



## FINANCIAL REVIEW

As at 30 June 2003, the net assets of the Group have increased to RMB429.5 million (31 December 2002: RMB410.7 million) while its total assets were RMB1,162.8 million (31 December 2002: RMB981.1 million). As at 30 June 2003, the Group's gross borrowings net of cash and bank balances amounted to RMB270.4 million as compared to RMB410.3 million as at 31 December 2002. Gearing ratio based on total assets was 23% (31 December 2002: 41%). Details of the Group's pledge of assets, the maturity profile of the Group's borrowings and contingent liabilities are shown in notes 11 and 15, respectively, to the financial statements. Notwithstanding there is improvement in the Group's gearing ratio comparing the year ended 2002, the Group will continue to adopt a prudent funding and treasury policy with regard to its overall business operations. The existing projects are financed partly by internal resources and partly by bank financing, with interest calculated by reference to prevailing market rate of Renminbi loan in the PRC.

As the business transactions as well as the bank borrowings of the Group are mostly denominated in Renminbi, the Directors considers that foreign exchange exposure does not pose a significant risk given that the exchange rates of these currencies are fairly stable and no hedging measure is currently necessary.

As at 30 June 2003, the Group's cash and bank balances were RMB256.3 million (31 December 2002: RMB56.4 million). This increase was mainly attributable to the proceed derived from the disposal of the operation of natural gas pipeline network in Jilin City as mentioned in the above section and recovery of some other receivables. These available cash resources together with the recurring cashflows from the energy related businesses will not only enable the Group to fund its debt repayments, but also place the Group in a strong financial position to take advantage of investment opportunities with confidence.

## OUTLOOK

Facing the booming Chinese economy, the Board of Directors is fully aware of the opportunities and challenges ahead. With regard to the opportunities, the fast-growing Chinese economy has driven the domestic demands for energy, particularly petroleum and natural gas. This will provide enormous potential for a faster development of the Group's investment in the businesses of oil transportation, natural gas pipelines and municipal gas networks. As to challenges, rigorous competition emerges from both local and foreign investors. In the midst of these opportunities and challenges, in order to maximize the shareholders' return, the Group will continuously take an active role in seeking investment opportunities to develop core business and at the same time the Group will consolidate the existing operation by reducing the cost of production and services through technological improvement and cost control scheme so as to enhance assets efficiency and profitability.