



Panva Gas Holdings Limited

百江燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

The **3rd** Quarterly Report
2005



CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Authorised Representatives

Mr. Ou Yaping
Mr. Tang Yui Man Francis

Compliance Officer

Mr. Li Fujun

Qualified Accountant

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

Company Secretary

Mr. Lo Tai On

Audit Committee

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

Registered Office

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

Head Office and Principal Place of Business

28th Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong
Telephone : (852) 2851 8425
Facsimile : (852) 2851 0970
Stock Code : 8132

Auditors

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar

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

Hong Kong Branch Share Transfer Office

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

Legal Advisers

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

(As to Cayman Islands Law)
Maples and Calder

(As to the PRC Law)
Haiwen & Partners

Principal Bankers

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

Websites

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

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

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HIGHLIGHTS

- The Group's turnover increased to approximately HK\$1,622 million representing an increase of 26.6% from the same period last year.
- Gross profit increased to approximately HK\$467.8 million representing an increase of approximately 64.2% from the same period last year.
- Profit attributable to equity holders of the parent increased to approximately HK\$219.3 million representing an increase of approximately 28.6% from the same period last year.

RESULTS

The board of directors (the "Board") of Panva Gas Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the nine and three months ended 30 September 2005, together with the comparative figures of the corresponding period in 2004, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2005

	NOTES	Nine months ended 30 September		Three months ended 30 September	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (restated)	2005 HK\$'000 (unaudited)	2004 HK\$'000 (restated)
Turnover		1,621,989	1,280,982	663,936	432,348
Cost of sales		(1,154,175)	(996,110)	(421,158)	(318,892)
Gross profit		467,814	284,872	242,778	113,456
Other operating income	2	45,559	6,830	16,967	4,582
Distribution expenses		(35,474)	(30,224)	(12,573)	(10,784)
Administrative expenses		(105,930)	(54,217)	(45,770)	(18,985)
Other operating expenses		(5,093)	(1,679)	(4,270)	(105)
Profit from operations		366,876	205,582	197,132	88,164
Gain on partial disposal of interest in a subsidiary		–	2,433	–	–
Finance costs		(66,115)	(11,096)	(33,088)	(5,941)
Loss on fair value adjustment		(31,180)	–	(26,347)	–
Profit before taxation		269,581	196,919	137,697	82,223
Share of results of associates		15,324	–	(13,237)	–
Taxation	3	284,905	196,919	124,460	82,223
		(25,988)	(11,727)	(9,933)	(5,521)
Net profit for the period		258,917	185,192	114,527	76,702
Attributable to:					
Equity holders of the parent		219,309	170,583	91,060	74,884
Minority interests		39,608	14,609	23,467	1,818
		258,917	185,192	114,527	76,702
		HK cents	HK cents	HK cents	HK cents
Earnings per share	4				
– Basic		23.28	18.20	9.66	7.95
– Diluted		22.95	16.69	10.32	7.25

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30 September 2005

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 16 November 2000 as an exempted company with limited liability under the Companies Law (Revised) Chapter 22 of the Cayman Islands. The shares of the Company (the "Shares") have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 April 2001.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LP Gas") and natural gas (together "Gas Fuel") in the People's Republic of China (the "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, the operation of city gas pipeline networks, the operation of Gas Fuel automobile refilling stations, and the sale of LP Gas and natural gas household appliances.

The Hong Kong Institute of Certificated Public Accountants ("HKICPA"), formerly the Hong Kong Society of Accountants) has undertaken to converge by 1 January 2005 all Hong Kong Financial Reporting standards ("HKFRSs") with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects as at 31 December 2004. The condensed financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules"). The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values.

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

1. BASIS OF PREPARATION (Cont'd)

HKAS 17 Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interest in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease.

HKAS 32 Financial Instruments:

Disclosure and Presentation

HKAS 39 Financial Instruments:

Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 has resulted in change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Convertible bonds

HKAS requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method.

The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated.

Classification and measurement of financial assets and financial liabilities

Until 31 December 2004, investments of the Group were classified into investment securities, which were securities held for an identified long-term strategic purpose, and were measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables or held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognition in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

1. BASIS OF PREPARATION *(Cont'd)***HKAS 17 Leases** *(Cont'd)**Derivatives and hedging*

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit or loss for the period in which they arise.

HKFRS 2 Share-based Payments

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. The principal impact of HKFRS 2 on the Group is relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of granted of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

HKFRS 3 Business Combinations

The adoption of HKFRS 3 has resulted in a change in accounting policy for accounting goodwill and negative goodwill. Prior to this, goodwill was amortised on a straight line basis over a period of not exceeding 20 years and assessed for the impairment at each balance sheet date. Negative goodwill was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted.

In accordance with the provision of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2003 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. The Group has derecognised all negative goodwill previously presented as a deduction from assets with a corresponding increase to retained earnings.

In addition, the Company has changed its accounting policy and elected for the leasehold buildings of the Group to be stated at cost less accumulated depreciation rather than at their revalued amount. As the value of the properties within the Group have not experienced any material fluctuations in the past, the Company believes that by stating its building at cost would reflect a more accurate position to user of the financial statements.

1. BASIS OF PREPARATION (Cont'd)

HKAS 16 Property, plant and equipment

The Company has changed its accounting policy and elected for stating the leasehold buildings of the Group at cost less accumulated depreciation rather than at their revalued amount. The change in this accounting policy has been applied retrospectively. As the value of properties within the Group have not experienced any material fluctuation in the past, the Company believes that stating its buildings at cost would reflect a more accurate position.

All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which require retrospective applications to prior year comparatives other than:

- HKFRS 2 – retrospective application of all equity instruments granted to employees after 7 November 2002 and not vested at 1 January 2004;
- HKFRS 3 – prospectively on or after 1 January 2002;
- HKFRS 39 – prospectively from 1 January 2005.

Effect of changes in the accounting policies on consolidated income statement

	HKAS 8 & HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKFRS 3 HKAS 36 & HKAS 38 HK\$'000	Total HK\$'000
For the nine months ended 30 September 2004					
Decrease in amortisation and depreciation of property, plant and equipment	30	–	–	–	30
Increase in MI's share of results for the period	(18)	–	–	–	(18)
Decrease in amortisation of goodwill	–	–	–	692	692
Decrease in negative goodwill arised during the period	–	–	–	1,876	1,876
Decrease in effective interest on convertible bonds	–	–	364	–	364
	<u>12</u>	<u>–</u>	<u>364</u>	<u>2,568</u>	<u>2,944</u>
Increase (decrease) in net profit for the period					
	<u>–</u>	<u>–</u>	<u>0.04</u>	<u>0.27</u>	<u>0.31</u>
Increase (decrease) in basic earnings per share (HK cents)					

1. BASIS OF PREPARATION (Cont'd)

	HKAS 8 & HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKFRS 3 HKAS 36 & HKAS 38 HK\$'000	Total HK\$'000
For the nine months ended 30 September 2005					
Decrease in amortisation and depreciation of property, plant and equipment	30	–	–	–	30
Increase in MI's share of results for the period	(18)	–	–	–	(18)
Decrease in amortisation of goodwill	–	–	–	3,670	3,670
Increase in release of negative goodwill to consolidated income statement	–	–	–	(1,038)	(1,038)
Increase in staff costs and related expenses	–	(13,083)	–	–	(13,083)
Increase in effective interest on Group's borrowings	–	–	(11,723)	–	(11,723)
Increase in negative fair value of derivatives	–	–	(31,180)	–	(31,180)
	<u>12</u>	<u>(13,083)</u>	<u>(42,903)</u>	<u>2,632</u>	<u>(53,342)</u>
Increase (decrease) in net profit for the period					
	<u>–</u>	<u>(1.39)</u>	<u>(4.55)</u>	<u>0.28</u>	<u>(5.66)</u>

Effect of changes in the accounting policies on the Group's equity

	HKAS 8 & HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3 HKAS 32 & HKAS 39 HK\$'000	HKAS 36 & HKAS 39 HK\$'000	Total HK\$'000
At 1 January 2004					
Increase (decrease) in equity					
Retained earnings	607	–	(10,497)	19,602	9,712
Share premium	–	–	10,497	–	10,497
Convertible bonds reserve	–	–	48,350	–	48,350
Assets revaluation reserve	(4,881)	–	–	–	(4,881)
Minority interests	(1,809)	–	–	–	(1,809)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

1. BASIS OF PREPARATION (Cont'd)

	HKAS 8 & HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKFRS 3 HKAS 36 & HKAS 39 HK\$'000	Total HK\$'000
At 1 January 2005					
Increase (decrease) in equity					
Retained earnings	623	(2,733)	(110,879)	42,872	(70,117)
Share premium	-	-	10,497	-	10,497
Convertible bonds reserve	-	-	48,350	-	48,350
Assets revaluation reserve	(4,881)	-	-	-	(4,881)
Employee share based compensation	-	2,733	-	-	2,733
Minority interests	(1,785)	-	-	-	(1,785)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

2. OTHER OPERATING INCOME

Other operating income includes interest earned on bank deposits of the Group.

3. TAXATION

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

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

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

4. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	Nine months ended 30 September		Three months ended 30 September	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the parent)	219,309	170,583	91,060	74,884
Effect of dilutive potential shares:				
Interest on convertible bonds	23,506	5,480	16,861	1,860
Earnings for the purposes of diluted earnings per share	242,815	176,063	107,921	76,744
	Nine months ended 30 September		Three months ended 30 September	
	2005 <i>No. of shares</i>	2004 <i>No. of shares</i>	2005 <i>No. of shares</i>	2004 <i>No. of shares</i>
Weighted average number of shares for the purposes of basic earnings per share	942,250,891	937,238,782	942,250,891	942,250,891
Effect of dilutive potential shares:				
Options	17,722,920	19,660,432	6,003,202	18,921,336
Convertible bonds	97,851,116	97,851,116	97,851,116	97,851,116
Weighted average number of shares for the purposes of diluted earnings per share	1,057,824,927	1,054,750,330	1,046,105,209	1,059,023,343

5. RESERVES

	Attributable to equity holders of the parent								Total HK\$'000 (unaudited)
	Share premium HK\$'000 (unaudited)	Exchange reserve HK\$'000 (unaudited)	Asset revaluation reserve HK\$'000 (restated)	Employee compensation reserve HK\$'000 (unaudited)	Capital reserve HK\$'000 (unaudited)	General reserve HK\$'000 (unaudited)	Convertible bonds reserve HK\$'000 (unaudited)	Retained earnings HK\$'000 (unaudited)	
At 1 January 2004									
As originally stated	135,092	(1,277)	4,881	-	1,101	4,310	-	358,037	502,144
Effects of changes in accounting policies	10,497	-	(4,881)	-	-	-	48,350	9,712	63,678
As restated	145,589	(1,277)	-	-	1,101	4,310	48,350	367,749	565,822
Exchange difference arising on translation of financial statements of overseas operations recognised directly in equity	-	(3,179)	-	-	-	-	-	-	(3,179)
Issue of shares on placing and subscription arrangements	-	-	-	-	-	-	-	-	-
Issue of shares on the exercise of share options	-	-	-	-	-	-	-	-	-
Premium arising on issue of shares	609,277	-	-	-	-	-	-	-	609,277
Expenses incurred in connection with the issue of shares	(32,032)	-	-	-	-	-	-	-	(32,032)
Recognition of equity-settled share based payments	-	-	-	2,733	-	-	-	-	2,733
Transfer	-	-	-	-	-	1,248	-	(1,248)	-
Realised on disposal of subsidiaries	-	-	-	-	-	-	-	-	-
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-
Profit attributable to equity holders of the parent	-	-	-	-	-	-	-	285,368	285,368
At 1 January 2005	722,834	(4,456)	-	2,733	1,101	5,558	48,350	651,869	1,427,989
Effect of adoption of HKAS 39	-	-	-	-	-	-	-	(101,109)	(101,109)
	722,834	(4,456)	-	2,733	1,101	5,558	48,350	550,760	1,326,880
Exchange differences arising on translation of financial statements of overseas operations recognised directly in equity	-	56,006	-	-	-	-	-	-	56,006
Recognition of equity-settled share based payments	-	-	-	13,083	-	-	-	-	13,083
Transfer	-	-	-	-	-	222	-	(222)	-
Additions	-	-	-	-	1,119	-	-	-	1,119
Profit attributable to equity holders of the parent	-	-	-	-	-	-	-	219,309	219,309
At 30 September 2005	722,834	51,550	-	15,816	2,220	5,780	48,350	769,847	1,616,397

5. RESERVES (Cont'd)

	Attributable to equity holders of the parent								
	Employee				Convertible				
	Share premium	Exchange reserve	Asset revaluation reserve	share-based compensation reserve	Capital reserve	General reserve	bonds reserve	Retained earnings	Total
HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (restated)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
At 1 January 2004									
As originally stated	135,092	(1,277)	4,881	-	1,101	4,310	-	358,037	502,144
Effects of changes in accounting policies	10,497	-	(4,881)	-	-	-	48,350	9,712	63,678
As restated	145,589	(1,277)	-	-	1,101	4,310	48,350	367,749	565,822
Exchange difference	-	(3,173)	-	-	-	-	-	-	(3,173)
Arising on issue of shares	609,277	-	-	-	-	-	-	-	609,277
Expenses incurred in connection with issue of shares	(32,032)	-	-	-	-	-	-	-	(32,032)
Transfer	-	-	-	-	-	409	-	(409)	-
Profit attributable to equity holders of the parent	-	-	-	-	-	-	-	170,583	170,583
At 30 September 2004	<u>722,834</u>	<u>(4,450)</u>	<u>-</u>	<u>-</u>	<u>1,101</u>	<u>4,719</u>	<u>48,350</u>	<u>537,923</u>	<u>1,310,477</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The PRC economy maintained a healthy growth during the first three quarters of 2005, recording an increase of 9.4% in gross domestic product and a benign rise of 2.0% in consumer price index. Blessed with high growth and low inflation, the PRC was able to introduce further reforms and readjustments to its economy. The gas fuel sector was among the major beneficiaries as the PRC made stronger efforts to develop and utilise natural gas as part of the means to support the construction of the national economy. The development of natural gas in PRC cities has now entered into a new era, paving the way for rapid expansion in the PRC's gas fuel market.

For the nine months ended 30 September 2005, the Group recorded a turnover of approximately HK\$1,621,989,000, an increase of 26.6% over the same period last year. Gross profit increased by 64.2% to approximately HK\$467,814,000. Profit attributable to equity holders of the parent increased by 28.6% to approximately HK\$219,309,000.

Bulk LP Gas

Bulk LP Gas are sold directly to customers in large quantities which are delivered by tank lorries and tank vessels. Confronted by the rising costs of LP Gas in the PRC during the first three quarters of 2005, the Group capitalising on its strong experience has further realigned its resources and increased its economies-of-scale to meet the changes brought by the adverse market environment. As a result, the LP Gas wholesale business was able to maintain solid development. For the nine months ended 30 September 2005, the business increased its turnover by 1.4% to approximately HK\$667,572,000, accounting for approximately 41.2% of the Group's total turnover. The increase was slightly affected by a supplier of the Group underwent a major maintenance overhaul resulting in less LP Gas available for sale during the period.

Retail of LP Gas

This business comprises the direct sale of LP Gas in cylinders to end-user customers. Due to the continued rise in international oil prices beginning the year, the Group has experienced higher costs in LP Gas purchases. Facing this formidable challenge, the Group's subsidiaries made coordinated efforts to expand their purchase channels and to reduce their purchase costs by capitalising on the Group's economies-of-scale advantages. Moreover, the Group strengthened its communications with local governments to seek their support for price adjustments in LP Gas products that reflect rising oil prices. For the nine months ended 30 September 2005, turnover derived from the retail of LP Gas grew by 41.9% to approximately HK\$391,792,000, accounting for approximately 24.2% of the Group's total turnover. The increase was result of increases in the volume and the price of LP Gas.

REVIEW OF OPERATIONS *(Cont'd)*

Sale of Piped Gas

This business comprises the direct sale of piped LP Gas and piped natural gas to end-user households. Turnover of the business increased by 52.5% to approximately HK\$79,904,000, accounting for approximately 4.9% of the Group's aggregate turnover. The increase was a result of additional households connected as well as a general increase in the consumption of piped gas.

Gas Pipeline Construction

The Group's gas pipeline development business mainly includes the construction and maintenance of piped gas stations and networks, through which the Group provides direct connection of piped gas to end-user households and receives a connection fee. For the nine months ended 30 September 2005, the Group received approximately HK\$433,241,000 in connection fee, an increase of approximately 60.7% over the same period last year. The amount accounted for approximately 26.7% of the Group's total turnover, compared to approximately 21.0% a year ago.

New Project Developments

Given the PRC Government's progressive efforts to transform the state-owned gas enterprises and to further open up the public utility sector, the Group continued to accelerate its new project development in the PRC. Significant breakthroughs were achieved in the focal region of northeastern PRC region, where new projects in a number of large and medium sized cities are in final discussion. In another focal region, Sichuan, the Group is fine-tuning the details of some of the new projects. Moreover, the Group is adhering to the strategy of parallel expansion of the piped gas business and the LP Gas business. Negotiations are being held by the Group in large and medium sized cities to participate in the reform of selective state-owned LP Gas enterprises with quality assets and good prospects. Letters of intent have been signed with some of these enterprises for the establishment of joint ventures and other negotiations are progressing smoothly. The Group has not yet agreed or proposed to acquire any of these additional projects.

REVIEW OF OPERATIONS (Cont'd)

Shandong Jinan Project

The Group through its wholly-owned subsidiary Panriver Investments Company Limited ("Panriver Investments") has entered into a joint venture agreement with Jinan City Gas Company ("Jinan Gas") and an independent third party in relation to the establishment of Shandong Panva Gas Co. Ltd. ("Shandong Panva") to operate the piped natural gas businesses in the Jiancheng District, the western part of Jinan city, Shandong province, with an exclusive operating right for 30 years. According to the agreement, Shandong Panva will have a registered capital of RMB400,000,000, of which Jinan Gas will contribute 50% or RMB200,000,000, Panriver Investments will contribute 48% or RMB192,000,000, and the independent third party will contribute 2% or RMB8,000,000.

A major province of the PRC, Shandong has a well-developed economy and is one of the eminent coastal provinces open to foreign investment. Being the capital city of Shandong province, Jinan is the political, economic and cultural centre of the province. It ranks among the "Top 50" PRC cities in terms of economic strength and the "Best 40" PRC cities in terms of investment environment. It enjoys a sub-provincial city status granted by the State, with five districts, four municipalities and one city under its jurisdiction. Jinan occupies an area of 8,227 kilometres with a total population of approximately 5,820,000, of whom 2,700,000 reside in the city district. The operational area of Shandong Panva will cover a population of 1,150,000 accounting for approximately 50% of the population in the Jiancheng District. It is expected that the population in the Jiancheng District will grow to 2,000,000 by 2020 with connectable natural gas households of 525,000.

The successful conclusion of Jinan project marked the further strengthening of the Group's position in the PRC's piped gas market. It also symbolized the growing recognition and endorsement of the Group's brand name and management expertise by local governments in the PRC.

REVIEW OF OPERATIONS *(Cont'd)*

Financial Position

The Group continued to enjoy a healthy financial position. As at 30 September 2005, the Group's cash and cash equivalent amounted to approximately HK\$1,424,792,000, which were mostly denominated in Renminbi, Hong Kong dollars and the United States dollars.

As at 30 September 2005, the Group's short-term bank loans and other borrowings amounted to approximately HK\$1,908,475,000, of which approximately HK\$1,875,211,000 arose from the issue of guaranteed senior notes in September 2004 and the Group's issue of 5-year convertible bonds in April 2003. The Group ended the period under review with a current ratio of approximately 4.9 times and a gearing ratio of approximately 23.1% (net debt to equity). Total assets pledged in securing these bank loans had a net book value of approximately HK\$68,300,000 as at 30 September 2005. The strong financial position enables the Group to undertake new development projects.

Contingent Liabilities

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

Listing of the Company on the Main Board of the Stock Exchange

On 3 May 2005, the Board announced that the Company had applied to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the listing of the Company's Shares on the Main Board of the Stock Exchange (the "Main Board") by way of introduction (the "Listing"), with Merrill Lynch (Asia Pacific) Limited acting as the Company's sponsor. The Stock Exchange subsequently informed the Company that it had granted an approval in principle of the Listing, and the stock code of the Company shall be 1083. Subject to the passing of an ordinary resolution by shareholders at the Company's extraordinary general meeting to approve the Listing, last day of dealings in the Company's Shares on GEM will be on 7 December 2005 and dealings in the Company's Shares on the Main Board will commence at 9:30 a.m. on 8 December 2005.

PROSPECTS

An overall framework of energy development has now taken shape in the PRC. With the completion of major projects under the “West to East Gas Pipelines” programme, natural gas consumption is expected to grow significantly in the PRC’s domestic and industrial sectors. The launch of other projects, including “North to South Oil Pipelines”, “West to East Oil Pipelines” and “Import of Liquefied Natural Gas from Aboard”, and the progress recently made between the Chinese government and the Russian Government on the “Southbound Supply of Natural Gas” to the PRC, gave further substance to the framework. In February 2005, the State Council released a new policy paper on “Encouraging, Supporting and Guiding the Development of the Non-State Sector” which lowered the threshold for private businesses’ entry into sectors previously monopolised by the State. These favourable developments have benefited the Group’s operations in the northeastern PRC region in securing a more reliable natural gas supply and gaining new customers. Moreover, they provide good opportunities for the Group to undertake new project development in the northeastern PRC region.

The Group through the implementation of well-tested strategies is making strong progress in corporate management, new project development, and strategic expansion in target markets. The Group is expanding the operations of its subsidiaries in target regions through the effective share of resources. By capitalising on the Group’s economies-of-scale advantages, the subsidiaries are able to enhance their management, improve their efficiency and lower their operating costs. The Group is also strengthening its communications with local governments to gain their support to facilitate the growth of the PANVA brand in the gas fuel sector.

With the rising concern on environmental pollution in the PRC, there is growing demand for clean energy. A prominent example is the emergence of a huge market for providing automobile gas. The Group will make its best efforts to seize these opportunities by capitalising on its strong resources to promote the use of clean energy and to actively participate in these businesses. The Group is hopeful that these efforts will bring its business growth to new horizons.

INTERIM DIVIDEND

The Board does not declare an interim dividend for the nine months ended 30 September 2005.

OTHER INFORMATION**DISCLOSURE OF INTERESTS****Directors' Interests or short positions in Shares and in share options**

At 30 September 2005, the interests and short positions of the Directors of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO); or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Interest 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 corporation	Total interest in Shares			
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	-	575,806,587 (19,230,769) <i>(Note)</i>	575,806,587 (19,230,769)	3,600,000 -	579,406,587 (19,230,769)	61.49% (2.04%)
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%

OTHER INFORMATION (Cont'd)**DISCLOSURE OF INTERESTS** (Cont'd)**Directors' Interests or short positions in Shares and in share options** (Cont'd)

Note: The 575,806,587 Shares represent the aggregate of (i) 401,233,462 Shares held by Kenson Investment Limited ("Kenson") and 169,491,525 Shares held by Supreme All Investments Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina Holdings Limited ("Enerchina"); and (ii) 5,081,600 Shares held by Asia Pacific Promotion Limited ("Asia Pacific"). As approximately 74.79% of the issued share capital of Enerchina is held by Sinolink Worldwide Holdings Limited ("Sinolink"), approximately 58.40% interests of Sinolink are held by Asia Pacific and Mr. Ou is the sole beneficial owner of Asia Pacific, Mr. Ou is deemed under the SFO to be interested in such 575,806,587 Shares.

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

Details of the directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire Shares" below.

Directors' rights to acquire Shares

Pursuant to the Company's share option schemes, the Company has granted to certain directors of the Company options to subscribe the Share, details of which are as follows:

Name of Directors	Date of grant	Exercisable period	Exercise price HK\$	Number of Shares subject to outstanding options as at 1.1.2005 and 30.9.2005	Approximate percentage of the Company's issued share capital
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	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%

OTHER INFORMATION (Cont'd)**Directors' rights to acquire Shares** (Cont'd)

Name of Directors	Date of grant	Exercisable period	Exercise price HK\$	Number of Shares subject to outstanding options as at 1.1.2005 and 30.9.2005	Approximate percentage of the Company's issued share capital
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%
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 – 03.04.2001	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. During the period, no options were granted to or exercised by the directors and no option held by the directors was lapsed or cancelled.
3. These options represent personal interest held by the directors as beneficial owners.

OTHER INFORMATION (Cont'd)

Interests in shares in associated corporations

Name of Directors	Name of associated corporations	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	Total interest in shares			
Chen Wei	Sinolink	-	-	-	12,000,000	12,000,000	0.51%
Ou Yaping	Sinolink	1,374,222,000	6,475,920	1,380,697,920	-	1,380,697,920	58.68%
		(Note 1)					
	Enerchina	3,617,895,635	-	3,617,895,635	2,288,000	3,620,183,635	74.83%
				(Note 2)			
Shen Lian Jin	Sinolink	-	-	-	3,000,000	3,000,000	0.13%
Tang Yui Man	Sinolink	-	-	-	19,000,000	19,000,000	0.81%
Francis	Enerchina	-	-	-	22,880,000	22,880,000	0.47%
Zhang Keyu	Sinolink	-	-	-	2,000,000	2,000,000	0.08%

Notes:

- The 1,374,222,000 shares in Sinolink are held by Asia Pacific, which is legally and beneficially owned by Mr. Ou Yaping.
- The 3,617,895,635 shares in Enerchina represent the aggregate of: (i) the 3,393,905,282 shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 58.40% of the issued share capital of Sinolink and is therefore deemed to be interested in such shares in which Sinolink is interested); and (ii) the 223,990,353 shares held by Smart Orient Investments Limited ("Smart Orient"). (Sinolink holds 100% of the issued share capital of Smart Orient and is therefore to be interested in such Shares in which Smart Orient is interested).

OTHER INFORMATION (Cont'd)**Interests in options to subscribe for shares of associated corporations**

Name of Directors	Name of associated corporations	Date of grant	Exercise period	Exercise price HK\$	Number of share subject to outstanding options as at 1.1.2005	Number of share subject to outstanding options as at 30.9.2005	Approximate percentage of the issued share capital of the associated corporation
Chen Wei	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	3,600,000	0.15%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	3,600,000	0.15%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	4,800,000	0.20%
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	2,288,000	0.05%
Shen Lian Jin	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	900,000	0.04%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	900,000	0.04%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	1,200,000	0.05%
Tang Yui Man Francis	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	5,700,000	0.24%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	5,700,000	0.24%
		13.01.2005	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	22,880,000	0.47%
Zhang Keyu	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	600,000	0.03%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	600,000	0.03%
		13.01.2005	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 or their respective associates (as defined in the GEM Listing Rules) had any interests or short positions in Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO); or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2005, 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 Long positions/ (short positions)	Interest in underlying Shares pursuant to the Note	Aggregate interest/(short positions)	Approximate percentage of the Company's issued share capital
Asia Pacific	Interest of controlled corporation and beneficial owner	575,806,587 (19,230,769)	– –	575,806,587 (19,230,769) <i>(Note 1)</i>	61.11% (2.04%)
Sinolink	Interest of controlled corporation	570,724,987 (19,230,769)	– –	570,724,987 (19,230,769) <i>(Note 1)</i>	60.57% (2.04%)
Enerchina	Interest of controlled corporation	570,724,987 (19,230,769)	– –	570,724,987 (19,230,769) <i>(Note 1)</i>	60.57% (2.04%)
Kenson	Beneficial owner	401,233,462 (19,230,769)	– –	401,233,462 (19,230,769) <i>(Note 1 and 2)</i>	42.58% (2.04%)
Hutchison International Limited	Beneficial owner	38,461,538	19,230,769	57,692,307 <i>(Note 3)</i>	6.12%
Hutchison Whampoa Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 3)</i>	6.12%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 4)</i>	6.12%

SUBSTANTIAL SHAREHOLDERS (Cont'd)**Long positions and short positions in Shares and underlying Shares in the Company** (Cont'd)

Name of shareholders	Capacity	Interest in Shares Long positions/ (short positions)	Interest in underlying Shares pursuant to the Note	Aggregate interest/(short positions)	Approximate percentage of the Company's issued share capital
Li Ka-shing	Interest of controlled corporation and as founder of discretionary trusts	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustee Company Limited	Trustee	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 4)	6.12%
Deutsche Bank Aktiengesellschaft	Beneficial owner and holder of security interest in Shares	51,171,282	–	51,171,282	5.43%
Value Partners Limited	Investment manager	48,000,000	–	48,000,000 (Note 5)	5.09%
Cheah Cheng Hye	Interest of controlled corporation	48,000,000	–	48,000,000 (Note 5)	5.09%

Notes:

1. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. Enerchina is owned as to approximately 74.79% by Sinolink and Sinolink is in turn owned as approximately 58.40% by Asia Pacific. Therefore, by virtue of Part XV of the SFO, the 401,233,462 Shares and 169,491,525 Shares in which Kenson and Supreme All are interested duplicate with interest in Shares held by Enerchina, Sinolink and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson and Supreme All. In addition, Asia Pacific is directly interested in 5,081,600 Shares, representing approximately 0.54% of the entire issued share capital of the Company.

SUBSTANTIAL SHAREHOLDERS (Cont'd)**Long positions and short positions in Shares and underlying Shares in the Company** (Cont'd)

2. 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.
3. Hutchison International is interested in 38,461,538 Shares and in the Note which is exchangeable into existing Shares held by Kenson at the exchange price of HK\$3.25 (subject to adjustment) per Share on or before 1 November 2006. 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 ("Unity Holdco"), of which each of Messrs. Li Ka-shing, Li Tzar Kuoi, Victor and 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, Unity Holdco 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 32.77% by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these Shares.

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.

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

Long positions and short positions in Shares and underlying Shares in the Company *(Cont'd)*

Save for the shareholders as disclosed herein, the directors are not aware of any persons who, as at 30 September 2005, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

COMPETING INTERESTS

Mr. FOK Kin-ning, Canning, a non-executive director of the Company, is also the group managing director of Hutchison Whampoa Limited and the co-chairman of Husky Energy Inc. ("Husky"). The core businesses of Hutchison Whampoa Limited include energy and Husky is engaged in integrated oil and gas business. Such businesses may compete, or is likely to compete, either directly or indirectly, with the business of the Group.

Although some of the businesses carried on by Husky are similar to the businesses carried on by the Company, Husky's operations mainly take place in North America and the South China Sea, where the Company has no operations.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The audit committee has 3 members comprising 3 independent non-executive directors, Messrs. Cheung Hon Kit, Ge Ming and Li Xiao Ru. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems, including a general review of the unaudited financial report for the nine months ended 30 September 2005. In carrying out this review, the audit committee has obtained explanations from management.

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

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

By Order of the Board
CHEN Wei
Managing Director

Hong Kong, 14 November 2005