CHINA GAS HOLDINGS LTD.
中国燃气控股有限公司

INTERIM REPORT 2002-03

(incorporated in Bermuda with limited liability)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Liu Ming Hui
(Co-Chairman and Managing Director)
Liu Yu Jie
Ma Jin Long
Zhu Wei Wei

Non-Executive Directors
Li Xiao Yu *(Co-Chairman)*
Wu Bangjie
Xu Ying

Independent Non-Executive Directors
Li Ka Leung, Daniel
Zhao Yuhua

COMPANY SECRETARY

Yang Yan Tung Doris

REGISTERED OFFICE

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Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

16th Floor
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151 Gloucester Road
Wan Chai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Stock Code on The Stock Exchange of Hong Kong Limited: 384

德勤・關黃陳方會計師行

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Deloitte
Touche
Tohmatsu

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CHINA GAS HOLDINGS LIMITED
(FORMERLY KNOWN AS HAI XIA HOLDINGS LIMITED海峽集團有限公司)
(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 4 to 16.

Director's responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provision thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September, 2002.

20 December, 2002

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2002

		Six months ended	
		30 September, 2002	**30 September, 2001**
	NOTES	*HK$'000*	*HK$'000*
		(unaudited)	**(unaudited)**
Turnover	*3*	4,950	721
Cost of sales		(1,629)	(459)
Gross profit		3,321	262
Other revenue		42	484
Distribution costs		(176)	(458)
Administrative expenses		(9,229)	(1,446)
Impairment loss recognised in respect of investments in securities		(6,100)	–
Amortisation of goodwill		(58)	–
Share of results of associates		(811)	–
Loss before taxation	*4*	(13,011)	(1,158)
Taxation	*5*	–	89
Net loss before minority interests		(13,011)	(1,069)
Minority interests		(871)	–
Net loss for the period		(13,882)	(1,069)
Loss per share			
Basic	*6*	(1.57) cents	(0.44) cent

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER, 2002

	NOTES	**30 September, 2002** *HK$'000* **(unaudited)**	**31 March, 2002** *HK$'000* **(audited)**
Non-current assets			
Investment properties	*7*	13,923	13,923
Property, plant and equipment	*7*	74,905	12,782
Properties held for development		36,200	36,200
Interests in associates	*8*	903	–
Investments in securities	*9*	27,450	–
Goodwill	*10*	13,828	–
Negative goodwill	*11*	(3,488)	–
		163,721	62,905
Current assets			
Inventories		751	–
Investments in securities	*9*	–	33,700
Trade and other receivables	*12*	12,709	226
Amount due from an associate		2,009	–
Bank balances and cash		21,828	14,664
		37,297	48,590
Current liabilities			
Trade and other payables	*13*	11,542	2,669
Amount due to former ultimate holding company		–	1,049
Amount due to a former fellow subsidiary		–	980
Bank borrowings – amount due within one year	*14*	1,944	–
Taxation		175	346
		13,661	5,044
Net current assets		23,636	43,546
		187,357	106,451
Capital and reserves			
Share capital	*15*	17,899	110,753
Reserves		131,579	(4,302)
		149,478	106,451
Minority interests		16,823	–
Non-current liabilities			
Bank borrowings – amount due after one year	*14*	21,056	–
		187,357	106,451

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2002

	Share capital *HK$'000*	Investment property revaluation reserve *HK$'000*	Land and building revaluation reserve *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000*	Deficit *HK$'000*	Total *HK$'000*
At 1 April, 2001	125,985	677	3,822	22,718	1,602	(84,384)	70,420
Issuance of new ordinary shares	300	–	–	17,700	–	–	18,000
Conversion of preference shares to ordinary shares	(14,769)	–	–	14,769	–	–	–
Net loss for the period	–	–	–	–	–	(1,069)	(1,069)
At 30 September, 2001	111,516	677	3,822	55,187	1,602	(85,453)	87,351
Issuance of new ordinary shares	1,000	–	–	24,800	–	–	25,800
Conversion of preference shares to ordinary shares	(1,846)	–	–	1,846	–	–	–
Exercise of share options	83	–	–	827	–	–	910
Deficit on revaluation not recognised in income statement	–	(677)	(708)	–	–	–	(1,385)
Net loss for the period	–	–	–	–	–	(6,225)	(6,225)
At 31 March, 2002	110,753	–	3,114	82,660	1,602	(91,678)	106,451
Issuance of new ordinary shares	596	–	–	56,203	–	–	56,799
Conversion of preference shares to ordinary share	(93,460)	–	–	93,460	–	–	–
Exercise of share options	10	–	–	100	–	–	110
Net loss for the period	–	–	–	–	–	(13,882)	(13,882)
At 30 September, 2002	17,899	–	3,114	232,423	1,602	(105,560)	149,478

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2002

	Six months ended 30 September, 2002 *HK$'000* (unaudited)	30 September, 2001 *HK$'000* (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(14,804)	(6,183)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(7,582)	1,053
NET CASH FROM FINANCING ACTIVITIES	29,550	18,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,164	12,870
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	14,664	442
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	21,828	13,312
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	21,828	13,312

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of leasehold properties, investment properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March, 2002, except as disclosed below new accounting policies adopted during the period.

Investment in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any identified impairment losses. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

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 at the date of acquisition.

Goodwill arising on acquisition after 1 April, 2002 is capitalised and amortised on a straight-line basis over its useful economic life of 20 years. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, 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 is presented as a deduction from assets. 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 in income immediately.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid less any discount on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

In addition, in the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings namely operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

3. **SEGMENT INFORMATION**

For management purposes, the Group is currently organised into four operating divisions – property investment, financial and security investment, gas pipeline construction and sales of natural gas. These principal operating activities are the basis on which the Group reports its primary segment information.

In the current period, the Group involved in gas pipeline construction and sales of natural gas through acquisition of various subsidiaries.

In prior period, the Group was also involved in the retailing of fashion apparel and accessories. These operations were discontinued during the period.

Six Months Ended 30 September, 2002

	Property investment	**Financial and security investment**	**Gas pipeline construction**	**Sales of natural gas**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
Turnover	641	136	2,167	2,006	4,950
Segment result	489	(6,117)	1,702	307	(3,619)
Unallocated corporate revenue					42
Unallocated corporate expenses					(8,565)
Amortisation of goodwill					(58)
Share of results of associates					(811)
Loss before taxation					(13,011)

Six Months Ended 30 September, 2001

	Retailing of fashion apparel and accessories	**Property investment**	**Financial and security investment**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
Turnover	72	617	32	721
Segment result	(368)	497	12	141
Unallocated corporate revenue				484
Unallocated corporate expenses				(1,783)
Loss before taxation				(1,158)

4. LOSS BEFORE TAXATION

	Six months ended 30 September, 2002 HK$'000 (unaudited)	Six months ended 30 September, 2001 HK$'000 (unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Depreciation	269	207
Dividend income	(2)	(45)
Interest income	(39)	(6)
Loss on disposal of a subsidiary	2	–
Loss on disposal of property, plant and equipment	170	–

5. TAXATION

No provision for Hong Kong Profits Tax has been made as there is no assessable profit for the period (six months ended 30 September, 2001: Nil). The tax credit shown in prior period represented the reversal of overprovision of Hong Kong Profits Tax made in respect of previous years.

Certain subsidiaries operating in the PRC are eligible for tax holidays and concessions and were exempted from PRC income taxes for the period.

6. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss for the period of HK$13,882,000 (six months ended 30 September, 2001: HK$1,069,000) and on 883,625,183 (six months ended 30 September, 2001: 240,440,268) weighted average number of ordinary shares outstanding during the period. The computation of diluted loss per share does not assume the exercise of potential ordinary shares since their exercise would be anti-dilutive.

7. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired of property, plant and equipment of HK$62,563,000 (year ended 31 March, 2002: Nil) of which HK$61,722,000 were acquired through acquisition of subsidiaries.

During the period, the Group disposed of property, plant and equipment at carrying value of HK$170,000 (year ended 31 March, 2002: HK$24,000).

The Group did not acquire or dispose of any investments properties during both periods.

8. INTERESTS IN ASSOCIATES

	30 September, 2002 HK$'000 (unaudited)	31 March, 2002 HK$'000 (audited)
Unlisted		
Share of net assets	903	–

9. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	30 September, 2002	31 March, 2002	30 September, 2002	31 March, 2002	30 September, 2002	31 March, 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities listed in Hong Kong	27,450	–	–	33,700	27,450	33,700
Market value	9,150	–	–	33,700	9,150	33,700
Carrying amount analysed for reporting purposes as:						
Current	–	–	–	33,700	–	33,700
Non-current	27,450	–	–	–	27,450	–
	27,450	–	–	33,700	27,450	33,700

Notes:

(i) The balance represents an approximately 10.5% interest in Greater China Holdings Limited ("Greater China"), a listed company in Hong Kong, which is principally engaged in trading of handbags, securities trading and investment holding.

(ii) In order to facilitate the exploration of business opportunities between the Group and Greater China with a focus in the cross strait business sectors and maintain good relationship, the directors considered that investment in Greater China is for strategic long-term purpose, accordingly, such investment was reclassified as non-current investment securities. An impairment loss of HK$6,100,000 was recognised in income statement in respect of the change of classification.

(iii) As per the interim financial report of Greater China for the six months ended 30 June, 2002, Greater China had net assets of approximately HK$153,814,000 and recorded a profit for the period of approximately HK$37,000,000.

10. GOODWILL

	HK$'000
COST	
At 1 April, 2002	–
Arising on acquisition during the period	13,886
At 30 September, 2002	13,886
AMORTISATION	
At 1 April, 2002	–
Charge for the period	58
At 30 September, 2002	58
NET BOOK VALUE	
At 30 September, 2002	13,828

The goodwill is amortised to the consolidated income statement on a straight-line basis over 20 years.

11. NEGATIVE GOODWILL

	HK$'000
Arising on acquisition on 30 September, 2002	(3,488)

The negative goodwill is released to the consolidated income statement on a straight-line basis over 50 years.

12. TRADE AND OTHER RECEIVABLES

The Group grants an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade and other receivables at the reporting date:

	30 September, 2002 *HK$'000* **(unaudited)**	**31 March, 2002** *HK$'000* **(audited)**
0 – 30 days	3,490	–
31 – 60 days	637	99
61 – 90 days	72	–
Over 90 days	926	2
	5,125	101
Deposits, prepayments and other receivables	7,584	125
	12,709	226

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	30 September, 2002 *HK$'000* **(unaudited)**	**31 March, 2002** *HK$'000* **(audited)**
0 – 60 days	1,859	447
61 – 90 days	1,632	197
Over 90 days	8,051	2,025
	11,542	2,669

14. BANK BORROWINGS

During the period, the Group obtained a new bank loan in the amount of HK$23,000,000. The loan bears interest at market rates and repayable in instalments over a period of 10 years. The proceeds were used to repay a mortgage loan of a subsidiary acquired during the period.

15. SHARE CAPITAL

	Ordinary shares No. of shares		Preference shares No. of shares		Total
	'000 HK$0.01 each	*HK$'000*	*'000 HK$1 each*	*HK$'000*	*HK$'000*
At 31 March, 2002	485,026	4,851	105,902	105,902	110,753
Issuance of new ordinary shares	59,659	596	–	–	596
Conversion of preference shares to ordinary shares	614,331	6,143	(99,603)	(99,603)	(93,460)
Exercise of share options	1,000	10	–	–	10
At 30 September, 2002	1,160,016	11,600	6,299	6,299	17,899

16. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

Acquisition

On 4 May, 2002, the Group entered into three agreements to acquire an aggregate 60% interest in Beijing Xiangke Jiahua Oil & Gas Technology Company Limited. The consideration was satisfied by cash of HK$18,834,000 and issuance of 10,000,000 new ordinary shares by the Company. The acquisition was completed in earlier September 2002.

On 30 September, 2002, the Group acquired the entire issued capital of Elegant Cheer Limited. The consideration was satisfied by issuance of 16,325,829 new ordinary shares by the Company.

The effect of acquisitions are summarised as follows:

	HK$'000
Net assets acquired	35,235
Goodwill arising in acquisition	13,886
Negative goodwill arising in acquisition	(3,488)
	45,633
Satisfied by:	
Cash consideration	18,834
Issuance of ordinary shares	26,799
	45,633
Net cash outflow arising on acquisitions	
Cash consideration paid	(18,834)
Bank balances and cash acquired	11,959
	(6,875)

Disposal

On 7 August, 2002, the Group disposed of the entire interest in Global Med Technologies Asia Limited to the former ultimate holding company without consideration. The net assets of the subsidiary as at the date of disposal is approximately HK$2,000 and has resulted a loss of disposal of approximately HK$2,000.

17. PLEDGE OF ASSETS

At 30 September, 2002, the Group pledged land and buildings of HK$43,000,000 (31 March, 2002: Nil) to secure banking facilities granted to the Group.

18. CHANGE OF NAME

Pursuant to a special resolution passed on 5 July, 2002, the name of the Company was changed from Hai Xia Holdings Limited 海峽集團有限公司 to China Gas Holdings Limited.

19. CAPITAL COMMITMENTS

(i) On 13 May, 2002, Hai Xia Finance Limited ("Hai Xia FL"), a subsidiary of the Company entered into an agreement with Hong Kong Syndisome Co., Limited ("HKSCo") pursuant to which HKSCo and Hai Xia FL agreed to form a company to be incorporated in Samoa (the "Samoa Company"). The Samoa Company will be owned as to 55% by Hai Xia FL and 45% by HKSCo. The proposed total investment in the Samoa Company is approximately HK$120 million which will be funded as to HK$66 million by Hai Xia FL and HK$54 million by HKSCo. Of the amount to be funded by Hai Xia FL, HK$8.4 million will be contributed by Hai Xia Finance Holdings Limited ("Hai Xia Finance") when Hai Xia FL assign 7% of its shareholding in the Samoa Company to Hai Xia Finance pursuant to an agreement as stated in note (ii) below. A summary of the terms of this agreement is set out in an announcement of the Company dated 16 May, 2002.

(ii) On 16 May, 2002, an agreement was entered into between Hai Xia FL and Hai Xia Finance pursuant to which Hai Xia FL agrees to assign 7% of its shareholding in the Samoa Company to Hai Xia Finance upon formation of the Samoa Company and Hai Xia Finance agreed to invest a total of HK$8.4 million to the Samoa Company. A summary of the terms of the agreement is set out in an announcement of the Company dated 16 May, 2002.

(iii) On 8 June, 2002, the Company entered into an agreement with Hai Xia Finance Holdings Limited ("Hai Xia Finance") pursuant to which the Company and Hai Xia Finance agreed to form a company to be incorporated in the British Virgin Islands (the "BVI Company"). The BVI Company will be owned as to 49% by the Company and 51% by Hai Xia Finance. The proposed issued share capital of the BVI Company is HK$10 million which will be funded by the Company and Hai Xia Finance as to HK$4.9 million and HK$5.1 million respectively. A summary of the terms of this agreement is set out in an announcement of the Company dated 10 June, 2002.

(iv) On 26 July, 2002, Energy Valley Investment Limited ("Energy Valley"), a subsidiary of the Company entered into an agreement with Standard Petrochemical Holdings Limited and Wang Wen Liang (the "Vendors"), pursuant to which the Vendors have agreed to sell and Energy Valley has conditionally agreed to acquire the entire issued share capital of Standard Petrochemical Hong Kong Holdings Limited at a total consideration of approximately HK$65.5 million.

20. POST BALANCE SHEET EVENTS

(i) On 30 October, 2002, a subsidiary of the Company acquired the entire interest of Standard Petrochemical Hong Kong Holdings Limited at a total consideration of HK$65,488,803. The consideration was satisfied by the allotment and issue of 52,391,042 shares by the Company. A summary of the terms of the acquisition is set out in the announcement of the Company dated 30 July, 2002.

(ii) On 12 November, 2002, a subsidiary of the Company entered into an agreement with Mr. Yuan Yang to acquire 57% of the entire issued share capital of China City Gas Construction Investment Company Limited ("China City Gas") held by Mr. Yuan Yang. China City Gas has not commenced any business since its incorporation and its 93.2% equity interest in the Jiaozuo City Gas Development Company Limited ("JV Company") constitutes its sole assets. Pursuant to the terms of agreement, the subsidiary will make a total investment of HK$42,499,200 in the JV Company by way of shareholder's loan to China City Gas. A summary of the terms of the agreement is set out in the announcement of the Company dated 10 November, 2002.

(iii) On 20 November, 2002, the Group entered into a loan agreement for loan facility of HK$60,000,000 which is secured by certain leasehold properties and shares of subsidiaries of the Group.

(iv) On 6 December, 2002, a subsidiary of the Company entered into an agreement with Wuhan China Natural Gas Investment Company Limited ("Wuhan Natural Gas") and Yichang City Natural Gas Company Limited ("Yichang Natural Gas") pursuant to which all parties have agreed to establish a Sino-foreign equity joint venture company ("Yichang JV") in the PRC which principally engage in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Yichang, Hubei Province, the PRC. The JV Co, will be owned as to 49% by the Group, 21% by Wuhan Natural Gas and 30% by Yichang Natural Gas. Wuhan Natural Gas is, however, beneficially owned by the Group. Upon establishment, Yichang JV will be a non-wholly owned subsidiary of the Company.

(v) On 17 December, 2002, a subsidiary of the Company entered into an agreement with Mr. Ji Xiangjun to acquire 57% of the entire issued share capital of China City Gas Construction Development Company Limited ("China City Development") held by Mr. Ji Xiangjun. China City Development has not commenced any business since its incorporation and its 92.9% equity interest in the Jiyuan City Gas Development Co., Ltd. ("JV Co.") constitutes its sole assets.

Pursuant to the terms of the agreement, the subsidiary will make a total investment of HK$20,122,140 in the JV Co. by way of shareholder's loan to China City Development. A summary of the terms of the agreement is set out in the announcement of the Company dated 17 December, 2002.

21. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	Management fee paid Six months ended		**Amount owed related parities**	
	30 September, 2002	**30 September, 2001**	**30 September, 2002**	**31 March, 2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Former fellow subsidiary	492	–	–	980
Former ultimate holding company	–	–	–	1,049

(i) Pursuant to an agreement dated 29 April, 2002 entered into between the Company and Heng Fung Underwriter Limited ("Heng Fung Underwriter"), a subsidiary of the former ultimate holding company, the Group paid management service fee to Heng Fung Underwriter for the provision of management and support services related to corporate services, capital raising and other support as requested by the Group.

(ii) During the period, the Group had disposed of the entire interest in a wholly owned subsidiary to the former ultimate holding company without consideration. The details of assets being disposed are set out in note 16.

INTERIM DIVIDEND

The Board of Directors ("Directors") has decided not to declare any interim dividend for the six months ended 30 September, 2002 (six months ended 30 September, 2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period, the Group focused on shifting its core business to the investment in and the operation of natural gas business in the PRC and has made significant progress.

In early May 2002, the Group acquired a 60% shareholding interest in Beijing Xiangke Jiahua Oil and Gas Technology Co. Ltd. ("Beijing Xiangke"). The acquisition was completed in early September 2002. Beijing Xiangke is principally engaged in the storage, transportation and sale of compressed natural gas, as well as the provision of technical services for exploration of oil and gas fields. Beijing Xiangke is one of the first companies in the PRC to use compressed natural gas for applications in private enterprises and households. It has obtained patents granted on the techniques related to compressed natural gas and is the largest private supplier of compressed gas in the PRC. Beijing Xiangke is now operating a total of 37 natural gas projects, which cover 8 counties in Beijing, as well as the developed areas in Tianjin, Hebei and Shandong Provinces. Through this acquisition, the Group rapidly expanded into the distribution market of natural gas in the PRC and established a strong foothold therein.

In May 2002, the Group entered into an agreement whereby the Group will inject HK$57.6 million cash and will contract with a PRC strategic partner to invest in natural gas projects in Changsha, Hunan Province, the PRC. The joint venture includes a wholly-owned subsidiary of Shenzhen Nanshan Power Station Co. Ltd., a Shenzhen listed company, as a shareholder. By leveraging off the partners' expertise in the energy industry, the Group would be able to take advantage of opportunities in the PRC energy sector.

In July 2002, the Group entered into an agreement to acquire a 55% interest in Zhengzhou Standard Petrochemical Company Limited ("Zhengzhou Standard Petrochemical"). Zhengzhou Standard Petrochemical is principally engaged in the wholesale of refined petroleum and is the most important partner of the Petrochina Group and the China Petroleum & Chemical Group in the PRC. Zhengzhou Standard Petrochemical owns an oil storage with capacity of 12,000 cubic metres and 9 refueling stations. This acquisition could not only further enhance the Group's presence in the distribution market of oil and gas, but also facilitate its development in gas refueling station business. The Group successfully expanded into the distribution market of refined petroleum in the PRC and obtained the exclusive right to construct gas stations in Zhengzhou. Also guarantee has been given to the Group that the net profits of Zhengzhou Standard Petrochemical for the three years ending 31 December, 2004 shall not be less than RMB15,000,000, RMB16,000,000 and RMB17,000,000 respectively.

In July 2002, the name of the Company changed to China Gas Holdings Limited and the Group acquired 16th Floor, AXA Centre, Wanchai, as the Group's headquarters in Hong Kong.

In November 2002, the Group entered into an agreement to acquire a 53% interest in Jiaozou City Gas Development Co., Ltd. through its holding company. Jiaozou City Gas Development Co., Ltd. owns the exclusive right to distribute gas in Jiaozou City, Henan Province. Jiaozou City has a total population of 750,000. It is expected that 250,000 households would register to use natural gas supplied by Jiaozou City Gas Development Co., Ltd.. This acquisition was completed in November 2002. This is the first project obtained by the Group from the participation city of the West to East Gas Pipeline Project. Through this acquisition, the Group established a solid foothold in the distribution market of natural gas in the PRC. Besides, it will facilitate the Group in obtaining the exclusive right from other participation cities of the West to East Gas Pipeline Project in Henan Province.

In December 2002, the Group entered into two agreements pursuant to which the Group and Yichang Natural Gas Co. Ltd. established a sino-foreign equity joint venture company called Yichang China Gas & City Gas Company Limited, which will be owned as to 70% by the Group. Besides, through acquiring its holding company, the Group acquired a 52.95% interest in Jiyuan City Gas Company Limited.

FINANCIAL REVIEW

The Group showed a remarkable growth in turnover for the period under review. For the six months ended 30 September, 2002, the Group recorded a turnover of HK$4,950,000 which is about 5.9 times greater than the turnover of HK$721,000 recorded in the previous corresponding period. The loss attributable to shareholders for the six months ended 30 September, 2002 was HK$13,882,000 as compared to HK$1,069,000 in the same period in last year.

The increase in turnover was mainly due to the contribution from the natural gas business of Beijing Xiangke acquired during the period. As mentioned above, the acquisition of Beijing Xiangke was completed in early September 2002, the one-month post-acquisition turnover and profits from Beijing Xiangke amounted to HK$4,173,000 and HK$1,906,000 respectively.

Gross rental income from investment properties and properties held for development for the period amounted to HK$641,000 which represented an increase of 3.9% as compared to the same period in last year. Despite a series of interest rates cuts, the property market continues its downward trend. Due to uncertainty in the property market, the development of the sites will be deferred.

The turnover of the financial and securities investment division of the Group for the period under review amounted to HK$136,000, representing an increase of 325% as compared to the same period in last year. As the Group made an provision for impairment loss of HK$6,100,000 in respect of investment securities, the division recorded a loss of HK$6,117,000.

During the period under review, the Group has discontinued its non-profitable operations in retailing of fashion apparel and accessories due to the economy downturn and harsh competition.

The Group's natural gas business is still at its infant stage. As the one-month profits contributed by Beijing Xianghe could not offset the costs arising from negotiations and acquisitions of natural gas projects carried out during the period and provisions made on investment securities, a loss of HK$13,882,000 was recorded.

Liquidity and financial resources

The Group monitors its liquidity position as part of its ongoing assets and liabilities management. The balance between liquidity and profitability is carefully considered.

At 30 September, 2002, the Group had cash and cash equivalents of HK$21,828,000 (31 March, 2002: 14,664,000). Total bank borrowings were HK$23,000,000 (31 March, 2002: nil). The loan bears interest at market rate and repayable in instalments over a period of 10 years.

The Group has current ratio of approximately 2.7 (31 March, 2002: 9.6) and gearing ratio of 15.4% (31 March 2002: Nil). The calculation of gearing ratio was based on the total borrowing of HK$23,000,000 and total equity interest of HK$149,478,000.

During the period under review, the holders of convertible preference shares have exercised the option to convert 99,603,906 convertible preference shares to 614,331,068 ordinary shares. Additionally, through a placing exercise announced in May 2002 and completed in June 2002, the Company placed out 33,333,333 new ordinary shares at HK$0.90 per share to independent subscriber raising net proceeds of approximately HK$29,000,000.

In September 2002, the Company placed out 10,000,000 new ordinary shares at HK$1.00 each and 16,325,829 new ordinary shares of HK$1.1638 for the acquisition of 9% equity interest in Beijing Xiangke and acquisition of property for its own use respectively.

Charge on Assets

At 30 September, 2002, the Group pledged its property located at 16th Floor, AXA Centre, 151 Gloucester Road, Hong Kong of HK$43,000,000 as a security for a mortgage loan of HK$23,000,000 granted to the Group. The Group did not have any banking facilities at 31 March, 2002.

Capital Commitment

At 30 September, 2002, the Group had capital commitment of HK$128 million in respect of investment in natural gas projects.

Foreign Exchange Exposure

Substantially all the revenues, expenses, assets and liabilities are denominated either in Hong Kong dollars or Renminbi. As the exchange rate of Renminbi has remained stable, the Group has no derivative activities nor committed to any financial instruments to hedge its foreign exchange exposures.

Contingent liabilities

Two former staff issued writs against the Company claiming for wrongful dismissal of approximately HK$1,862,000. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

Human resources

As at 30 September, 2002, the Group has approximately 160 employees. Remuneration packages are generally structured by reference to market terms, individual qualifications and experiences. The Group also adopted a discretionary bonus program. Salaries and wages are normally reviewed on an annual basis based on performance appraisal and other relevant factors.

PROSPECTS

Most cities in the PRC do not have piped gas supply at present, and for the very few that do have such facilities, the penetration rate is only as low as 20%. For the sake of economic benefits and environmental protection, the Central Government and local governments of the PRC actively encourage large and medium-sized cities to build gas pipeline network. The West to East Gas Pipeline Project has also been implemented, with an objective of improving the penetration rate to 80% in twenty years from 2000. Looking forward, the Directors are full of confidence in transforming our business to the distribution of natural gas. In the coming year, the Group will further increase its investment in the participation provinces of West to East Gas Pipeline Project namely Henan, Anhui, Jiangsu, Hubei and Hunan, which will lay a firm foundation for our development in the gas supply market in the PRC.

As natural gas business will become a fast growing industry in the PRC, the Directors will continue to explore more business opportunities in this area. With our consistent investment strategy, we will gradually increase our assets and revenues in a bid to realize a higher investment return for our shareholders.

DIRECTORS' INTERESTS IN SECURITIES

1. Shares

As at 30 September, 2002, the interests of a director and his associates in the shares of the Company and its associated corporations as recorded in the registrar maintained by the Company and its associated corporations pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") were as follows:

	No. of shares	
Name of director	**Personal Interests**	**Family Interests**
Chan Heng Fai* *(Note)*	3,316,000	3,316,000

Note:
These shares are owned by the spouse of Mr. Chan Heng Fai.

* *Resigned on 20 November, 2002*

2. Options

During the six months ended 30 September, 2002, the following director had exercised options to subscribe for 1,000,000 shares under the share option scheme of the Company:

Name of Director	Date of Grant	Exercisable Period	Exercise Price *(HK$)*	No of share options at 1 April, 2002	Exercise during the period	No. of at share options 30 September, 2002
Chan Sook Jin, Mary-ann *	2 Oct, 1998	2 Oct, 1998 to 2 Sept, 2008	0.11	1,000,000	(1,000,000)	–

* *Resigned on 22 July, 2002*

No option was granted under the share option scheme of the Company during the six months ended 30 September, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30 September, 2002, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance, showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name	No of shares *Direct Interest*	*Deemed Interest*	*Note*
Sure World Capital Limited	101,557,700	–	1
Rasa Sayang Limited	10,104,000	–	1
Heng Fung Capital Company Limited	3,388,000	–	1
Heng Fung Underwriter Limited	200,000	–	1
Heng Fung Holdings Limited	204,935,457	320,185,157	

Note 1: These companies are wholly-owned subsidiaries of Heng Fung Holdings Limited.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 September, 2002.

CORPORATE GOVERNANCE

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 September, 2002 ("Interim Financial Statements"). At the request of the Directors, the Group's external auditors have carried out a review of the Interim Financial Statements in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants.

Compliance with Code of Best Practice

The Directors are of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the six months ended 30 September, 2002.

Purchase, Sale on Redemption of Shares

For the six months ended 30 September, 2002, neither the Company nor any of its subsidiaries had purchase, sold or redeemed any of the Company's shares.

By Order of the Board
Liu Ming Hui
Managing Director

20 December, 2002