated company in the financial statements of Panva Gas.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Party A and Party C and their respective associates do not own any shares in the Company.

### **INFORMATION ON THE COMPANY AND SINOLINK**

Panva Gas is principally engaged in the sale and distribution of natural gas and LP Gas in the Eastern, Central, Northeastern, Southern and Southwestern regions of the PRC. The main activities include the sale of LP Gas in bulk and in cylinders, the provision of piped natural gas and LP Gas, the construction of gas pipelines, the operation of city gas pipeline networks, the operation of natural gas and LP Gas automobile refilling stations, and the sale of natural gas and LP Gas household appliances.

Sinolink is principally engaged in: i) property development and investment; ii) pipeline construction, LP Gas and natural gas distribution, transportation, storage, wholesale and retail sales through Panva Gas; and iii) electricity generation and supply through Enerchina.

### **CURRENT TRADING AND FUTURE PROSPECTS**

The Panva Gas Group with strong competitive advantages has been able to tap on the rapidly growing gas consumption in the PRC. The Panva Gas Group has greatly enhanced its asset quality and quantity, capital return, brand value and management resources, which together further strengthen the Panva Gas Group's competitive advantages.

The Panva Gas Group will continue to strengthen its LP Gas business, consolidate its existing resources, further develop the natural gas pipelines market through mergers and acquisitions and expand to the related up-and-down stream businesses. The Panva Gas Group will also keep on enhancing its corporate image as a comprehensive and professional gas services provider, expanding its end-user customer base and increasing its core competitiveness in the gas sector.

The Panva Gas Group has continued to expand and set up record increases in turnover for wholesale, retail and gas pipeline construction businesses. In the second half of 2004, the Panva Gas Group acquired several additional piped gas projects which significantly enhanced the Panva Gas Group's economies-of-scale benefits and competitive advantages.

Looking ahead, the Panva Gas Group will continue to strengthen its piped gas development business in the Southwestern, Southern, Eastern and Northeastern PRC regions and strive to secure more high quality piped gas projects. At the same time, the Panva Gas Group will also continue to invest in and actively expand its retail and wholesale businesses of LP Gas.

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## LETTER FROM THE BOARD

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### THE EGM

The notice convening the EGM to be held at the Board Room, 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on 11 May 2005 at 11:00 a.m. is set out on pages 135 and 136 of this circular at which the Acquisition Resolution (which is proposed as an ordinary resolution) will be proposed and, if thought fit, passed to approve, inter alia, the Acquisition.

A form of proxy for the EGM are enclosed herewith. Whether or not you are able to attend the EGM in person, please complete and return the form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

### PROCEDURE FOR DEMANDING A POLL

Pursuant to Article 80 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the Chairman of the meeting; or
- (b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Taking into consideration of all the above facts, the Company decided to enter into the Acquisition and the Directors believe that the Acquisition is in the best interest of the Company and its shareholders as a whole and therefore recommend you to vote in favour of the Acquisition Resolution set out in the notice convening the EGM as set out on pages 135 and 136 of this circular.

Written shareholder's approval in relation to the Acquisition has been obtained by Panva Gas from Sinolink, the controlling shareholder, which as at the Latest Practicable Date holds 550,789,987 shares of HK\$0.1 each in the capital of Panva Gas through its wholly-owned subsidiaries, Kenson and Supreme All representing 58.45% of the nominal value of securities giving the right to attend and vote at the meeting to approve the transaction. The GEM Listing Rules requires that any shareholders with a material interest in a proposed transaction and his associates will abstain from voting and so far as Directors are aware having made all reasonable enquiries, as at the Latest Practicable Date, no shareholders of Panva Gas has any material interest in the Acquisition and hence no shareholder of Panva Gas is required to abstain from voting, under Rule 19.86 of the GEM Listing Rules. However, under Rule 19.86 of the GEM Listing Rules, since the accountants' report as set out in Appendix 2 of this circular is qualified, such written shareholder's approval as obtained from Sinolink will not be accepted in lieu of a physical meeting and will require a general meeting of the Company to be held to consider the transaction. In the circumstances a general meeting of the Company will be convened, notice of the EGM is as set out on pages 135 and 136 of this circular.

As mentioned above, Sinolink, the controlling shareholder of Panva Gas, has already provided on a voluntary basis an undertaking dated 27 August 2004 to the Stock Exchange that it has approved the transaction as stated in this circular and that if Panva Gas requires its shareholders to approve the said transaction, it shall exercise its vote to vote in favour of such resolution and such undertaking is still valid and subsisting. Therefore, at the EGM, Sinolink will exercise its voting rights to vote in favour of the Acquisition Resolution.

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By Order of the Board  
**Panva Gas Holdings Limited**  
**Chen Wei**  
*Managing Director*

## 1. AUDITED FINANCIAL INFORMATION FOR THE PANVA GAS GROUP

## (i) Consolidated Profit and Loss Account

Set out below are the audited consolidated profit and loss accounts of the Panva Gas Group for the years ended 31 December 2002, 2003 and 2004 extracted from the audited financial statements of the Panva Gas Group for the relevant years.

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Turnover	1,800,253	1,457,632	1,150,322
Cost of sales	<u>(1,353,382)</u>	<u>(1,073,289)</u>	<u>(888,427)</u>
Gross profit	446,871	384,343	261,895
Other operating income	15,963	4,218	2,752
Distribution expenses	(40,086)	(35,541)	(27,015)
Administrative expenses	(83,915)	(67,248)	(54,295)
Other operating expenses	<u>(2,655)</u>	<u>(1,134)</u>	<u>(1,818)</u>
Profit from operations	336,178	284,638	181,519
Loss on disposal of subsidiaries	(374)	(788)	–
Gain on partial disposal of a subsidiary	2,433	541	–
Finance costs	<u>(27,826)</u>	<u>(10,257)</u>	<u>(3,216)</u>
Profit before taxation	310,411	274,134	178,303
Share of results of an associate	<u>83</u>	<u>–</u>	<u>–</u>
Taxation	<u>310,494</u> <u>(19,711)</u>	<u>274,134</u> <u>(22,875)</u>	<u>178,303</u> <u>(8,545)</u>
Profit before minority interests	290,783	251,259	169,758
Minority interests	<u>(26,695)</u>	<u>(42,185)</u>	<u>(37,220)</u>
Net profit for the year	<u><u>264,088</u></u>	<u><u>209,074</u></u>	<u><u>132,538</u></u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	<u>28.14</u>	<u>33.97</u>	<u>21.97</u>
Diluted	<u>26.38</u>	<u>30.36</u>	<u>17.44</u>

## (ii) Financial Position

Set out below is a summary of the audited financial information of the Panva Gas Group for each of the three years ended 31 December 2004:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Total assets	3,938,840	1,435,987	735,540
Total Liabilities	(2,169,458)	(591,296)	(251,499)
Minority Interests	<u>(334,859)</u>	<u>(264,637)</u>	<u>(215,668)</u>
Shareholders' funds	<u><u>1,434,523</u></u>	<u><u>580,054</u></u>	<u><u>268,373</u></u>

**(iii) Audited Accounts**

Set out below is a summary of the audited consolidated profit and loss accounts of the Panva Gas Group for the two years ended 31 December 2003 and 2004, the audited consolidated balance sheets of the Company as at 31 December 2003 and 2004 and the audited consolidated cash flow statement of the Panva Gas Group for the two years ended 31 December 2003 and 2004, together with the relevant notes to the accounts as extracted from the audited financial statements of the Panva Gas Group for the year ended 31 December 2004.

**Consolidated Income Statement**

*For the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	4	1,800,253	1,457,632
Cost of sales		<u>(1,353,382)</u>	<u>(1,073,289)</u>
Gross profit		446,871	384,343
Other operating income	5	15,963	4,218
Distribution expenses		(40,086)	(35,541)
Administrative expenses		(83,915)	(67,248)
Other operating expenses	6	<u>(2,655)</u>	<u>(1,134)</u>
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	<u>(27,826)</u>	<u>(10,257)</u>
Profit before taxation		310,411	274,134
Share of results of an associate		<u>83</u>	<u>–</u>
		310,494	274,134
Taxation	10	<u>(19,711)</u>	<u>(22,875)</u>
Profit before minority interests		290,783	251,259
Minority interests		<u>(26,695)</u>	<u>(42,185)</u>
Net profit for the year		<u><u>264,088</u></u>	<u><u>209,074</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
Basic	11	<u><u>28.14</u></u>	<u><u>33.97</u></u>
Diluted	11	<u><u>26.38</u></u>	<u><u>30.36</u></u>

**Consolidated Balance Sheet***At 31 December 2004*

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

**Balance Sheet of Panva Gas Holdings Limited***At 31 December 2004*

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

**Consolidated Statement of Changes in Equity***For the year ended 31 December 2004*

	<i>HK\$'000</i>
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*

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
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)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Cash generated from operations	138,255	126,821
Interest paid	(11,406)	(10,695)
Income taxes paid	(1,712)	(1,171)
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>125,137</b>	<b>114,955</b>

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
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)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(421,472)</u>	<u>(211,310)</u>
<b>FINANCING ACTIVITIES</b>			
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)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<u>2,117,208</u>	<u>356,025</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		1,820,873	259,670
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		356,809	98,224
<b>EFFECT OF FOREIGN EXCHANGE RATES CHANGES</b>		<u>(3,179)</u>	<u>(1,085)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH</b>		<u><u>2,174,503</u></u>	<u><u>356,809</u></u>

**Notes to the Financial Statements**

*For the year ended 31 December 2004*

**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.

**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.

### **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.

### 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.

**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.

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:

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



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

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

#### **Geographical segments**

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

#### **5. OTHER OPERATING INCOME**

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

**6. OTHER OPERATING EXPENSES**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
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**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' remuneration ( <i>Note 8</i> )	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>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

Details of directors' remuneration by individuals are as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
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	–
	<u><u>39</u></u>	<u><u>–</u></u>

**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**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	–
	<u>53,945</u>	<u>10,176</u>
Net interest receivable on interest rate swaps	(26,239)	–
	<u>27,706</u>	<u>10,176</u>
Bank charges	120	81
	<u>27,826</u>	<u>10,257</u>

**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:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit before taxation	<u>310,494</u>	<u>274,134</u>
Tax at the applicable tax rate of 33% (2003: 33%)	102,463	90,464
Tax effect of expenses that are not deductible for tax 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:

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

## 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
<b>THE GROUP</b>								
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.

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.

	<b>Plant and equipment</b> <i>HK\$'000</i>
<b>THE COMPANY</b>	
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/>
<b>13. INTANGIBLE ASSET</b>	

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

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

## 14. GOODWILL

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

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

	<b>THE GROUP</b> <b>2004</b> <i>HK\$'000</i>
<b>GROSS AMOUNT</b>	
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/>
<b>RELEASED TO INCOME</b>	
At 1 January 2004	547
Released during the year	864
	<hr/>
At 31 December 2004	1,411
	<hr/>
<b>CARRYING AMOUNT</b>	
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
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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.

## 17. INTEREST IN AN ASSOCIATE

**THE GROUP**  
**2004**                      **2003**  
*HK\$'000*                      *HK\$'000*

Share of net assets	35,377	–
Goodwill on acquisition of an associate ( <i>Note</i> )	35,300	–
	70,677	–

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*

<b>COST</b>	
Arising from acquisition of an associate and balance at 31 December 2004	35,418
<b>AMORTISATION</b>	
Provided for the year and balance at 31 December 2004	(118)
<b>NET BOOK VALUE</b>	
At 31 December 2004	35,300

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

**18. INVESTMENTS IN SECURITIES**

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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**

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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>

**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:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>24,076</u>	<u>79,062</u>

**23. BORROWINGS**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	–
	1,950,424	411,090	1,903,698	372,016
Less: Amount due within one year shown under current liabilities	<u>(29,420)</u>	<u>(32,526)</u>	–	–
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.
- (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.

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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**

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>2,000,000,000</u>	<u>200,000</u>
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	<u>4,530,000</u>	<u>453</u>
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	<u>7,953,000</u>	<u>795</u>
At 31 December 2004	<u>942,251,000</u>	<u>94,225</u>

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.

## 26. RESERVES

	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Asset revaluation reserves <i>HK\$'000</i>	Accumulated profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
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)
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).

## 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.

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	<u>114,257</u>	<u>26,411</u>
Goodwill	8,951	–
Negative goodwill	(22,646)	(6,954)
	<u>100,562</u>	<u>19,457</u>
Total consideration	<u>100,562</u>	<u>19,457</u>
Satisfied by		
Cash	84,067	15,716
Amounts due to minority shareholders	16,495	3,741
	<u>100,562</u>	<u>19,457</u>
Net cash outflow arising on acquisition:		
Cash consideration	(84,067)	(15,716)
Bank balances and cash acquired	3,405	543
	<u>(80,662)</u>	<u>(15,173)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(80,662)</u>	<u>(15,173)</u>

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**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(374)</u>	<u>(788)</u>
Total consideration	<u>40</u>	<u>–</u>
Net cash inflow arising on disposal:		
Proceeds received on disposal	40	–
Bank balances and cash disposed of	<u>(126)</u>	<u>3</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>86</u></u>	<u><u>3</u></u>

**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.

**30. RELATED PARTY TRANSACTIONS**

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

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

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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>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

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
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:

	Outstanding at beginning of year	Number of share options			Outstanding at end 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>

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
<b>DIRECTLY- OWNED SUBSIDIARY</b>				
China Pan River Group Ltd.	BVI – Limited liability company	US\$12,821	100%	Investment holding
<b>INDIRECTLY- OWNED SUBSIDIARIES</b>				
<i>Investment holding companies</i>				
China Overlink Holdings Co., Limited	BVI – Limited liability company	US\$1	100%	Investment holding
Panriver Investments Company Limited 百江投资有限公司	PRC – Limited liability company	US\$30,000,000	100%	Investment holding
Singkong Investments Limited 盛港投资有限公司	Hong Kong – Limited liability company	HK\$10,000	100%	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	US\$1	100%	Investment holding

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
Sinolink Power Investment Limited	BVI – Limited liability company	US\$1	100%	Investment holding
<i>Operating subsidiaries</i>				
<b>Auhui province</b>				
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
<b>Guizhou province</b>				
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
<b>Hunan province</b>				
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

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
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
<b>Jiangsu province</b>				
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
<b>Shandong province</b>				
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
<b>Sichuan province</b>				
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

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
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
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
<b>Yunnan province</b>				
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.

*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*



The Directors  
Panva Gas Holdings Limited  
28th Floor, Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

25 April 2005

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) of Changchun Gas Holdings Limited (“Changchun Gas Holdings”) and its subsidiary, Changchun Gas Company Limited (“Changchun Listed” and hereinafter together with Changchun Gas Holdings collectively referred to as the “Changchun Gas Group”) for each of the three years ended 31 December 2004 (the “Relevant Periods”) for inclusion in the circular of Panva Gas Holdings Limited (“Panva Gas”) dated 25 April 2005 (the “Circular”) in connection with the proposed acquisition of a 48% equity interest in Changchun Gas Holdings by Panriver Investments Company Limited (“Panriver Investments”), an indirect wholly-owned subsidiary of Panva Gas pursuant to a sale and purchase agreement entered into on 27 August 2004 by Panriver Investments, 長春市國有資產管理委員會 (Changchun Municipality State-owned Assets Administrative Bureau) and a third party.

Changchun Gas Holdings was established in the Peoples’ Republic of China (the “PRC”) on 25 March 2004 as a limited liability company with an initial registered capital of RMB30,000,000. Pursuant to an equity transfer agreement dated 28 April 2004, the registered capital of Changchun Gas Holdings was increased to RMB589,781,467 as a result of the transfer of 244,800,000 shares of Changchun Listed at a value of RMB559,781,467, calculated by reference to the net assets value of Changchun Listed as at 31 December 2003 as set out in the published financial statements prepared in accordance with the accounting principles and the relevant financial regulations applicable to PRC companies, from 長春市建設投資公司 on 28 July 2004. No audited financial statements have been prepared for Changchun Gas Holdings since the date of establishment.

As at the date of this report, Changchun Gas Holdings directly held, as its sole investment, approximately 60% interest in Changchun Listed. Changchun Listed was a company established in the PRC, the A shares of which are listed on the Shanghai Stock Exchange. The financial statements of Changchun Listed for each of the three years ended 31 December 2004, which were prepared in accordance with the accounting principles and the relevant financial regulations applicable to PRC companies, were audited by 武漢眾環會計師事務所有限公司 (Wuhan Zhonghuan CPA Company Ltd.), certified public accountants registered in the PRC. The principal businesses of Changchun Gas Group include



operation of the piped gas network in the city of Changchun, including the construction of the main trunk, sub-branch networks and the connection into individual households, the supply of piped gas to industrial, commercial and residential users, and the processing, transportation, storage, wholesale, retail and logistic services of coal gas, natural gas and liquefied petroleum gas and related services.

For the purposes of this report, the management of Panva Gas has prepared the consolidated management accounts of Changchun Gas Group in accordance with accounting principles generally accepted in Hong Kong for each of the Relevant Periods (the "Consolidated Management Accounts").

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statement of the Changchun Gas Group for each of the Relevant Periods and the consolidated balance sheets of the Changchun Gas Group as at each of the period end of the Relevant Periods together with the notes thereon set out in this report have been prepared from the Consolidated Management Accounts.

The Consolidated Management Accounts are the responsibility of the directors of Panva Gas. The directors of Panva Gas are responsible for the contents of the Circular in which this report is included.

We were engaged to examine the Consolidated Management Accounts in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. However, we were unable to perform such an examination because we were unable to gain access to the underlying accounting books and records of Changchun Listed through which the principal operations of the Changchun Gas Group are conducted.

As we have been unable to perform an examination of the Consolidated Management Accounts, we are unable to form an opinion as to whether the Financial Information gives a true and fair view of the affairs of the Changchun Gas Group as at 31 December 2002, 31 December 2003 and 31 December 2004 and of the combined results and cash flows of the Changchun Gas Group for each of the three years ended 31 December 2004.

**A. FINANCIAL INFORMATION**

**CONSOLIDATED INCOME STATEMENTS**

	<i>Notes</i>	<b>Year ended 31 December</b>		
		<b>2002</b>	<b>2003</b>	<b>2004</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	442,134	763,966	1,092,745
Cost of sales		(301,175)	(506,115)	(716,732)
Gross profit		140,959	257,851	376,013
Other operating income		20,269	14,783	7,527
Distribution expenses		(12,392)	(33,225)	(64,884)
Administrative expenses		(26,561)	(34,514)	(47,610)
Other operating expenses		(1,501)	(17,269)	(17,577)
Profit from operations		120,774	187,626	253,469
Interest income		555	626	913
Finance costs		(6,099)	(5,810)	(5,401)
Profit before taxation		115,230	182,442	248,981
Taxation	3	(18,037)	(30,186)	(32,967)
Profit before minority interests		97,193	152,256	216,014
Minority interests		(39,340)	(61,053)	(87,836)
Net profit for the year		<u>57,853</u>	<u>91,203</u>	<u>128,178</u>

**CONSOLIDATED BALANCE SHEETS**

	<i>Notes</i>	<b>At 31 December</b>		
		<b>2002</b>	<b>2003</b>	<b>2004</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	4	599,090	762,413	806,039
Intangible asset	5	65,000	55,000	45,000
Investments in securities	6	34,270	34,348	35,813
		<u>698,360</u>	<u>851,761</u>	<u>886,852</u>
<b>Current assets</b>				
Inventories	7	81,438	142,673	196,985
Trade receivables		212,964	141,599	192,341
Other receivables, deposits and prepayments		61,605	116,741	176,460
Bank balances and cash		99,970	118,375	97,751
		<u>455,977</u>	<u>519,388</u>	<u>663,537</u>
<b>Current liabilities</b>				
Trade payables		188,169	295,678	299,004
Other payables and accrued charges		20,305	29,493	37,697
Taxation		13,203	9,016	6,694
Borrowings – amount due within one year		15,000	15,000	15,000
		<u>236,677</u>	<u>349,187</u>	<u>358,395</u>
<b>Net current assets</b>		<u>219,300</u>	<u>170,201</u>	<u>305,142</u>
<b>Total assets less current liabilities</b>		917,660	1,021,962	1,191,994
<b>Non-current liabilities</b>				
Borrowings – amount due within one year		85,000	81,000	66,000
		<u>832,660</u>	<u>940,962</u>	<u>1,125,994</u>
<b>Minority interests</b>		<u>(339,600)</u>	<u>(381,181)</u>	<u>(444,757)</u>
<b>Net assets</b>		<u>493,060</u>	<u>559,781</u>	<u>681,237</u>
<b>Capital and reserves</b>				
Paid-in Capital	8	244,813	244,813	589,781
Reserves	9	248,247	314,968	91,456
<b>Shareholders' funds</b>		<u>493,060</u>	<u>559,781</u>	<u>681,237</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total equity at beginning of the year	449,608	493,060	559,781
Increase in capital	–	–	30,000
Net profit for the year	57,853	91,203	128,178
Dividend	(14,401)	(24,482)	(36,722)
	<u>          </u>	<u>          </u>	<u>          </u>
Total equity at end of the year	<u>493,060</u>	<u>559,781</u>	<u>681,237</u>

**CONSOLIDATED CASH FLOW STATEMENTS**

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before taxation	115,230	182,442	248,981
Adjustments for:			
Depreciation	27,478	31,473	43,960
Loss on disposal of property, plant and equipment	5,094	16,036	274
Loss on investments in securities	1,143	517	2,651
Amortisation of intangible asset	10,000	10,000	10,000
Interest income	(555)	(626)	(913)
Interest expenses	6,086	5,759	5,329
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	164,476	245,601	310,282
Increase in inventories	(34,998)	(61,235)	(54,312)
(Increase) decrease in trade receivables	(735)	71,365	(50,742)
Increase in other receivables, deposits and prepayments	(21,307)	(55,136)	(59,719)
Increase in trade payables	27,497	107,509	3,326
(Decrease) increase in other payables and accrued charges	(6,443)	9,188	8,204
	<hr/>	<hr/>	<hr/>
Cash generated from operations	128,490	317,292	157,039
Income taxes paid	(14,790)	(34,373)	(35,289)
Interest paid	(6,086)	(5,759)	(5,329)
	<hr/>	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<hr/> <b>107,614</b>	<hr/> <b>277,160</b>	<hr/> <b>116,421</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(84,398)	(216,276)	(88,345)
Interest received	555	626	913
Proceeds from disposal of property, plant and equipment	–	5,444	485
Purchase of investments in securities	–	(595)	(4,116)
	<hr/>	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<hr/> <b>(83,843)</b>	<hr/> <b>(210,801)</b>	<hr/> <b>(91,063)</b>

**APPENDIX 2 ACCOUNTANTS' REPORT ON CHANGCHUN GAS HOLDINGS**

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>FINANCING ACTIVITIES</b>			
New bank loans raised	24,851	–	–
Repayment of bank and other loans	(20,000)	(4,000)	(15,000)
Dividend paid	(14,401)	(24,482)	(36,722)
Dividends paid by a subsidiary to minority shareholders	(9,513)	(19,472)	(24,260)
Increase in paid-in capital	–	–	30,000
	<u>          </u>	<u>          </u>	<u>          </u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(19,063)</u>	<u>(47,954)</u>	<u>(45,982)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,708	18,405	(20,624)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>95,262</u>	<u>99,970</u>	<u>118,375</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH</b>	<u>99,970</u>	<u>118,375</u>	<u>97,751</u>

**NOTES TO THE FINANCIAL INFORMATION****1. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). The principal accounting policies adopted are as follows:

**BASIS OF CONSOLIDATION**

Pursuant to an equity transfer agreement in connection with the transfer of shares of Changchun Listed, Changchun Gas Holdings became the holding company of the Changchun Gas Group in July 2004. The Changchun Gas Group resulting from the above transaction is regarded as a continuing entity and such transaction was accounted for using merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants.

The consolidated financial information incorporates the Financial Information of the Changchun Gas Holdings and its subsidiaries made up to the reporting date.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

**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 any 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
Buildings	2.11% to 6.3%
Plant and equipment	9.5% to 11.875%
Furniture, fixtures and equipment	19%
Motor vehicles	9.5%

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

### **CONSTRUCTION IN PROGRESS**

Construction in progress, which includes all development expenditure and other direct costs, including any interest expenses 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.

### **IMPAIRMENT**

At each balance sheet date, the Changchun Gas 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 HKGAAP, in which case the impairment loss is treated as a revaluation decrease under that HKGAAP.

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 HKGAAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKGAAP.

### **INVESTMENTS IN SECURITIES**

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

Investments in 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.

### **INVENTORIES**

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



**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 profit will be available against which deductible temporary differences can be utilised.

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.

**FOREIGN CURRENCIES**

Transactions in foreign currencies are transacted at the rates of exchange 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 period.

**RETIREMENT BENEFITS SCHEME**

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the state-sponsored retirement plan for its employees in the PRC.

**2. TURNOVER**

The Changchun Gas Group is principally engaged in the operation of the piped gas network, including the construction of the main trunk, sub-branch networks and the connection into individual households, the supply of piped gas to industrial, commercial, and residential users, and the processing, transportation, storage, wholesale, retail and logistic services of coal gas, natural gas and liquefied petroleum gas ("LP Gas") and related services and by products. Turnover recognised during the Relevant Periods is as follows:

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover			
Gas Fuel and related products	173,131	202,369	285,562
Coking coal and related products	172,555	386,963	676,150
Gas pipeline construction	96,448	174,634	131,033
	<u>442,134</u>	<u>763,966</u>	<u>1,092,745</u>

**3. TAXATION**

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

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of its PRC subsidiaries are entitled to PRC enterprise income tax reduction at a reduced tax rate of 15%. 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 net profit in the combined income statements as follows:

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	<u>115,230</u>	<u>182,442</u>	<u>248,981</u>
Tax at the applicable tax rate of 33%	38,026	60,206	82,164
Tax effect of income tax on concessionary rate	(19,989)	(30,020)	(49,513)
Tax effect of tax losses not recognised	-	-	316
Taxation	<u>18,037</u>	<u>30,186</u>	<u>32,967</u>

There was no significant temporary differences arising during the year or at the balance sheet dates.

## APPENDIX 2 ACCOUNTANTS' REPORT ON CHANGCHUN GAS HOLDINGS

### 4. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>RMB'000</i>	Furniture, Fixtures and Equipment <i>RMB'000</i>	Construction -in- progress <i>RMB'000</i>	Motor Vehicles <i>RMB'000</i>	Plant and Machinery <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost/Valuation</b>						
At 1 January 2002	150,088	896	75,893	16,195	435,286	678,358
Additions	40,264	1,544	24,854	2,353	15,383	84,398
Disposals	-	(435)	(4,464)	(647)	(296)	(5,842)
Transfer	35,000	-	(90,405)	-	55,405	-
	<u>225,352</u>	<u>2,005</u>	<u>5,878</u>	<u>17,901</u>	<u>505,778</u>	<u>756,914</u>
At 31 December 2002						
<b>Depreciation and amortisation</b>						
At 1 January 2002	36,937	408	-	7,448	86,301	131,094
Provided for the year	10,255	249	-	1,700	15,274	27,478
Eliminated on disposals	-	(347)	-	(321)	(80)	(748)
	<u>47,192</u>	<u>310</u>	<u>-</u>	<u>8,827</u>	<u>101,495</u>	<u>157,824</u>
At 31 December 2002						
<b>Net Book Value</b>						
At 31 December 2002	<u>178,160</u>	<u>1,695</u>	<u>5,878</u>	<u>9,074</u>	<u>404,283</u>	<u>599,090</u>
<b>Cost/Valuation</b>						
At 1 January 2003	225,352	2,005	5,878	17,901	505,778	756,914
Additions	7,336	762	20,427	8,238	179,513	216,276
Disposals	(6,414)	(103)	(50)	(3,003)	(15,114)	(24,684)
Transfer	-	-	(19,839)	-	19,839	-
	<u>226,274</u>	<u>2,664</u>	<u>6,416</u>	<u>23,136</u>	<u>690,016</u>	<u>948,506</u>
At 31 December 2003						
<b>Depreciation and amortisation</b>						
At 1 January 2003	47,192	310	-	8,827	101,495	157,824
Provided for the year	12,142	433	-	1,370	17,528	31,473
Eliminated on disposals	(748)	(24)	-	(1,940)	(492)	(3,204)
	<u>58,586</u>	<u>719</u>	<u>-</u>	<u>8,257</u>	<u>118,531</u>	<u>186,093</u>
At 31 December 2003						
<b>Net Book Value</b>						
At 31 December 2003	<u>167,688</u>	<u>1,945</u>	<u>6,416</u>	<u>14,879</u>	<u>571,485</u>	<u>762,413</u>

**4. PROPERTY, PLANT AND EQUIPMENT – Continued**

	<b>Leasehold land and buildings</b>	<b>Furniture, Fixtures and Equipment</b>	<b>Construction -in- progress</b>	<b>Motor Vehicles</b>	<b>Plant and Machinery</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost/Valuation</b>						
At 1 January 2004	226,274	2,664	6,416	23,136	690,016	948,506
Additions	3,308	835	74,183	2,695	7,324	88,345
Disposals	–	(27)	–	(1,727)	(660)	(2,414)
Transfer	–	–	(7,637)	–	7,637	–
	<u>229,582</u>	<u>3,472</u>	<u>72,962</u>	<u>24,104</u>	<u>704,317</u>	<u>1,034,437</u>
<b>Depreciation and amortisation</b>						
At 1 January 2004	58,586	719	–	8,257	118,531	186,093
Provided for the year	12,908	602	–	2,757	27,693	43,960
Eliminated on disposals	–	(16)	–	(1,064)	(575)	(1,655)
	<u>71,494</u>	<u>1,305</u>	<u>–</u>	<u>9,950</u>	<u>145,649</u>	<u>228,398</u>
<b>Net Book Value</b>						
At 31 December 2004	<u>158,088</u>	<u>2,167</u>	<u>72,962</u>	<u>14,154</u>	<u>558,668</u>	<u>806,039</u>

No professional valuation of the leasehold land and buildings was carried out at 31 December 2004 as the directors of Panva Gas represented that the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 December 2004.

**5. INTANGIBLE ASSET**

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>			
At beginning and end of the year	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
<b>Amortisation</b>			
At beginning of the year	5,000	15,000	25,000
Provided for the year	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
At end of the year	<u>15,000</u>	<u>25,000</u>	<u>35,000</u>
<b>Net Book Value</b>			
At end of the year	<u>65,000</u>	<u>55,000</u>	<u>45,000</u>

*Note:* In June 2001, the Changchun Gas Group invested RMB80,000,000 in the construction works of the Changchun Western Suburb Sewage Treatment Plant (長春西郊污水處理廠). Pursuant to the investment agreement, the investment project shall be proceeded on the basis of preferential revenue interests as a buy-out project. The Changchun Gas Group does not have any rights in its assets or liabilities or its profits and losses. However, the Changchun Gas Group will be entitled to all sewage treatment fees received by the Changchun Western Suburb Sewage Treatment Plant for a 8 year period starting from the date of investment.

The intangible asset is amortised on a straight line basis over a period of 8 years.

**6. INVESTMENTS IN SECURITIES**

	<b>At 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares in the PRC, at cost	<u>34,270</u>	<u>34,348</u>	<u>35,813</u>

The directors of Panva Gas represented that the investment securities are held for identified long-term strategic purpose and their carrying amounts are fully recoverable.

**7. INVENTORIES**

	<b>At 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	30,967	56,239	52,661
Work in progress	43,475	59,922	100,175
Finished goods	6,889	26,431	44,148
Consumables	107	81	1
	<u>81,438</u>	<u>142,673</u>	<u>196,985</u>

All inventories were carried at cost at the respective balance sheet dates.

**8. PAID-IN CAPITAL**

The paid-in capital as at 31 December 2002 and 2003 represented the registered capital of Changchun Listed as at the respective dates attributable to Changchun Gas Holdings. The paid-up capital as at 31 December 2004 represented the registered capital of Changchun Gas Holdings as at that date.

**9. RESERVES**

	<b>General Reserve</b> <i>RMB'000</i>	<b>Capital Reserve</b> <i>RMB'000</i>	<b>Special Reserve</b> <i>RMB'000</i>	<b>Accumulated profits</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2002	14,254	225,010	–	66,336	305,600
Transfer	8,139	–	–	(8,139)	–
Net profit for the year	–	–	–	57,853	57,853
Dividend	–	–	–	(14,401)	(14,401)
Capitalisation issue of shares	–	(100,805)	–	–	(100,805)
At 31 December 2002	22,393	124,205	–	101,649	248,247
Transfer	13,229	–	–	(13,229)	–
Net profit for the year	–	–	–	91,203	91,203
Dividend	–	–	–	(24,482)	(24,482)
At 31 December 2003	35,622	124,205	–	155,141	314,968
Transfer	19,269	–	–	(19,269)	–
Arising from the transfer of shares of Changchun Listed	–	–	(314,968)	–	(314,968)
Net profit for the year	–	–	–	128,178	128,178
Dividend	–	–	–	(36,722)	(36,722)
At 31 December 2004	<u>54,891</u>	<u>124,205</u>	<u>(314,968)</u>	<u>227,328</u>	<u>91,456</u>

**10. CONTINGENT LIABILITIES**

The Changchun Gas Group had no material contingent liabilities as at 31 December 2004.

**11. CAPITAL COMMITMENTS**

The Changchun Gas Group had no material capital commitment as at 31 December 2004.

**12. RETIREMENT BENEFITS SCHEME**

The Changchun Gas 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 Changchun Gas 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.

**13. PRINCIPAL SUBSIDIARIES**

Particulars of the principal subsidiaries of Changchun Gas Group as at 31 December 2004 are as follows:

Name of company	Place of establishment and operation	Issued and paid up registered capital	Percentage of equity interest attributable to the Group	Principal activities
<b>Directly-owned subsidiary</b>				
Changchun Listed 長春燃氣股份有限公司	PRC – Limited liability company	RMB406,531,200	60.22%	Operation of the piped gas network and the processing, transportation, storage, wholesale, retail and logistic services of coal gas, natural gas and LP Gas and related services
<b>Indirectly-owned subsidiaries</b>				
長春振威燃氣安裝發展有限公司	PRC – Limited liability company	RMB2,000,000	45.17% (Note)	Conversion of coal gas pipelines to use LP Gas and natural gas and the construction of gas pipelines
長春汽車燃氣發展有限公司	PRC – Limited liability company	RMB5,000,000	90.42%	Provision of gas fuel for automobiles
延吉盛世光華燃氣有限公司	PRC – Limited liability company	RMB3,500,000	99%	Operation of the piped gas network and the processing, transportation, storage, wholesale, retail and logistic services of coal gas, natural gas and LP Gas and related services

*Note:* Changchun Listed holds a 75% equity interest.

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

**B. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Changchun Gas Holdings or any of the companies now comprising the Changchun Gas Group in respect of any period subsequent to 31 December 2004.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
 Hong Kong



Set out below is the audited consolidated profit and loss accounts of Changchun Listed for each of the three years ended 31 December 2004 and the audited balance sheets of Changchun Listed as at 31 December 2002, 2003 and 2004 as extracted from the audited financial statements of Changchun Listed for the years ended 31 December 2002, 2003 and 2004. Such audited financial statements were unqualified and were prepared in Chinese under PRC GAAP which were audited by Wuhan Zhonghuan CPA Company Ltd. (武漢眾環會計師事務所有限責任公司).

### CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>31 December 2004 RMB'000</b>	<b>31 December 2003 RMB'000</b>	<b>31 December 2002 RMB'000</b>
<b>Assets</b>				
Current assets:				
Cash and bank balance	<i>1</i>	92,542	118,375	99,970
Short-term investments	<i>2</i>	–	10,000	–
Bills receivable	<i>3</i>	62,085	47,550	14,765
Dividends receivable	<i>4</i>	360	28	28
Trade receivable	<i>5</i>	130,256	94,049	198,199
Other receivables	<i>5</i>	18,081	12,529	9,853
Prepayments	<i>6</i>	130,787	92,202	51,610
Inventories	<i>7</i>	196,985	142,673	81,438
Deferred expenses	<i>8</i>	3,029	1,982	113
Total current assets		<u>634,125</u>	<u>519,388</u>	<u>455,976</u>
Long-term investments:				
Long-term equity investments	<i>9</i>	<u>35,813</u>	<u>34,348</u>	<u>34,271</u>
Fixed assets:				
Fixed assets – cost	<i>10</i>	959,394	940,027	733,175
Less: Accumulated Depreciation	<i>10</i>	<u>225,334</u>	<u>183,541</u>	<u>155,782</u>
Net book value of fixed assets		734,060	756,486	577,393
Less: Provision for fixed assets impairment loss		<u>15,799</u>	<u>15,799</u>	<u>–</u>
Fixed assets – net		718,261	740,687	577,393
Engineering materials	<i>11</i>	761	246	290
Construction in progress	<i>12</i>	<u>72,201</u>	<u>6,171</u>	<u>5,588</u>
Total fixed assets		<u>791,223</u>	<u>747,104</u>	<u>583,271</u>
Intangible assets and other assets:	<i>13</i>	<u>60,182</u>	<u>70,309</u>	<u>80,820</u>
Total assets		<u><u>1,521,343</u></u>	<u><u>1,371,149</u></u>	<u><u>1,154,338</u></u>

	<i>Notes</i>	<b>31 December 2004</b> <i>RMB'000</i>	<b>31 December 2003</b> <i>RMB'000</i>	<b>31 December 2002</b> <i>RMB'000</i>
<b>Liabilities and Shareholders' funds</b>				
Current liabilities:				
Bills payable	14	–	2,700	–
Accounts payable	15	120,787	102,804	69,959
Receipt in advance	16	178,216	190,174	118,210
Wages and Salaries payable		636	–	–
Staff welfare payable		9,863	5,830	4,726
Dividend payable		–	–	720
Tax payable	17	19,555	14,294	15,758
Other funds payable	18	1,908	1,086	1,066
Other payables	19	12,149	17,024	11,037
Accrued expenses	20	277	276	201
Total current liabilities		<u>343,391</u>	<u>334,188</u>	<u>221,677</u>
Long-term liabilities:				
Long-term borrowings	21	<u>81,000</u>	<u>96,000</u>	<u>100,000</u>
Total liabilities		<u>424,391</u>	<u>430,188</u>	<u>321,677</u>
Minority interests		<u>13,931</u>	<u>11,400</u>	<u>13,896</u>
Shareholders' funds:				
Share capital	22	406,531	406,531	406,531
Capital reserve	23	230,303	229,180	224,185
Surplus reserve	24	91,151	59,153	37,185
Including: Public welfare fund		30,384	19,718	12,395
Retained profits	25	<u>355,036</u>	<u>234,697</u>	<u>150,864</u>
Total shareholders' funds		<u>1,083,021</u>	<u>929,561</u>	<u>818,765</u>
Total liabilities and shareholders' funds		<u><u>1,521,343</u></u>	<u><u>1,371,149</u></u>	<u><u>1,154,338</u></u>

## CONSOLIDATED PROFIT STATEMENT

	Notes	Year ended 31 December		
		2004 RMB'000	2003 RMB'000	2002 RMB'000
Principal operating income	26	1,104,358	773,865	447,440
Less: Cost of principal operation	27	716,732	506,115	301,176
Principal operating tax & surcharge	28	11,613	9,899	5,305
Principal operating profit		376,013	257,851	140,959
Add: Profit from other operations	29	(12,675)	8,401	14,009
Less: Selling expenses	30	64,884	33,225	12,392
Administrative expenses	31	46,575	34,513	26,561
Financial expenses	32	4,566	5,184	5,544
Operating profit		247,313	193,330	110,471
Add: Investment income	33	2,488	(518)	(97)
Subsidies received		237	300	272
Non-operating income		33	1,086	19
Less: Non-operating expenses		1,256	16,752	1,404
Total profit		248,815	177,446	109,261
Less: Income tax		32,967	30,186	18,037
Minority interests		2,531	806	1,124
Net profit		<u>213,317</u>	<u>146,454</u>	<u>90,100</u>

## CONSOLIDATED PROFIT APPROPRIATION STATEMENT

	Year ended 31 December		
	2004	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net profit	213,317	146,454	90,100
Add: Retained profits at the beginning of the year	<u>234,697</u>	<u>150,864</u>	<u>98,193</u>
Profits available for distribution	448,014	297,318	188,293
Less: Transfer to statutory surplus reserve	21,332	14,645	9,010
Transfer to statutory public welfare fund	<u>10,666</u>	<u>7,323</u>	<u>4,505</u>
Profits available for distribution to shareholders	416,016	275,350	174,778
Dividend payable for ordinary shares	<u>60,980</u>	<u>40,653</u>	<u>23,914</u>
Retained profits	<u><u>355,036</u></u>	<u><u>234,697</u></u>	<u><u>150,864</u></u>

## CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Cash flow from operating activities:			
Cash received from sale of goods or rendering of services	1,195,448	824,004	556,104
Cash received relating to other operating activities	4,290	12,891	2,846
Sub-total of cash inflows	1,199,738	836,895	558,950
Cash paid for goods and services	890,903	572,773	372,659
Cash paid to or on behalf of employees	50,181	28,707	22,708
Cash paid for taxes	121,491	90,204	46,371
Cash paid relating to other operating activities	40,996	33,617	11,405
Sub-total of cash outflows	1,103,571	725,301	453,143
Net cash flows from operating activities	96,167	111,594	105,807
Cash flow from investing activities:			
Cash received from investments	10,000	–	–
Cash received from returns of investments	662	–	1,045
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	72	3,047	1
Other cash received relating to investing activities	836	575	543
Sub-total of cash inflows	11,570	3,622	1,589
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	77,626	27,259	69,366
Cash paid for investments	–	16,000	–
Cash paid relating to other investing activities	83	–	–
Sub-total of cash outflows	77,709	43,259	69,366
Net cash flow from investing activities	(66,139)	(39,637)	(67,777)
Cash flows from financing activities:			
Cash received from capital contribution	–	4,966	–
Including: Cash received by subsidiaries from contribution of minority shareholders	–	4,966	–
Cash received from borrowings	–	–	45,000
Sub-total of cash inflows	–	4,966	45,000
Cash repayments of borrowings	15,000	4,000	40,000
Cash paid for distribution of dividends, profits or interest expenses	24,826	21,733	36,629
Other cash paid relating to financing activities	1,500	–	–
Net cash flows from financing activities	(41,326)	(20,767)	(31,629)
Net increase (decrease) in cash and cash equivalents	(11,298)	51,190	6,401

## Year ended 31 December

	2004	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Supplementary Information:</b>			
Reconciliation of net profit to cash flows from operating activities			
Net profit	213,317	146,454	90,100
Add: Gain or loss of minority interests for the period	2,531	806	1,124
Provision for impairment of assets	2,665	20,543	(35)
Depreciation of fixed assets	43,449	30,962	26,968
Amortization of intangible assets	10,510	10,510	10,510
Amortization of accrued expenses	17	-	-
Decrease in deferred expenses (less: increase)	(1,048)	(1,869)	252
Increase in accrued expenses (less: decrease)	(1)	75	(19)
Loss on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	15	(838)	467
Loss on writing-off of fixed assets	183	145	-
Financial expenses	4,566	5,184	5,544
Loss arising from investments (less: gain)	(2,488)	518	97
Decrease in inventories (less: increase)	(54,312)	(60,010)	(43,208)
Decrease in operating receivables (less: increase)	(153,592)	(45,653)	38,809
Increase in operating payables (less: decrease)	30,355	4,767	(24,802)
Net cash flows from operating activities	<u>96,167</u>	<u>111,594</u>	<u>105,807</u>
Net increase in cash and cash equivalents			
Cash balance at the end of the period	92,542	118,375	99,970
Less: cash balance at the beginning of the period	118,375	99,970	95,263
Add: balance of cash equivalents at the end of the period	62,085	47,550	14,765
Less: balance of cash equivalents at the beginning of the period	47,550	14,765	13,071
Net increase in cash and cash equivalents	<u>(11,298)</u>	<u>51,190</u>	<u>6,401</u>

## SUPPLEMENTARY PROFIT STATEMENT

Profit for the period		Return on net assets		Earnings per share	
		Fully diluted (%)	Weighted average (%)	Fully diluted (Rmb)	Weighted average (Rmb)
Principal operating profit	2004	34.72	15.32	0.92	0.92
	2003	27.74	29.50	0.63	0.63
	2002	18.02	18.29	0.35	0.35
Operating profit	2004	22.84	14.59	0.61	0.61
	2003	20.80	22.12	0.48	0.48
	2002	14.20	14.33	0.27	0.27
Net profit	2004	19.70	11.87	0.52	0.52
	2003	15.76	16.75	0.36	0.36
	2002	11.00	11.69	0.22	0.27
Net profit after non-operating gain or loss	2004	19.68	11.63	0.52	0.52
	2003	15.72	16.71	0.36	0.36
	2002	11.40	12.11	0.23	0.23

## STATEMENT OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	<b>31 December 2004</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share capital			
Balance at the beginning of the year	406,531	406,531	239,136
Addition during the year	–	–	167,395
Including: Transfer from capital reserve	–	–	167,395
Reduction during the year	–	–	–
Balance at the end of the year	<u>406,531</u>	<u>406,531</u>	<u>406,531</u>
Capital reserve			
Balance at the beginning of the year	229,180	224,185	385,611
Addition during the year	1,123	4,995	5,969
Including: Share premium	1,123	–	–
Other capital reserve	–	4,995	5,969
Reduction during the year	–	–	167,395
Including: Capitalization as share capital	–	–	167,395
Balance at the end of the year	<u>230,303</u>	<u>229,180</u>	<u>224,185</u>
Statutory and discretionary surplus reserve			
Balance at the beginning of the year	39,435	24,790	15,780
Addition during the year	21,332	14,645	9,010
Including: Allocation from net profit	21,332	14,645	9,010
Including: Statutory surplus reserve	21,332	14,645	9,010
Balance at the end of the year	<u>60,767</u>	<u>39,435</u>	<u>24,790</u>
Including: Statutory surplus reserve reserve fund	<u>60,767</u>	<u>39,435</u>	<u>24,790</u>
Statutory public welfare fund			
Balance at the beginning of the year	19,718	12,395	7,890
Addition during the year	10,666	7,323	4,505
Including: Allocation from net profit	10,666	7,323	4,505
Balance at the end of the year	<u>30,384</u>	<u>19,718</u>	<u>12,395</u>
Retained profits			
Retained profits at the beginning of the year	234,697	150,864	98,193
Net profit for the year	213,317	146,454	90,100
Profit distribution for the year	92,978	62,621	37,429
Retained profits at the end of the year	<u>355,036</u>	<u>234,697</u>	<u>150,864</u>



**BASIC PARTICULARS OF THE COMPANY**

Changchun Gas Co. Limited (the “Company”) is a joint-stock limited company preliminarily prepared for establishment under an approval granted on 15 March 1993 by Changchun Municipal Commission for Economic Restructuring and numbered Chang Ti Gai [1993] No. 88, and formally established under an approval granted on 21 May 1993 by Changchun Municipal Commission for Economic Restructuring and numbered Chang Ti Gai [1993] No. 162. It was established under the sole promotion of Changchun City Development Investment Company 長春市建設投資公司, by way of placement. Its total share capital is 179,136,000 shares, of which 144,000,000 are State-owned legal person shares, 35,136,000 are internal share for its staff and workers. The Company was registered with the Changchun Administration for Industrial and Commerce on 8 June 1993. The name of the Company on establishment was Changchun Investment Group Stock Company Limited (長春投資集團股份有限公司).

On 25 September 1996, upon the approval of the Company’s shareholders’ general meeting and an approval granted by Changchun Municipal Commission for Economic Restructuring under reference Chang Ti Gai [1996] No. 131, the Company was renamed Changchun Electrical Power Stock Company Limited (長春電力股份有限公司).

On 31 December 1998, upon the approval of an ad hoc shareholder’s meeting of the Company and under an approval granted by Changchun Municipal Commission for Economic Restructuring under reference Chang Ti Gai [1996] No. 135, the Company exchanged its electricity assets with the gas assets owned by Changchun City Development Investment Company, and was renamed Changchun Gas Holdings Limited.

On 16 November 2000, under an approval granted by China Securities Regulatory Commission under reference Zheng Jian Fa Xing Zi (2000) No. 152, the Company issued 60 million “A” Shares in a public offer, and was listed on the Shanghai Stock Exchange on 11 December 2000. Upon the “A” Shares issuance, the total share capital of the Company increased to 239,136,000 shares.

On 19 April 2002, following the approval of the shareholders’ general meeting held in 2001, the Company conducted a capital reserve conversion exercise based on its share capital as at the end of 2001 to increase the share capital of all of its shareholders at a ratio of seven additional shares for every ten shares held. After the conversion, the total share capital of the Company increased to 406,531,200 shares.

The business scope of the Company: gas, metallurgical coking coal, production and sale of coking tar and natural gas, electricity project development, gas management, production and sale of gas appliances, supply of liquefied gas, in-depth processing of coking tar, and gas piping installation.

The registration number of the Company’s legal person enterprise business license is 2201071000768.

The registration address of the Company is 421 Yanan Street, Changchun Municipality.

The legal representative of the Company is Wang Zhen.

**PREPARATION OF PRINCIPAL ACCOUNTING POLICY, ACCOUNTING ESTIMATE AND CONSOLIDATED ACCOUNTING STATEMENTS OF THE COMPANY****1. Accounting system**

The Company adopts the Enterprise Accounting Standards and Enterprise Accounting System and their related supplementary provisions promulgated by the State.

**2. Accounting year**

The accounting year of the Company is from 1 January to 31 December of the Gregorian calendar.

**3. Reporting currency**

The Company uses Renminbi as its reporting currency.

**4. Book-keeping basis and accounting principles**

The Company adopts accrual basis accounting and records all of its properties and materials at historical cost.

**5. Accounting of foreign currency business**

When a foreign currency transaction takes place, the foreign currency is translated into Renminbi at the median of the market exchange rate prevailing on the transaction date and then stated in the accounts. Balances of accounts for foreign currency transaction at the end of each accounting period are translated into Renminbi at the median of the market exchange rate prevailing at the end of the accounting period for adjustment purpose. Any differences between the balance in Renminbi after such adjustment and the original book balance are accounted for as gain or loss, and are stated in accounts like “financial expenses”, “construction in progress”, etc.

**6. Standards for determining cash equivalents**

“Cash equivalents” refer to the investments which are held by the Company for short-term purpose, of high liquidity, easily convertible into cash of known amount and associated with little risks of value change.

**7. Accounting of short-term investments**

- (1) Short-term investments, when made, are stated at the total proceeds actually paid, including tax, handling charge and other related expenses, provided that of the proceeds actually paid, any cash dividend which has been declared but not received or any interest on any fixed-payment coupon bond which is due but not received, shall not be stated as short-term investment cost.
- (2) Cash dividend or interest accruing from the period in which short-term investment is held, except for those cash dividend or interest which have been received and stated in the accounts receivables, are used to offset the book value of short-term investment directly.
- (3) In accounting of short-term investments, the differences between the book value of short-term investments and the proceeds actually obtained are recognized as investments gains or losses for the period.

Short-term investments are calculated in accordance with the lower of cost and market rule at the end of the period. For any shortfall of market price from cost, a diminution provision is made based on the total of all investments. Where any short-term investment accounts for 10% or above of the total short-term investments, diminution provision is made and determined based on the single-item investment and stated as gain and loss for the year.

#### **8. Accounting of bad debts**

- (1) Standard for bad debts recognition:

The Company recognizes as bad debts those accounts which are uncollectible because of cancellation, bankruptcy, insolvency or serious cash flow shortage of debtor units, as supported with conclusive documents.

- (2) Accounting of bad debt losses, standard for recognition of bad debt provisions, and method and ration of provisions.

The Company adopts allowance method to account for bad debt losses. Except for dealings between each subsidiary within the scope covered by the consolidated statements, bad debt provision is made at the rate of 6% of the balance of the account receivables (including account receivables and other receivables) and is accounted for as gain and loss for the year.

#### **9. Accounting of inventory**

- (1) The Company's inventory comprises: raw materials, commodity stores, low-value consumables, packing materials, development costs.
- (2) The price stated upon procurement: purchased inventory is stated at cost.
- (3) The price stated upon release: inventory release and withdrawal are stated using the first-in-first-out method.
- (4) Inventory-taking system: perpetual inventory system.
- (5) Low-value consumables are amortized using the 50% and 50% amortization system.
- (6) Withdrawal of packing materials is amortized once and for all.
- (7) Standards for recognizing provisions for and methods to provide for inventory value diminution: Closing inventory is stated using the lower of cost and realizable value rule. Where the realizable value of inventory is lower than its cost, provisions is made for value diminution based on the difference between the cost of individual item and its realizable value. In respect of inventory of big varieties and low unit prices, inventory diminution is provided for based on the types of inventory.

**10. Accounting of long-term investments***Long-term equity investments*

- (1) Long-term equity investments, when made, are stated in the prices actually paid, including taxes, handling fees, and relevant fees, but any cash dividend which has been declared but not received shall not be stated as long-term equity investment cost.
- (2) Long-term equity investments made by giving up non-currency assets: the investment cost is determined by the book value of the non-currency assets given up plus the relevant taxes and charges payable.
- (3) Long-term equity investments made through debt restructuring: the investment cost is determined based on the book value of the restructured debt.
- (4) Where a short-term investment is transferred to become long-term equity investment, the cost of long-term equity investment is determined using the lower of cost and market price.
- (5) Where the Company does not have any control or joint control of or any significant influence on the investee unit, the long-term equity investment in such unit is stated using the cost method. Where the Company has control or joint control of or any significant influence on the investee unit, the long-term equity investment in such unit is accounted for using the equity method.
- (6) Where the accounting of the long-term equity investments of the Company is changed from the cost method to the equity method, the book value of the investment cost at the time of obtaining the control or joint control of or significant influence on the investee unit is the investment cost. The difference between the investment cost and the owner's fund in the investee unit is considered as equity investment difference. Where the accounting of long-term investments equity is changed from the equity method to the cost method, the book value of the investment cost at the time of the cessation of the control or joint control of or significant influence on the investee unit is the investment cost.
- (7) Investments difference of long-term equity investment: the part of the initial investment cost which is bigger than the owner's fund in the investee unit is amortized over a five-year period; the shortfall of the investment cost from the owner's fund in the investee unit prior to 2003 was amortised over a 10-year period, and the amortized amount is stated as revenue. Effective from 3 January 2003, the shortfall of the initial investment cost from the owner's fund in the investee unit is accounted for as "Capital Reserve-Equity Investments Preparation".
- (8) In the accounting of long-term equity investment, the difference between the book value of investment and the proceeds actually obtained is recognized as gain or loss for the period.

*Long-term debt investments*

- (1) Long-term debt investments, when made, are stated at the prices actually paid, including taxes, handling fees and other relevant fees, but any dividend which has been on maturity but not received shall not be stated as long-term debt investment cost.
- (2) In recognizing relevant bond interest income, any premium or discount of bond investments during the period from the purchase of the bond to its maturity is amortized using the straight line method (or actual interest method). The interest receivable for bond investments is calculated in phases. The interest income from bond investment, and the premium or discount to bond investment (after adjustment) are recognized, after amortization, as investment gain for the period.
- (3) The interest receivable for other debt investments is calculated in phases and recognized as investment gain for the period.
- (4) In disposal of long-term debt investment, the difference between the book value of investment and the proceeds actually obtained is recognized as gain or loss for the period.

*Provision for long-term investments impairment*

- (1) The Company reviews the book value of each long-term investment at the end of the period. If the amount recoverable is lower than the book value of investment owing to any continual fall of market price or change in the operating conditions of the investee units, provision for long-term impairment is made based on the shortfall of the recoverable amount from the book value of long-term investment, and is recognized as investment loss for the period.
- (2) Long-term investment impairment provision is made based on the portion of the book value of a single-item long investment which is bigger than its recoverable amount.

**11. Accounting of entrustment loans**

- (1) Amount lend through entrusted financial institution is stated at the actual amount of the entrusted loan.
- (2) The interests on entrusted loans are recognized in phases as gains and losses. For any interest which is recognized in scheduled phases (each year) but is not recoverable on maturity, interest recognition is ceased, and the interest which has been recognized is written back.
- (3) At the end of a period, the entrusted loan is measured using the lower of principal and receivable rule, and provision is made for any shortfall of the receivable amount from the entrusted loan and stated as provision for loan impairment.

## 12. Method for Stating and Depreciating Fixed Assets

- (1) The standards for fixed assets: articles with a useful life of more than one year and a unit price of above RMB2,000, held by the Company for the purpose of commodity production or service provision, leasing or operation and management.
- (2) Fixed assets are calculated based on their actual costs or determined fair value.
- (3) The depreciation of fixed assets is recognized using the straight-line method.
- (4) The classification, estimated life for economic use, estimated salvage value and depreciation life are as follows:

Type	Useful Life (year)	Salvage Value Ratio (%)	Annual Depreciation Rate (%)
House and buildings	15 – 45	5	2.11 – 6.3
Fixed assets decoration	5	5	19
General equipment	8 – 10	5	9.5 – 11.875
Special equipment	35	5	2.71
Transport equipment	10	5	9.5
Other equipment	5	5	19

- (5) Any fixed asset leased under a financing lease shall be stated at the lower of the original book value of the leased asset at the commencement date of the lease and the present value of the minimum rental payables (if the value of assets under financing leases is equivalent to or less than 30% of the value of total assets, the minimum rental payables is stated as the book value for fixed asset at the commencement date of the lease).
- (6) The repair cost of fixed assets is directly stated as costs for the period.
- (7) Expenditure on fixed assets improvement is included in the book value of the fixed assets. Its amount after value increase should not exceed the recoverable value of the fixed assets.
- (8) Decoration cost of a fixed asset, if capable of capitalization, is depreciated as a single item using the straight-line method over the shorter of the period between two decorations and the remaining useful life of the fixed asset.
- (9) Decoration cost of a fixed asset leased by way of a financing lease, if capable of capitalization, is depreciated as a single item using the straight-line method over the shortest of the following: the period between two decorations; the remaining lease term and the remaining useful life of the fixed asset.
- (10) Expenditure incurred for improvement of a fixed asset leased under an operating lease is depreciated as a single item using the straight-line method over the shorter of the period between remaining lease term and the remaining useful life of the leased asset.
- (11) For any closing shortfall of a fixed asset from its book value owing to continual fall of its market price, technological obsolescence, damage or long-time idleness leading to recoverable amount of a fixed asset lower than its book value, provision for fixed asset impairment shall be made for the shortfall of the recoverable amount of the individual asset and its book value.

**13. Accounting of construction in progress**

- (1) Construction in progress which has reached its expected usable condition is transferred to fixed assets at the actual cost of the works.
- (2) If one or several of the following circumstances exists at the end of the period, provisions for impairment of construction in progress is made for the shortfall of the recoverable amount of the individual asset from its book value:
  - A. Construction in progress which has been suspended for a long time and is not expected to be re-started in 3 years.
  - B. The project has become outdated either in properties or in technology, and there is much uncertainty with the economical benefits it would bring to the enterprise.
  - C. Other circumstances which can prove that construction in progress is under impairment.

**14. Accounting of borrowing expenses***(1) Principle for recognizing the capitalization of borrowing expenses*

Any difference arising from the amortization of and the foreign exchange conversion of the interest, discount or premium incurred for any special loan raised for the purpose of fixed asset construction is capitalized as the cost of the asset, provided that the conditions for capitalization regarding the time period and amount are met. Any difference arising from the amortization of and the foreign exchange conversion of the interest, discount or premium incurred for other loans are recognized as expenses for the period in which it occurs. Any ancillary cost which arises from the arrangement of special loan, if incurred before the fixed asset under construction reaches its expected usable state, shall be capitalized when it occurs. Other ancillary costs are recognized as expenses for the period in which it occurs. Ancillary cost of a smaller amount is recognized as expense for the period in which it occurs.

*(2) Calculation during the capitalization period*

- A. Initial capitalization: Capitalization for the interest, discount or premium incurred for any special loan and for foreign exchange differences commences when the following three conditions are met: 1) asset expenditure has occurred; 2) borrowing expenses have occurred; 3) construction activities required for the asset to reach its expected useful state has been commenced.
- B. Suspension of capitalization: If the construction activities of fixed assets are abnormally interrupted, and if the time of interruption lasts for more than 3 months, the capitalization of the loaning cost is suspended and recognized as expenses for the period until the construction activities of the asset re-start.
- C. Cessation of Capitalization: When the fixed asset under construction reaches its expected usable state, the capitalization of its borrowing expenses is ceased.

(3) *Calculation of the amount borrowing expense capitalization*

During each accounting period for which capitalization should be made, the capitalization amount for interest is the product of the weighted average of the accumulated expenses incurred for purchase of fixed asset under construction as at the close of the period and the capitalization ratio.

**15. Accounting of intangible assets**

(1) *Pricing of intangible assets*

- A. A purchased intangible asset is stated at the price actually paid for its purchase.
- B. An intangible asset exchanged inwards in a non-currency transaction is stated at the book value of the non-currency asset exchanged for it plus the relevant taxes payable (including (if any supplementary price is paid) the addition of supplementary price, and (if any supplementary price is paid) the deduction of the product of (1) the percentage between the received supplementary price and the fair value of the non-currency asset and (2) the value of the non-currency asset).
- C. An intangible asset injected by the investor is stated at a price agreed between the investors. Regarding an intangible asset received on the initial public offer of shares from an investor, its book value in the accounts of the investor is stated.
- D. An intangible asset obtained through debt restructuring is stated at the book value of the restructured debt.
- E. An intangible asset received through donation is stated at the price stated on the voucher (if the donor provides one) plus the relevant taxes payable. If the donor does not provide any voucher, but assets of the same or similar types are offered on the active market, the asset is stated by reference to the estimated market price of the same or similar intangible assets plus the relevant taxes payable. Where there is no active market for assets of the same or similar type, the donated intangible asset is stated at the estimated present value of the future cash flow estimated to be generated by it.
- F. A self-developed intangible asset which is obtained pursuant to law is stated at its registration cost and attorney's fee, etc. at the time.



(2) *Amortization of intangible assets*

The cost of an intangible asset is evenly amortised over the period of its estimated useful life, commencing from the month it is obtained.

If the estimated useful life exceeds the beneficial life stipulated in the relevant contract or the valid life prescribed by law, the amortisation is made evenly over the shorter of the beneficial life stipulated in the relevant contract or the valid life prescribed by law.

If the contract or law does not stipulate any valid useful life, amortisation is made over a period of no more than 10 years.

(3) *Provision for intangible asset impairment*

- A. The Company reviews the book value of intangible asset at the close of a period. If the book value of the intangible asset exceeds its recoverable value owing to factors such as replacement of the intangible asset by other new technologies, material adverse effect on its capability to create economic benefits for the enterprises, or any significant fall of the market value during the period, which is not expected to recover during the period, provision for impairment is made for the part of the book value of the intangible asset which is bigger than its recoverable value.
- B. Provision for intangible asset impairment is made for the part of the book value of an individual intangible asset which is bigger than its recoverable value.

**16. Amortisation of long-term prepaid expenses**

Long-term Prepaid expenses are stated at cost, and is amortised in phases within the prescribed period. Any expenses incurred during the preparation period, in addition to the purchase of fixed assets, are first grouped as long-term prepaid expenses, and then stated as gain or loss for the year in a lump sum within one month of the commencement of production activities.

**17. Accounting of bonds payable**

- (1) Bonds payable are accounted for as debt at their actual total issue price. Any difference between the total issue price and the nominal value of the bonds is stated as premium or discount.
- (2) The premium or discount of a bond is amortised when interest is recognized during the subsistence of the bond using the actual interest rate method or straight-line method, and is treated in accordance with the principle for making accounting treatment to borrowing expenses.

**18. Principle for income confirmation**

- (1) Principle for confirming commodity sale income: The Company has passed to the purchaser all risks and benefits associated with the title to the goods. The Company neither retains any continual management right in connection with the ownership, nor exercise any control over any goods which have been sold. Economic benefits related to transactions can flow into the enterprise. The income is recognized as realized when the relevant income and cost can be calculated reliably.
- (2) Principle for confirming income from service provision: For service which commences and ends within the same accounting year, the income is recognized on completion of services. For service which commences in one and ends in another accounting year, the relevant income is recognized when the total income and the total cost can be calculated reliably, economic benefits related to transactions can flow into the enterprise and when the extent of completion of service can be reliably ascertained, income from the relevant service is recognized in the balance sheet using the completion percentage method.
- (3) Principle for confirming income from another party's use of company asset: For another party's use of the Company's assets, if the economic benefits related to the transaction can be flow into the enterprise, and the income amount can be calculated reliably, the income is recognized as realized. Interest income is determined based on the time for which another party uses the Company's cash with the applicable interest rate. The income from the fee for using the Company's assets is calculated and determined based on the charging time and method stipulated in the relevant contract or agreement.

**19. Accounting of income tax**

The Company adopts the tax payable method for the accounting of income tax.

**20. Explanation of major accounting policies and change in accounting estimates**

- (1) Change in major accounting policies and its impact: Pursuant to the relevant regulations of "Answers to Questions Concerning the Implementation of the Enterprise Accounting System and Relevant Accounting Standards (2)" promulgated by the Ministry of Finance, the shortfall of the cost of a company's external investments from the equity shares due to the company in the investee unit, originally stated under the subject "Long-term Equity Investments – Equity Investments Difference", is now stated under the subject "Capital Reserve – Equity investment provision" instead. Before the provision is promulgated, the Company's external investments is still accounted for in accordance with the original regulations, and its balance thereof is still accounted for using the original accounting policies for an amortization over 10 years with the balance stated as gains for the period until completion of the amortization. After the promulgation of the provision, any external investment made by the Company is accounted for using the above-mentioned accounting regulations. During the reporting period, the abovementioned change in accounting policies resulted in an increase of RMB1,294,054.49 in capital reserve.

The fixed asset repairs cost which incurred after 2003 is directly stated as cost for the period. The expenditure incurred for improvement of fixed assets is stated as the book value of the fixed assets. For decoration of fixed assets which can be capitalized, a sub-head named "Fixed Asset Decoration" is created under the subject "Fixed Assets". For expenditure incurred for improvement of fixed assets leased by way of operating lease, accounting entries are made under the subject of "Fixed Asset Improvement", and depreciation is made for the shorter of the remainder of the lease term and the remainder of the useful life of the leased asset. During the reporting period, the Company did not have the above business. As such, the change in accounting policy does not have any impact on the Company's gross profit for the reporting period.

“The Enterprise Accounting Standards – Events after the Balance Sheet Date”, effective on 1 July 2003, provides: For the profit distribution proposal prepared by the board of Directors or similar organizations during the period from the date following the balance sheet date to the date on which the financial statement is approved for publication, any cash dividend distributed is individually stated in the balance sheet as owner’s fund. The Company traced back and made adjustment by comparing matters involving cash dividend distribution during the periods covered by the financial statements, and has correspondingly adjusted the opening retained profit and the opening balance of the relevant items. The accumulated figure affected by the abovementioned change in accounting policy was RMB40,651,120.00. Owing to change in accounting treatment, the dividends payable in the sum of RMB40,651,120.00 as at the end of 2002 was adjusted downward, and the sum of retained revenue in the sum of RMB40,651,120.00 as at early 2003 was adjusted upwards, including an upward adjustment of the cash dividend in the sum of RMB40,651,120.00.

- (2) During the reporting period, there was no change in accounting estimate.

## 21. Preparation of Combined Financial Statement

The Company’s combined financial statement is based on the statements and relevant information of the parent company and the subsidiaries which fall within the scope of consolidation. Pursuant to the Interim Provisions on Combined Accounting Statements promulgated by the Ministry of Finance under reference Cai Hui Zi (1995) (財政部財會字: (1995) 11號) No. 11, and its supplementary provisions, the figures contained in the combined financial statement is complied by offsetting the relevant items, such as transactions important to both parties and inter-company liquidity.

The amount of minority interests is determined by subtracting the shares owned by the parent company in its subsidiaries from owner’s fund in those subsidiaries. The gains and losses of minority interest are determined by the balance after deducting the equity gains and losses attributable to the parent company from the gains and losses realized by the subsidiaries during the year.

## TAX

### (1) Value-added tax

- A. The rate of value-added tax on metallurgical coking coal and coking tar products is 17%, payable on the balance after deduction of the input tax.
- B. The rate of value-added tax on gas products is 13%, payable on the balance after deduction of the input tax.

- (2) **Business tax:** the business tax on gas piping installation is 3%.

- (3) **Municipal maintenance and construction tax:** 7% of the turnover tax payable.

- (4) **Education surcharge:** 3% of the turnover tax payable.

- (5) **Flood prevention fund:** 1% of the business income of the previous year.

- (6) **Income tax**

The Company and its controlling subsidiary Changchun Automobile Gas Development Co. Ltd. (Changchun Automobile) (長春汽車燃氣發展有限公司) are located in a State-level high and new technological development area, and are recognized to be a high and new technological enterprise by the Management Committee of the Changchun High and New Technology Industry Development Zone and Changchun Municipal Science and Technology Commission of the Changchun high and new technological development area. The rate of enterprise income tax is 15%.

The Company's controlling subsidiary Yanji Sheng Shi Guanghai Gas Co Ltd. ("Yanji Sheng Shi") (延吉盛世光華燃氣有限公司) is an enterprise established through investments in the western developed city of the State. Pursuant to the provisions of Document Guo Ban Fa [2001] No. 73 (國辦發[2001]73號文), the enterprise income tax is levied at a rate of 15% for the period from 2001 to 2010.

The Company's controlling subsidiary, Changchun Zhenwei Gas Construction Development Co Ltd. ("Zhenwei Construction") (長春振威燃氣安裝發展有限責任公司), being newly-established during the reporting period, is a Sino-foreign cooperative production joint venture with an operation term of over 10 years. Pursuant to the Law of the People's Republic of China on the Income Tax Law of Enterprises with Foreign Investment and Foreign Enterprises, the income tax rate is 33%, and such enterprises are exempt from enterprise income tax for the first two years and are granted a 50 percent reduction in enterprise income tax for the third to the fifth year.

**NOTES TO MAJOR ITEMS OF COMBINED FINANCIAL STATEMENT (NOTE: UNLESS OTHERWISE SPECIFIED, ALL UNITS ARE DENOMINATED IN RENMINBI.)**

**1. Cash and bank balances**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Cash	28	30	9
Bank Deposit	92,514	118,345	99,961
Total	<u>92,542</u>	<u>118,375</u>	<u>99,970</u>

**2. Short-term investments**

	<b>Book balance</b> <i>RMB'000</i>	<b>Diminution</b> <b>provisions</b> <i>RMB'000</i>	<b>Book value</b> <i>RMB'000</i>	<b>Closing</b> <b>market price</b> <i>RMB'000</i>	<b>Source</b> <i>RMB'000</i>
2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2003	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

*Note:* On 4 July 2003, the Company's controlling subsidiary Changchun Automobile and Everbright Bank Changchun Branch (Gongqi Sub-branch) (長春市分行紅旗支行) entered into an "Entrustment Contract Relating to an Entrustment Loan", pursuant to which Changchun Automobile entrusted Everbright Bank Changchun Branch (Gongqi Sub-branch) (長春市分行紅旗支行) to lend RMB10 million to Beijing Zhong Chang Shiji Communications Stock Co Ltd ("Beijing Zhong Chang") (北京中長石基信息股份有限公司). The amount was intended for Beijing Zhong Chang to develop its domestic market in China. The entrustment loan was for a term commencing on 4 July 2003 and expiring on 4 January 2004. Its interest rate was 5.04%. The entrustment loan has subsequently matured, and both sides are having discussions with a view to extending its term. Please see Note 10 "Events after the Balance Sheet Date" for details.

## 3. Bills receivable

	2004 RMB'000	2003 RMB'000	2002 RMB'000
Bank-accepted bill	<u>62,085</u>	<u>47,550</u>	<u>14,765</u>

*Note 1:* Of the closing balance of the bills receivable, RMB42,746,713.00 was subsequently endorsed for transfer, notes of RMB18,426,693.84 was subsequently accepted upon maturity.

*Note 2:* The closing balance of bills receivable increased by 30.57% as compared with the opening balance, mainly attributable to the Company's improved sales of coking coal during the reporting period. To ensure a prompt return of funds, the Company changed the settlement method with its coking coal customers and itself from sale on account to cash or bill payment, resulting in a relatively big increase of the closing balance of the bills receivable.

## 4. Dividends Receivable

	2004 RMB'000	2003 RMB'000	2002 RMB'000	Nature or content
Beijing Zhong Chang	–	28	28	2000 receivable
Benxi Beitai Pipes Stock Co Ltd.	360	–	–	Dividends for 2001 and 2002 receivable
	<u>360</u>	<u>28</u>	<u>28</u>	

## 5. Receivables (including accounts receivables and other receivables)

(A) *The following is an aged analysis of accounts receivables:*

Age	Amount RMB'000	2004		Bad debt provision RMB'000
		Percentage of total	Proportion of bad debt provision	
Within 1 year	111,093	81.17%	6%	6,666
1 to 2 years	24,886	17.96%	6%	1,493
2-3 years	2,079	1.50%	6%	125
3 years or above	512	0.37%	6%	30
Total	<u>138,570</u>	<u>100.00%</u>		<u>8,314</u>

Age	Amount RMB'000	2003		Bad debt provision RMB'000
		Percentage of total	Proportion of bad debt provision	
Within 1 year	95,190	95.13%	6%	5,711
1 to 2 years	4,341	4.34%	6%	260
2 to 3 years	466	0.47%	6%	28
3 years or above	55	0.06%	6%	4
Total	<u>100,052</u>	<u>100.00%</u>		<u>6,003</u>

Age	Amount RMB'000	2002		Bad debt provision RMB'000
		Percentage of total	Proportion of bad debt provision	
Within 1 year	205,950	97.68%	6%	12,357
1 to 2 years	4,765	2.26%	6%	286
2 to 3 years	135	0.06%	6%	8
Total	<u>210,850</u>	<u>100.00%</u>		<u>12,651</u>

(B) The following is an aged analysis of other receivables:

Age	Amount RMB'000	2004		Bad debt Provision RMB'000
		Percentage of total	Proportion of bad debt provision	
Within 1 year	11,556	60.08%	6%	693
1 to 2 years	3,933	20.45%	6%	236
2 to 3 years	2,928	15.22%	6%	176
3 years or above	817	4.25%	6%	48
Total	<u>19,234</u>	<u>100.00%</u>		<u>1,153</u>

Age	Amount RMB'000	2003		Bad debt provision RMB'000
		Percentage of total	Proportion of bad debt provision	
Within 1 year	9,273	69.57%	6%	556
1 to 2 years	3,031	22.74%	6%	182
2 to 3 years	713	5.35%	6%	43
3 years or above	311	2.34%	6%	18
Total	<u>13,328</u>	<u>100.00%</u>		<u>799</u>

Age	Amount RMB'000	Percentage of total	2002	
			Proportion of bad debt provision	Bad debt Provision RMB'000
Within 1 year	7,154	68.25%	6%	429
1 to 2 years	2,623	25.02%	6%	157
2 to 3 years	503	4.80%	6%	30
3 to 4 years	202	1.93%	6%	13
Total	<u>10,482</u>	<u>100.00%</u>		<u>629</u>

*Note:* The balance of the accounts receivable as at 31 December 2002, 2003 and 2004 did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

(C) *Details of other receivables of relatively large amounts:*

Name of debtor unit	Amount owed RMB'000	2004	
		Outstanding period	Nature of content
Yanji Sheng Shi Guanghua Pipeline Construction Company Limited	4,000	2004	Investment ( <i>Note</i> )
Changchun City Shangyang District Natural Gas Company	3,890	2002-2003	Borrowing
National Clean Automobile Movement Execution Office	3,619	2002-2004	Advance trial fee
Changchu Gas Company	2,285	2003-2004	Borrowing
Li Yuqi (李玉奇)	225	2003	Staff borrowing

*Note:* The Company and its subsidiary Yanji Sheng Shi jointly made a contribution to establish Yanji Sheng Shi Guanghua Pipeline Construction Company Limited (延吉盛世光華管道安裝有限公司), which was incorporated on 4 January 2005. The amount was based on the contribution payable pursuant to the investment agreement. Please see item 3 of Note (10) to the financial statements "Events after the Balance Sheet Date" for details.

Name of debtor unit	Amount owed RMB'000	2003	
		Outstanding period	Nature or content
Changchun City Shangyang District Natural Gas Company	4,150	2002-2003	Borrowing
Changchun LP Gas Company Limited	1,572	2002-2003	Advance payment
National Clean Automobile Movement Execution Office	1,358	2002	Advance trial fee
Changchun Public Transportation Group Company Limited	1,333	2002-2003	Advance payment
Changchun Municipality Gas Company Liquefied Gas Plant	1,193	2003	Borrowing

Name of debtor unit	Amount owed RMB'000	2002	Nature or content
		Outstanding period	
Changchun Public Transportation Group Co Ltd.	3,863	2002	Advance payment
Changchun Gas Company	2,027	2001	Advance payment
Changchun LP Gas Co Ltd	1,396	2002	Advance payment
Yanji Gas Company	830	2002	Advance payment
Changchun Sheungyang Natural Gas Company	500	2000	Borrowing

(D) Particulars of the receivables owed by the five largest debtors

	2004	
	Total accumulated Amount owed	Proportion in Total Project Amount
Amount owed by the five largest debtors in the accounts receivable	<u>104,053</u>	<u>75.09%</u>
Amount owed by the five largest debtors in other receivables	<u>14,019</u>	<u>72.89%</u>

Note: The closing balance of accounts increased by 38.49% as compared to the opening balance, mainly because the accounts receivable increased as a result of the increase sales income in the year.

	2003	
	Amount RMB'000	Proportion in Total Project Amount
Total amount owed by the five largest debtors in the accounts receivable	<u>85,070</u>	<u>85.03%</u>
Total amount owed by the five largest debtors in other receivables	<u>9,607</u>	<u>72.08%</u>

Note: The closing balance of the accounts receivable fell by 52.55% as compared with the opening balance, mainly because the Company recovered during the year through debt restructuring the sale proceeds of RMB187,024,660.76 owed by Changchun Gas Company.

	2002	
	Total accumulated Amount owed RMB'000	Proportion in Total Project Amount
Amount owed by the five largest debtors in the accounts receivable	<u>187,607</u>	<u>88.98%</u>
Amount owed by the five largest debtors in other receivables	<u>8,616</u>	<u>82.20%</u>



*Note 1:* The balance of the receivable did not contain any unit fund of any shareholder holding 5% (contains 5%) or more of the Company's voting shares.

*Note 2:* The closing balance of other receivables increased by 100.88% as compared with the opening balance, mainly because the Company provided an advance for the construction of gas filling station under the agreement entered into by the Company and Changchun Public Transportation Group Co Ltd. for the jointly construction of gas filling station in the year. As of 31 December 2002, RMB3,862,864.41 was still outstanding, resulting in a significant increase in the closing balance of other receivables.

## 6. Prepayments

*The following is an aged analysis of prepayments:*

Age	2004		2003		2002	
	Amount RMB'000	Proportion	Amount RMB'000	Proportion	Amount RMB'000	Proportion
Within 1 year	102,319	78.23%	92,202	100.00%	49,801	96.50%
1 to 2 years	28,468	21.77%	-	-	1,809	3.50%
Total	<u>130,787</u>	<u>100%</u>	<u>92,202</u>	<u>100.00%</u>	<u>51,610</u>	<u>100.00%</u>

*Notes:* The prepayment did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

The closing balance of prepayment aged over one year amounted to RMB28,467,494.59, most of which were unsettled gas fees.

The closing balance of prepayment increased by 41.85% as compared with the opening balance, mainly because the sales of coking coal improved during the year. To ensure the ample supply of fuel coal, the prepayment for coal mine was increased during the reporting period, resulting in a significant increase in the closing balance of prepayments.

The balance as at 31 December 2003 of prepayment increased by 78.65% as compared with the opening balance, mainly because the sales of coking coal improved during the year. To ensure the ample supply of fuel coal, the prepayment for coal mine was increased during the reporting period, resulting in a significant increase in the closing balance of prepayments.

As at 31 December 2002, RMB1,808,666.16 aged over one year in the closing balance of prepayments. Such amount represented the purchasing costs of materials and was not written off as the materials have not yet delivered.

The closing balance of the prepayments increased by 47.46% as compared with the opening balance, mainly because the sales of coking coal improved during the year. To ensure the ample supply of raw coal, the prepayments for coal mine was increased during the year, resulting in a significant increase in the closing balance of prepayments.

## 7. Inventory

*Particulars*

Types	2004		2003		2002	
	RMB'000		RMB'000		RMB'000	
	Amount	Diminution provision	Amount	Diminution provision	Amount	Diminution provision
Raw Materials	52,661	-	56,239	-	30,967	-
Commodity Stores	44,148	-	26,431	-	6,889	-
Development Costs	100,175	-	59,922	-	43,475	-
Low Value Consumables	-	-	4	-	39	-
Packing Materials	1	-	77	-	68	-
Total	<u>196,985</u>	<u>-</u>	<u>142,673</u>	<u>-</u>	<u>81,438</u>	<u>-</u>

The closing balance of inventory increased by 38.07% as compared to the opening balance, mainly because the installation works newly undertaken by a subsidiary Zhenwei Construction have not completed at this stage and hence not recognized as income for the year, which resulted in a RMB40,253,400 increase of closing balance of development costs as compared to the opening balance. Besides, the company exported metallurgical coking coal at the end of the reporting period. As the purchaser is yet to give its confirmation regarding quantity, the amount has not yet been stated, either as revenue or expenditure, thus resulting in an increase in commodity stores in closing balance as compared with the opening one.

*Notes:* The balance of inventory as at 31 December 2003 increased by 75.19% as compared with the balance as at 31 December 2002, mainly because of improved sales of metallurgical coking coal during the year. As the supply of the main raw material raw coal is tight, the Company significantly increased its coal stock to ensure a sufficient supply of raw coal. Besides, the Company exported metallurgical coking coal at the end of the reporting period. As the purchaser is yet to give its confirmation regarding quantity, the amount has not yet been stated, either as revenue or expenditure, thus resulting in an increase in commodity stores in closing balance as compared with the opening one. The development cost of RMB59,921,953.88 at the end of the reporting period was natural gas installation cost. The closing balance of the development cost as at 31 December 2003 was RMB59,921,953.88, including RMB18,320,000 for Zhenwei Construction (a subsidiary of the Company), RMB5,900,000 for Yanji Sheng Shi, and RMB35,690,000 for the parent company. There are 425 construction in progress. The development cost mainly comprised: costs of directly-used materials (RMB50,221,867.55), direct labour (RMB1,847,577.90), and indirect engineering cost (RMB7,852,508.43).

As at 31 December 2002, the balance of inventory increased by 75.36% as compared with the balance on 31 December 2001, mainly because the Company undertook more gas installation works in the year, resulting in a more significant increase in the development cost. Besides, as the Company recorded a better sale of coking coal this year, we increased the stock of raw coal to meet the demand of production, which resulted in an increase in the closing balance of raw coal as compared with the opening balance.

Basis for determining the net realizable value of inventory: the net realizable value of raw material is based on the price of the same type of raw material in the year, plus the estimated purchasing cost. The net realizable value of products in stock is based on the selling price of the same type of product in the year minus the estimated cost of sale and tax. Development cost is based on the amount receivable after completion of work minus the estimated development cost, tax and further development cost.

**8. Deferred expenses**

Cost item	2004 RMB'000	2003 RMB'000	2002 RMB'000	Remarks
Insurance premium	2,713	1,785	90	Amortisation uncompleted
De-sulphuring agent	141	22	23	Amortisation uncompleted
Rental	175	175	-	Amortisation uncompleted
Total	<u>3,029</u>	<u>1,982</u>	<u>113</u>	

Increase in deferred expenses is mainly due to the increase in the unamortised portion of the 2005 Insurance premium.

*Notes:* The balance as at 31 December 2003 of the deferred expenses increased by 1,650.39% as compared with the balance as at 31 December 2002, mainly because the insurance premium paid by the Company in late 2004 had not been amortised.

**9. Long-term equity investments**

(A) *Details of long-term equity investments are set out below:*

	2004 Book Balance RMB'000	2003 Book Balance RMB'000	2002 Book Balance RMB'000
Investments in subsidiaries	(1,734)	(1,926)	(2,754)
Investments in affiliated enterprises	18,147	16,874	17,625
Investments in other enterprises	<u>19,400</u>	<u>19,400</u>	<u>19,400</u>
Total	<u>35,813</u>	<u>34,348</u>	<u>34,271</u>

(B) *Details of long-term shares investments*

Name of Investee unit	Share type	Share quantity	Shareholding percentage	Initial investment cost RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Benxi Beitai Pipes Stock Co Ltd	Institutional shares	13,000	11.40%	19,400	19,400	19,400	19,400
Beijing Zhong Chang	Institutional shares	6,600	20.00%	6,600	<u>18,147</u>	<u>16,874</u>	<u>17,625</u>
Sub-total					<u>37,547</u>	<u>36,274</u>	<u>37,025</u>

## (C) Long-term equity investments under equity accounting

## Details of Beijing Zhong Chang

	<b>Accumulated follow-on investments RMB'000</b>	<b>Increase or decrease of equity in investee unit for the period RMB'000</b>	<b>Cash bonus due for the period RMB'000</b>	<b>Accumulated increase or decrease for the period RMB'000</b>
2004	—	4,116	1,800	5,957
2003	—	2,093	—	3,669
2002	815	1,388	28	1,576

*Note:* There was no significant difference between the investee units and the Company in accounting policies.

In August 2004, as approved by a resolution on the general meeting of Beijing Zhong Chang, the retained profit of RMB9,000,000 was used to increase the share capital, among which the company increased share capital 1,800,000 shares. The shareholding percentage upon this increase would remain unchanged when number of shares held increased from 6,600,000 shares to 8,400,000 shares. The company has assigned the equity subsequently.

There was no significant difference between the investee units and the company in accounting policies.

(D) *Equity investment difference*

## Details

	<b>Changchun Automobile</b> <i>RMB'000</i>	<b>Zhenwei Construction</b> <i>RMB'000</i>	<b>Beijing Zhong Chang</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Initial Amount	(3,118)	595	14,215	11,692
At 1.1.2002	(3,066)	–	12,320	9,254
Amortised/(Released)	312	–	(2,843)	(2,531)
At 31.12.2002	(2,754)	–	9,477	6,723
At 1.1.2003	(2,754)	–	9,477	6,723
Additions	–	592	–	592
Amortised/(Released)	312	(76)	(2,843)	(2,607)
At 31.12.2003	(2,442)	516	6,634	4,708
At 1.1.2004	(2,442)	516	6,634	4,708
Amortised/(Released)	312	(119)	(2,843)	(2,650)
At 31.12.2004	2,130	397	3,791	2,058
Period of Amortisation	10 Years	5 Years	5 Years	

*Notes:* Explanation on the formation of equity investment difference

**Changchun Automobile:** In November 2001, the company made a capital contribution of RMB8,474,619.00 to acquire 90.42% of the equity in Changchun Automobile. Based on the net assets owned by the Company in Changchun Automobile as at the date of the company's investment, the long-term equity investment difference was determined to be RMB3,118,388.47.

**Zhenwei Construction:** In March 2003, the Company made an investment in kind of RMB15,000,000.00, as valued, to establish Zhenwei Construction. The book value of the abovementioned assets and the relevant tax on the investments totaled RMB15,595,240.23, forming an equity investment difference of RMB595,240.23.

**Beijing Zhong Chang:** In May 2001, the Company made a premium contribution of RMB20,000,000 to acquire RMB1,250,000 equity of Beijing Zhong Chang, or 20% of the investee unit's registered capital. Based on the net assets owned by the Company in Beijing Zhong Chang as at the date of the Company's investments, the long-term equity investment difference is determined to be RMB14,215,266.00. In December 2001, Beijing Zhong Chang, through a share conversion exercise based on its net assets as at 31 October 2001 and conducted at the ratio of 1:1, transformed itself into Beijing Zhong Chang. The share capital after conversion was RMB33 million, in which the Company owned 6,600,000 shares, being calculated at the Company's investment ratio.

As there was no impairment of the long-term equity investments at the end of the reporting period, no provision was made for it.

**10. Fixed Assets***Original fixed assets value*

<b>Types of Fixed Assets</b>	<b>At 1.1.2004</b>	<b>Increase during the period</b>	<b>Decrease during the period</b>	<b>At 31.12.2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	203,086	3,309	–	206,395
Fixtures and fittings	9,678	–	–	9,678
General equipment	49,765	11,519	660	60,624
Special equipment	65,303	3,442	–	65,445
Transport equipment	23,530	2,695	1,727	24,498
Other equipments	2,665	816	27	3,454
<b>Total</b>	<b>940,027</b>	<b>21,781</b>	<b>2,414</b>	<b>959,394</b>

*Notes:* Of the increase of fixed asset during the period, RMB7,637,339.15 was transferred from construction in progress of the closing houses and buildings balance, approximately RMB76,764,176.73 is currently applying for building promotion.

The closing fixed assets did not involve any collateral assets.

The closing fixed assets did not involve any financing lease assets.

No Provision for diminution in value of fixed assets were made during the period.

The closing balance of fixed assets increased by 49.77% as compared with the opening balance, mainly because the proceeds received by the Company at the end of the previous reporting period was put into use this year and projects completed were transferred to fixed assets, resulting in a significant increase of the closing balance of the fixed assets.

*Accumulated depreciation*

<b>Types of Fixed Assets</b>	<b>At 1.1.2004</b>	<b>Provision for the period</b>	<b>Decrease for the period</b>	<b>At 31.12.2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	53,429	10,559	–	63,988
Fixtures and fittings	2,605	1,839	–	4,444
General equipment	15,947	4,838	575	20,210
Special equipment	102,584	22,855	–	125,439
Transport equipment	8,257	2,757	1,064	9,950
Other equipments	719	600	16	1,303
<b>Total</b>	<b>183,541</b>	<b>43,448</b>	<b>1,655</b>	<b>225,334</b>

*Original fixed assets value*

<b>Types of Fixed Assets</b>	<b>At 1.1.2003</b>	<b>Increase during the period</b>	<b>Decrease during the period</b>	<b>At 31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	189,619	15,530	2,063	203,086
Fixtures and fittings	9,678	–	–	9,678
General equipment	44,132	8,692	3,059	49,765
Special equipment	469,670	182,633	1,000	651,303
Transport equipment	17,983	8,238	2,691	23,530
Other equipments	2,093	676	104	2,665
<b>Total</b>	<b>733,175</b>	<b>215,769</b>	<b>8,917</b>	<b>940,027</b>

*Notes:* Of the increase of fixed asset during the period, RMB19,838,557.12 was transferred from construction in progress.

Of the increase of fixed assets during the period, RMB175,803,181.11 was derived from through debt restructuring.

Regarding the closing original fixed assets value, asset worth RMB76,764,176.73 were in the process of applying for houses and building ownership certificates.

The closing fixed assets did not involve any collateral assets.

The closing fixed assets did not involve any financing lease assets.

*Accumulated depreciation*

<b>Types of Fixed Assets</b>	<b>At 1.1.2003</b>	<b>Provision for the period</b>	<b>Decrease for the period</b>	<b>At 31.12.2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	43,748	9,792	111	53,429
Fixtures and fittings	766	1,839	–	2,605
General equipment	13,930	3,055	1,038	15,947
Special equipment	88,177	14,473	66	102,584
Transport equipment	8,837	1,370	1,950	8,257
Other equipments	324	433	38	719
<b>Total</b>	<b>155,782</b>	<b>30,962</b>	<b>3,203</b>	<b>183,541</b>

*Original fixed assets value*

<b>Types of Fixed Assets</b>	<b>At 1.1.2002</b>	<b>Increase during the period</b>	<b>Decrease during the period</b>	<b>At 31.12.2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	156,556	50,935	–	207,491
General equipment	19,442	12,174	–	31,616
Special equipment	391,503	82,955	296	474,162
Transport equipment	16,207	2,241	547	17,901
Other equipments	897	1,543	435	2,005
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>584,605</b>	<b>149,848</b>	<b>1,278</b>	<b>733,175</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*Notes:* Of the increase of fixed asset during the period, RMB90,405,491.09 was transferred from construction in progress.

The closing fixed assets did not involve any collateral assets.

The closing fixed assets did not involve any financing lease assets.

No provision for diminution of fixed assets were made during the period.

*Accumulated depreciation*

<b>Types of Fixed Assets</b>	<b>At 1.1.2002</b>	<b>Provision for the period</b>	<b>Decrease for the period</b>	<b>At 31.12.2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	35,279	9,872	–	45,151
General equipment	8,793	3,506	–	12,299
Special equipment	77,633	11,645	82	89,196
Transport equipment	7,451	1,697	322	8,826
Other equipments	408	248	346	310
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>129,564</b>	<b>26,968</b>	<b>750</b>	<b>155,782</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*Provisions for fixed asset impairment*

	<b>At 1.1.2004</b>	<b>Increase for the period</b>	<b>Decrease for the period</b>	<b>At 31.12.2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Houses and buildings	4,351	–	–	4,351
Special equipment	11,055	–	–	11,055
Transport equipment	393	–	–	393
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>15,799</b>	<b>–</b>	<b>–</b>	<b>15,799</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



*Provisions for fixed asset impairment*

	At 1.1.2003 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	At 31.12.2003 RMB'000
Houses and buildings	–	4,351	–	4,351
Special equipment	–	11,055	–	11,055
Transport equipment	–	393	–	393
	<hr/>	<hr/>	<hr/>	<hr/>
Total	–	15,799	–	15,799
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes: There was no movement in 2004.

Explanation on the provision for fixed asset impairment: Of the fixed assets, the coking furnace and its appurtenant equipment became obsolete, damaged or impaired after long usage. The Company made a provision of RMB15,798,835.67 based on the differences between the recoverable value of individual assets and the their book value.

**11. Engineering Materials**

	2004 RMB'000	2003 RMB'000	2002 RMB'000
Special materials	761	246	290
	<hr/>	<hr/>	<hr/>

**12. Construction in progress***Details of Construction in progress*

Project Name	At 1.1.2004 RMB'000	Additions during the period RMB'000	Transferred to fixed assets during the period RMB'000	Reductions RMB'000	At 31.12.2004 RMB'000	Interest capitalization rate
Renovation of gas distribution facilities	318	14,643	3,511	–	11,450	–
Construction of No. 3 coking furnace	93	10,212	–	–	10,305	–
Dunhua gas piping & network	38	49	–	–	87	–
Prepayments	4,209	54,546	–	10,133	48,622	–
Construction of works to produce gas for vehicular use	773	1,666	1,284	–	1,155	–
Yan Ji Gas – installation and pertinent facilities	740	2,684	2,842	–	582	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	6,171	83,800	7,637	10,133	72,201	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Project Name	At 1.1.2003 RMB'000	Additions during the period RMB'000	Transferred to fixed assets during the period RMB'000	Reductions RMB'000	At 31.12.2003 RMB'000	Interest capitalization rate
Renovation of gas distribution facilities	3,787	8,982	12,451	-	318	-
Construction of No. 3 coking furnace	-	93	-	-	93	-
Dunhua gas piping & network	-	38	-	-	38	-
Prepayments	-	4,699	440	50	4,209	-
Construction of works to produce gas for vehicular use	1,752	5,419	6,398	-	773	-
Yan Ji Gas – installation and pertinent facilities	49	1,240	549	-	740	-
<b>Total</b>	<b>5,588</b>	<b>20,471</b>	<b>19,838</b>	<b>50</b>	<b>6,171</b>	<b>-</b>

Project Name	At 1.1.2002 RMB'000	Additions during the period RMB'000	Transferred to fixed assets during the period RMB'000	Other reductions RMB'000	At 31.12.2002 RMB'000
Renovation of gas distribution facilities	4,407	15,885	13,504	3,000	3,788
Construction of works to produce gas for vehicular use	8,812	3,679	9,823	917	1,751
Renovation of Yan Ji Gas (Phase II)	25,644	5,284	30,879	-	49
Prepayments for property acquisition	35,000	-	35,000	-	-
Prepayments for project	1,194	6	1,200	-	-
<b>Total</b>	<b>75,057</b>	<b>24,854</b>	<b>90,406</b>	<b>3,917</b>	<b>5,588</b>

Project Name	Budget	Funding	Percentage of computer
Renovation of gas distribution facilities	166,380,000.00	Self-raised ( <i>note</i> )	6.88%
Construction of No. 3 coking furnace	57,000,000.00	Self-raised ( <i>note</i> )	18.08%
Dunhua gas piping & network	50,000,000.00	Self-raised ( <i>note</i> )	0.17%
Yan Ji Gas – installation and pertinent facilities	15,000,000.00	Self-raised ( <i>note</i> )	3.88%

*Note:* Pursuant to the resolution adopted at the first ad hoc shareholders' general meeting in 2003, the Company intended to apply for the issue of convertible company bonds. It was planned that construction works under the project would initially be funded with self-owned funds, and then with the proceeds of convertible bonds upon their successful issuance.

As there was no impairment of the investment in the construction in progress during the closing period, no provision was made for it.

No interests were capitalised during the periods.

## 13. Intangible Assets

	<b>Land Use Rights</b> <i>RMB'000</i>	<b>Priority Buy-out</b> <b>Project Benefits</b> <i>RMB'000</i>	<b>Rental expenses</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Initial Amount	17,861	80,000	400	98,261
At 1.1.2002	16,330	75,000	–	91,330
Increased during the period	–	–	–	–
Amortised	(510)	(10,000)	–	(10,510)
Accumulated Amortisation	(2,041)	(15,000)	–	(17,041)
At 31.12.2002	15,820	65,000	–	80,820
Increased during the period	–	–	–	–
Amortised	(510)	(10,000)	–	(10,510)
Accumulated Amortisation	(2,551)	(25,000)	–	(27,551)
At 31.12.2003	15,310	55,000	–	70,309
Increased during the period	–	–	400	400
Amortised	(510)	(10,000)	(18)	(10,527)
Accumulated Amortisation	(3,061)	(35,000)	(18)	(38,078)
At 31.12.2004	14,800	45,000	382	60,182

<b>Types</b>	<b>Procurement form</b>	<b>Remaining amortization period at 31.12.2003</b>
Land use Right	Purchased	30 years
Priority to buy-out project benefits	Purchased	5.5 years

*Note:* As there was no impairment of the intangible assets during the closing period, no provision was made for it.

**14. Bills Payable**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Bank-accepted bill	—	2,700	—
Total	<u>—</u>	<u>2,700</u>	<u>—</u>

*Note:* The closing balance of the bills payable did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

**15. Accounts Payable**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Amount	<u>120,787</u>	<u>102,804</u>	<u>69,959</u>

*Note:* The balance of accounts payable at 31 December 2003 increased by 46.95% when compared with the balance at 31 December 2002, mainly because of the improved sale of metallurgical coking coal during the year. The main material of coking coal, namely raw coal, was in tight supply. To ensure a sufficient supply of raw coal, the Company increased its raw coal stores, resulting in an increase in the accounts payable.

The closing balance of the accounts payable did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

**16. Receipt-in-advance**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Amount	<u>178,216</u>	<u>190,174</u>	<u>118,210</u>

*Note :* The balance of deposit received at 31 December 2003 was increased by 60.88% when compared with the balance at 31 December 2002, mainly because the sale of coking coal improved during the reporting period. To ensure the prompt return of funds, the Company has adopted payment-before-delivery method in dealing with some coking coal customers, and closing balance of the deposit received has increased relatively significantly

The closing balance of the deposit received did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

## 17. Tax Payable

Tax	2004	2003	2002	Statutory tax rate imposed
	RMB'000	RMB'000	RMB'000	
Value-added tax	3,313	1,905	1,388	13%, 17%
Business tax	1,339	2,684	764	3%
Municipal maintenance and construction tax	3,036	232	148	7%
Enterprise income tax	11,456	9,016	13,203	15%
Building tax	–	61	53	–
Urban and town land use tax	–	1	1	–
Individual income tax	411	395	195	–
Stamp tax	–	–	6	–
Total	<u>19,555</u>	<u>14,294</u>	<u>15,758</u>	

## 18. Other Funds Payable

	2004	2003	2002	Calculation and Payment Rate
	RMB'000	RMB'000	RMB'000	
Education surcharge	1,328	100	64	3%
Price adjustment fund	409	409	408	–
Flood prevention fund	14	6	35	–
Housing reserve	157	571	559	–
Total	<u>1,908</u>	<u>1,086</u>	<u>1,066</u>	–

## 19. Other Payables

	2004	2003	2002
	RMB'000	RMB'000	RMB'000
Amount		<u>12,149</u>	<u>17,204</u>
			<u>11,037</u>

Note 1: Details of other payables of larger amounts

At 31 December 2004	Amount	Nature or Contents
	RMB'000	
Trade union's fees	1,948	Trade union's fees
Education fee	1,393	Education fee
Labour Insurance	996	Social insurance payable
Directors' fees	710	Directors' fee

Note 1: Details of other payables of larger amounts

At 31 December 2003	Amount RMB'000	Nature or Contents
Changchun Wanlong Property Development Co. Ltd.	5,000	Collection
China Insurance Jilin Company	2,351	Insurance claim
Trade union's fees	1,126	Trade union's fees
Education fee	1,061	Education fee
Changchun Social Insurance Company	919	Social insurance payable
At 31 December 2002	Amount RMB'000	Nature or content
Jilin Construction Company Changchun Company	745	Temporarily collected money
Changchun Land Bureau	736	Land price payable
Changchun Social Insurance Company	722	Social insurance premium payable
Changchun Gas Company	640	Difference in assets acquisition cost
Changchun Guanghua Gas Pipelines Co Ltd.	434	Project fee payable

Note 2: The closing balance of other accounts payable did not contain any unit fund of any shareholder owning 5% (contains 5%) or more of the Company's voting shares.

Note 3: The balance of other accounts payable at 31 December 2003 increased 54.25% as compared with the opening balance, mainly owing to the increase of the deposit received during the period.

## 20. Accrued expense

	2004 RMB'000	2003 RMB'000	2002 RMB'000	Cause for Year-end Settlement
Rental	100	-	-	Payment outstanding
Kitchenware charge	102	-	146	Payment outstanding
Electric charge	29	276	55	Payment outstanding
Total	<u>277</u>	<u>276</u>	<u>201</u>	

**21. Long-term Borrowing**

<b>Terms of Borrowing</b>	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Pledged Borrowing	<u>81,000</u>	<u>96,000</u>	<u>100,000</u>

*Note:* With a pledge of its gas charge collection right, the Company obtained a bank loan of RMB100,000,000, repayable by installments during the period stipulated in the loan contract. RMB4,000,000.00 was repaid during the reporting period.

**22. Share Capital**

The total amount of share capital was RMB406,531,200.00, divided into 406,531,200.00 shares of RMB1.00 each. The following is the shareholding structure:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Issued Share Capital (Shares)	<u>406,531,200</u>	<u>406,531,200</u>	<u>406,531,200</u>
Par Value ( <i>RMB</i> )	<u>1</u>	<u>1</u>	<u>1</u>
Issued Share Capital ( <i>RMB</i> )	<u>406,531,200</u>	<u>406,531,200</u>	<u>406,531,200</u>

Movements in the Share Capital are as follows:

	<b>Promoters' Shares</b> <i>State-Owned Legal Person Shares</i>	<b>Employees' Shares</b>	<b>Public Shares</b> <i>A' Shares</i>	<b>Total</b>
At 1.1.2002	144,000,000	35,136,000	60,000,000	239,136,000
Issue of new shares	100,800,000	24,595,200	42,000,000	167,395,200
Bonus issue of shares				-
Transferred from capital reserve	-	-	-	-
At 31.12.2002	<u>244,800,000</u>	<u>59,731,200</u>	<u>102,000,000</u>	<u>406,531,200</u>
At 1.1.2003	244,800,000	59,731,200	102,000,000	406,531,200
Issue of new shares	-	-	-	-
Bonus issue of shares	-	-	-	-
Transfer	-	(59,731,200)	59,731,200	-
Transferred from capital reserve	-	-	-	-
At 31.12.2003	<u>244,800,000</u>	<u>-</u>	<u>161,731,200</u>	<u>406,531,200</u>
At 1.1.2004 and at 31.12.2004	<u>244,800,000</u>	<u>-</u>	<u>161,731,200</u>	<u>406,531,200</u>

*Notes:* On 19 April 2002, as approved by the resolution at the 2001 general meeting of the Company, the Company increased its share capital by capitalizing the capital reserve. The Company issued 7 new shares for every 10 shares held by the shareholders based on the share capital of the Company at the end of 2001. The increase of share capital was verified by Wuhan Zhonghuan CPA Company Ltd. and it issued the Wu Zhong Kui (武眾會)(2002) no. 326 Capital Verification Report. The aggregate share capital of the Company increased to 406.5312 million shares.

Pursuant to the provision of the Circular Concerning the Approval for Changchun Gas Holdings Limited to Make a Public Offer of Shares, promulgated by the China Securities Regulatory Commission under reference Zheng Jian Fa Hang Zi [2000] No. 152 (證監發行字[2000]152號), trading of the internal staff and workers' shares held by the Company in trust was commenced on the Shanghai Stock Exchange on 24 November 2003.

### 23. Capital Reserve

	Share Premium <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1.1.2002	384,561	1,050	385,611
Additions during the period	–	5,969	5,969
Reduction	(167,395)	–	(167,395)
At 31.12.2002	<u>217,166</u>	<u>7,019</u>	<u>224,185</u>
At 1.1.2003	217,166	7,019	224,185
Additions during the period	–	4,995	4,995
At 31.12.2003	<u>217,166</u>	<u>12,014</u>	<u>229,180</u>
At 1.1.2004	217,166	12,014	229,180
Additions during the period	–	1,123	1,123
At 31.12.2004	<u><u>217,166</u></u>	<u><u>13,137</u></u>	<u><u>230,303</u></u>

*Note:* The increase of equity investment provision during 2003 comprised an increase of equity investment provision of RMB1,294,054.49 for the Company's acquisition of 19% of the equity of Yanji Sheng Shi, a controlling subsidiary; an increase of equity investment provision of RMB60,687.00 for revenue derived from debt restructuring of Yanji Sheng Shi; and an increase of equity investment provision of RMB25,350.00 for the foreign exchange conversion difference arising from the increase in the foreign currency capital of Zhenwei Construction, the controlling subsidiary.



Other increases in 2003 and 2004 comprises the revenue derived from the debt restructuring made between the Company and several suppliers whereby the Company settled the debts it owed to its suppliers with cash at amounts lower than the book values of such debts.

The reduction in share premium of the period represented the amount transferred from the capital reserve to the share capital. The increase of share capital was approved by passing a resolution in the general meeting of the Company in 2001.

Other additions of the capital reserve represented the gain from scheme of arrangement. The Company entered into a scheme of arrangement with several suppliers to repay the debts in cash at a price below the book value of the debts.

The addition of share premium of the period represented the transfer to capital reserve the balance of interest of blocked fund of invalid purchase made at the end of 2000 as required by the corporate accounting system.

#### 24. Surplus Reserve

	<b>Statutory Surplus Reserve</b>	<b>Statutory Public Welfare Fund</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1.1.2002	15,780	7,890	23,670
Additions during the period	9,010	4,505	13,515
At 31.12.2002	24,790	12,395	37,185
At 1.1.2003	24,790	12,395	37,185
Additions during the period	14,645	7,323	21,968
At 31.12.2003	39,435	19,718	59,153
At 1.1.2004	39,435	19,718	59,153
Additions during the period	21,332	10,666	31,998
At 31.12.2004	60,767	30,384	91,151

#### 25. Retained Profit

	<b>Distribution Policy</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening retained profit		234,697	150,864	98,193
Add: Net profit for the year		213,317	146,454	90,100
Less: Statutory surplus reserve allocation	10% of net profit	21,332	14,645	9,010
Statutory welfare fund allocation	5% of net profit	10,666	7,323	4,505
Common shares dividend payable		60,980	40,653	23,914
Closing retained profit		355,036	234,697	150,864

*Note 1:* Following “The Enterprise Accounting Standards – Events after the Balance Sheet Date”, effective on 1 July 2003, which provides that: “In the profit distribution plan formulated by the board of directors or any similar organization during the period from the date following the balance sheet date to the date at which the financial report was approved for publication, any cash dividend which is distributed shall be individually presented in the balance sheet under the subject of ‘owners’ funds’”, the Company made a retrospective adjustment to the matters which were involved with cash dividend distribution during the period covered by the financial statement, and corresponding change was made to the opening retained revenue and the opening figures of the relevant items. The accumulated amount involved in the abovementioned change in accounting policy was RMB40,651,120.00. Owing to the change in the accounting policy, the closing dividends payable for 2002 was adjusted downwards to RMB40,651,120.00, and the opening retained revenue for 2003 was adjusted upwards to RMB40,651,120.00, of which, the cash dividend to be distributed was adjusted upwards to RMB40,651,120.00.

*Note 2:* Pursuant to the Company’s profit distribution plan for 2003, it was intended to distribute cash dividend to all shareholders at a ratio of RMB1.5 (including tax) for every 10 shares based on the total number of shares as at the end of 2003. Of the undistributed profit, the profit intended to be distributed to shareholders was RMB60,979,680.00. The distribution plan is subject to the deliberation and approval of shareholders at general meeting.

## 26. Main Operating Income

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gas	288,596	204,991	175,209
Gas piping relaying and installation work for users	132,425	176,897	97,605
Metallurgical coking coal	663,781	373,786	160,268
Coking oil	19,556	18,191	14,358
Total	<u>1,104,358</u>	<u>773,865</u>	<u>447,440</u>

The total sales revenue derived from the five largest customers of the Company for the years ended 31 December 2001, 2002 and 2003 were RMB314,165,077, RMB197,616,907 and RMB361,897,500, accounting for 77.22%, 44.17% and 46.76% of the total sales revenue of the Company respectively.

The revenue from main business of the year recorded an increase of 72.95% over the corresponding period of the previous year, mainly attributable to an improved sales of coking coal and an increase of coking coal sales revenue by RMB213,517,100 over the corresponding period to the previous year.

## 27. Cost of Main Business

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gas	277,771	166,960	127,197
Gas piping relaying and installation work for users	64,348	108,519	29,252
Metallurgical coking coal	360,980	221,221	137,633
Coking oil	13,633	9,415	7,094
Total	<u>716,732</u>	<u>506,115</u>	<u>301,176</u>

*Note:* The cost of main business of the year increased by 68.05% as compared with the corresponding period of the previous year, mainly because of revenue increase.

**28. Tax and surcharge on main business**

	2004 RMB'000	2003 RMB'000	2002 RMB'000	Applicable rate
Business tax	3,973	5,332	2,928	3%
Municipal construction tax	5,348	3,197	1,664	7%
Education surcharge	2,292	1,370	713	3%
Total	<u>11,613</u>	<u>9,899</u>	<u>5,305</u>	

*Note:* The tax of main business of the year increased by 86.59% as compared with the corresponding period of the previous year, mainly because of revenue increase.

**29. Other Business Profit**

Business type	2004			2003			2002		
	Revenue RMB'000	Cost RMB'000	Profit RMB'000	Revenue RMB'000	Cost RMB'000	Profit RMB'000	Revenue RMB'000	Cost RMB'000	Profit RMB'000
Steel sale	9,075	12,222	(3,147)	6,014	3,767	2,247	24,937	21,024	3,913
Priority to buy-out project benefits	-	10,000	(10,000)	16,500	10,000	6,500	17,500	10,000	7,500
Vehicle conversion	4,414	3,459	955	1,087	1,030	57	881	784	97
Rentals	45	5	40	446	45	401	3,200	176	3,024
Service provision	977	1,500	(523)	1,677	2,481	(804)	350	875	(525)
Total	<u>14,511</u>	<u>27,186</u>	<u>(12,675)</u>	<u>25,724</u>	<u>17,323</u>	<u>8,401</u>	<u>46,868</u>	<u>32,859</u>	<u>14,009</u>

*Note:* Other business profits for the year fell by 40.03% as compared with the corresponding period of the previous year, mainly because of fall in rental income.

**30. Operating Cost**

The operating cost of the year increased by RMB20,832,800 as compared with the same period of the previous year, mainly because:

- (1) The user piping network purchased by the Company at the end of the previous year was depreciated for a further RMB2,361,800 during the reporting period.
- (2) The railway transport cost, export agency fee and customs declaration fee, etc. totally increased by RMB14,105,800 as a result of the commencement of the metallurgical coking coal business, a new business for the year.

**31. Management Fee**

The management fee of the year increased by RMB7,952,900 owing to the depreciation made in the year for assets which were added in the previous year.

**32. Financial Cost**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Interest expenses	5,329	5,759	6,086
<i>Less: Interest income</i>	835	626	554
Foreign exchange loss	–	8	–
<i>Less: Foreign exchange revenue</i>	–	–	–
Others	72	43	12
	<u>4,566</u>	<u>5,184</u>	<u>5,544</u>

**33. Investment revenue**

	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Other debt investment income	302	1,046	1,342
Income from other investment	720	–	–
Closing adjustment to the net increase/decrease of owner's funds in the investee company	4,116	2,092	1,388
	<u>(2,650)</u>	<u>(2,610)</u>	<u>(2,531)</u>
Total	<u>2,488</u>	<u>(518)</u>	<u>(97)</u>

*Note:* There was no substantial restriction on remitting investment revenue outwards.

**PRINCIPAL DIFFERENCES BETWEEN PRC GAAP AND HK GAAP**

- (ii) The following is a summary of the principal differences between PRC GAAP and HK GAAP. This summary should not be construed to be exhaustive.

The financial information of Changchun Listed are extracted from the audited financial statement of Changchun Listed for the year ended 31 December 2001, 2002 and 2003. Such audited financial statements were prepared under the PRC GAAP.

Additionally, no attempt has been made to identify further differences between PRC GAAP and HK GAAP as the result of prescribed changes in accounting standards and regulations. Regulatory bodies that promulgate PRC GAAP and HK GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between PRC GAAP and HK GAAP that may affect Changchun Listed's financial statements as a result of transactions or events that may occur in the future.

**i. Revaluation of Fixed Assets and Depreciation**

PRC GAAP requires that property, plant and equipment recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are put into operation, using the straightline method over estimated useful lives of the assets on a systematic basis.

Under HK GAAP, depreciation is also provided to write off the depreciation amounts of property, plant and equipment over their estimated useful lives on a systematic basis. However, although such depreciation is allowed, it is not required and therefore does not require, periodic revaluation of property, plant and equipment.

**ii. Intangible Assets**

PRC GAAP require intangible assets are recorded at the actual cost of acquisition. The cost of intangible assets is amortized as an expense evenly over its expected useful life starting in the month in which it is obtained. If the expected useful life exceeds the beneficial period prescribed in the relevant contract or the effective period stipulated by law, the amortization period is limited to the shorter of the beneficial period and the effective period. If the relevant contract does not prescribe the beneficial period and the law does not stipulate the effective date, the amortization period is 10 years.

Under HK GAAP, intangible assets are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives. Useful lives, as stated in the standard, is either the period of time over which an asset is expected to be used by the enterprise; or the number of production or similar units expected to be obtained from the asset by the enterprise. There is a rebuttable presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use.

**iii. Short term securities investments**

In relation to investment in securities, under PRC GAAP, investments is divided into long term investments and short term investments. Short term investments is stated at lower of cost or market value.

Under HK GAAP, there is a accounting standard governed the accounting treatment of investment in securities. Except the held-to-maturity debt securities, the investment securities have 2 different methods accounting for the matters. One is benchmark method and the other is alternative method.

Under benchmark method, investments other than held-to-maturity debt securities are classified as investment securities and other investments. 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. Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Under alternative method, all securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period, For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

**iv. Long-term Deferred Expenses**

Under PRC GAAP, unless related to the acquisition or construction of fixed assets, all expenditures incurred during the pre-operating period are recognized as expenses in the month in which the enterprise commences operation. Other long-term deferred expenditures are amortized on a straight-line basis over the respective beneficial periods.

Under HK GAAP, such expenses, if of a long-term deferred expenses basis, should be written off to income statement when incurred. Subsequent expenditure on basic property, plant and equipment is only recognized as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance.

**v. Goodwill and negative Goodwill**

Under PRC GAAP, generally, it was measured at the difference between the cost of the acquisition and the acquirer's share of the carrying amounts (book values) of net assets acquired. It may be measured based on the "appraised value of net assets acquired" if 100% of the shares of a company are acquired. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, an excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is amortized over a period of not more than 10 years; a shortfall of the initial investment cost over the Company's share of owners' equity of the investee enterprise is amortized over a period of not less than 10 years.

Under HK GAAP, goodwill was measured at the difference between the cost of the acquisition and the acquirer's share of the fair values of net assets acquired. Goodwill arising on acquisition should be amortized on a systematic basis over its useful live, which will not exceed 20 years from its initial recognition. Negative goodwill will initially offset against any expected future losses. The remaining amount, will does not exceed the fair values of the acquired non-monetary assets, will then amortize over the remaining weighted average useful life of the acquired assets. Any amount which in excess of the fair values of the acquired nonmonetary assets should be recognized as income immediately.

**vi. Consolidation**

Under PRC GAAP, one of the conditions for a subsidiary not consolidated to the consolidation accounts of the holding company is if the total assets, turnover and net profit of the current years are less than the 10% of the total amount.

Under HK GAAP, if a subsidiary falls into either one of the following categories, namely:

1. Under temporary control (subsidiaries acquired and held exclusively for subsequent disposal in the near future).
2. Operating under severe long-term restrictions which significantly impairs their ability to transfer funds to the parent.

Such subsidiaries could be not consolidated to the consolidation accounts of the holding company.

**vii. Dividends payable**

In the past, under PRC GAAP, the dividends declared after year end date are recognized in the period to which the dividends related and recognized as the adjusted event. Effective from 1 June 2003, by the revision of the Post Balance sheet Event Accounting Standard , the dividend declared after year end date was an unadjusted event.

Under HK GAAP, dividends declared after year end date would not be recognized as a liability in the period that the dividend related to.

- viii.** Under PRC GAAP, discounts on payment of debt would be booked directly into capital reserve, whereas under HK GAAP, such discounts would be booked into the profits and loss account.



**1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED PANVA GAS GROUP**

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Panva Gas Holdings Limited (the “Company”) and its subsidiaries (the “Panva Gas Group”) and its investments in Changchun Gas Holdings Limited (長春燃氣控股有限公司) (“Changchun Gas Holdings”) (hereinafter collectively referred to as the “Enlarged Panva Gas Group”) in connection to the proposed acquisition of 48% of the registered capital of the Changchun Gas Holdings (the “Acquisition”) assuming that the transactions had been completed as at 31 December 2004 for the purpose of illustrating how the transaction might have affected the financial position of the Panva Gas Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Panva Gas Group is prepared based on the audited consolidated balance sheet of the Panva Gas Group as at 31 December 2004 extracted from the annual report of the Company for the year ended 31 December 2004 and adjusted for the transactions resulting from the Acquisition.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information on the Enlarged Panva Gas Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the Enlarged Panva Gas Group shall be on the actual completion of the Acquisition.

**APPENDIX 4 FINANCIAL INFORMATION ON THE ENLARGED PANVA GAS GROUP**

	<b>Panva Gas Group</b> <i>HK\$'000</i>	<b>Pro forma Adjustments for the Changchun Gas Holdings Acquisition</b> <i>HK\$'000</i> <i>Note</i>	<b>Enlarged Panva Gas Group</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	1,063,321		1,063,321
Intangible asset	9,160		9,160
Goodwill	21,856		21,856
Negative goodwill	(40,125)		(40,125)
Interest in an associate	70,677	354,537	425,214
Investments in securities	10,415		10,415
	<u>1,135,304</u>		<u>1,489,841</u>
<b>CURRENT ASSETS</b>			
Inventories	39,677		39,677
Trade receivables	187,451		187,451
Other receivables, deposits and prepayments	401,905	(70,945)	330,960
Bank balances and cash	2,174,503	(283,592)	1,890,911
	<u>2,803,536</u>		<u>2,448,999</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	24,076		24,076
Other payables and accrued charges	131,443		131,443
Taxation	47,020		47,020
Amounts due to minority shareholders	16,495		16,495
Borrowings – amount due within one year	29,420		29,420
	<u>248,454</u>		<u>248,454</u>
<b>NET CURRENT ASSETS</b>	<u>2,555,082</u>		<u>2,200,545</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	3,690,386		3,690,386
<b>NON-CURRENT LIABILITIES</b>			
Borrowings – amount due after one year	1,921,004		1,921,004
	1,769,382		1,769,382
Minority interests	(334,859)		(334,859)
<b>NET ASSETS</b>	<u><u>1,434,523</u></u>		<u><u>1,434,523</u></u>

*Note:* The adjustment represents the consideration paid by Panva Gas for the acquisition of Changchun Gas Holdings which will be accounted for as an associate in the financial statements of Panva Gas upon completion of the acquisition.

**2. LETTER FROM REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES**

*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*



The Directors  
Panva Gas Holdings Limited  
28th Floor, Vicwood Plaza  
199 Des Voeux Road  
Central  
Hong Kong

25 April 2005

Dear Sirs,

We report on the pro forma assets and liabilities statement set out in Appendix 4 (“Pro Forma Assets and Liabilities Statement”) to the circular of Panva Gas Holdings Limited (the “Company”) dated 25 April 2005 issued by the Company in connection with the proposed acquisition of 48% equity interest in Changchun Gas Holdings Limited (the “Acquisition”), which has been prepared by the directors of the Company, as if the Acquisition had been completed as at 31 December 2004 for illustrative purpose only, to provide information about how the Acquisition might have affected the relevant assets and liabilities of Company and its subsidiaries (collectively referred to as the “Group”)

**RESPONSIBILITIES**

It is solely the responsibility of the directors of the Company to prepare the Pro Forma Assets and Liabilities Statement in accordance with the paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

It is our responsibility to form an opinion, as required by the GEM Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work with reference the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the directors of the Company.

Our work did not constitute an audit or a review performed in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly we do not express such assurance on the Pro Forma Assets and Liabilities Statement.

The Pro Forma Assets and Liabilities Statement has been compiled in accordance with the basis set out in the first paragraph of this letter for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Group:

- (a) as at 31 December 2004; or
- (b) at any future date.

**OPINION**

In our opinion:

- (a) the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**3. INDEBTEDNESS**

As at 28 February 2005, being the latest practicable date in relation to this indebtedness statement prior to the Latest Practicable Date, the Enlarged Panva Gas Group had outstanding secured bank borrowings of approximately HK\$38,690,000 secured by fixed assets of the Group, unsecured bank borrowings of approximately HK\$20,526,000. Convertible bonds due 2008 in the aggregate principal amount of US\$48,694,000 (equivalent to approximately HK\$379,570,000) at 2% per annum and 8.25% guaranteed senior notes in the aggregate principal amount of US\$200,000,000 (equivalent to approximately HK\$1,559,000,000) due 2011.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Panva Gas Group did not have as at 28 February 2005 any material outstanding liabilities in respect of mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, or hire purchase commitments or any guarantees or other liabilities.

**4. WORKING CAPITAL**

Taking into account the financial resources available to the Enlarged Panva Gas Group, including the available banking facilities and internally generated funds, the Directors are of the opinion that the working capital available to the Enlarged Panva Gas Group is sufficient for the Enlarged Panva Gas Group's present requirements.

**5. MATERIAL CHANGES**

As at the Latest Practicable Date, the Directors are not aware of any material changes or material adverse changes on the financial or trading position or prospects of the Company since 31 December 2004, the date to which the latest audited consolidated financial statements of the Company was made up.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Panva Gas Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinion expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, 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 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	Interest in shares			Total interest/ (Short positions) in shares	Interest in underlying shares pursuant to share options	Aggregate interest/ (Short positions)	Approximate percentage of the Company's issued share capital
	Beneficial owner	Interest of controlled corporations	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:*

On 7 April 2005, Sinolink and Enerchina entered into a conditional agreement (“Conditional Agreement”) pursuant to which Sinolink agreed to sell and Enerchina agreed to purchase the respective entire issued share capital of Kenson and Supreme All at a consideration of HK\$1,753,231,957.10. Subject to the fulfillment of the conditions precedent therein and upon completion of the said agreement, Kenson and Supreme All will become wholly-owned subsidiaries of Enerchina.

The 556,871,587 shares represent (i) 381,298,462 shares held by Kenson, a wholly-owned subsidiary of Sinolink before entered into the Conditional Agreement and Kenson will be the wholly-owned subsidiary of Enerchina upon completion of the sale and purchase. 50.50% interests of Enerchina are held by Sinolink, while 58.55% 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. 100% interests of Supreme All are held by Sinolink before entered into the Conditional Agreement and Supreme All will be the wholly-owned subsidiary of Enerchina upon completion of the sale and purchase. 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.

**(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 the Company’s ordinary shares in favour of certain Directors, the details of which as at the Latest Practicable Date are as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of shares	Approximate percentage of the Company’s issued share capital
				subject to outstanding options as at Latest Practicable Date	
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000	0.15%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%
Cheung Hon Kit	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%
Ge Ming	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of shares	Approximate percentage of the Company's issued share capital
				subject to outstanding options as at Latest Practicable Date	
Li Fujun	04.04.2001	01.01.2003 – 03.04.2011	0.475	920,000	0.10%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,200,000	0.13%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	480,000	0.05%
Li Xiao Ru	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%
Ou Yaping	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%
Shen Lian Jin	04.04.2001	01.01.2004 – 03.04.2011	0.475	300,000	0.03%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	0.08%
Tang Yui Man Francis	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	0.10%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%
Zhang Keyu	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	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.



## (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	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation
		Interest of controlled corporations	Family interest	Others				
Chen Wei	Sinolink	-	-	-	-	12,000,000	12,000,000	0.51%
Ou Yaping	Sinolink	1,374,222,000 <i>(Note 1)</i>	6,475,920	-	1,380,697,920	-	1,380,697,920	58.82%
	Enerchina	9,298,980	-	1,147,680,775	1,156,979,755 <i>(Note 2)</i>	2,288,000	1,159,267,755	50.60%
Shen Lian Jin	Sinolink	-	-	-	-	3,000,000	3,000,000	0.13%
Tang Yui Man Francis	Sinolink	-	-	-	-	19,000,000	19,000,000	0.81%
	Enerchina	-	-	-	-	22,880,000	22,880,000	1.00%
Zhang Keyu	Sinolink	-	-	-	-	2,000,000	2,000,000	0.09%

*Notes:*

- These 1,374,222,000 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 1,156,979,755 shares in Enerchina represent the aggregate of: (i) the 852,989,402 shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 58.55% 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 303,990,353 shares held by Smart Orient Investments 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 1,156,979,755 shares, 1,147,680,775 shares have been pledged with Morgan Stanley by Sinolink.

**(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 the Latest Practicable Date are as follows:

Name of Directors	Name of associated corporations	Date of grant	Exercise period	Exercise price HK\$	Number of shares subject to outstanding options as at the Latest Practicable Date	Approximate percentage of the issued share capital of the associated corporation
Chen Wei	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	3,600,000	0.15%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	3,600,000	0.15%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	4,800,000	0.21%
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	0.10%
Shen Lian Jin	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	900,000	0.04%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	900,000	0.04%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	1,200,000	0.05%
Tang Yui Man Francis	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	5,700,000	0.24%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	5,700,000	0.24%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	7,600,000	0.32%
	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	1.00%
Zhang Keyu	Sinolink	28.12.2004	31.12.2005 – 24.05.2012	1.126	600,000	0.03%
		28.12.2004	30.06.2006 – 24.05.2012	1.126	600,000	0.03%
		28.12.2004	31.12.2006 – 24.05.2012	1.126	800,000	0.03%

*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 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 corporations (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 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.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director of the Company, 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%)
Enerchina	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	569,588,277 (11,206,524) <i>(Note 2)</i>	– –	569,588,277 (11,206,524)	60.45% (1.19%)
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%
Li Ka-shing	Interest of controlled corporation and as founder of discretionary trusts	38,461,538	19,230,769	57,692,307 <i>(Note 4)</i>	6.12%

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
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. Upon completion of the Conditional Agreement, Enerchina will be 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 Enerchina, 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 shares held by Supreme All, will be a wholly owned subsidiary of Enerchina upon completion of the Conditional Agreement. 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 569,588,277 shares, 550,789,987 shares have been pledged by Sinolink.
3. 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.

4. 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 meetings 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 being 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.

5. These 48,000,000 shares are held by Value Partners Limited, a company which is held by 31.82% 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 for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at the Latest Practicable Date, 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 practicable manner, able to direct or influence the management of the Company.

#### **4. DIRECTORS’ INTERESTS IN SERVICE CONTRACTS**

None of the Directors has any existing or proposed service contract with any member of the Panva Gas Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **5. DIRECTORS’ INTERESTS IN ASSETS**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2004, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Panva Gas Group, or are proposed to be acquired or disposed of by or leased to any member of the Panva Gas Group.

#### **6. CONTRACTS OF SIGNIFICANCE**

No contract or arrangement 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 as at the Latest Practicable Date.

**7. COMPETING INTERESTS**

None of the Directors or any of their respective associates, have engaged in any business that competes or may compete with the business of the Panva Gas Group or has any other conflict of interest with the Panva Gas Group.

**8. LITIGATION**

As at the Latest Practicable Date, no member of the Panva Gas Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Panva Gas Group.

**9. MATERIAL CONTRACTS**

Save as already disclosed by way of announcement or circular to the shareholders of the Company, within the two years preceding the Latest Practicable Date, there were no contracts (other than contracts entered into in the ordinary course of business) entered into by members of the Panva Gas Group which are or may be material.

**10. EXPERT'S DISCLOSURE OF INTEREST, CONSENT AND QUALIFICATION**

As at the Latest Practicable Date, Deloitte Touche Tomatsu, certified public accountants, had no direct or indirect shareholding in any member of the Panva Gas Group, or any right to subscribe for or to nominate persons to subscribe for shares in any member of the Panva Gas Group, nor any interests, directly, or indirectly, in any assets which had been since 31 December 2004, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired to disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Panva Gas Group.

Deloitte Touche Tomatsu has given and has not withdrawn its consent to the issue of this circular with references to its name in the form and context in which it appears.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the offices of Woo, Kwan, Lee & Lo, 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong on any business day up to and including 11 May 2005:

- (a) memorandum and articles of association of the Company;
- (b) the Subscription Agreement as referred to in the announcement of the Company dated 10 April 2003 and in the circular of the Company dated 30 April 2003;

- (c) the Price Determination Agreement as referred to in the announcement of the Company dated 10 April 2003 and in the circular of the Company dated 30 April 2003;
- (d) the trust deed entered into between the Company and DB trustees (Hong Kong) Limited on 23 April 2003 as referred to in the circular of the Company dated 30 April 2003;
- (e) the LP Gas JV Agreement as referred to in the announcement of the Company dated 10 September 2003 and in the circular of the Company dated 30 September 2003;
- (f) the JV Agreement as referred to in the announcement of the Company dated 5 November 2003 and in the circular of the Company dated 26 November 2003;
- (g) the Pingchang Agreement as referred to in the announcement of the Company dated 18 November 2003;
- (h) the Placing Agreement and the Subscription Agreement as referred to in the announcement of the Company dated 5 December 2003 and in the circular of the Company dated 18 December 2003;
- (i) the Foshan Share Transfer Agreement as referred to in the announcement of the Company dated 30 December 2003;
- (j) the Dayi Share Transfer Agreement as referred to in the announcement of the Company dated 30 December 2003;
- (k) the Acquisition Agreement as referred to in the announcement of the Company dated 14 January 2004;
- (l) the Sale and Purchase Agreement;
- (m) the Purchase Agreement as referred to in the announcement of the Company dated 16 September 2004;
- (n) the Sale and Purchase Agreement as referred to in the announcement of the Company dated 11 November 2004;
- (o) the Sale and Purchase Agreement as referred to in the announcement of the Company dated 1 December 2004;
- (p) the Asset Transfer Agreement as referred to in the announcement of the Company dated 23 December 2004;

- (q) the financial information on Panva Gas Group as set out in Appendix 1 of this circular;
- (r) the accountants' report on Changchun Gas Holdings as set out in Appendix 2 of this circular;
- (s) the unaudited pro forma statement of assets and liabilities of the enlarged Panva Gas Group as set out in Appendix 3 of this circular;
- (t) letter from the reporting accountants on unaudited pro forma statement of assets and liabilities as set out in Appendix 3 of this circular;
- (u) the consolidated audited accounts of the Company for each of the two financial years immediately preceding the issue of this circular;
- (v) the circular of the Company in respect of the acquisition of further interests in Anshan City Gas Company dated 13 April 2005.

## 12. GENERAL

- (a) The branch share registrar and transfer office in Hong Kong of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (b) The registered office of the Company is at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (c) The head office and principal place of business of the Company in Hong Kong is at 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.
- (d) The compliance officer of the Company is Mr. Li Fujun. Mr. Li is an executive director of the Company.
- (e) The company secretary of the Company is Mr. Lo Tai On, a member of the Hong Kong Institute of Certified Public Accountants.
- (f) The qualified accountant of the Company is Mr. Yu Man To, Gerald, *MBA, CPA (Aust.), C.P.A.* Mr. Yu holds a Bachelor's degree in business and a Master's degree in business administration and is a certified practising accountant in Australia and a certified public accountant in Hong Kong.



- (g) The Company has established an audit committee with written terms of reference in compliance with Rules 5.29 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Panva Gas Group. The audit committee comprises three independent non-executive Directors, namely, Messrs. Cheung Hon Kit, Li Xiao Ru and Ge Ming, further details of which are set out below:

Mr. Cheung Hon Kit, aged 51, is an independent non-executive director of the Company. Mr. Cheung has over 27 years of experience in the real estate development, 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, International Entertainment Corporation and Innovo Leisure Recreation Holdings Limited. He has been an independent non-executive director 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 at Morrison & Forester's Hong Kong in 2003. He was the managing director of Hong Kong Construction (Holdings) Limited, a company listed on the Stock Exchange 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 since April 2003.

Mr. Ge Ming, aged 53, is an independent non-executive director of the Company. He has more than 22 years experience in accounting and financial management. Mr. Ge holds 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 CCAFMS side in CCAFMS – E & Y Management Services Limited and has distinctive knowledge of the business regulatory environment in the PRC as well as the 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.

- (h) For all intents and purposes, the English text of this document shall prevail over the Chinese text.



**PANVA GAS HOLDINGS LIMITED**

**百江燃氣控股有限公司\***

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

(Stock Code: 8132)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Panva Gas Holdings Limited (the “Company”) will be held at the Board Room, 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong on 11 May 2005 at 11:00 a.m., for the purpose of considering and, if thought fit, passing of the following resolution (with or without modifications) as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT** the sale and purchase agreement dated 27 August 2004 in relation to the acquisition of 48% shareholding in Changchun Gas Holdings Limited (長春燃氣控股有限公司) by Panriver Investments Company Limited (“Panriver Investments”) from Changchun Municipality State-owned Assets Administrative Bureau (長春市人民政府國有資產督管理委員會) (“Party A”, and the said acquisition is hereinafter referred to as the “Acquisition”) between Panriver Investments, Party A and Shenzhen Hua Fu Investment Co, Ltd. (深圳市華孚能源投資有限公司) (the “Sale and Purchase Agreement”), the Acquisition, and any other matter ancillary thereto or in relation thereto be hereby approved, ratified and confirmed and the directors of the Company are hereby authorized to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient in connection with the Sale and Purchase Agreement and the Acquisition.”

By Order of the Board  
**Panva Gas Holdings Limited**  
**Lo Tai On**  
*Company Secretary*

Hong Kong, 25 April 2005

*Principal place of business:*

28th Floor

Vicwood Plaza

199 Des Voeux Road Central

Hong Kong

\* *For identification purpose only*

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## NOTICE OF EGM

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*Notes:*

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
- (2) Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the member so desires.
- (3) In order to be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the above meeting or any adjournment thereof.