

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”) 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 investment properties.

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, 2003, except new accounting policies adopted during the period as disclosed below:

SSAP 12 (Revised)	Income taxes
SSAP 35	Accounting for government grants and disclosure of government assistance

Income taxes

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has not had any material effect on the results for the current or prior accounting periods.

Accounting for government grants and disclosure of government assistance

In accordance with SSAP 35, government grants are recognized as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income statement over the useful lives of the assets. Grants related to expense items are recognized in the same period as those expenses are charged in the income statement and are reported separately as other income. The Group has elected to apply the requirements of SSAP 35 retrospectively, but the adoption of SSAP 35 has not had any material effect on the results for the current or prior accounting periods.

3. SEGMENT INFORMATION

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.

	Six months ended 30 September, 2003						
	Property investment	Financial and securities investment	Gas pipeline construction	Sales of natural gas	Sales of petroleum	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue							
Turnover	693	–	2,069	23,514	52,924	4,244	83,444
Segment result	399	–	895	2,650	2,158	221	6,323
Unallocated corporate revenue							1,343
Unallocated corporate expenses							(24,003)
Loss before taxation							(16,337)

	Six months ended 30 September, 2002					
	Property investment	Financial and securities investment	Gas pipeline construction	Sales of natural gas	Consolidated	
	HK\$'000	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)	1,644	307		(3,677)
Unallocated corporate revenue						42
Unallocated corporate expenses						(8,565)
Share of results of associates						(811)
Loss before taxation						(13,011)

Note: The Group's sales of petroleum business was disposed of to an independent third party in December 2003. The details of the disposal are set out in note 19(vi).

4. LOSS FROM OPERATIONS

	Six months ended	
	30 September 2003 <i>HK\$'000</i> (unaudited)	30 September 2002 <i>HK\$'000</i> (unaudited)
Loss from operations has been arrived at after charging (crediting):		
Depreciation	2,454	269
Dividend income	–	(2)
Interest income	(644)	(39)
Loss on disposal of a subsidiary	–	2
(Gain) loss on disposal of property, plant and equipment	<u>(171)</u>	<u>170</u>

5. FINANCE COSTS

	Six months ended	
	30 September 2003 <i>HK\$'000</i> (unaudited)	30 September 2002 <i>HK\$'000</i> (unaudited)
Interest on:		
Bank loans and other borrowings wholly repayable within five years	9,804	–
Bank loans not wholly repayable within five years	386	–
Convertible note	<u>290</u>	<u>–</u>
	<u>10,480</u>	<u>–</u>

6. 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, 2002: Nil).

The tax charge of HK\$644,000 for the period (six months ended 30 September, 2002: Nil) represents income tax arising in the People's Republic of China ("PRC"). 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 period.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss for the period of HK\$19,057,000 (six months ended 30 September, 2002: HK\$13,882,000) and on 1,212,407,116 (six months ended 30 September, 2002: 883,625,183) weighted average number of ordinary shares outstanding during the period. The computation of diluted loss per share does not assume the exercise of potential dilutive ordinary shares as their exercise would result in reduction in loss per share for the period ended 30 September, 2003.

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$28,851,000 (year ended 31 March, 2003: 180,714,000 of which HK\$162,608,000 were acquired through acquisition of subsidiaries).

During the period, the Group disposed of property, plant and equipment at carrying value of HK\$9,736,000 (year ended 31 March, 2003: HK\$170,000).

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

9. INTERESTS IN ASSOCIATES

During the period, the Group disposed of its 30% equity interest in 北京城南之光燃氣技術開發有限公司.

At 31 March, 2003, the Group owned 49% equity interest in China Gas Development Group Limited (“China Gas Development”) which was an associate of the Group. During the period, the Company acquired the remaining 51% equity interest in China Gas Development. The details of the acquisition are set out in note 15.

10. GOODWILL

	<i>HK\$'000</i>
COST	
At 1 April, 2003	20,784
Arising on acquisition of a subsidiary during the period	<u>2,328</u>
At 30 September, 2003	<u>23,112</u>
AMORTISATION	
At 1 April, 2003	654
Charge for the period	<u>663</u>
At 30 September, 2003	<u>1,317</u>
NET BOOK VALUE	
At 30 September, 2003	<u>21,795</u>

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

11. 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:

	30 September 2003 <i>HK\$'000</i> (unaudited)	31 March 2003 <i>HK\$'000</i> (audited)
0 – 60 days	4,421	3,502
61 – 90 days	–	290
91 – 120 days	882	1,331
120 – 180 days	191	1,793
Over 180 days	1,152	1,565
	<u>6,646</u>	<u>8,481</u>
Trade receivables	6,646	8,481
Deposits, prepayments and other receivables	173,577	66,531
	<u>180,223</u>	<u>75,012</u>

12. TRADE AND OTHER PAYABLES

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

	30 September 2003	31 March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
0 – 60 days	16,466	1,439
61 – 90 days	44	32
91 – 120 days	80	1,217
121 – 180 days	2	422
Over 180 days	1,727	4,292
Trade payables	18,319	7,402
Other payables and accrued charges	28,799	30,709
	47,118	38,111

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained a new bank loan in the amount of RMB133,000,000. The loan bears interest at market rates and repayable within one year.

Pursuant to a loan facility agreement entered into on 2 July, 2003, the Group was granted a revolving loan facility of HK\$80,000,000. The loan bears interest at 5% per annum and repayable within 3 years from the date of agreement. As at the balance sheet date, the Group has drawn HK\$27,500,000.

During the period, the Group repaid other borrowings of HK\$56,022,000.

On 10 June, 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.

14. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	Number of shares		Number of shares		
	<i>'000</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>HK\$0.01</i>		<i>HK\$1</i>		
	<i>each</i>		<i>each</i>		
Authorised:					
At 1 April, 2003 and at 30 September, 2003	<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 1 April, 2003 and 30 September, 2003	<u>1,212,407</u>	<u>12,125</u>	<u>6,298</u>	<u>6,298</u>	<u>18,423</u>

15. ACQUISITION OF A SUBSIDIARY

On 30 June, 2003, the Company entered into a sale and purchase agreement with Hai Xia Finance Holdings Limited (“Hai Xia Finance”) pursuant to which the Company agreed to acquire 51% equity interest in China Gas Development from Hai Xia Finance for a consideration of US\$51 (equivalent to approximately HK\$400). At 31 March, 2003, the Group owned 49% equity interest in China Gas Development which was an associate of the Group. After the acquisition, China Gas Development is a wholly-owned subsidiary of the Company.

The effect of acquisition is summarised as follows:

	<i>HK\$'000</i>
Net liabilities acquired	(2,329)
Goodwill arising on acquisition	2,328
	<u>1</u>
Satisfied by:	
Cash consideration	<u>1</u>
Net cash outflow arising on acquisition	
Cash consideration paid	<u>1</u>

16. PLEDGE OF ASSETS

At the balance sheet date, 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.

The Group pledged land and buildings having a net book value of approximately HK\$34,479,000 (31 March, 2003: HK\$44,256,000), investment properties having a net book value of approximately HK\$9,800,000 (31 March, 2003: HK\$9,800,000), investments in securities having a carrying amount of HK\$5,490,000 (31 March, 2003: HK\$5,490,000), properties held for development having a net book value of approximately HK\$36,200,000 (31 March, 2003: HK\$36,200,000) and certain investments in subsidiaries to a financial institution to secure loan facilities granted to the Group.

17. 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 former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

18. 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 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 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 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 Construction”) held by Mr. Yuan Yang. China City Gas Construction has not commenced any business since its incorporation and its 93.2% equity interest in 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 19 November, 2002. As at 30 September, 2003, the outstanding contribution by the Group to Jiaozuo JV amounted to HK\$15,499,200.
- (iv) 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 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 17 December, 2002.

- (v) On 12 March, 2003, subsidiaries of the Company entered into an agreement with Suizhou Municipal Projects Company (“SMPC”) 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 subsidiaries of the Company will contribute HK\$24,000,000 to Suizhou JV. Suizhou JV will be owned as to 90% by the Group and 10% by SMPC. 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 13 March, 2003. As at 30 September, 2003, the outstanding contribution by the Group to Suizhou JV amounted to HK\$22,900,000.

(vi) On 10 June, 2003, subsidiaries of the Company entered into an agreement with Huainan City Gas Company (“Huainan Natural Gas”) pursuant to which all parties have agreed to establish a Sino-foreign equity joint venture company (“Huainan 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 Huainan. Pursuant to the terms of the agreement, the subsidiaries will contribute RMB49 million to Huainan JV. Huainan JV will be owned as to 70% by the Group and 30% by Huainan Natural Gas. Upon establishment, Huainan 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 10 June, 2003. As at 30 September, 2003, the outstanding contribution by the Group to Huainan JV amounted to RMB30,722,000.

(vii) On 25 June, 2003, subsidiaries of the Company entered into an agreement with Anhui Province Wuhu City Natural Gas Head Company (“Wuhu Natural Gas”) pursuant to which all parties have agreed to establish a Sino-foreign equity joint venture company (“Wuhu JV”) in the PRC which principally engages in the sale of natural gas, gas burning instruments and measurement equipment, the provision of testing and maintenance services, construction and operation of natural gas pipelines in Wuhu.

Pursuant to the terms of the agreement, the subsidiaries will contribute RMB90 million to Wuhu JV. Wuhu JV will be owned as to 90% by the Group and 10% by Wuhu Natural Gas. Upon establishment, Wuhu JV is 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 25 June, 2003. As at 30 September, 2003, the outstanding contribution by the Group to Wuhu JV amounted to RMB50 million.

(viii) On 3 July, 2003, the Company entered into Sale and Purchase Agreement (“S & P Agreement”) with an independent third party (the “Vendor”) pursuant to which the Vendor agreed to sell and the Company has conditionally agreed to acquire 30% equity interest in Clever Decision Enterprises Ltd. (“Clever Decision”) at a consideration of HK\$8,440,000. Clever Decision owned 100% equity interest in 北京通寶華油燃氣技術發展有限公司 (“北京通寶”), a company incorporated in the PRC which principally engages in the construction and operation of natural gas pipeline and sale of natural gas in Xiaogan City of PRC. Under the terms of S & P Agreement, the Company agreed to contribute HK\$8,560,000 being the 30% capital contribution to 北京通寶. During the period, the Company has paid HK\$6,705,000. As at 30 September, 2003, the outstanding capital commitment by the Company amounted to HK\$10,295,000.

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\$42,857,000 (31 March, 2003: HK\$58,002,000).

19. POST BALANCE SHEET EVENTS

- (i) On 9 October, 2003, the Company entered into a subscription agreement with two independent third parties (“Subscribers”) pursuant to which the Subscribers agreed to subscribe for and the Company has agreed to allot and issue an aggregate of 70,000,000 shares of the Company in cash at a subscription price of HK\$0.72 per share. The net proceeds of the subscription of approximately HK\$50 million will be applied as the general working capital of the Group and the subscription was completed on 31 October, 2003.
- (ii) On 16 October, 2003, China City Gas Enterprises Limited (“China City Gas”), Central Asia Natural Gas (Shenzhen) Company Limited (“Shenzhen Natural Gas”), both are wholly owned subsidiaries of the Company, entered into an agreement with Yiyang City Construction, Investment and Development Company Limited (“Yiyang City Development”), pursuant to which China City Gas, Shenzhen National Gas and Yiyang City Development agreed to establish a Sino-foreign equity joint venture company (“Yiyang JV”) in the PRC. The Yiyang JV will be owned as to 20% by Yiyang City Development, 49% by China City Gas and 31% by Shenzhen Natural Gas. The registered capital of Yiyang JV is RMB44 million of which RMB8.8 million will be contributed by Yiyang City Development in form of land use rights and RMB35.2 million will be contributed by China City Gas and Shenzhen Natural Gas in cash. Upon establishment, Yiyang 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 16 October, 2003.
- (iii) On 29 October, 2003, the Company and Merrill Lynch International (“ML”) entered into a subscription agreement (“Agreement”) pursuant to which the Company will issue up to US\$41 million 1.0 per cent unlisted and unsecured convertible bonds due 2008 in five tranches (“Bonds”) and ML will subscribe in an aggregate principal amount of US\$6 million (“Tranch 1 Bonds”) under whereas the Agreement, the Company will grant to ML options to subscribe for additional four tranches of the Bonds in aggregate principal amount of up to US\$35 million. Under the terms and conditions of the Bonds, ML may convert the Bonds at any time from and including the respective issue date of the Bonds up to the day falling one week prior to 30 October, 2008 (“Maturity Date”). The Bonds could be converted, at the option of ML, either at (i) HK\$1.128 initially (subject to adjustments) or (ii) 90 percent of the average of any eight closing prices per share as selected by ML during the 30 consecutive business days immediately prior to the date on which a conversion notice of ML is received by the Company and such price shall not be less than the par value of the shares on the date of conversion.

Besides, the Company has also entered into a subscription letter on 29 October, 2003 with ML pursuant to which the Company has granted to ML, the rights to subscribe for new Shares of the Company (the “Letter”). Under the terms of the Letter, ML will have a right to subscribe for new Shares up to 15% of the principal amount of each tranche of the Bonds issued divided by HK\$0.94 with a subscription price of HK\$1.128 per Share (subject to adjustment). The subscription right are exercisable by ML at any time from and including the date of issue of the relevant tranche of the Bonds to and including the Maturity Date.

On 13 November, 2003, the Tranch 1 Bonds were issued to ML.

The proposed resolutions to approve the issue of the Tranch 3 Bonds, the Tranch 4 Bonds, the Tranch 5 Bonds and the shares to be issued upon conversion of such Bonds and the exercise of the related Subscription Rights were not passed by the shareholders at the Special General Meeting held on 19 December, 2003.

- (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.