

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors (“Board”) of China City Natural Gas Holdings Limited (“Company”) presents the unaudited interim results of the Company and its subsidiaries (collectively “Group”) for the six months ended 31 January 2004, together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and external auditors, Messrs Ernst & Young, Certified Public Accountants in Hong Kong.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

Notes	(Unaudited) For the six months ended 31 January 2004 HK\$'000	(Unaudited) For the six months ended 31 January 2003 HK\$'000
TURNOVER		
– Continuing operations	10,243	9,973
– Discontinued operations	–	145,483
Cost of sales	2 10,243 (7,271)	155,456 (119,470)
Gross profit	2,972	35,986
Other revenue	3 35,087	9,917
Selling and distribution costs	(599)	(9,671)
Administrative expenses	(23,766)	(40,325)
Provision for impairment on long-term investments	(48,269)	(54,982)
Unrealised loss on short-term investments	–	(20,713)
LOSS FROM OPERATING ACTIVITIES		
– Continuing operations	(34,575)	(89,264)
– Discontinued operations	–	9,476
Finance costs	2 (34,575) (934)	(79,788) (841)
Share of profit of a jointly-controlled entity	57	1,109
LOSS BEFORE TAX	4 (35,452)	(79,520)
Tax	5 –	(1,778)
LOSS BEFORE MINORITY INTERESTS	(35,452)	(81,298)
Minority interests	–	(1,290)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(35,452)	(82,588)
LOSS PER SHARE		
Basic	6 (0.39 cent)	(0.99 cent)
Diluted	N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) At 31 January 2004 HK\$'000	(Audited) At 31 July 2003 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		14,016	15,401
Interest in a jointly-controlled entity		79,331	80,131
Long-term investments		146,259	100,904
		<b>239,606</b>	196,436
<b>CURRENT ASSETS</b>			
Inventories		2,587	2,131
Trade receivables	7	2,968	2,390
Prepayments, deposits and other receivables		4,988	14,521
Loan receivables		–	16,094
Short-term investments		120,343	87,713
Cash and cash equivalents		54,098	81,324
		<b>184,984</b>	204,173
<b>CURRENT LIABILITIES</b>			
Trade payables	8	3,155	2,281
Tax payable		120	144
Other payables and accruals		26,013	23,800
		<b>29,288</b>	26,225
<b>NET CURRENT ASSETS</b>			
		<b>155,696</b>	177,948
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>395,302</b>	374,384
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax		251	365
Convertible note	9	20,000	–
		<b>20,251</b>	365
		<b>375,051</b>	374,019
<b>CAPITAL AND RESERVES</b>			
Issued capital		238,046	217,141
Reserves		137,005	156,878
		<b>375,051</b>	374,019

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share	Capital	Investment	Exchange			Total	
	Share capital HK\$'000	premium account HK\$'000	redemption reserve HK\$'000	revaluation reserve HK\$'000	Warrant reserve HK\$'000	fluctuation reserve HK\$'000		Accumulated losses HK\$'000
At 1 August 2003	217,141	983,219	675	(650)	25,341	-	(851,707)	374,019
Issue of shares	20,905	11,956	-	-	-	-	-	32,861
Changes in fair value of long-term investments	-	-	-	(44,646)	-	-	-	(44,646)
Impairment losses on long-term investments transferred to profit and loss account	-	-	-	48,269	-	-	-	48,269
Loss for the period	-	-	-	-	-	-	(35,452)	(35,452)
At 31 January 2004	238,046	995,175	675	2,973	25,341	-	(887,159)	375,051
At 1 August 2002	202,622	941,056	675	(15,461)	25,341	63	(516,930)	637,366
Issue of shares	14,519	42,164	-	-	-	-	-	56,683
Changes in fair value of long-term investments	-	-	-	(40,336)	-	-	-	(40,336)
Impairment losses on long-term investments transferred to profit and loss account	-	-	-	54,982	-	-	-	54,982
Loss for the period	-	-	-	-	-	-	(82,588)	(82,588)
At 31 January 2003	217,141	983,220	675	(815)	25,341	63	(599,518)	626,107

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 31 January 2004 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 January 2003 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES		
Continuing operations	(6,472)	13,775
Discontinued operations	-	9,712
	<b>(6,472)</b>	23,487
INVESTING ACTIVITIES		
Continuing operations	(72,681)	(98,802)
Discontinued operations	-	(9,205)
	<b>(72,681)</b>	(108,007)
FINANCING ACTIVITIES		
Continuing operations	51,927	31,911
Discontinued operations	-	7,015
	<b>51,927</b>	38,926
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(27,226)</b>	(45,594)
Cash and cash equivalents at beginning of period	<b>81,324</b>	185,771
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>54,098</b>	140,177
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>54,098</b>	140,177
	<b>54,098</b>	140,177

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in force prior to 31 March 2004, and on a basis consistent with the principal accounting policies and methods of computation adopted in the Group's annual financial statements for the year ended 31 July 2003, except that the Group has adopted SSAP 12 (revised) "Income taxes" issued by the HKSA which is effective for accounting periods commencing after 1 January 2003. SSAP 12 (revised) prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry-forward of unused tax losses (deferred tax). This SSAP has had no significant impact on these interim financial statements.

### 2. SEGMENT INFORMATION

The Group is principally engaged in investment in Internet, information technology and other activities, investment in natural gas business, and manufacture and trading of silicone rubber products. The operations involved in the manufacture and trading of batteries were discontinued during the year ended 31 July 2003.

An analysis of the Group's segment revenues and segment results for the period by business segment is as follows:

*For the six months ended 31 January 2004*

	Continuing operations			Discontinued operations		
	Investment in Internet, information technology and other activities <i>HK\$'000</i>	Investment in natural gas business <i>HK\$'000</i>	Manufacture and trading of silicone rubber products <i>HK\$'000</i>	Manufacture and trading of batteries <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:						
Turnover	-	-	10,243	-	-	10,243
Segment results	(34,229)	-	(346)	-	-	(34,575)
Finance costs						(934)
Share of profit of a jointly-controlled entity	-	57	-	-	-	57
Loss before tax						(35,452)
Tax						-
Loss before minority interests						(35,452)
Minority interests						-
Net loss from ordinary activities attributable to shareholders						(35,452)

## 2. SEGMENT INFORMATION (Continued)

For the six months ended 31 January 2003

	Continuing operations			Discontinued operations		
	Investment in Internet, information technology and other activities HK\$'000	Investment in natural gas business HK\$'000	Manufacture and trading of silicone rubber products HK\$'000	Manufacture and trading of batteries HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:						
Turnover	-	-	9,973	145,483	-	155,456
Segment results	(90,228)	-	964	9,426	50	(79,788)
Finance costs						(841)
Share of profit of a jointly-controlled entity	-	1,109	-	-	-	1,109
Loss before tax						(79,520)
Tax						(1,778)
Loss before minority interests						(81,298)
Minority interests						(1,290)
Net loss from ordinary activities attributable to shareholders						(82,588)

## 3. OTHER REVENUE

	<b>(Unaudited) For the six months ended 31 January 2004 HK\$'000</b>	(Unaudited) For the six months ended 31 January 2003 HK\$'000
Interest income	312	2,285
Gain on disposal of short-term investments	8,340	1,145
Unrealised gain on short-term investments	25,302	-
Tooling and subcontracting income	-	5,482
Others	1,133	1,005
	<b>35,087</b>	9,917

#### 4. LOSS BEFORE TAX

Loss before tax was determined after charging the following:

	<b>(Unaudited) For the six months ended 31 January 2004 HK\$'000</b>	<b>(Unaudited) For the six months ended 31 January 2003 HK\$'000</b>
Loss on disposal of long-term investments	–	33
Depreciation	1,730	9,750

#### 5. TAX

The Group provides for tax on the basis of its profit for financial reporting purpose, adjusted for income and expense items which are not assessable nor deductible for profits tax purpose.

No Hong Kong profits tax for the Company and its subsidiaries in Hong Kong has been provided as there is no assessable profit arising in Hong Kong during the current period. In the prior period, Hong Kong profits tax for the Group in Hong Kong was provided at the rate of 16%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>(Unaudited) For the six months ended 31 January 2004 HK\$'000</b>	<b>(Unaudited) For the six months ended 31 January 2003 HK\$'000</b>
Hong Kong	–	1,778
Elsewhere	–	–
Tax charged for the period	–	1,778

#### 6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 31 January 2004 is based on the net loss attributable to shareholders of HK\$35,452,000 (2003: HK\$82,588,000) and on the weighted average of 9,022,322,890 (2003: 8,370,165,716) ordinary shares in issue.

No diluted loss per share has been presented for the six months ended 31 January 2004 and 31 January 2003 as the warrants, convertible note and options outstanding during those periods had anti-dilutive effects on the basic loss per share for those periods.

## 7. TRADE RECEIVABLES

Ageing	(Unaudited) At 31 January 2004 HK\$'000	(Audited) At 31 July 2003 HK\$'000
Current to 90 days	2,914	2,337
91 – 180 days	46	42
Over 180 days	8	11
Total	2,968	2,390

The Group allows an average credit period of 60 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by the senior management of the Group.

The above ageing analysis of trade receivables was based on the due dates of the revenue recognised from the respective sales of goods.

## 8. TRADE PAYABLES

Ageing	(Unaudited) At 31 January 2004 HK\$'000	(Audited) At 31 July 2003 HK\$'000
Current to 90 days	2,958	2,064
91 – 180 days	94	85
Over 180 days	103	132
Total	3,155	2,281

The above ageing analysis of trade payables was based on the dates of the receipt of the respective goods and services.

## 9. CONVERTIBLE NOTE

In January 2004, the Company issued a 3% convertible note due 2005 in the principal amount of HK\$20,000,000 to an independent third party.

## 10. LITIGATION

On 11 August 2003, legal proceedings (the "Action") were brought by a third party against the Company for alleged breach of contract in relation to an intended sale of certain subsidiaries of the Company to the third party. The amount claimed by the third party against the Company in the Action are damages of around HK\$40 million, or alternatively, fixed damages in the sum of HK\$3 million, plus interest and legal costs. Based on the legal advice obtained by the Company, the directors of the Company consider that it is not likely that the Action will result in a substantial outflow of resources from the Group in the near future.



## **11. COMPARATIVE AMOUNTS**

Following the disposal of the battery business of the Group on 23 July 2003, certain items in the condensed consolidated financial statements have been reclassified to conform with the current year's presentation.

## **12. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 26 April 2004.

## REPORT OF THE BOARD

### INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 January 2004 (for the six months ended 31 January 2003: nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Financial Results

The Group's overall turnover for the six months ended 31 January 2004 amounted to HK\$10,243,000 compared with the turnover of HK\$155,456,000 for the corresponding period last year. The decrease in turnover is due to the disposal of the battery business in July 2003.

For the six months ended 31 January 2004, the Group had an unaudited net loss attributable to shareholders of approximately HK\$35,452,000 as compared with a net loss of approximately HK\$82,588,000 recorded for the corresponding period last year. Accordingly, the basic loss per share of the Group was HK0.39 cent (for the six months ended 31 January 2003, loss per share: HK0.99 cent).

#### Business Review

Joint-venture natural gas companies held by the Group's jointly-controlled entity, China City Natural Gas Co., Ltd. ("CCNGCL") in Xining, Tianjin (Binhai District), Binzhou, Huimin and Qingyun, China, achieved a steady growth on turnover and net profit. During the period under review, turnover and net profit of CCNGCL were HK\$167,036,000 (2003: HK\$116,729,000) and HK\$57,000 (2003: HK\$1,109,000) respectively.

## Business Review (Continued)

The financial period under review reflects a significant increase in value of certain marketable securities held by the Group. The Group recorded a net realised gain of approximately HK\$8,340,000 upon disposal of certain marketable securities and unrealised gain of approximately HK\$25,302,000 of the marketable securities due to the increase in stock trading prices as of 31 January 2004. The outbreak of Severe Acute Respiratory Syndrome in early 2003 had a longer-than-expected material adverse impact on operating environment of certain investee companies, which were subsequently not able to achieve their business objectives. As a result, the Group charged an impairment loss of approximately HK\$48,269,000 to its profit and loss account. The Group also reversed its negative reserve of approximately HK\$650,000 to positive reserve of approximately HK\$2,973,000.

For the period under review, the silicone rubber business recorded a turnover of HK\$10,243,000 (2003: HK\$9,973,000) and an operating loss of HK\$346,000 (2003: profit of HK\$964,000).

## Liquidity and Financial Resources

During the period under review, the Company raised approximately HK\$32,860,450 upon exercise of 336,190,000 option shares at exercise prices of HK\$0.037 per share and HK\$0.055 per share by option holders and the placement of 500,000,000 shares at the subscription price of HK\$0.039 per share to independent third parties. The Group also issued a 3% convertible note due 2005 in the principal amount of HK\$20,000,000 to an independent third party.

As at 31 January 2004, the Group had cash and bank balances in the aggregate amount of approximately HK\$54,098,000. The liquidity position of the Group was as follows:

	31 January 2004	31 July 2003
Liquidity ratio	6.23	7.70
Ratio of total liabilities to shareholders' equity	0.13	0.07

As at 31 January 2004, the Group did not have any bank borrowings. The Group's gearing was considered to be at a reasonably low level and the total liabilities to shareholders' equity was only 13%. During the period under review, the Group used approximately HK\$90,000,000 for acquisition of a few investments for long-term purposes.

## **Employees and Remuneration Policy**

As at 31 January 2004, the Group employed approximately 285 full-time employees and out of which 254 were in China and 31 were in Hong Kong. Remuneration package is reviewed annually with reference to the market trend and prevailing legislation. In China, the Group provides its employees with staff welfare in accordance with the prevailing labour law. Certain employees of the Group are entitled to medical insurance. During the period under review, share options have been granted to certain employees of the Group pursuant to the Company's share option scheme.

## **Prospects**

The Group maintains its optimistic view towards the economic development of China. China recorded her first ever GDP per capita exceeding US\$1,000 in 2003. It is expected that as the Chinese citizens grow wealthier, they will demand for higher quality form of energy such as natural gas. The use of natural gas being a clean and efficient source of energy is strongly promoted by the Central Government of China. In view of this, the Group keeps on identifying good investment projects especially on natural gas in order to enhance shareholders' value.

The Group will also continue to look for good quality investments for long-term purposes by adopting a prudent approach in assessing investments. Given the strong economic growth in China, the Group remains optimistic that its businesses and investments shall be benefited in the long-term.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 January 2004, the Directors and chief executive of the Company and their respective associates, if any, had the following interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules were as follows:

### I. Shares

Name of Director	Capacity	Nature of Interest	Number of Shares	Percentage of Issued Shares
Wong King Shiu, Daniel	Being the founder of a discretionary trust	Family	2,180,122,000 (L)	22.90
			2,180,122,000 (S)	22.90
Zhou Weirong	Having an interest in a controlled corporation	Corporation	2,180,122,000 (L)	22.90
Wong Kui Shing, Danny	Being a beneficial owner	Personal	15,400,000 (L)	0.16

*Note:*

As at 31 January 2004, the 2,180,122,000 Shares were held by Noble Islands Int'l Limited. Of this number, 2,067,722,000 Shares and 112,400,000 Shares were registered in the name of Kingston Finance Limited and HKSCC Nominees Limited respectively. The 2,067,722,000 Shares held by Noble Islands Int'l Limited, representing approximately 21.72% of the total issued share capital of the Company, were charged. The entire issued share capital of Noble Islands Int'l Limited is held by Maxi Gain Corporation which is in turn held by The Daniel K S Wong Family Trust (the "Trust"). Mr Daniel Wong, the settlor of the Trust, is a director of Noble Islands Int'l Limited and the Trust is managed by Equity Trustee Limited as trustee. The discretionary objects under the Trust are the entities beneficially owned by the family members of Mr Daniel Wong. In accordance with the SFO, Mr Daniel Wong is deemed to be interested in the 2,180,122,000 Shares held by Noble Islands Int'l Limited.

On 11 September 2003, Maxi Gain Corporation, the sole shareholder of Noble Islands Int'l Limited and as vendor, entered into an agreement (as supplemented by various supplemental agreements dated 11 November 2003, 12 December 2003 and 12 March 2004 respectively) with Capital Fortune Investments Limited as purchaser, of which the sole owner is Mr Zhou Weirong, in relation to the sale and purchase of the entire issued share capital of Noble Islands Int'l Limited. The transaction has been re-scheduled to be completed on 11 June 2004. Mr Zhou was appointed Director of the Company on 30 September 2003.

The 2,180,122,000 Shares are referred to the same block of Shares.

Where "L" denotes long position and "S" denotes short position in the Shares.

## II. Share Options

As at 31 January 2004, certain of the Company's directors held share options of the Company and particulars of those outstanding share options were as follows:

Name of Director	Date of Exercise		Exercise Period	Closing Price Before Date of Grant	Movement of Option Shares during the period				
	Grant	Price			As at 1.8.2003	Granted	Exercised	Lapsed	As at
									31.1.2004
		HK\$		HK\$					
Wong King Shiu, Daniel *	03.06.2002	0.153	03.06.2002 – 31.05.2004	0.151	46,600,000	-	-	-	46,600,000
Kan Kwok Shu	15.03.2002	0.055	15.04.2002 – 14.03.2004	0.055	19,890,000	-	19,890,000	-	-
Cheung Man Yau, Timothy	04.07.2002	0.118	04.07.2002 – 03.07.2004	0.118	4,600,000	-	-	-	4,600,000

\* Please refer to the above Note. The closing price before date of grant refers to the closing price on the date of the Board meeting at which the Board proposed to grant option to Mr Daniel Wong. The 46,600,000 option shares represented about 0.49% of the Company's issued shares as at 31 January 2004.

Subscription rights attaching to the share options are exercisable at different stages as determined by the Board.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, their respective spouse or children under 18 years of age of any such Director any right to subscribe for securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the period.

Save as disclosed above, as at 31 January 2004, none of the Directors, chief executive or their associates had or were deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 January 2004, the following persons, other than the Directors or chief executive of the Company as disclosed aforesaid, had an interest of 5% or more in the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity	Number of Shares	Percentage of Issued Shares
Equity Trustee Limited	1	Being a trustee of a discretionary trust	2,180,122,000	22.90
Maxi Gain Corporation	1	Having an interest in a controlled corporation	2,180,122,000	22.90
Capital Fortune Investments Limited	1	Having an interest in a controlled corporation	2,180,122,000	22.90
Noble Islands Int'l Limited	1, 2	Being a beneficial owner	2,180,122,000	22.90
Kingston Finance Limited	1, 2	Having a security interest	2,067,722,000	21.72
Chu Yuet Wah	2	Having an interest in a controlled corporation	2,067,722,000	21.72
Ma Siu Fong	2	Having an interest in a controlled corporation	2,067,722,000	21.72
Wu Xu Wen	3	Being a beneficial owner	526,026,000	5.52

### Notes:

- Of these 2,180,122,000 Shares, 2,067,722,000 Shares and 112,400,000 Shares were registered in the names of Kingston Finance Limited and HKSCC Nominees Limited respectively while the 2,067,722,000 Shares were charged. The entire issued share capital of Noble Islands Int'l Limited is held by Maxi Gain Corporation which is in turn held by The Daniel K S Wong Family Trust (the "Trust") of which Equity Trustee Limited is the trustee. Mr Wong King Shiu, Daniel, the Chairman and Director of the Company, is the settlor of the Trust. The discretionary objects of the Trust are the entities beneficially owned by the family members of Mr Daniel Wong and hence he is deemed to be interested in the 2,180,122,000 Shares owned by Noble Islands Int'l Limited.

On 11 September 2003, Maxi Gain Corporation, the sole shareholder of Noble Islands Int'l Limited and as vendor, entered into an agreement (as supplemented by various supplemental agreements dated 11 November 2003, 12 December 2003 and 12 March 2004 respectively) with Capital Fortune Investments Limited as purchaser, of which the sole owner is Mr Zhou Weirong, in relation to the sale and purchase of the entire issued capital of Noble Islands Int'l Limited. The transaction has been re-scheduled to be completed on 11 June 2004. Mr Zhou was appointed Director of the Company on 30 September 2003.

The 2,180,122,000 Shares are referred to the same block of Shares.

- Kingston Finance Limited has a security interest in the 2,067,722,000 Shares owned by Noble Islands Int'l Limited. Ms Chu Yuet Wah and Ms Ma Siu Fong are controlling shareholders of Kingston Finance Limited and each of them is deemed to be interested in the 2,067,722,000 Shares interested by Kingston Finance Limited. The 2,067,722,000 Shares relate to the same block of Shares held by Noble Islands Int'l Limited as mentioned in Note 1 above.
- The 526,026,000 Shares represented about 5.52% of the Company's issued share capital as at 31 January 2004 and as reported, these 526,026,000 Shares represented 6.05% of the issued share capital of the Company as at 1 April 2003.

Save as disclosed aforesaid, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 January 2004.

## SHARE OPTION SCHEME

The Company adopted a new share option scheme on 31 January 2002 (the “Scheme”) and refreshed its 10% limit on the grant of options on 14 August 2002. Pursuant to the Scheme, the Board may at its discretion offer options to any eligible participant who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

Movements in the Company’s share option during the period are as follows:

Category of Participant	Date of Grant	Exercise Price	Exercise Period	Closing Price Before Date of Grant	Movement of Option Shares during the period				
					As at 1.8.2003	Granted	Exercised	Lapsed	As at 31.1.2004
		HK\$		HK\$					
(i) Directors	15.03.2002	0.0550	15.04.2002 – 14.03.2004	0.0550	19,890,000	-	19,890,000	-	-
	03.06.2002	0.1530	03.06.2002 – 31.05.2004	0.1510 *	46,600,000	-	-	-	46,600,000
	04.07.2002	0.1180	04.07.2002 – 03.07.2004	0.1180	4,600,000	-	-	-	4,600,000
(ii) Employees	15.03.2002	0.0550	15.04.2002 – 14.03.2004	0.0550	46,300,000	-	31,300,000	-	15,000,000
	04.07.2002	0.1180	04.08.2002 – 03.07.2004	0.1180	8,800,000	-	-	-	8,800,000
	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.0920	11,000,000	-	-	-	11,000,000
	06.01.2003	0.0856	01.07.2003 – 30.06.2005	0.0920	35,000,000	-	-	-	35,000,000
	20.08.2003	0.0370	21.08.2003 – 13.09.2004	0.0440	-	5,000,000	5,000,000	-	-
(iii) Consultants	22.08.2002	0.1040	23.08.2002 – 15.08.2003	0.1100	80,000,000	-	-	80,000,000	-
	26.08.2002	0.1040	27.08.2002 – 15.08.2003	0.1130	80,000,000	-	-	80,000,000	-
	10.09.2002	0.1040	11.09.2002 – 15.08.2003	0.0990	100,000,000	-	-	100,000,000	-
	20.08.2003	0.0370	21.08.2003 – 13.09.2004	0.0440	-	280,000,000	280,000,000	-	-
(iv) Former Director	03.06.2002	0.1530	03.06.2002 – 31.05.2004	0.1510 *	20,000,000	-	-	20,000,000	-
(v) Former Employees	15.03.2002	0.0550	15.04.2002 – 14.03.2004	0.0550	10,000,000	-	-	10,000,000	-
	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.0920	5,000,000	-	-	5,000,000	-
	06.01.2003	0.0856	01.07.2003 – 30.06.2005	0.0920	4,000,000	-	-	4,000,000	-
					471,190,000	285,000,000	336,190,000	299,000,000	121,000,000

\* The closing price before date of grant refers to the closing price on the date of the Board meeting at which the Board proposed to grant option to the director/former director.

Subscription rights attaching to the share options are exercisable at different stages as determined by the Board.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted, because in the absence of a readily market value of the share options of the Company, the Directors were unable to arrive at an assessment of the value of these share options.



## AUDIT COMMITTEE

In accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Board of Directors established an audit committee ("Audit Committee") in 1998. The Audit Committee, consisting of the two Independent Non-executive Directors of the Company, reviews and supervises the Group's financial reporting and internal control systems.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the financial reporting matters including a review of the unaudited interim accounts for the six months ended 31 January 2004.

The interim financial report of the Company for the six months ended 31 January 2004 has been complied with Appendix 16 of the Listing Rules which were in force prior to 31 March 2004 and reviewed by the auditors, Messrs Ernst & Young, in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKSA and an unqualified review report is issued.

## CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, for any part of the accounting period covered by this report.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2004.

By Order of the Board  
**China City Natural Gas Holdings Limited**  
**Wong King Shiu, Daniel**  
*Chairman*

Hong Kong, 26 April 2004