

- (iv) On 8 November, 2003, the Company entered into a placing and subscription agreement with DBS Vickers (Hong Kong) Limited (the “Placing Agent”) and Heng Fung Holdings Limited (“Vendor”), a substantial shareholder of the Company. Pursuant to the placing and subscription agreement, the Vendor has agreed to place through the Placing Agent an aggregate of 160,000,000 shares to not less than six independent investors at a placing price of HK\$0.84 per share; and the Vendor has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue up to 160,000,000 shares in cash at a subscription price of HK\$0.84 (the “Subscription”). The net proceeds of the subscription of about HK\$130,000,000 will be applied as to approximately HK\$78,000,000 for contribution of the enlarged registered capital of a subsidiary and as to the remaining balance as the general working capital of the Group. The Subscription is expected to be completed on or before 5 January, 2004.
- (v) On 20 November, 2003, the Group repaid other borrowings of HK\$50,180,000. The pledged land and buildings having a net book value of approximately HK\$34,479,000, investment properties having a net book value of approximately HK\$9,800,000, investments in securities having a carrying amount of HK\$5,490,000, properties held for development having a net book value of approximately HK\$36,200,000 and certain investments in subsidiaries were released accordingly.
- (vi) On 18 December, 2003, the Company entered into a sale and purchase agreement with an independent third party to dispose of the entire issued share capital of Energy Valley Investment Limited (“Energy Valley”), a wholly owned subsidiary of the Company, and the entire shareholder’s loan owed by Energy Valley to the Company for an aggregate cash consideration of HK\$60,000,000. Energy Valley is the beneficial owner of 55% equity interest in Zhengzhou Standard Petrochemical Company Limited which is principally engaged in the wholesale of refined petroleum, household liquefied petroleum gas, coal oil and diesel and the construction and operation of petrol stations in the PRC. A summary of the terms of this agreement is set out in an announcement of the Company dated 18 December, 2003.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (six months ended 30 September 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 30 September 2003, turnover of the Group amounted to HK\$83,444,000 (six months ended 30 September 2002: HK\$4,950,000). Net loss of the Group was HK\$19,057,000 (six months ended 30 September 2002: loss of HK\$13,882,000) and loss per share was HK\$1.57 cents (loss per share for the six months ended 30 September 2002: HK1.57 cents).

The Group is principally engaged in investments in natural gas projects in the People’s Republic of China (the “PRC”). During the six-month period, the Group was actively expanded its investments in the PRC and successfully launched several fund raising exercises.

Natural Gas Joint Venture Companies

The Group's current investments of natural gas projects cover nine cities of five provinces.

Under the Group's current investment models, our Group is the controlling shareholder of the natural gas joint venture companies and local governments are the only one joint venture partners. Those natural gas projects operated by our natural gas joint venture companies in respective cities are operated, managed, constructed natural gas pipeline and auxiliary equipments and sales of natural gas on an exclusive basis. Furthermore, with the support from respective local governments, our joint venture companies in respective cities had obtained certain preferential benefits under current administrative policies. From October 2003 onwards, construction of pipe gas networks and lines are undergoing substantially so as to cope with the commencement of supply of natural gas in year 2004. At present, construction works in Wuhu, Huainan and Yichang are going through extensively. It is expected that supply of natural gas to the household and industrial users will be commenced in January 2004 in Wuhu and in March 2004 in Huainan. Upon commencement, joint venture companies are entitled to receive income calculated from the volume of natural gas consumed by the subscribers. In addition, certain joint venture companies, which are currently under construction works, have commenced to charge connection fee from industrial users and household users (or the property developer or its management company). Connection fees for household users range from RMB1,800 to RMB2,700 per household while those for industrial users are calculated from their designed daily gas consumption ability and fee varies from RMB200 to RMB600 for every addition one cubic meter being used. It is expected that these kinds of income will have positive contribution to the Group in this financial year.

Beijing Zhongran Xiangke Oil Gas Technology Co. Ltd.

Beijing Zhongran Xiangke Oil Gas Technology Co. Ltd. ("Beijing Zhongran Xiangke") is a Sino-foreign equity joint venture company and the Group currently held 60% equity interest. It is principally engaged in the supply of compressed natural gas around sub-urban areas of Beijing and part of sub-urban areas in Hebei. In the near future, Beijing Zhongran Xiangke will provide technology and management support for the natural gas joint venture companies within the Group. With a lower cost of investments in sub-urban areas in our current invested cities, these natural gas joint venture companies could further build up the number of natural gas subscribers such that the natural gas penetration rate will be further increased.

During the period under review, turnover of Beijing Zhongran Xiangke amounted to HK\$27,019,000 (six months ended 30 September 2002: HK\$4,173,000). Profit after taxation was HK\$4,251,000 (six months ended 30 September 2002: HK\$2,015,000).

Other Event

According to an agreement entered into between WTO and China, the refined products market will be liberated in Year 2004. It is expected that the competition in refined products market will become more severe. In order to cope with the Group's development

strategy, the Company considers disposing those investments with low rate of return such that the resources could be further re-allocated. In relation to this, the Group disposed its investment in Zhengzhou Standard Petrochemical Company Limited in December 2003.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the period from June 2003 to November 2003, the Company successfully obtained several funding from international funding companies and professional investors.

In June 2003, the Company issued US\$6,000,000 convertible note to a professional investor.

In October 2003, the Company placed 70,000,000 shares at HK\$0.72 per share to independent investors and the net proceeds received was approximately HK\$50,000,000.

Besides, in October 2003, the Company entered into agreements with an international investor - Merrill Lynch International that the Company will issue upto US\$41,000,000 1.0% unlisted and unsecured convertible bonds due 2008 to Merrill Lynch International. The convertible bonds is divided into five tranches and the first tranche in the amount of US\$6,000,000 was issued in mid-November 2003. The net proceeds of approximately HK\$45 million derived from the issue of the first tranche bonds will be used entirely as second stage capital contribution in the Group's natural gas projects in Huainan and Wuhu, the PRC.

In November 2003, the Company through placing and subscription of 160,000,000 shares at HK\$0.84 per share to international investors to obtain funding with net proceeds of approximately HK\$130,000,000. It is expected that such transaction will be completed by the end of year 2003.

As at 30 September 2003, net asset of the Group was HK\$125,809,000.

As at 30 September 2003, the Group's total bank and other borrowings amounted to HK\$395,363,000 (31 March 2003: HK\$246,805,000) of which approximately 59.4%, 13.6%, 24.4% and 2.6% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively. Out of the total borrowings, HK\$254,008,000 (31 March 2003: HK\$246,805,000) were secured by certain fixed assets, investments in securities, properties held for development and bank deposits of the Group.

As at 30 September 2003, the Group has a current ratio of approximately 1.31 (31 March 2003: 1.19) and gearing ratio of 3.14 (31 March 2003: 1.71). The calculation of gearing ratio was based on the total borrowings of HK\$395,363,000 and the net assets of HK\$125,809,000.

Capital commitments in respect of the acquisition of property, plant and equipment as at 30 September 2003 was HK\$42,857,000 (31 March 2003: HK\$58,002,000) which would require a substantial use of the Group's present cash resources and external funding. Meanwhile, the Group has committed to acquire interests in certain PRC enterprise and to establish certain sino-foreign joint venture companies in the PRC.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars, Reminbi and US dollars.

Charge on Assets

As at 30 September 2003, the Group pledged bank deposits of HK\$28,571,000 (31 March 2003: HK\$66,667,000) and land use rights having a net book value of HK\$28,900,000 (31 March 2003: HK\$29,035,000) to secure banking facilities granted to the Group.

Contingent Liabilities

Two former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,862,000 (31 March 2003: HK\$1,862,000). The Directors are advised by the legal counsel of the Company that it is unlikely that the two former staff will succeed in their claims and no provision has been made.

As at 30 September 2003, except for the above, the Group did not have any material contingent liabilities.

Employees

As at 30 September 2003, the Group has 1,200 employees. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and normally reviewed annually.

PROSPECTS

It is our Group's investment policy to cooperate with local governments to establish joint venture companies to develop natural gas project in their respective cities. During the year, the Group invested progressively along the West-East Pipeline and the Zhongwu line and this will continue to be the Group's investment pattern in the near future. Despite there are huge investment opportunities around, we will continue to adopt cautious strategy in screening investment projects such that the maximum rate of return could be generated for our shareholders.