

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. General

The Company was incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands (the "BVI").

The principal activities of the Group are property development and sale and distribution of liquefied petroleum gas and natural gas ("Gas fuel") and construction of gas pipelines.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2003.

3. Prior Period Adjustments

Pursuant to the agreement dated 4 December 2003 in relation to the placing of certain shares in a subsidiary, Panva Gas Holdings Limited ("Panva Gas"), a gain on partial disposal has been recognised in the consolidated income statement for the year ended 31 December 2003. The entire sale proceeds of the placing of shares was then applied for the subscription of the same amount of shares which was approved on 5 January 2004. Subsequently, the board of directors considered that these transactions should be accounted for as one transaction in view of their nature. Accordingly, it resulted in an adjustment to reduce net profit for the year ended 31 December 2003 amounted to approximately HK\$148 million with a corresponding reduction of the opening balance of the accumulated profits as at 1 January 2004. In addition, the Group's other reserves and minority interests as at 31 December 2003 was increased by approximately HK\$1 million and HK\$170 million respectively while the trade and other payables as at 31 December 2003 was decreased by approximately HK\$23 million. The effect of such change had no impact on the net profit for the six months period ended 30 June 2004.

3. **Prior Period Adjustments** *(Continued)*

In addition, an adjustment has been made to reduce goodwill arising on the conversion of convertible note into the shares of Panva Gas and other payables of approximately HK\$63 million as at 31 December 2003.

4. **Segment Information**

For management purposes, the Group is currently organised into three operating divisions – property development, gas fuel business and others. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2004 is as follows:

30 June 2004

	Property development	Gas fuel business	Others <i>(Note)</i>	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External	83,217	848,634	13,625	-	945,476
Inter-segment	-	-	4,771	(4,771)	-
Total	<u>83,217</u>	<u>848,634</u>	<u>18,396</u>	<u>(4,771)</u>	<u>945,476</u>
SEGMENT RESULT	<u>10,592</u>	<u>126,463</u>	<u>2,691</u>	<u>-</u>	<u>139,746</u>
Other operating income					10,674
Unallocated corporate expenses					(31,871)
Profit from operations					<u>118,549</u>

4. Segment Information (Continued)

30 June 2003

	Property development	Gas fuel business	Others (Note)	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
External	155,228	702,990	13,093	-	871,311
Inter-segment	-	-	4,771	(4,771)	-
Total	<u>155,228</u>	<u>702,990</u>	<u>17,864</u>	<u>(4,771)</u>	<u>871,311</u>
SEGMENT RESULT					
	<u>17,384</u>	<u>116,878</u>	<u>2,141</u>	<u>-</u>	136,403
Other operating income					12,919
Unallocated corporate expenses					<u>(25,866)</u>
Profit from operations					<u>123,456</u>

Note: Others include income from decoration, interior design work and property management services.

Inter-segment sales are charged at normal commercial terms.

The Group's turnover and profit from operations are substantially derived from operation in the People's Republic of China ("PRC"). Accordingly, no geographical segment information is presented.

5. Depreciation and Amortisation

During the period, depreciation of HK\$19,932,000 (six months ended 30.6.2003: HK\$15,212,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$852,000 (six months ended 30.6.2003: HK\$609,000) was charged to administrative expenses in respect of the Group's goodwill. HK\$284,000 (six months ended 30.6.2003: HK\$1,027,000) was released in respect of the Group's negative goodwill.

6. Taxation

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charge for the period		
PRC, excluding Hong Kong	<u>9,334</u>	<u>4,653</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from their first profitable year of operation, followed by a 50 per cent. reduction from the third to fifth year. Provision for PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries for the period.

7. Dividend

The directors have resolved to declare an interim dividend of HK1.5 cents per share (six months ended 30.6.2003: HK3.0 cents per share) in respect of six months ended 30 June 2004. The interim dividend is payable on or before 21 October 2004 to shareholders whose names appear on the Register of Members of the Company on 15 October 2004.

8. Earnings Per Share

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

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	67,050	77,018
Effect of dilutive potential shares:		
Interest on convertible note	—	384
	<u>67,050</u>	<u>77,402</u>
Earnings for the purpose of diluted earnings per share	67,050	77,402
	<u>67,050</u>	<u>77,402</u>
	Number of shares	
	30.6.2004	30.6.2003
Weighted average number of shares for the purpose of basic earnings per share	2,299,340,261	2,219,364,656
Effect of dilutive potential ordinary shares:		
Share options	16,315,955	2,352,358
Convertible note	—	51,000,000
	<u>16,315,955</u>	<u>51,000,000</u>
Weighted average number of shares for the purpose of diluted earnings per share	2,315,656,216	2,272,717,014
	<u>2,315,656,216</u>	<u>2,272,717,014</u>

Notes:

- a. The computation of diluted earnings per share does not assume the conversion of the subsidiary's outstanding convertible bonds for the six months ended 30 June 2004 as the conversion of those convertible bonds is anti-dilutive.
- b. The computation of basic and diluted earnings per share for the six months ended 30 June 2003 has been adjusted for the effect of bonus issue during the period.

9. Movements in Property, Plant and Equipment

	Property, plant and equipment <i>HK\$'000</i>
COST OR VALUATION	
At 1 January 2004	780,045
Acquisition of subsidiaries	88,361
Additions	125,265
Disposals	<u>(11,298)</u>
At 30 June 2004	<u>982,373</u>
DEPRECIATION	
At 1 January 2004	111,642
Provided for the period	19,932
Eliminated on disposals	<u>(2,576)</u>
At 30 June 2004	<u>128,998</u>
NET BOOK VALUE	
At 30 June 2004	<u><u>853,375</u></u>
At 31 December 2003	<u><u>668,403</u></u>

10. Goodwill

	<i>HK\$'000</i>
At 1 January 2004	
– as originally stated	84,551
– prior period adjustment	<u>(63,108)</u>
– as restated	21,443
Addition	8,952
Amortisation	<u>(852)</u>
At 30 June 2004	<u><u>29,543</u></u>

11. Trade and Other Receivables

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 5 years are also allowed by the Group. Included in trade and other receivables are trade receivables of HK\$138,234,000 (31.12.2003: HK\$193,176,000), the aged analysis of which is as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Aged:		
0 to 90 days	88,667	136,789
91 to 180 days	24,713	47,109
181 to 360 days	21,037	3,743
Over 360 days	3,817	5,535
	<u>138,234</u>	<u>193,176</u>

12. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$76,115,000 (31.12.2003: HK\$126,235,000), the aged analysis of which is as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Aged:		
0 to 90 days	54,076	108,256
91 to 180 days	4,421	2,203
181 to 360 days	1,041	1,836
Over 360 days	16,577	13,940
	<u>76,115</u>	<u>126,235</u>

13. Borrowings

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans		
– secured	209,682	219,953
– unsecured	595,862	516,770
Other loans		
– unsecured	10,056	972
Convertible note	125,000	125,000
Convertible bonds	372,016	372,016
	<u>1,312,616</u>	<u>1,234,711</u>
The maturity of the above loans is as follows:		
On demand or within one year	732,601	669,056
More than one year but not exceeding two years	205,379	191,020
More than two years but not exceeding five years	374,636	374,635
	<u>1,312,616</u>	<u>1,234,711</u>
<i>Less:</i> Amount due within one year shown under current liabilities	<u>(732,601)</u>	<u>(669,056)</u>
Non-current portion	<u>580,015</u>	<u>565,655</u>

The amount of HK\$125,000,000 of the convertible note being the exchangeable note issued by a subsidiary of the Company, would be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue. The outstanding unconverted principal amount of the note will be redeemed on 31 October 2004 at par. Interest is payable at 2% per annum.

The convertible bonds were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of the Panva Gas on or after 7 June 2003 and up to 9 April 2008. The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum.

14. Share Capital

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shares of HK\$0.10 each		
<i>Authorised:</i>		
4,800,000,000 shares of HK\$0.10 each	480,000	480,000
<i>Issued and fully paid:</i>		
2,318,162,240 shares (31.12.2003: 1,911,035,200) of HK\$0.10 each	231,816	191,104

A summary of the movement in the issued capital of the Company is as follows:

	No. of shares	<i>HK\$'000</i>
At 1 January 2004	1,911,035,200	191,104
Share options exercised	24,060,000	2,406
Bonus issue	383,067,040	38,306
At 30 June 2004	2,318,162,240	231,816

Note: On 6 March 2004, the Company issued 383,067,040 shares of HK\$0.1 each in the Company as bonus issue of shares on the basis of two new shares of HK\$0.1 each for every ten existing shares held by the shareholders of the Company by the way of capitalisation of the sum of HK\$38,306,000 standing to the credit of the share premium account of the Company.

15. Related Party Transactions

The following is a summary of significant related party transactions carried out during the period:

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Skillful Assets Limited (<i>Note a & b</i>)		
– Rental paid thereto (<i>Note c</i>)	498	498
Enerchina Holdings Limited (<i>Note a</i>)		
– Interest received therefrom (<i>Note d</i>)	152	2,640
– Office expenses paid thereto (<i>Note e</i>)	394	–
	<u><u> </u></u>	<u><u> </u></u>

Notes:

- a. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules.
- b. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- c. Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- d. The interest income was determined in accordance with the loan agreement.
- e. The office expenses were determined with reference to actual costs incurred.

16. Contingent Liabilities

	THE GROUP	
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties	13,796	17,256
	<u><u> </u></u>	<u><u> </u></u>

17. Capital Commitments

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments in respect of properties under development:		
– authorised but not contracted for	502,190	881,292
– contracted for but not provided in the financial statements	730,532	538,266
	1,232,722	1,419,558
Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements	135,847	186,361
	1,368,569	1,605,919

18. Pledge of Assets

The Group has pledged its land held under medium term leases included in the stock of properties, having a net book value of approximately HK\$217,247,000 (31 December 2003: HK\$388,030,000), to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value of approximately HK\$62,166,000 (31 December 2003: HK\$43,963,000) to secure bank loans granted to the subsidiaries of the Company.

19. Post Balance Sheet Events

On 27 August 2004, the Group entered into a sale and purchase agreement with Changchun Municipality State-owned Assets Administrative Bureau (“Party A”), a local government authority responsible for the administration of the state owned assets within the city of Changchun and an independent third party (“Party B”) whereby the Group and Party B shall acquire 48% and 2% of the equity interest in Changchun Gas Holdings Limited from Party A at total considerations of approximately HK\$354,724,000 and HK\$14,780,000 respectively.

20. Acquisition of subsidiaries

During the period, the Group acquired 90% and 100% of the issued share capital of Yuechi Panva Gas Company Limited and Daiyi Panva Gas Company Limited respectively for an aggregate cash consideration of approximately HK\$47 million. These subsidiaries are engaged in the gas fuel business. These transactions have been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	37,821
Goodwill arising on acquisition	8,952
	<u> </u>
Cash consideration	46,773
	<u> </u>
Net cash outflow arising on acquisition	
Cash consideration	46,773
Bank balances and cash acquired	(2,146)
	<u> </u>
	<u>44,627</u>

The subsidiaries acquired during the period contributed HK\$37,520,000 to the Group's turnover and HK\$23,158,000 to the Group's profit from operations.

21. Disposal of a Subsidiary

During the period, the Group disposed of 深圳湖心島實業有限公司, a subsidiary of the Company and was engaged in property development. The effect of the disposal is summarised as follows:

	<i>HK\$'000</i>
Net assets disposed of	48,663
Gain on disposal	3,898
	<u> </u>
Cash consideration	52,561
	<u> </u>
Net cash inflow arising on disposal	
Cash consideration	52,561
	<u> </u>

The subsidiary disposed of during the period did not have any significant impact on the Group's turnover and profit from operations.