

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the operation of natural gas and petroleum business, property investment and financial and securities investment.

Pursuant to a special resolution passed on July 5, 2002, the name of the Company was changed from Hai Xia Holdings Limited to China Gas Holdings Limited and adopted a Chinese translation of the Company's name from 海峽集團有限公司 to 中國燃氣控股有限公司 for identification purpose.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, 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, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the inclusion of 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 adjustments 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 and associates at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. 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 year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividend received, which were previously presented under a separate heading, are classified as investing cash flows. Interest paid is classified as financing cash flow. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

### Discontinuing operations

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's fashion and apparel and accessories retailing activities as a discontinuing operation in the prior period, details of which are disclosed at note 6.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

### Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

## 3. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENTS

In previous years, the Group revalued its leasehold land and buildings and carried these leasehold land and buildings in its balance sheet on a valuation basis. Having considered the leasehold land and buildings are held for long term operating purposes, the Company's directors in the current year considered that the adoption of the cost basis of measurement for the Group's leasehold land and buildings and the change in the accounting policy to restate the previous valuation of its leasehold land and buildings to historical cost would result in a more appropriate presentation of the performance of the Group.

This change has the effect of reducing the net asset value of the Group as well as asset revaluation reserve of the Group. Following the adoption of the new accounting policy mentioned above, the asset revaluation reserve and accumulated losses of the Group at April 1, 2001 has been reduced by HK\$3,822,000 and HK\$587,000 respectively. The carrying value of property, plant and equipment at March 31, 2001 and 2002 has been decreased and increased respectively by HK\$3,235,000 and HK\$708,000.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties.

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

### Basis of consolidation

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

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

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

### 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 such 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.

### Investments in subsidiaries

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

### Revenue recognition

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

Sales of petroleum, natural gas and gas appliances are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. 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.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investment in an associate is stated at cost, as reduced by any identified impairment loss.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### Properties held for development

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

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

Land use rights	Over the shorter of the term of the lease or the operation period of the relevant company
Leasehold land	Over the remaining terms of the leases
Buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%

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

### Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

### Investments in securities

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

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 year.

### Inventories

Inventories, including construction materials, gas appliances and gas for sales, petroleum, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over relevant lease terms.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes are charged as an expense as they fall due.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

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

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

## 5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, sales of natural gas and petroleum, income from trading of securities, gas connection fees, dividend income and rental income received and receivable by the Group for the year and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of petroleum	58,140	–
Sales of natural gas	15,975	–
Sales of goods	3,658	76
Gas connection fees	2,838	–
Rental income	2,263	1,266
Income from trading of securities	134	3,477
Dividend income	2	8
Others	2,527	–
	<u>85,537</u>	<u>4,827</u>

# NOTES TO THE FINANCIAL STATEMENTS

*FOR THE YEAR ENDED MARCH 31, 2003*

## **6. BUSINESS AND GEOGRAPHICAL SEGMENTS**

### **Business segments**

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

In prior year, the Group was also involved in the retailing of fashion and accessories. That operation was discontinued during the year ended March 31, 2002.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

Segment information about these businesses is presented below:

#### 2003

	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas pipeline construction HK\$'000	Sales of natural gas HK\$'000	Sales of petroleum HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>							
Turnover	2,263	136	2,838	15,975	58,140	6,185	85,537
<b>SEGMENT RESULT</b>							
	(3,836)	(28,423)	1,947	5,432	4,940	612	(19,328)
Unallocated corporate revenue							343
Unallocated corporate expenses							(39,660)
Loss from operations							(58,645)
Finance costs							(6,169)
Share of results of associates	-	-	-	(11)	-	-	(11)
Loss before taxation							(64,825)
Taxation							(1,861)
Loss before minority interests							(66,686)
Minority interests							(2,987)
Net loss for the year							(69,673)
<b>ASSETS</b>							
Segment assets	55,986	5,501	47,063	107,450	146,720	5,032	367,752
Interests in associates	-	-	-	1,704	-	-	1,704
Unallocated corporate assets							132,051
Consolidated total assets							501,507
<b>LIABILITIES</b>							
Segment liabilities	351	11	41,146	7,069	46,635	2,277	97,489
Unallocated corporate liabilities							199,560
Consolidated total liabilities							297,049
<b>OTHER INFORMATION</b>							
Additions to property, plant and equipment	-	-	722	26,960	103,960	-	131,642
Additions to property, plant and equipment (unallocated)							49,072
							180,714
Depreciation and amortisation	258	-	-	1,112	2,037	-	3,407
Depreciation and amortisation (unallocated)							825
							4,232
Deficit on revaluation of investment properties	4,123	-	-	-	-	-	4,123
Amortisation of goodwill	-	-	-	447	207	-	654
Impairment loss recognised in consolidated income statement	-	28,060	-	-	-	-	28,060
Negative goodwill released to income statement (unallocated)							3,488

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2002

	Retailing of fashion apparel and accessories <i>HK\$'000</i> (Note)	Property investment <i>HK\$'000</i>	Financial and securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>				
Turnover	<u>76</u>	<u>1,266</u>	<u>3,485</u>	<u>4,827</u>
<b>SEGMENT RESULT</b>	<u>(963)</u>	<u>(6,770)</u>	<u>7,097</u>	(636)
Unallocated corporate revenue				509
Unallocated corporate expenses				<u>(7,256)</u>
Loss from operations				(7,383)
Taxation credit				<u>89</u>
Net loss for the year				<u>(7,294)</u>
<b>ASSETS</b>				
Segment assets	65	60,720	34,582	95,367
Unallocated corporate assets				<u>13,601</u>
Consolidated total assets				<u>108,968</u>
<b>LIABILITIES</b>				
Segment liabilities	25	916	11	952
Unallocated corporate liabilities				<u>4,092</u>
Consolidated total liabilities				<u>5,044</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

#### OTHER INFORMATION

	Retailing of fashion apparel and accessories <i>HK\$'000</i> <i>(Note)</i>	Property investment <i>HK\$'000</i>	Financial and securities investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Deficit on revaluation of investment properties	–	1,030	–	–	1,030
Depreciation	15	386	1	1	403
Unrealised holding gain on investments in securities	–	–	6,736	–	6,736
Impairment loss recognised in consolidated income statement	–	6,900	–	–	6,900

*Note:* During the year ended March 31, 2002, the Group discontinued its retailing of fashion and accessories operations which contributed HK\$76,000 to the Group's turnover and HK\$963,000 to the Group's loss from operations. It also contributed HK\$3,584,000 to the Group's net operating cash outflows and received HK\$1,075,000 in respect of investing activities during the year ended March 31, 2002.

### Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's property, financial and securities investment divisions are located in Hong Kong. Sales of natural gas and petroleum and gas pipeline construction are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	1,482	4,827
The PRC	84,055	–
	<u>85,537</u>	<u>4,827</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments (continued)

Revenue from the Group's discontinued retailing of fashion and accessories operations was derived principally from Hong Kong.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	99,812	108,968	44,481	–
The PRC	401,695	–	136,233	–
	<u>501,507</u>	<u>108,968</u>	<u>180,714</u>	<u>–</u>

## 7. OTHER OPERATING INCOME

Other operating income includes interest income amounting to HK\$257,000 (2002: HK\$59,000).

## 8. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	750	565
Loss on disposals of property, plant and equipment	170	22
Minimum lease payments for operating leases in respect of:		
– rented premises	870	157
– equipment	340	–
Staff costs including directors' emoluments and retirement benefit scheme contributions	9,257	1,115
Rental income from investment properties less outgoings of HK\$45,000 (2002: HK\$106,000)	<u>(2,218)</u>	<u>(1,160)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 9. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	5,773	-
Bank loans not wholly repayable within five years	396	-
	<u>6,169</u>	<u>-</u>

## 10. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' fees		
- executive	33	-
- non-executive	118	90
- independent non-executive	103	90
	<u>254</u>	<u>180</u>
Other emoluments		
- executive	2,492	-
- non-executive	1,835	-
	<u>4,327</u>	<u>-</u>
Total emoluments	<u>4,581</u>	<u>180</u>

The emoluments of the directors were within the following bands:

	2003 No. of Directors	2002 No. of Directors
Nil to HK\$1,000,000	17	13
HK\$1,500,001 to HK\$2,000,000	<u>2</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2002: None) were directors of the Company. The emoluments of the remaining two (2002: five) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	574	824
Retirement benefit scheme contributions	20	9
	<u>594</u>	<u>833</u>

Emoluments of each of the two (2002: five) individuals were below HK\$1,000,000.

## 12. TAXATION (CHARGE) CREDIT

	2003 HK\$'000	2002 HK\$'000
The (charge) credit comprises:		
Overprovision for Hong Kong Profits Tax in the previous year	18	89
PRC income tax for the year	<u>(1,879)</u>	<u>—</u>
	<u>(1,861)</u>	<u>89</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

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

Details of unprovided deferred taxation are set out in note 29.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$69,673,000 (2002: HK\$7,294,000) and on 1,043,403,188 (2002: 324,461,902) weighted average number of ordinary shares outstanding during the year. No diluted loss per share is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share in both years.

## 14. INVESTMENT PROPERTIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Valuation		
At beginning of the year	13,923	15,630
Deficit on revaluation	<u>(4,123)</u>	<u>(1,707)</u>
At end of the year	<u>9,800</u>	<u>13,923</u>

Investment properties were revalued at their open market value at March 31, 2003 by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professionally qualified valuers, on an open market existing use basis. This valuation gave rise to a deficit on revaluation of HK\$4,123,000 of which nil (2002: HK\$677,000) and HK\$4,123,000 (2002: HK\$1,030,000) have been charged to the investment property revaluation reserve and the consolidated income statement respectively.

Investment properties of the Group with a net book value of HK\$9,800,000 (2002: HK\$13,068,000) are rented out under operating leases.

The market value of investment properties shown above comprises:

	2003 HK\$'000	2002 HK\$'000
Long lease in Hong Kong	8,020	11,860
Medium term lease in Hong Kong	<u>1,780</u>	<u>2,063</u>
	<u>9,800</u>	<u>13,923</u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 15. PROPERTY, PLANT AND EQUIPMENT

	Land use rights under medium- term leases HK\$'000	Leasehold land and buildings HK\$'000	Pipelines HK\$'000	Construction in progress HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At April 1, 2002								
- as originally stated	-	12,600	-	-	-	4,013	152	16,765
- prior year adjustment for the change in accounting policy (Note 3)	-	(100)	-	-	-	-	-	(100)
- as restated	-	12,500	-	-	-	4,013	152	16,665
Additions	-	4,817	-	7,649	3,578	1,426	636	18,106
Acquired on acquisition of subsidiaries	29,310	101,267	9,843	9,860	7,171	366	4,791	162,608
Reclassification	-	-	3,357	(3,357)	-	-	-	-
Disposals	-	-	-	-	-	(3,912)	-	(3,912)
<b>At March 31, 2003</b>	<b>29,310</b>	<b>118,584</b>	<b>13,200</b>	<b>14,152</b>	<b>10,749</b>	<b>1,893</b>	<b>5,579</b>	<b>193,467</b>
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>								
At April 1, 2002								
- as originally stated	-	-	-	-	-	3,831	152	3,983
- prior year adjustment for the change in accounting policy (Note 3)	-	2,427	-	-	-	-	-	2,427
- as restated	-	2,427	-	-	-	3,831	152	6,410
Provided for the year	275	2,401	128	-	726	112	590	4,232
Impairment loss recognised in the income statement (Note below)	-	8,797	-	-	-	-	-	8,797
Eliminated on disposals	-	-	-	-	-	(3,742)	-	(3,742)
<b>At March 31, 2003</b>	<b>275</b>	<b>13,625</b>	<b>128</b>	<b>-</b>	<b>726</b>	<b>201</b>	<b>742</b>	<b>15,697</b>
<b>NET BOOK VALUES</b>								
<b>At March 31, 2003</b>	<b>29,035</b>	<b>104,959</b>	<b>13,072</b>	<b>14,152</b>	<b>10,023</b>	<b>1,692</b>	<b>4,837</b>	<b>177,770</b>
At March 31, 2002	-	10,073	-	-	-	182	-	10,255



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of leasehold land and buildings shown above comprises.

	2003 HK\$'000	2002 HK\$'000
In Hong Kong		
Long lease	34,577	–
Medium-term lease	9,679	10,073
Outside Hong Kong		
Medium-term lease	<u>60,703</u>	<u>–</u>
	<u>104,959</u>	<u>10,073</u>

Notes: (a) During the year, the directors determined that certain leasehold land and buildings held by the subsidiaries were impaired, due to the continued loss of those subsidiaries. Accordingly, impairment loss of HK\$8,797,000 (2002: Nil) has been recognised in respect of these leasehold land and buildings.

(b) Certain land use rights and land and buildings in the PRC with carrying amount of HK\$4,070,000 and HK\$11,619,000 respectively are in the process of obtaining the certificate of land use right and the certificates for real estate.

## 16. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Medium term lease in Hong Kong – at cost	43,100	43,100
Less: Impairment loss recognised	<u>(6,900)</u>	<u>(6,900)</u>
	<u>36,200</u>	<u>36,200</u>

Properties held for development were reassessed at their open market value at March 31, 2003 on an open market existing use basis. The directors of the Company consider that no further impairment loss (2002: HK\$6,900,000) was required to be charged to the consolidated income statement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	129,504	51,504
Less: Impairment losses recognised	(51,504)	(51,504)
	<u>78,000</u>	<u>—</u>
Amounts due from subsidiaries	340,924	188,562
Less: Allowance	(137,176)	(146,160)
	<u>203,748</u>	<u>42,402</u>
	<u>281,748</u>	<u>42,402</u>

The amounts are unsecured and interest-free. In the opinion of the directors, the amounts due from subsidiaries will not be repaid within twelve months from the balance sheet date. Accordingly, they are classified as non-current.

Particulars of the principal subsidiaries at March 31, 2003 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
eglobaljob.com Limited	Hong Kong	Incorporated	Ordinary HK\$2	100	—	Investment holding
Faith Profit Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	—	Property holding
Fronteer Securities (HK) Limited	Hong Kong	Incorporated	Ordinary HK\$2	—	100	Financial and securities investment

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK\$2	–	100	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK\$1,000 Non-voting deferred shares HK\$1,000,000 (Note)	–	100	Investment holding, property investment and provision of management services to group companies
Iwai's Investments Limited	The British Virgin Islands ("BVI")/ Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Investment holding
Luckford Enterprise Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property development
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property development
York Winner Investment Limited	Hong Kong	Incorporated	Ordinary HK\$2	–	100	Financial and securities investment

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
中亞燃氣實業(深圳)有限公司 ("中亞燃氣")	PRC	Wholly foreign-owned enterprise	Registered capital/ US\$10,000,000	100	-	Investment holding
鄭州標準石化有限公司 Zhengzhou Standard Petrochemical Company Limited ("Zhengzhou Standard ")	PRC	Limited liability company	Registered capital/ RMB15,000,000	-	55	Trading of petroleum and operation of petrol stations
北京中燃翔科油氣技術有限公司(前稱北京翔科嘉華油氣技術有限公司) Beijing Zhongran Xiangke Oil & Gas Technology Company Limited* (formerly known as Beijing Xiangke Jiahua Oil & Gas Technology Company Limited ("Beijing Xiangke "))	PRC	Sino-foreign equity joint venture	Registered capital/ RMB20,000,000	-	60	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited ("Elegant Cheer ")	Hong Kong	Incorporated	Ordinary capital/ HK\$10,000	-	100	Property holding
China Gas Corporate Services Limited	Hong Kong	Incorporated	Ordinary capital/ HK\$100	100	-	Provision of secretarial services

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
China Natural Gas Investment Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
China City Gas Investment Limited	Samoa	Incorporated	Ordinary US\$1	100	–	Investment holding
China City Gas Development Limited	Samoa	Incorporated	Ordinary US\$1	100	–	Investment holding
武漢中燃投資有限公司 Wuhan China Natural Gas Investment Company Limited	PRC	Limited liability company	Registered RMB69,980,000	–	100	Investment holding
中國城市燃氣建設投資有限公司 China City Gas Construction Investment Company Limited	BVI	Incorporated	Ordinary US\$100	–	57	Investment holding
焦作中燃城市燃氣發展有限公司 Jiaozuo City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB84,800,000	–	93	Not yet commence business
China City Gas Construction Development Company Limited	BVI	Incorporated	Ordinary US\$100	–	57	Investment holding
濟源中燃城市燃氣發展有限公司 Jiyuan City Gas Development Company Limited	PRC	Sino-foreign equity joint venture	Registered RMB40,280,000	–	93	Not yet commence business

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
北京中油翔科科技有限公司	PRC	Limited liability company	Registered RMB2,000,000	-	80	Trading of natural gas and gas pipeline construction
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	-	70	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	-	80	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	-	51	Trading of natural gas and gas pipeline construction
宜昌中燃城市燃氣發展有限公司 Yichang Zhongran City Gas Development Limited	PRC	Limited liability company	Registered RMB70,000,000	-	70	Not yet commence business
藁城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	-	70	Trading of natural gas and gas pipeline construction

\* English name is for identification purposes only.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

*Note:* The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year.

## 18. INTERESTS IN ASSOCIATES/INVESTMENT IN AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	1	—
Share of net assets	1,704	—	—	—

As at March 31, 2003, the Group had interests in the following associates:

Name of entity	Form of business structure	Place/ country of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of shares/registered capital held by the Group	Nature of business
China Gas Development Group Limited	Incorporated	BVI	Hong Kong	Ordinary	49%	Investment holding
北京城南之光燃氣技術開發有限公司	Limited liability company	PRC	PRC	Registered capital	30%	Trading of natural gas and gas pipeline construction

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 19. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>						
Equity securities held						
in Hong Kong	<u>5,490</u>	<u>-</u>	<u>-</u>	<u>33,700</u>	<u>5,490</u>	<u>33,700</u>
Market value	<u>3,660</u>	<u>-</u>	<u>-</u>	<u>33,700</u>	<u>3,660</u>	<u>33,700</u>
Carrying amount analysed for reporting purpose as:						
Current	-	-	-	33,700	-	33,700
Non-current	<u>5,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,490</u>	<u>-</u>
	<u>5,490</u>	<u>-</u>	<u>-</u>	<u>33,700</u>	<u>5,490</u>	<u>33,700</u>
<b>The Company</b>						
Equity securities held						
in Hong Kong	<u>5,220</u>	<u>-</u>	<u>-</u>	<u>31,900</u>	<u>5,220</u>	<u>31,900</u>
Market value	<u>3,480</u>	<u>-</u>	<u>-</u>	<u>31,900</u>	<u>3,480</u>	<u>31,900</u>
Carrying amount analysed for reporting purpose as:						
Current	-	-	-	31,900	-	31,900
Non-current	<u>5,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,220</u>	<u>-</u>
	<u>5,220</u>	<u>-</u>	<u>-</u>	<u>31,900</u>	<u>5,220</u>	<u>31,900</u>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 19. INVESTMENTS IN SECURITIES (continued)

Notes:

- (i) The investments represent approximately 8.8% and 8.4% equity interests in Greater China Holdings Limited ("Greater China") held by the Group and the Company respectively.
- (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 for the six months ended September 30, 2002 in respect of the period prior to the change of classification.
- (iii) Further, due to the continuous losses suffered by Greater China, the directors recognised impairment loss of HK\$28,060,000 for the year ended March 31, 2003 (included HK\$6,100,000 as mentioned in (ii) above) by reference to the latest net assets value of Greater China.

## 20. GOODWILL

	<b>THE GROUP</b>
	<i>HK\$'000</i>
<b>COST</b>	
Arising on acquisitions during the year and at March 31, 2003	20,784
<b>AMORTISATION</b>	
Charge for the year and at March 31, 2003	<u>(654)</u>
<b>NET BOOK VALUE</b>	
At March 31, 2003	<u><u>20,130</u></u>

The goodwill is amortised to the consolidated income statement on a straight-line basis over a period ranged from 11 to 20 years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 21. NEGATIVE GOODWILL

	<b>THE GROUP</b>
	<i>HK\$'000</i>
<b>GROSS AMOUNT</b>	
Arising on acquisitions during the year and at March 31, 2003	3,488
<b>RELEASED TO INCOME STATEMENT</b>	
Released during the year	<u>(3,488)</u>
<b>CARRYING AMOUNT</b>	
At March 31, 2003	<u><u>–</u></u>

The negative goodwill on the acquisition of a subsidiary of which its main asset was a leasehold land and building. The management has reassessed the value of this leasehold land and building by reference to a valuation report prepared by a firm of independent professional qualified valuers at the balance sheet date and recognised an impairment loss of HK\$8,655,000. Accordingly, the directors released the negative goodwill to the income statement in full during the year.

## 22. INVENTORIES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The following is an analysis of inventories at the reporting date:		
Petroleum	<b>10,473</b>	–
Construction materials	<b>880</b>	–
Consumables and spare parts	<b>2,573</b>	–
Natural gas	<b>132</b>	–
	<u><b>14,058</b></u>	<u>–</u>

The balance represents the finished goods and is stated at cost.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 23. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30-60 days to its trade customers.

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

	<b>THE GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 60 days	<b>3,502</b>	99
61 – 90 days	<b>290</b>	–
91 – 120 days	<b>1,331</b>	2
121 – 180 days	<b>1,793</b>	–
Over 180 days	<b>1,565</b>	–
	<hr/>	<hr/>
Trade receivables	<b>8,481</b>	101
Deposit paid for construction materials	<b>38,095</b>	–
Other receivables, deposits and prepayments	<b>10,939</b>	125
Advance to a supplier – interest bearing (Note)	<b>8,524</b>	–
Advances to other suppliers – non-interest bearing	<b>8,973</b>	–
	<hr/>	<hr/>
	<b>75,012</b>	226
	<hr/>	<hr/>

*Note:* Advance to a supplier was interest bearing at commercial rate, unsecured and repayable within twelve months.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 24. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	1,439	447
61 – 90 days	32	197
91 – 120 days	1,217	2,025
121 – 180 days	422	–
Over 180 days	4,292	–
	<hr/>	<hr/>
Trade payables	7,402	2,669
Other payables and accrued charges	30,709	–
	<hr/>	<hr/>
	<b>38,111</b>	<b>2,669</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 25. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Short-term bank loans	57,143	-	-	-
Mortgage loan	22,029	-	22,029	-
Loan from a financial institution (Note a)	55,590	-	55,590	-
Other unsecured loans (Note b)	107,148	-	61,926	-
Loans from employees (Note c)	4,895	-	-	-
	<u>246,805</u>	<u>-</u>	<u>139,545</u>	<u>-</u>
Secured	134,762	-	77,619	-
Unsecured	112,043	-	61,926	-
	<u>246,805</u>	<u>-</u>	<u>139,545</u>	<u>-</u>
The maturity profile of the above loans is as follows:				
On demand or within one year	159,361	-	56,996	-
More than one year, but not exceeding two years	68,815	-	64,396	-
More than two years, but not exceeding five years	7,108	-	6,632	-
More than five years	11,521	-	11,521	-
	<u>246,805</u>	<u>-</u>	<u>139,545</u>	<u>-</u>
Less: Amount due within one year shown under current liabilities	<u>(159,361)</u>	<u>-</u>	<u>(56,996)</u>	<u>-</u>
Amount due after one year	<u>87,444</u>	<u>-</u>	<u>82,549</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 25. BANK AND OTHER BORROWINGS (continued)

Notes:

- Loan from a financial institution is secured, interest-bearing at commercial rates and repayable on November 20, 2003. The details of the assets pledged are set out in note 36.
- Other loans are unsecured and not repayable within twelve months from the balance sheet date. Included in other loans is a loan of HK\$61,926,000 which is interest-free (the related fund arrangement fee of HK\$2,917,000 was included in consolidated income statement). The remaining balance of HK\$45,222,000 bears interest at commercial rates.
- Loans from employees represent advances from employees of Zhengzhou Standard. The amounts are unsecured, interest-free and are repayable during the period from May 2004 to September 2005.

## 26. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	No. of shares '000 HK\$0.01 each	HK\$'000	No. of shares '000 HK\$1 each	HK\$'000	
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>124,902</u>	<u>124,902</u>	<u>214,902</u>
Issued and fully paid:					
At April 1, 2001	208,292	2,083	123,902	123,902	125,985
Issue of new ordinary shares	130,000	1,300	-	-	1,300
Conversion of preference shares to ordinary shares	138,462	1,385	(18,000)	(18,000)	(16,615)
Exercise of share options	<u>8,272</u>	<u>83</u>	<u>-</u>	<u>-</u>	<u>83</u>
At March 31, 2002	485,026	4,851	105,902	105,902	110,753
Issue of new ordinary shares (Notes a and b)	112,050	1,121	-	-	1,121
Conversion of preference shares to ordinary shares (Note c)	614,331	6,143	(99,604)	(99,604)	(93,461)
Exercise of share options (Note d)	<u>1,000</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
At March 31, 2003	<u>1,212,407</u>	<u>12,125</u>	<u>6,298</u>	<u>6,298</u>	<u>18,423</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 26. SHARE CAPITAL (continued)

Notes:

- (a) In connection with the acquisition of subsidiaries during the year ended March 31, 2003, 10,000,000, 16,325,829 and 52,391,042 ordinary shares of HK\$0.01 each of the Company were issued at issue prices of HK\$1.08, HK\$0.98 and HK\$1.00 per share as consideration for acquisition of Beijing Xiangke, Zhengzhou Standard and Elegant Cheer, respectively.
- (b) On July 17, 2002, the Company issued 33,333,333 ordinary shares of HK\$0.01 each for a total consideration of HK\$30,000,000 to raise additional working capital to the Company.
- (c) During the year, the holders of preference shares have exercised the options to convert 56,402,477 and 43,201,429 Convertible Preference ("CP") shares at HK\$0.2 and HK\$0.13 per share respectively into 614,331,070 ordinary shares of HK\$0.01 each.
- (d) During the year, one director has exercised the share options to subscribe 1,000,000 ordinary shares of HK\$0.01 each at HK\$0.11 per share.

The CP shares shall carry equal rights and rank pari passu with one another as follows:

- (i) Holders of the CP shares issued during the year ended March 31, 1999 are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated February 12, 1999 and two supplement agreements dated February 15, 1999 and March 9, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is cumulative and payable semi-annually in arrears on March 31 and September 30 in each year during the conversion period which falls after the second anniversary from the date of issue of the CP shares and the first payment is due on September 30, 2001. No interest is payable for the first and second year in which the CP shares are outstanding. The conversion price of the CP shares is HK\$0.13 each and the maturity date of the CP shares is March 30, 2004.
- (ii) Dividend on CP shares issued on January 4, 2001 will only be payable commencing on the third year at 2.5 per cent. per annum on the principal amount of the respective CP shares outstanding. The conversion price of the CP shares is HK\$0.20 each, subject to adjustments, and the maturity date of the CP shares is January 3, 2006.
- (iii) The CP shares are convertible in multiples of 1,000,000 into ordinary shares of the Company.
- (iv) The CP shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (v) The CP shares do not have any voting rights.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 27. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At April 1, 2001	22,718	94,712	(191,093)	(73,663)
Private placement	42,500	–	–	42,500
Exercise of share options	827	–	–	827
Conversion of preference shares	16,615	–	–	16,615
Net loss for the year	–	–	(14,714)	(14,714)
	<hr/>	<hr/>	<hr/>	<hr/>
At March 31, 2002	82,660	94,712	(205,807)	(28,435)
Private placement	29,666	–	–	29,666
Exercise of share options	100	–	–	100
Issue of shares for acquisition of subsidiaries	78,403	–	–	78,403
Conversion of preference shares	93,461	–	–	93,461
Net loss for the year	–	–	(46,917)	(46,917)
	<hr/>	<hr/>	<hr/>	<hr/>
At March 31, 2003	<u>284,290</u>	<u>94,712</u>	<u>(252,724)</u>	<u>(126,278)</u>

*Notes:*

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of acquisition and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At March 31, 2003, the Company had no reserve available for distribution.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 28. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed term of repayment. The subsidiaries have confirmed that repayment of the amounts will not be demanded within one year from the balance sheet date and accordingly, the amounts are classified as non-current.

## 29. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group and the Company had a net deferred tax asset of HK\$13,004,000 (2002: HK\$9,109,000) and HK\$3,120,000 (2002: Nil) respectively not recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset are as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Shortfall of tax allowances over depreciation	74	314	-	-
Other timing differences	-	(967)	-	-
Tax losses	12,930	9,762	3,120	-
Net deferred tax asset	<u>13,004</u>	<u>9,109</u>	<u>3,120</u>	<u>-</u>

The amount of unprovided deferred tax credit (charge) for the year is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Excess) shortfall of tax allowances over depreciation	(240)	265	-	-
Other timing differences	967	(967)	-	-
Tax losses arising	3,168	1,658	3,120	-
	<u>3,895</u>	<u>956</u>	<u>3,120</u>	<u>-</u>

Deferred taxation has not been provided on the valuation surplus arising on the revaluation of investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 30. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 60%, 55% and 100% of Beijing Xiangke, Zhengzhou Standard and Elegant Cheer respectively at a total consideration of HK\$98,024,000. These acquisitions have been accounted for by the purchase method of accounting and the goodwill and negative goodwill arising as a result of these acquisitions were HK\$20,784,000 and HK\$3,488,000 respectively.

	2003 HK\$'000	2002 HK\$'000
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	162,608	-
Investment in an associate	1,714	-
Inventories	6,770	-
Trade and other receivables	28,709	-
Pledged bank deposits	9,524	-
Bank balances and cash	16,669	-
Trade and other payables	(33,891)	-
Amount due to a minority shareholder	(2,543)	-
Taxation	(4,853)	-
Bank and other borrowings	(47,234)	-
Minority interests	(56,745)	-
	<u>80,728</u>	-
Goodwill	20,784	-
Negative goodwill	(3,488)	-
	<u>98,024</u>	-
<b>SATISFIED BY</b>		
Cash consideration	18,834	-
Issuance of ordinary shares	79,190	-
	<u>98,024</u>	-
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>		
Cash consideration paid	(18,834)	-
Bank balances and cash acquired	16,669	-
	<u>(2,165)</u>	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 30. ACQUISITION OF SUBSIDIARIES (continued)

The subsidiaries acquired during the year contributed HK\$84,055,000 to the Group's turnover, and a profit of HK\$2,242,000 to the Group's loss from operations.

## 31. DISPOSAL OF A SUBSIDIARY

On August 7, 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.

The subsidiary disposed of during the year did not contribute any material effect on the Group's turnover and the Group's loss from operations.

## 32. MAJOR NON-CASH TRANSACTIONS

During the year ended March 31, 2003, consideration for the acquisition of subsidiaries was settled by way of issuance of 78,716,871 ordinary shares of the Company.

## 33. OPERATING LEASE ARRANGEMENTS

### The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitment for future minimum lease payments under non-cancellable operating leases in respect of rented premises and petrol stations which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,572	179	75	179
In the second to fifth year inclusive	2,299	75	-	75
Over five years	17,724	-	-	-
	<u>21,595</u>	<u>254</u>	<u>75</u>	<u>254</u>

Operating lease payments represent rentals payable by the Group and the Company in respect of leasehold land and buildings. Leases for the petrol stations are negotiated for an average term of 10 to 32 years while leases for rented premises are negotiated for an average term of 2 years with fixed rental.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 33. OPERATING LEASE ARRANGEMENTS (continued)

### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,473	348
In the second to fifth year inclusive	815	253
	<u>2,288</u>	<u>601</u>

Leases are negotiated for an average term of two years.

## 34. CAPITAL COMMITMENTS

- (i) On May 13, 2002, Hai Xia Finance Limited ("Hai Xia FL"), a subsidiary of the Company entered into an agreement with Hong Kong Syndiscome 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 May 16, 2002.
- (ii) On May 16, 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 May 16, 2002.
- (iii) On June 8, 2002, the Company entered into an agreement with Hai Xia Finance pursuant to which the Company and Hai Xia Finance agreed to form a company to be incorporated in the BVI (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 June 10, 2002.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 34. CAPITAL COMMITMENTS (continued)

(iv) On November 12, 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 ("Jiaozuo JV") constitutes its sole assets. Pursuant to the terms of agreement, the subsidiary will make a total investment of HK\$42,499,200 in Jiaozuo JV 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 November 19, 2002. As at March 31, 2003, the outstanding contribution by the Group to Jiaozuo JV amounted to HK\$15,499,200.

(v) On December 17, 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. ("Jiyuan JV") constitutes its sole assets.

Pursuant to the terms of the agreement, the subsidiary will make a total investment of HK\$20,122,140 in Jiyuan JV 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 December 17, 2002.

(vi) On March 12, 2003, a subsidiary of the Company entered into an agreement with Suizhou Municipal Projects Company ("SMPC") and Wuhan China Natural Gas Investment Company Limited ("Wuhan Natural Gas") pursuant to which all parties have agreed to establish a Sino-foreign equity joint venture company ("Suizhou JV") in the PRC which principally engages in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Suizhou. Pursuant to the terms of the agreement, the subsidiary will contribute HK\$24,000,000 to Suizhou JV. Suizhou JV will be owned as to 49% by the Group, 10% by SMPC and 41% by Wuhan Natural Gas. Wuhan Natural Gas is, however, beneficially owned by the Group. Upon establishment, Suizhou JV will be a non-wholly owned subsidiary of the Company. A summary of the terms of the agreement is set out in the announcement of the Company dated March 13, 2003.

Save as disclosed, the Group has capital commitments in respect of the acquisition for property, plant and equipment contracted for but not provided in the financial statements amounting to approximately HK\$58,002,000 (2002: nil).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 35. PLEDGE OF ASSETS

### THE GROUP

At the balance sheet date, the Group pledged a bank deposit of HK\$66,667,000 (2002: nil) and land use rights having a net book value of HK\$29,035,000 (2002: nil) to secure banking facilities granted to the Group.

The Group pledged land and buildings having a net book value of approximately HK\$44,256,000 (2002: nil), investment properties having a net book value of approximately HK\$9,800,000 (2002: nil), investments in securities having a carrying amount of HK\$5,490,000 (2002: nil), properties held for development having a net book value of approximately HK\$36,200,000 (2002: nil) and certain investment in subsidiaries to a financial institution to secure loan facilities granted to the Group.

## 36. CONTINGENT LIABILITIES

- (a) Two former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,862,000 (2002: 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.
- (b) The Group has given a guarantee to a bank for banking facilities amounted to approximately HK\$19,048,000 (2002: nil) granted to a third party.

## 37. RETIREMENT BENEFITS SCHEMES

With effective from December 1, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The calculation of contributions for PRC eligible staff is based on certain percentage of the applicable payroll costs. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

During the year, the retirement benefit scheme contribution amounted to HK\$58,000 (2002: HK\$13,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 38. SHARE OPTION SCHEMES

### (a) Share Option Scheme adopted on October 2, 1995 ("Old Scheme")

Under the terms of the Old Scheme which became effective on October 2, 1995 for the primary purpose of providing incentive to directors and eligible employees, the board of directors of the Company may offer to any directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cents. of the issued share capital of the Company from time to time. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25 per cent. of the aggregate number of shares under the Old Scheme. Upon acceptance of option, the grantee shall pay HK\$1 to the Company as consideration.

The life of the Old Scheme was originally effective for 10 years until October 2, 2005. The Old Scheme was resolved by the shareholders of the Company to have been terminated thereon. However, the options granted under the Old Scheme are still exercisable in accordance with the terms of the Old Scheme.

### (b) Share Option Scheme adopted on February 6, 2003 ("New Scheme")

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on February 6, 2003, the Company adopted the New Scheme to replace the Old Scheme. All the options granted under the Old Scheme shall remain valid and unchanged and shall be treated in accordance with the terms under the Old Scheme. No option was granted under the New Scheme since its adoption on February 6, 2003.

Under the terms of the New Scheme which became effective on February 6, 2003 for the primary purpose of providing incentive to any directors, any employees or any employee, partner or director of any business consultant, joint venture partner, financial adviser or legal adviser of the Group. The maximum number of shares in respect of which options might be granted under the New Scheme must not exceed 10% of the issued share capital of the Company as at the date of approval of the New Scheme and such limit might be refreshed by shareholders in general meeting. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

The life of the New Scheme is effective for 10 years from the date of adoption until February 6, 2013.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 38. SHARE OPTION SCHEME (continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holding during the years.

Name of schemes	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 4.1.2001	Exercised during the year	Number of share options at 3.31.2002	Exercised during the year	Number of share options at 3.31.2003
Directors								
Old Scheme	2.10.1998	2.10.1998 to 2.9.2008	0.11	9,272,000	(8,272,000)	1,000,000	(1,000,000)	-

Total consideration received during the year from the director for taking up the options granted amounted to HK\$110,000 (2002: HK\$910,000).

No share option was granted or cancelled during the year.

## 39. RELATED PARTY TRANSACTIONS

- (i) Pursuant to an agreement dated April 29, 2002 entered into between the Company and Heng Fung Underwriter Limited ("Heng Fung Underwriter"), a former fellow subsidiary of the Group, the Group paid management service fee of HK\$492,000 (2002: HK\$900,000) 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 during the year. The agreement has been terminated by the Group with effect from September 30, 2002.
- (ii) During the year, the Group had disposed of the entire interest in a wholly owned subsidiary to the former ultimate holding company without consideration. Details of the disposal are set out in note 32.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2003

## 40. POST BALANCE SHEET EVENTS

- (i) On June 10, 2003, the Company entered into a sale and purchase agreement with Hai Xia Finance pursuant to which the Company agreed to acquire 51% equity interest in China Gas Development Group Limited (“China Gas Development”) from Hai Xia Finance. After the acquisition, China Gas Development will be a wholly-owned subsidiary of the Company. A summary of the terms of this agreement is set out in an announcement of the Company dated June 10, 2003.
- (ii) On June 10, 2003, 中亞燃氣, a subsidiary of the Company entered into an agreement with China Gas Development and Huainan City Gas Company (“Huainan Natural Gas”) to establish a Sino-foreign equity joint venture company (“Huainan JV”) in the PRC. The Huainan JV will be owned as to 40% by 中亞燃氣, 30% by China Gas Development and 30% by Huainan Natural Gas. The proposed total investment in Huainan JV is approximately RMB70 million which will be funded as to RMB28 million by 中亞燃氣, RMB21 million to be contributed by China Gas Development in cash and RMB21 million to be contributed by Huainan Natural Gas in assets. Upon establishment, Huainan JV will become a non-wholly owned subsidiary of the Company. A summary of the terms of this agreement is set out in an announcement of the Company dated June 10, 2003.
- (iii) On June 10, 2003, the Group has entered into a subscription agreement to issue a convertible note (the “Note”) amounting to US\$6 million to an independent third party, Eastern Linker Holdings Limited. The Note shall bear interest at the rate of 2% per annum on the outstanding principal amount of the Note. The conversion price would be HK\$2 per share and would be matured for 24 months from the date of the issue of the Note. A summary of the terms of this agreement is set out in an announcement of the Company dated June 10, 2003.
- (iv) On June 12, 2003, the Group entered into a conditional sale and purchase agreement with a third party to dispose of its property with carrying value of HK\$9,679,000 at March, 31, 2003 for a consideration of HK\$9,850,000.
- (v) On June 25, 2003, an agreement was entered into between 中亞燃氣, China Natural Gas Development Holdings Limited (“China Natural Gas”), both are wholly-owned subsidiaries of the Company and Anhui Province Wuhu City Natural Gas Head Company (“Wuhu Natural Gas”) pursuant to which all parties agreed to set up a Sino-foreign equity joint venture company (“Wuhu JV”) in the PRC. Wuhu JV will be owned as to 50% by 中亞燃氣, 40% by China Natural Gas and 10% by Wuhu Natural Gas. Upon establishment, Wuhu JV will be a non-wholly owned subsidiary of the Company.

Pursuant to the terms of the agreement, the Group will make a total investment of RMB90,000,000 in Wuhu JV. A summary of the terms of the agreement is set out in the announcement of the Company dated June 25, 2003.