

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Turnover of the Group for the year ended 30th June, 2005 was HK\$93.8 million as compared to turnover of HK\$157.2 million for the year ended 30th June, 2004. The turnover for the year ended 30th June, 2005 included HK\$79.3 million on trading of gas related products and HK\$14.0 million on securities trading and investment holding, as compared to HK\$18.2 million and HK\$137.8 million respectively for the year ended 30th June, 2004. The Group engaged in trading of gas related products since the acquisition of Beijing Sinogas Company Limited and its subsidiaries ("Beijing Sinogas") in March 2004, which is the major business the Group now focuses on. Gross profit for the year ended 30th June, 2005 was HK\$11.4 million as compared to a gross profit of HK\$13.6 million for the year ended 30th June, 2004.

The activities of trading of gas related products for the year ended 30th June, 2005 contributed HK\$3.4 million profit to the total segment results of the Group. This represented an increase of 9.7% on the segment profit of HK\$3.1 million for the year ended 30th June, 2004. The activities of security trading and investment holding for the year ended 30th June, 2005 recorded a segment loss of HK\$151.7 million as compared to a segment loss of HK\$6.3 million for the year ended 30th June, 2004. The operating loss for the year ended 30th June, 2005 was HK\$149.7 million which was mainly due to the impairment loss of HK\$139.0 million recognised in respect of investment securities. For the year ended 30th June, 2004, the Group reported an operating loss of HK\$2.1 million.

During the year ended 30th June, 2005, the Group disposed of its entire interest in Shandong International Economic Development Corporation and recognised a disposal gain of HK\$1.9 million which was included in the gain on disposal of subsidiaries in the income statement. An impairment loss of HK\$28.0 million was recognised in respect of interests in an associate which is principally engaged in bio-agricultural business.

The loss of the Group attributable to equity holders of the parent for the year ended 30th June, 2005 was HK\$182.7 million as compared to the loss of HK\$7.0 million for the year ended 30th June, 2004.

FINANCIAL RESOURCES

Total borrowings of the Group as at 30th June, 2005 were amounted to HK\$94.1 million of which HK\$13.7 million was loan from an associate denominated in RMB. Other RMB borrowings were HK\$40.5 million bank loans at operating subsidiaries level funding the local PRC operation requirements.

During the year ended 30th June, 2005, the Group was not materially expose to exchange risk.

As at 30th June, 2005, total borrowings of the Group were HK\$94.1 million and equity attributable to equity holders of the parent was HK\$135.5 million. Accordingly, the gearing ratio of the Group as at 30th June, 2005 was 69.4%.

LITIGATION

The Company issued a writ of summons in the Court of First Instance in Hong Kong against China Media International Group Limited ("CMI") on 18th February, 2004 to claim for, among others, damages for breach of the sale and purchase agreement (the "Sale and Purchase Agreement") in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited ("CMEP") dated 2nd January, 2003 and the shareholders agreement dated 10th February, 2003 in respect of CMEP, both entered into between the Company and CMI, including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from the date of its incorporation to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount after tax net profit on the difference between the actual amount of account receivables (as shown in the management account of CMEP as at 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of account receivables. The writ served on CMI on 19th February, 2004 and a settlement was made between CMI and the Company in May 2004 and a consent order dated 6th May, 2004 was granted by the Court of First Instance. However, CMI has failed and/or refused to comply with any of the terms of the said order and therefore an application for judgment against CMI was made by the Company on 9th July, 2004. The hearing of the application of judgment against CMI was conducted on 14th July, 2005. An interlocutory judgment was granted in favour of the Company and the Company will be compensated for, amongst other things, the damages suffered and the sum entitled under the Sale and Purchase Agreement.

Nevertheless, in the opinion of the directors, it is unable to assess the recoverability of the damages and the sum entitled, if any, due to the unavailable of the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 and any subsequent periods. In addition, the directors of the Company could not contact the management of CMI to demand the damages and the sum entitled. Impairment loss of HK\$137,858,000 in respect of the investment in CMEP was recognised during the year since the directors considered that the investment is fully impaired as at 30th June, 2005.

STAFF BENEFIT

The Company reviews remuneration packages on an annual basis. Apart from salary, other benefits include contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies and a discretionary bonus.

BUSINESS OUTLOOK

The Group will continue to focus its activities of trading of conversion parts and gas station equipment and operation of gas stations. The Group intends to expand its natural gas business in the PRC. The use of liquefied natural gas ("LNG") and compressed natural gas ("CNG") in the PRC is becoming more popular, partly due to government policies in the PRC in promoting natural gas as a more environmental friendly energy source and partly due to the fact that natural gas is more cost-efficient than other energy sources such as petroleum. In addition to the use of LNG and CNG in households and for industrial purposes, LNG and CNG have also become increasingly popular energy sources for motor vehicles. More people will turn to use natural gas which is a cheaper and cleaner substitute of petroleum. In light of the growth in car ownership due to the improving living standard in the PRC, the Group intends to expand its natural gas business, through Beijing Sinogas or other subsidiaries, by constructing more LNG/CNG refueling gas stations in various cities in the PRC including Jinan, Shenyang, Handan, Luoyang, Taiyuan, Zhengzhou, Wuxi, Nanjing and Shijiazhuang. The Group will continue to capitalise on its experience and management expertise to develop in this natural gas field.

APPROVAL OF SECOND INTERIM REPORT

The second interim report was approved by the Board on 26th September, 2005.

For and on behalf of the Board

Ji Guirong

Chairman

Hong Kong, 26th September, 2005

As at the date of this second interim report, the executive Directors are Mr. Ji Guirong, Dr. George Han Hsiao Yue, Mr. Liu Yangu, Ms. Ka Ying, Mr. Sun Wenhao, Mr. Wu Ding, Mr. Ji Hui and Mr. Lo Chi Ho, William; and the independent non-executive Directors are Mr. Li Xinzhong, Mr. Tian Jianli, Ms. Li Zheng, Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei.