

## 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.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
SSAP 35	Government Grants

### Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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 financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the standard has had no material effect on the results for the current or prior accounting years.

### Government Grants

In the current year, the Group has adopted SSAP 35 Government Grants. In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the accounting provisions of SSAP 35 only to grants or portions becoming receivable or repayable after the adoption of the standard.

The adoption of the standard has had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

For the year ended March 31, 2004

### 3. 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.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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.

#### 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.

For the year ended March 31, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment loss.

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.

For the year ended March 31, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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 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.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the contract work is performed are included in the balance sheet as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer, are included in the balance sheet within trade and other receivables.

#### 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.

### 3. 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.

#### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risk and rewards of ownership of the assets concern to the Group. Assets held under finance leases are capitalised at their fair value at the dates of acquisition. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases. The finance costs, which represent the difference between the total finance leases commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

#### Retirement benefit costs

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

#### 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.

For the year ended March 31, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as “other operating income”.



For the year ended March 31, 2004

**4. TURNOVER**

Turnover represents the net amounts received and receivable for goods sold, sales of piped 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:

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Gas connection fees	185,045	2,838
Sales of petroleum	129,791	58,140
Sales of piped gas	49,727	15,975
Sales of goods	3,410	3,658
Rental income	1,262	2,263
Income from trading of securities	–	134
Dividend income	94	2
Others	7,162	2,527
	<u>376,491</u>	<u>85,537</u>

For the year ended March 31, 2004

## 5. 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 piped gas and petroleum. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

#### 2004

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas pipeline construction HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Sales of petroleum HK\$'000	
REVENUE							
Turnover	1,262	94	185,045	49,727	10,572	129,791	376,491
SEGMENT RESULT	(715)	54	130,015	8,152	2,556	(518)	139,544
Unallocated corporate revenue							10,109
Unallocated corporate expenses							(34,425)
Profit from operations							115,228
Finance costs							(24,602)
Gain on disposal of subsidiaries	-	-	-	20,017	-	-	20,017
Profit on disposal of discontinued operation	-	-	-	-	-	7,569	7,569
Profit before taxation							118,212
Taxation							(1,344)
Profit before minority interests							116,868
Minority interests							(36,808)
Net profit for the year							80,060
ASSETS							
Segment assets	45,966	20,290	164,601	858,012	9,087	-	1,097,956
Unallocated corporate assets							244,323
Consolidated total assets							1,342,279
LIABILITIES							
Segment liabilities	1,125	-	31,052	32,551	1,857	-	66,585
Unallocated corporate liabilities							681,899
Consolidated total liabilities							748,484
OTHER INFORMATION							
Additions to property, plant and equipment	-	-	-	166,486	-	14,955	181,441
Additions to property, plant and equipment (unallocated)							3,278
							184,719
Depreciation and amortisation	-	-	-	2,896	-	5,213	8,109
Depreciation and amortisation (unallocated)							1,496
							9,605
Deficit on revaluation of investment properties	180	-	-	-	-	-	180
Amortisation of goodwill	-	-	-	497	-	1,462	1,959

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## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2003

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas pipeline construction HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Sales of petroleum HK\$'000	
REVENUE							
Turnover	2,263	136	2,838	15,975	6,185	58,140	85,537
SEGMENT RESULT	(3,836)	(28,423)	1,947	5,432	612	4,940	(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)
ASSETS							
Segment assets	55,986	5,501	47,063	107,450	5,032	146,720	367,752
Interests in associates	-	-	-	1,704	-	-	1,704
Unallocated corporate assets							132,051
Consolidated total assets							501,507
LIABILITIES							
Segment liabilities	351	11	3,050	7,069	2,277	1,413	14,171
Unallocated corporate liabilities							282,878
Consolidated total liabilities							297,049
OTHER INFORMATION							
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

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## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Business segments *(continued)*

#### *Other Information*

In December 2003, the Group entered into a sale agreement to dispose of a subsidiary, Zhengzhou Standard Petrochemical Co., Ltd. ("Zhengzhou Standard"), which carried out all of the Group's sales of petroleum business. The disposal was effected in order to generate cash flow for the expansion of the Group's other business. The disposal was completed on March 29, 2004, on which date control of Zhengzhou Standard passed to the acquirer.

The results of the sales of petroleum business for the year were included above as discontinued operation.

During the year, the sales of petroleum business contributed HK\$129,791,000 (2003: HK\$58,140,000) to the Group's turnover and a loss of HK\$518,000 (2003: a profit of HK\$4,940,000) to the Group's profit (loss) from operations. It also contributed HK\$4,018,000 (2003: HK\$9,212,000) to the Group's net operating cash flows, paid HK\$14,539,000 (2003: HK\$8,403,000) in respect of investing activities and received HK\$7,576,000 (2003: paid HK\$571,000) in respect of financing activities.

The carrying amounts of the assets and liabilities of Zhengzhou Standard at the date of disposal, and at March 31, 2003, are follows:

	3.29.2004 <i>HK\$'000</i>	3.31.2003 <i>HK\$'000</i>
Total assets	<u>187,002</u>	<u>146,720</u>
Total liabilities	<u>148,154</u>	<u>46,635</u>

A profit of HK\$7,569,000 arose on the disposal of Zhengzhou Standard, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

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## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's property investment, financial and securities investment divisions are located in Hong Kong. Sales of piped 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	
	2004	2003
	HK\$ '000	HK\$ '000
Hong Kong	1,356	1,482
The PRC	375,135	84,055
	<u>376,491</u>	<u>85,537</u>

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	
	2004	2003	2004	2003
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Hong Kong	149,372	99,812	888	44,481
The PRC	1,192,907	401,695	183,831	136,233
	<u>1,342,279</u>	<u>501,507</u>	<u>184,719</u>	<u>180,714</u>

For the year ended March 31, 2004

**6. OTHER OPERATING INCOME**

	2004 HK\$'000	2003 HK\$'000
Interest income	425	257
Subsidies of PRC governmental authorities	7,857	–
Sundry income	3,524	86
Gain on disposals of property, plant and equipment	173	–
	<u>11,979</u>	<u>343</u>

**7. PROFIT (LOSS) FROM OPERATIONS**

	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration	900	750
Depreciation and amortisation of property, plant and equipment on:		
Owned assets	9,537	4,232
Asset held under a hire purchase contract	68	–
	9,605	4,232
Loss on disposals of property, plant and equipment	–	170
Minimum lease payments for operating leases in respect of:		
– rented premises	788	870
– equipment	351	340
Staff costs:		
Directors' emoluments (note 9)	5,253	4,581
Salaries and allowances of other staff	17,678	4,618
Contributions to retirement benefit scheme contributions	971	58
Less: amount capitalised in construction in progress	(608)	–
	23,294	9,257
Rental income from investment properties less outgoings of HK\$76,000 (2003: HK\$45,000)	<u>(1,186)</u>	<u>(2,218)</u>

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## 8. FINANCE COSTS

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Interest on:		
Bank loans and other borrowings wholly repayable within five years	25,081	5,773
Bank loans not wholly repayable within five years	1,713	396
Obligations under a hire purchase contract	13	–
Convertible note	759	–
Convertible bonds	165	–
	<u>27,731</u>	<u>6,169</u>
Less: Interest capitalised to construction in progress	(3,129)	–
	<u><u>24,602</u></u>	<u><u>6,169</u></u>

## 9. DIRECTORS' EMOLUMENTS

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Directors' fees		
– executive	100	33
– non-executive	240	118
– independent non-executive	321	103
	<u>661</u>	<u>254</u>
Other emoluments		
– executive	4,592	2,492
– non-executive	–	1,835
	<u>4,592</u>	<u>4,327</u>
Total emoluments	<u><u>5,253</u></u>	<u><u>4,581</u></u>

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## 9. DIRECTORS' EMOLUMENTS *(continued)*

The emoluments of the directors were within the following bands:

	2004 No. of Directors	2003 No. of Directors
Nil to HK\$1,000,000	9	17
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	<u>2</u>	<u>–</u>

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: three) were directors of the Company. The emoluments of the remaining three (2003: two) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,525	574
Retirement benefit scheme contributions	<u>34</u>	<u>20</u>
	<u>1,559</u>	<u>594</u>

Emoluments of each of the three (2003: two) individuals were below HK\$1,000,000.

## 11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Overprovision for Hong Kong Profits Tax in the previous year	–	18
PRC income tax for the year	<u>(1,344)</u>	<u>(1,879)</u>
	<u>(1,344)</u>	<u>(1,861)</u>



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## 11. TAXATION (continued)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had 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.

The taxation for the year can be reconciled to the profit (loss) before taxation per the income statement as follows:

	Hong Kong		PRC			Total	
	2004	2003	2004	2003	2004	2003	
	HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	HK\$'000	HK\$'000	
Profit (loss) before taxation	<u>(2,002)</u>	<u>(69,768)</u>	<u>120,214</u>	<u>4,943</u>	<u>118,212</u>	<u>(64,825)</u>	
Tax at the domestic income tax rate	(351)	17.5 (11,163)	16.0 39,671	33.0 1,631	33.0 39,320	(9,532)	
Tax effect of expenses not deductible for tax purpose	712	7,698	1,526	1,899	2,238	9,597	
Tax effect of income not taxable for tax purpose	(5,183)	(474)	(2,447)	(127)	(7,630)	(601)	
Overprovision in respect of prior years	-	(18)	-	-	-	(18)	
Tax effect of deferred tax asset not recognised	4,822	3,949	263	25	5,085	3,974	
Effect of tax exemption granted to certain PRC subsidiaries	-	-	(37,669)	(1,549)	(37,669)	(1,549)	
Others	-	(10)	-	-	-	(10)	
Taxation for the year	<u>-</u>	<u>(18)</u>	<u>1,344</u>	<u>1,879</u>	<u>1,344</u>	<u>1,861</u>	

For the year ended March 31, 2004

## 12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Earnings (loss) for the purpose of basic earnings (loss) per share	80,060	(69,673)
Effect of dilutive potential ordinary shares:		
Interest on convertible note and convertible bonds	924	–
Earnings (loss) for the purposes of diluted earnings (loss) per shares	<u>80,984</u>	<u>(69,673)</u>
	2004 <i>'000</i>	2003 <i>'000</i>
Weighted average number of ordinary shares		
for the purpose of basic earnings (loss) per share	1,300,959	1,043,403
Effect of dilutive potential ordinary shares:		
Convertible note	17,518	–
Convertible bonds	21,973	–
Weighted average number of ordinary shares		
for the purpose of diluted earnings (loss) per share	<u>1,340,450</u>	<u>1,043,403</u>

The computation of diluted earnings per share for the year ended March 31, 2004 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the year.

No diluted loss per share for the year ended March 31, 2003 is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share.

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## 13. INVESTMENT PROPERTIES

	THE GROUP	
	2004 HK\$ '000	2003 HK\$ '000
Valuation		
At beginning of the year	9,800	13,923
Deficit on revaluation	<u>(180)</u>	<u>(4,123)</u>
At end of the year	<u><u>9,620</u></u>	<u><u>9,800</u></u>

Investment properties were revalued at their open market value at March 31, 2004 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\$180,000 (2003: HK\$4,123,000), which has been charged to the consolidated income statement.

All of the Group's investment properties are rented out under operating leases.

The market value of investment properties shown above comprises:

	2004 HK\$ '000	2003 HK\$ '000
Long lease in Hong Kong	8,020	8,020
Medium-term lease in Hong Kong	<u>1,600</u>	<u>1,780</u>
	<u><u>9,620</u></u>	<u><u>9,800</u></u>

For the year ended March 31, 2004

## 14. PROPERTY, PLANT AND EQUIPMENT

## THE GROUP

	Land use rights under medium- term leases in the PRC 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>COST</b>								
At April 1, 2003	29,310	118,584	13,200	14,152	10,749	1,893	5,579	193,467
Additions	–	1,166	10,275	96,927	2,152	2,866	6,890	120,276
Acquired on acquisition of subsidiaries	–	–	–	61,428	–	227	2,788	64,443
Reclassification	–	–	12,348	(12,348)	–	–	–	–
Disposal of subsidiaries	(29,310)	(58,862)	–	(25,916)	(800)	(205)	(3,822)	(118,915)
Disposals	–	(12,500)	–	–	–	(61)	–	(12,561)
At March 31, 2004	–	48,388	35,823	134,243	12,101	4,720	11,435	246,710
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT</b>								
At April 1, 2003	275	13,625	128	–	726	201	742	15,697
Provided for the year	660	4,446	463	–	1,439	478	2,119	9,605
Impairment loss reversed in the income statement (Note below)	–	(5,987)	–	–	–	–	–	(5,987)
Eliminated on disposal of subsidiaries	(935)	(4,742)	–	–	(103)	(57)	(1,412)	(7,249)
Eliminated on disposals	–	(2,821)	–	–	–	(4)	–	(2,825)
At March 31, 2004	–	4,521	591	–	2,062	618	1,449	9,241
<b>NET BOOK VALUES</b>								
At March 31, 2004	–	43,867	35,232	134,243	10,039	4,102	9,986	237,469
At March 31, 2003	29,035	104,959	13,072	14,152	10,023	1,692	4,837	177,770

For the year ended March 31, 2004

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### THE COMPANY

	Motor vehicles <i>HK\$ '000</i>
COST	
Acquired during the year and at March 31, 2004	815
DEPRECIATION	
Provided for the year and at March 31, 2004	<u>148</u>
NET BOOK VALUE	
At March 31, 2004	<u><u>667</u></u>

The net book value of leasehold land and buildings of the Group shown above comprises:

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
In Hong Kong		
Long lease	39,682	34,577
Medium-term lease	–	9,679
Outside Hong Kong		
Medium-term lease	<u>4,185</u>	<u>60,703</u>
	<u><u>43,867</u></u>	<u><u>104,959</u></u>

At March 31, 2004, interest capitalised in construction in progress amounted to HK\$3,129,000 (2003: nil).

The net book value of property, plant and equipment includes an amount of HK\$398,000 (2003: nil) in respect of an asset held under a hire purchase contract.

*Note:*

During the year, the directors determined that the impairment loss of HK\$5,987,000 of certain leasehold land and buildings held by the subsidiaries were reversed, due to the increase in the recoverable amount after the change of the core business of the Group.

For the year ended March 31, 2004

**15. PROPERTIES HELD FOR DEVELOPMENT**

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Medium-term lease in Hong Kong – at cost	43,100	43,100
Less: Impairment loss recognised	(6,900)	(6,900)
	<u>36,200</u>	<u>36,200</u>

Properties held for development were reassessed at their open market value at March 31, 2004 on an open market existing use basis. The directors of the Company consider that no further impairment loss (2003: nil) was required to be charged to the consolidated income statement.

**16. INTERESTS IN SUBSIDIARIES**

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	325,689	129,504
Less: Impairment losses recognised	(51,504)	(51,504)
	<u>274,185</u>	<u>78,000</u>
Amounts due from subsidiaries	356,527	340,924
Less: Allowance	(137,176)	(137,176)
	<u>219,351</u>	<u>203,748</u>
	<u>493,536</u>	<u>281,748</u>

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

For the year ended March 31, 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at March 31, 2004 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	
				%	%	
Faith Profit Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property holding
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 1)	–	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
中亞燃氣實業(深圳)有限公司(「中亞燃氣」)	PRC	Wholly foreign-owned enterprise	Registered US\$29,800,000	100	–	Investment holding and treasury

For the year ended March 31, 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
北京中燃翔科油氣技術有限公司 Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	–	60	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	–	100	Property holding
China Gas Corporate Services Limited	Hong Kong	Incorporated	Ordinary HK\$100	100	–	Provision of secretarial services
China Gas Development Group Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
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



For the year ended March 31, 2004

## 16. 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	
				%	%	
益陽中燃城市燃氣發展有限公司 Yiyang Central Gas & City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	–	80	Trading of natural gas and gas pipeline construction
蕪湖中燃城市燃氣發展有限公司 Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	–	90	Trading of natural gas and gas pipeline construction
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	Trading of natural gas and gas pipeline construction

For the year ended March 31, 2004

## 16. 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 %	
藥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
Clever Decision Enterprises Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	Wholly foreign owned enterprise	Registered RMB20,000,000	–	100	Investment holding
淮南中燃城市燃氣發展有限公司 Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	–	70	Trading of natural gas and gas pipeline construction
隨州中燃城市燃氣發展有限公司 Suizhou Central City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	–	90	Trading of natural gas and gas pipeline construction
孝感振戎天然氣有限公司 Xiaogan Zhenrong Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB28,000,000	–	30 (Note 2)	Trading of natural gas and gas pipeline construction
孝感嘉旭天然氣有限公司 Xiaogan Jiayu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	–	65	Trading of natural gas and gas pipeline construction

For the year ended March 31, 2004

## 16. 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	
				%	%	
漢川嘉旭天然氣有限公司 Hanchuen Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB7,000,000	–	65	Trading of natural gas and gas pipeline construction
雲夢嘉旭天然氣有限公司 Yumeng Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB6,200,000	–	65	Trading of natural gas and gas pipeline construction
應城嘉旭天然氣有限公司 Yingcheng Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	–	65	Trading of natural gas and gas pipeline construction

\* English name is for identification purposes only.

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

Notes:

- (1) The deferred shares, which are not held by the Group, practically carry 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.
- (2) The Group holds 30% interest in Xiaogan Zhenrong Gas Co. Ltd. ("Xiaogan Zhenrong"). However, the Group has contractual right to appoint two out of three directors on the board of directors of Xiaogan Zhenrong and has the power to govern its financial and operating policies. Accordingly, it is accounted for as a subsidiary.

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

For the year ended March 31, 2004

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

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	—	1,704
	<u>          </u>	<u>          </u>
	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	—	1
	<u>          </u>	<u>          </u>

During the year, 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 March 31, 2003, the Group also owned 49% equity interest in China Gas Development Group Limited (“China Gas Development”) which was an associate of the Group. During the year, the Company acquired the remaining 51% equity interest in China Gas Development. The details of the acquisition are set out in note 33.

For the year ended March 31, 2004

## 18. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2004	2003	2004	2003	2004	2003
	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>5,490</u>	<u>14,800</u>	<u>–</u>	<u>20,290</u>	<u>5,490</u>
Market value	<u>4,392</u>	<u>3,660</u>	<u>14,800</u>	<u>–</u>	<u>19,192</u>	<u>3,660</u>
Carrying amount analysed for reporting purpose as:						
Current	–	–	14,800	–	14,800	–
Non-current	<u>5,490</u>	<u>5,490</u>	<u>–</u>	<u>–</u>	<u>5,490</u>	<u>5,490</u>
	<u>5,490</u>	<u>5,490</u>	<u>14,800</u>	<u>–</u>	<u>20,290</u>	<u>5,490</u>
<b>THE COMPANY</b>						
Equity securities held in Hong Kong	<u>5,220</u>	<u>5,220</u>	<u>–</u>	<u>–</u>	<u>5,220</u>	<u>5,220</u>
Market value	<u>4,176</u>	<u>3,480</u>	<u>–</u>	<u>–</u>	<u>4,176</u>	<u>3,480</u>
Carrying amount analysed for reporting purpose as:						
Non-current	<u>5,220</u>	<u>5,220</u>	<u>–</u>	<u>–</u>	<u>5,220</u>	<u>5,220</u>

*Note:* The investment securities represent approximately 6.1% and 5.8% equity interests in Greater China Holdings Limited held by the Group and the Company, respectively.

For the year ended March 31, 2004

**19. GOODWILL**

	<b>THE GROUP</b> <i>HK\$ '000</i>
<b>COST</b>	
At April 1, 2003	20,784
Arising on acquisitions of subsidiaries during the year	93,501
Arising on acquisition of additional interest in a subsidiary	226
Eliminated on disposals of subsidiaries during the year	<u>(5,470)</u>
At March 31, 2004	<u>109,041</u>
<b>AMORTISATION</b>	
At April 1, 2003	654
Charge for the year	1,959
Eliminated on disposals of subsidiaries during the year	<u>(705)</u>
At March 31, 2004	<u>1,908</u>
<b>NET BOOK VALUES</b>	
At March 31, 2004	<u><u>107,133</u></u>
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.

For the year ended March 31, 2004

## 20. DEPOSITS FOR INVESTMENTS

### THE GROUP AND THE COMPANY

- (a) On March 12, 2004, the Company entered into a conditional Sales and Purchase Agreement (“S & P Agreement”) with an independent third party pursuant to which the third party has agreed to sell and the Company has agreed to acquire 100% equity interest in United Keen Investment Limited (“United Keen”) at a consideration of RMB12,000,000 (equivalent to HK\$11,429,000). During the year, the Company has paid HK\$6,667,000.
- (b) On March 15, 2004, the Company entered into another conditional S & P Agreement with an independent third party pursuant to which the third party has agreed to sell and the Company has agreed to acquire 100% equity interest in Glorywish Investment Limited (“Glorywish”) at a consideration of RMB9,500,000 (equivalent to HK\$9,048,000). During the year, the Company has paid HK\$5,714,000.

## 21. INVENTORIES

THE GROUP	
2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

The following is an analysis of inventories at the reporting date:

Construction materials	11,475	880
Consumables and spare parts	1,239	2,573
Natural gas	–	132
Petroleum	–	10,473
	<hr/>	<hr/>
	<b>12,714</b>	<b>14,058</b>
	<hr/> <hr/>	<hr/> <hr/>

The balance represents finished goods and is stated at cost.

For the year ended March 31, 2004

**22. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK**

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	57,369	–
Less: progress billings	<u>(7,851)</u>	<u>–</u>
	<u><b>49,518</b></u>	<u><b>–</b></u>
Represented by:		
Due from customers included in current assets	49,861	–
Due to customers included in current liabilities	<u>(343)</u>	<u>–</u>
	<u><b>49,518</b></u>	<u><b>–</b></u>

At March 31, 2004 and 2003, there were no retention monies held by customers for contract work performed. At March 31, 2004, advances received from customers for contract work amounted to HK\$7,296,000 (2003: nil) which were included in trade and other payables.



For the year ended March 31, 2004

## 23. TRADE AND OTHER RECEIVABLES

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

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

	THE GROUP	
	2004	2003
	HK\$ '000	HK\$ '000
Not yet due	73,111	–
Within credit period	20,463	3,066
Overdue by:		
0 – 30 days	2,198	436
31 – 60 days	2,519	290
61 – 90 days	2,568	1,331
91 – 120 days	514	1,793
Over 180 days	1,910	1,565
Trade receivables	103,283	8,481
Deposits paid for construction materials	179,433	38,095
Other receivables, deposits and prepayments	63,419	10,939
Advance to a supplier – interest bearing ( <i>Note</i> )	–	8,524
Advances to other suppliers – non-interest bearing	–	8,973
Deposit paid to a minority shareholder of a subsidiary for acquisition of property, plant and equipment	37,066	–
Amount due from a minority shareholder of a subsidiary	1,587	–
	<u>384,788</u>	<u>75,012</u>

*Note:* Advance to a supplier was interest bearing at commercial rate, unsecured and fully settled during the year.

For the year ended March 31, 2004

## 24. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	24,695	1,439
61 – 90 days	1,169	32
91 – 120 days	842	1,217
121 – 180 days	57	422
Over 180 days	3,946	4,292
	<hr/>	<hr/>
Trade payables	30,709	7,402
Other payables and accrued charges	41,606	30,709
	<hr/>	<hr/>
	<b>72,315</b>	<b>38,111</b>
	<hr/> <hr/>	<hr/> <hr/>

For the year ended March 31, 2004

## 25. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	571,666	57,143	–	–
Mortgage loan	20,053	22,029	20,053	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>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>
Secured	591,719	134,762	20,053	77,619
Unsecured	–	112,043	–	61,926
	<u>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>

The maturity profile of the above loans is as follows:

On demand or within one year	278,489	159,361	2,061	56,996
More than one year, but not exceeding two years	24,991	68,815	2,134	64,396
More than two years, but not exceeding five years	151,057	7,108	6,867	6,632
More than five years	137,182	11,521	8,991	11,521
	<u>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>
Less: Amount due within one year shown under current liabilities	<u>(278,489)</u>	<u>(159,361)</u>	<u>(2,061)</u>	<u>(56,996)</u>
Amount due after one year	<u>313,230</u>	<u>87,444</u>	<u>17,992</u>	<u>82,549</u>

Notes:

- Loan from a financial institution was secured, interest-bearing at commercial rates and repaid on November 20, 2003.
- Other loans were unsecured and fully repaid during the year. Included in other loans was a loan of HK\$61,926,000 which was interest-free (the relevant fund arrangement fee of HK\$2,917,000 was charged to consolidated income statement). The remaining balance of HK\$45,222,000 bore interest at commercial rates.
- Loans from employees represented advances from employees of a subsidiary.

For the year ended March 31, 2004

## 26. OBLIGATIONS UNDER A HIRE PURCHASE CONTRACT

	THE GROUP AND THE COMPANY			
	Minimum		Present value	
	lease payments		of minimum	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under a hire purchase contract:				
Within one year	132	–	112	–
In the second to fifth year inclusive	197	–	185	–
	<u>329</u>	<u>–</u>	<u>297</u>	<u>–</u>
Less: Future finance charges	(32)	–	–	–
	<u>297</u>	<u>–</u>	<u>297</u>	<u>–</u>
Present value of lease obligations	<u>297</u>	<u>–</u>	<u>297</u>	<u>–</u>
Less: Amount due for settlement within one year (shown under current liabilities)			(112)	–
			<u>185</u>	<u>–</u>

It is the Group's policy to lease certain of its property, plant and equipment under hire purchase contract. The average lease term is 3 years. For the year ended March 31, 2004, the average effective borrowing rate was approximately 8% per annum. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a hire purchase contract are secured by the lessor's charge over the leased asset.

For the year ended March 31, 2004

## 27. 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	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, 2002	485,026	4,851	105,902	105,902	110,753
Issue of new ordinary shares	112,050	1,121	–	–	1,121
Conversion of preference shares to ordinary shares	614,331	6,143	(99,604)	(99,604)	(93,461)
Exercise of share options	<u>1,000</u>	<u>10</u>	<u>–</u>	<u>–</u>	<u>10</u>
At March 31, 2003	1,212,407	12,125	6,298	6,298	18,423
Issue of new ordinary shares (Notes a, b, c)	280,000	2,800	–	–	2,800
Conversion of convertible bonds (Note d)	16,922	169	–	–	169
Conversion of preference shares to ordinary shares (Note e)	<u>48,451</u>	<u>484</u>	<u>(6,298)</u>	<u>(6,298)</u>	<u>(5,814)</u>
At March 31, 2004	<u>1,557,780</u>	<u>15,578</u>	<u>–</u>	<u>–</u>	<u>15,578</u>

For the year ended March 31, 2004

## 27. SHARE CAPITAL (continued)

Notes:

- (a) On October 9, 2003, arrangements were proposed to make for a private placement to independent investors of 70,000,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.72 per share, representing a discount of 10% to the closing market price of the Company's shares on October 8, 2003. The net proceeds of approximately HK\$50 million were applied as to approximately HK\$44,000,000 for the repayment of the Group's short term borrowings and the remaining balance as general working capital of the Group. The issue of 70,000,000 shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on August 27, 2003.
- (b) On November 8, 2003, arrangements were made for a private placement to independent investors of 160,000,000 ordinary shares of HK\$0.01 each in the Company held by Heng Fung Holdings Limited, a substantial shareholder of the Company, at a price of HK\$0.84 per share, representing a discount of 22.94% to the closing market price of the Company's shares on November 6, 2003, being the latest trading day before the date of the announcement issued by the Company on November 11, 2003.

Pursuant to the conditional subscription agreement of the same date, Heng Fung Holdings Limited subscribed for 160,000,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.84 per share. The net proceeds of approximately HK\$130 million were applied as to approximately HK\$78 million for the contribution of the enlarged registered capital of 中亞燃氣, approximately HK\$45 million for the repayments of the Group's short term borrowings, approximately HK\$4 million for the acquisition of natural gas project in Xiaogan and the remaining balance as general working capital of the Group. The new shares were issued under the general mandate granted to the directors at the special general meeting held on December 19, 2003.

- (c) On January 21, 2004, arrangements were proposed to make for a private placement to a company in which was owned as to 24% by Mr. Zhu Wei Wei, an executive Director of the Company, and as to 76% by Mr. Huang Yong, a director of 中亞燃氣, a subsidiary of the Company, of 50,000,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.65 per share, representing a discount of 9.72% to the closing market price of the Company's shares on January 16, 2004, being the latest trading day before the date of the announcement issued by the Company on January 21, 2004. The net proceeds of approximately HK\$32 million were applied for the repayments of the Group's short term borrowings. The new shares were issued under the general mandate granted to the directors at the special general meeting held on March 4, 2004.
- (d) During the year, the holder of convertible bonds has exercised the options to convert US\$1,400,000 (approximately HK\$10,886,000) convertible bonds into 16,922,000 ordinary shares of HK\$0.01 each.
- (e) During the year, the holders of preference shares have exercised the options to convert 6,298,000 Convertible Preference ("CP") shares at HK\$0.13 per share into 48,451,000 ordinary shares of HK\$0.01 each.

These shares issued during the year rank pari passu with the existing shares in all respects.

**27. SHARE CAPITAL** *(continued)*

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.

For the year ended March 31, 2004

**28. RESERVES**

	Share premium HK\$ '000	Contributed surplus HK\$ '000	Other reserve HK\$ '000	Accumulated losses HK\$ '000	Total HK\$ '000
<b>THE COMPANY</b>					
At April 1, 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)
At March 31, 2003	284,290	94,712	–	(252,724)	126,278
Private placements	214,500	–	–	–	214,500
Conversion of convertible bonds	10,717	–	–	–	10,717
Conversion of preference shares	5,814	–	–	–	5,814
Share issue expenses	(9,432)	–	–	–	(9,432)
Expenses on issuing convertible bonds	(932)	–	–	–	(932)
Proceeds of private placements received in advance (note 2 below)	–	–	58,000	–	58,000
Net loss for the year	–	–	–	(23,679)	(23,679)
At March 31, 2004	<u>504,957</u>	<u>94,712</u>	<u>58,000</u>	<u>(276,403)</u>	<u>381,266</u>

Notes:

- (1) The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as a result of the group reorganisation prior to the listing of the Company's shares in 1995 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.
- (2) The amount represents the advance payment from the subscriber for the private placement of which the shares have been issued and allotted after the balance sheet date.

At March 31, 2004 and 2003, the Company had no reserve available for distribution.



## 29. AMOUNTS DUE TO SUBSIDIARIES

The amounts of the Company 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.

## 30. CONVERTIBLE NOTE

### THE GROUP AND THE COMPANY

Pursuant to an agreement dated on June 10, 2003, the Company has issued a convertible note (the "Note") amounting to US\$6 million to an independent third party, Eastern Linker Holdings Limited. The Note bears interest at the rate of 2% per annum on the outstanding principal amount of the Note. The conversion price is HK\$2 per share and would be matured at 24 months from the date of the issue of the Note.

## 31. CONVERTIBLE BONDS

### THE GROUP AND THE COMPANY

On October 29, 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 ("Tranche 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 date of issue of the Bonds up to the day falling one week prior to October 30, 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 October 29, 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 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.

The Tranche 1 Bonds of US\$6 million and Tranche 2 Bonds of US\$7 million were issued to ML on November 13, 2003 and June 10, 2004, respectively.

For the year ended March 31, 2004

### 31. CONVERTIBLE BONDS *(continued)*

The issue of Tranche 3 Bonds, Tranche 4 Bonds and Tranche 5 Bonds is subject to the approval from the shareholders of the Company. The proposed resolutions to approve the issue of these three 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 December 19, 2003.

### 32. DEFERRED TAXATION

The following is the deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods.

#### THE GROUP

	Accelerated tax depreciation <i>HK\$ '000</i>	Tax losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At April 1, 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	319	(319)	–
	<hr/>	<hr/>	<hr/>
– as restated	319	(319)	–
(Credit) charge to income statement for the year	(316)	316	–
	<hr/>	<hr/>	<hr/>
At March 31, 2003	3	(3)	–
(Credit) charge to income statement for the year	(1)	1	–
Effect of change in tax rate	1	(1)	–
	<hr/>	<hr/>	<hr/>
At March 31, 2004	<u>3</u>	<u>(3)</u>	<u>–</u>

At March 31, 2004, the Group has estimated unused tax losses of HK\$116,208,000 (2003: HK\$87,857,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$15,000 (2003: HK\$18,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$116,193,000 (2003: HK\$87,839,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK\$2,003,000 (2003: HK\$1,206,000) that will expire within 5 years. Other losses may be carried forward indefinitely.

#### THE COMPANY

At March 31, 2004, the Company has estimated unused tax losses of HK\$47,538,000 (2003: HK\$24,998,000) available for offset against future profits. No deferred tax asset has been recognised due to uncertainty of future profits streams. Losses may be carried forward indefinitely.

For the year ended March 31, 2004

## 33. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 51% and 100% of China Gas Development and Clever Decision Enterprises Limited, respectively, at a total consideration of HK\$118,173,000. These acquisitions have been accounted for by the purchase method of accounting and the goodwill arising as a result of these acquisitions was HK\$93,501,000.

	2004 HK\$'000	2003 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	64,443	162,608
Investment in an associate	–	1,714
Inventories	–	6,770
Trade and other receivables	26,007	28,709
Pledged bank deposits	–	9,524
Bank balances and cash	6,550	16,669
Trade and other payables	(10,783)	(33,891)
Amount due to a minority shareholder	–	(2,543)
Taxation	–	(4,853)
Bank and other borrowings	(38,095)	(47,234)
Minority interests	(23,450)	(56,745)
	<u>24,672</u>	<u>80,728</u>
Goodwill	93,501	20,784
Negative goodwill	–	(3,488)
	<u>118,173</u>	<u>98,024</u>
SATISFIED BY		
Cash consideration	118,173	18,834
Issue of ordinary shares	–	79,190
	<u>118,173</u>	<u>98,024</u>
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash consideration paid	(118,173)	(18,834)
Bank balances and cash acquired	6,550	16,669
	<u>(111,623)</u>	<u>(2,165)</u>

The subsidiaries acquired during the year contributed HK\$60,536,000 (2003: HK\$84,055,000) to the Group's turnover, and a profit of HK\$50,747,000 (2003: HK\$2,242,000) to the Group's profit (loss) from operations.

For the year ended March 31, 2004

**34. DISPOSAL OF SUBSIDIARIES**

During the year, the Group disposed of 55%, 93% and 93% of Zhengzhou Standard, 焦作中燃城市燃氣發展有限公司 and 濟源中燃城市燃氣發展有限公司, respectively, at a total consideration of HK\$107,350,000.

	2004 HK\$'000	2003 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	111,666	–
Goodwill	4,765	–
Inventories	10,169	–
Trade and other receivables	14,298	2
Pledged bank deposits	9,524	–
Bank balances and cash	64,198	–
Trade and other payables	(48,788)	–
Amount due to a minority shareholder	(6,848)	–
Taxation	(7,331)	–
Bank and other borrowings	(32,890)	–
Minority interests	(38,999)	–
	<u>79,764</u>	<u>2</u>
Gain (loss) on disposals	27,586	(2)
	<u>107,350</u>	<u>–</u>
Net cash flow arising on disposal:		
Cash consideration	107,350	–
Bank balances and cash disposed of	(64,198)	–
	<u>43,152</u>	<u>–</u>

The subsidiaries disposed of during the year contributed HK\$129,791,000 to the Group's turnover and a loss of HK\$518,000 to the Group's profit from operations.

The subsidiary disposed of during the year ended March 31, 2003 did not contribute any material effect on the Group's turnover and the Group's loss from operations.

For the year ended March 31, 2004

## 35. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC, a minority shareholder of a subsidiary contributed the capital in the form of property, plant and equipment with carrying amount of HK\$9,524,000 (2003: nil).

During the year, the Group entered into a finance lease arrangement in respect of an asset with a total capital value of the inception of the lease of HK\$350,000 (2003: nil).

## 36. 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	727	1,572	–	75
In the second to fifth year inclusive	1,788	2,299	–	–
Over five years	–	17,724	–	–
	<u>2,515</u>	<u>21,595</u>	<u>–</u>	<u>75</u>

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

### 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	
	2004	2003
	HK\$'000	HK\$'000
Within one year	684	1,473
In the second to fifth year inclusive	18	815
	<u>702</u>	<u>2,288</u>

Leases are negotiated for an average term of two years.

For the year ended March 31, 2004

### 37. CAPITAL COMMITMENTS

- (i) 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, a wholly owned subsidiary of the Group. A summary of the terms of the agreement is set out in the announcement of the Company dated March 13, 2003. As at March 31, 2004, the outstanding capital commitment by the Group to Suizhou JV amounted to HK\$18,340,000.
- (ii) On March 12, 2004, the Company entered into a conditional S & P Agreement with an independent third party pursuant to which the third party agreed to sell and the Company has agreed to acquire 100% equity interest in United Keen at a consideration of RMB12,000,000 (equivalent to HK\$11,429,000). The sole asset of United Keen is the 100% interest in Pizhou Zhongran City Gas Development Company Ltd., a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Pizhou City of Jiangsu Province. During the year, the Company has paid HK\$6,667,000. As at March 31, 2004, the outstanding capital commitment by the Company amounted to HK\$4,762,000.
- (iii) On March 15, 2004, the Company entered into a conditional S & P Agreement with an independent third party pursuant to which the third party agreed to sell and the Company has agreed to acquire 100% equity interest in Glorywish at a consideration of RMB9,500,000 (equivalent to HK\$9,048,000). The sole asset of Glorywish is the 70% interest in Jinhua Zhongran City Gas Development Company Ltd. a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Jihua City of Zhejiang Province. During the year, the Company has paid HK\$5,714,000. As at March 31, 2004, the outstanding capital commitment by the Company amounted to HK\$3,334,000.
- (iv) On March 19, 2004, a wholly owned subsidiary of the Company signed a cooperation agreement with 河北省滄州經濟技術開發區管委會(Cangzhou Economic and Technology Development District Management Association, Hebei Province) and has obtained the exclusive operation right on natural gas business in Cangzhou economic and technology development district for a term of 30 years. The Group will invest HK\$2,000,000 to set up a wholly foreign-owned enterprise, 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 Cangzhou Economic and Technology Development District, Hebei Province.

### 37. CAPITAL COMMITMENTS *(continued)*

- (v) On March 31, 2004, a wholly owned subsidiary of the Company signed a cooperation agreement with the People's Government of Yangzhong, Jiangsu Province for the establishment of a wholly foreign-owned enterprise ("Yangzhong Zhongran") in Yangzhong 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 Yangzhong. The registered capital of Yangzhong Zhongran will not be less than US\$1,000,000 and the Group will own 100% equity interest.

Save as disclosed above, as at March 31, 2004, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK\$572,712,000 (2003: HK\$38,655,000) and HK\$561,696,000 (2003: HK\$19,347,000), respectively.

### 38. PLEDGE OF ASSETS

#### THE GROUP

At March 31, 2004, the Group has not pledged any bank deposits (2003: HK\$66,667,000 pledged) and land use rights (2003: a net book value of HK\$29,035,000 pledged) to secure banking facilities granted to the Group.

The Group pledged land and buildings having a net book value of HK\$39,682,000 (2003: HK\$44,256,000) and certain investments in subsidiaries to banks to secure loan facilities granted to the Group. The Group has not pledged any investment properties (2003: a net book value of HK\$9,800,000 pledged), investments in securities (2003: a carrying amount of HK\$5,490,000 pledged), or properties held for development (2003: a net book value of HK\$36,200,000 pledged) for loan facilities granted to the Group.

### 39. CONTINGENT LIABILITIES

The Company has given guarantees to banks in respect of banking facilities utilised by a subsidiary amounted to HK\$238,095,000 (2003: nil).

For the year ended March 31, 2004

#### 40. RETIREMENT BENEFITS SCHEMES

With effect 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 contributions amounted to HK\$971,000 (2003: HK\$58,000).

#### 41. 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 on February 6, 2003. However, the options granted under the Old Scheme are still exercisable in accordance with the terms of the Old Scheme.



#### 41. SHARE OPTION SCHEMES *(continued)*

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

The Company’s New Scheme was adopted by the shareholders pursuant to a resolution passed on February 6, 2003 for the primary purpose of providing incentives 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 total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders’ approval of the New Scheme (“Scheme Mandate Limit”) or, if such 10% limit is refreshed, at the date of shareholders’ approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. 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 then in issue. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to substantial shareholder or an independent non-executive directors or any of their respective associate would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company’s issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company’s shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$10 per each grant. Options may be exercised at any time from the date to be determined by the board of directors 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.

For the year ended March 31, 2004

#### 41. SHARE OPTION SCHEMES (continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holding during the two years ended March 31, 2004:

Name of schemes	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 4.1.2002	Exercised during the year	Number of share options at 3.31.2003	Granted during the year	Number of share options at 3.31.2004
<i>Directors</i>								
Old Scheme	2.10.1998	2.10.1998 to 2.9.2008	0.11	1,000,000	(1,000,000)	-	-	-
New Scheme	1.9.2004	9.1.2004 to 1.8.2014	0.80	-	-	-	33,240,711	33,240,711
<i>Others</i>								
New Scheme	1.9.2004	9.1.2004 to 1.8.2014	0.80	-	-	-	88,000,000	88,000,000

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK\$1,000 (2003: nil).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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## 42. RELATED PARTY TRANSACTIONS

On March 30, 2004, the Company issued 50,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$32,500,000 to a company, which was owned as to 24% by Mr. Zhu Wei Wei, an executive director of the Company, and as to 76% by Mr. Huang Yong, a director of 中亞燃氣, a wholly owned subsidiary of the Company.

## 43. POST BALANCE SHEET EVENTS

- (a) On May 19, 2004, 中亞燃氣, a wholly owned subsidiary of the Company, entered into an agreement with a minority shareholder of Huainan China Gas City Gas Development Co., Ltd. in relation to the acquisition of the remaining 30% equity interests of a non-wholly owned subsidiary – Huainan China Gas City Gas Development Co., Ltd. at zero consideration. This transaction constitutes as a major and connected transaction which is subject to the approval by independent shareholders.
- (b) On June 10, 2004, pursuant to an Agreement dated October 29, 2003 with ML, the Company has issued US\$7 million, 1.0 per cent unlisted and unsecured convertible bonds due 2008 to ML.