

The board of directors (the “Directors”) of Chinese People Gas Holdings Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004 together with the comparative figures for the six months ended 30 September 2003, as follows :

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 September 2004*

	Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)
<b>TURNOVER</b>	3	1,732	13,442
Cost of sales		(1,698)	(10,746)
Gross profit		34	2,696
Other revenue and gains	3	8,485	562
Depreciation		(90)	(62)
Amortisation of goodwill		(80)	–
Other administrative expenses		(4,511)	(6,102)
<b>PROFIT / (LOSS) FROM OPERATING ACTIVITIES</b>		3,838	(2,906)
Finance costs	5	(226)	(209)
Share of loss of associates		(1,069)	–
Share of loss of a jointly-controlled entity		(1)	–
<b>PROFIT / (LOSS) BEFORE TAX</b>		2,542	(3,115)
Tax	6	215	(53)
<b>PROFIT / (LOSS) BEFORE MINORITY INTERESTS</b>		2,757	(3,168)
Minority interests		1	12
<b>NET PROFIT / (LOSS) ATTRIBUTABLE TO SHAREHOLDERS</b>		2,758	(3,156)
<b>PROFIT / (LOSS) PER SHARE</b>	7		
Basic		HK0.11 cent	(HK0.23 cent)
Diluted		HK0.10 cent	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		–	279
Interest in associates	8	28,663	–
Interest in a jointly-controlled entity		–	556
		<b>28,663</b>	<b>835</b>
<b>CURRENT ASSETS</b>			
Due from fellow subsidiaries		54	1,695
Gross amounts due from contract customers		–	750
Completed properties for sales		53,997	46,569
Trade receivables	9	3	5,945
Other receivables		2,802	9,925
Pledged time deposits		100	5,283
Cash and bank balances		68,497	1,051
		<b>125,453</b>	<b>71,218</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	–	3,736
Retention money payable		–	1,146
Tax payable		12	12
Other payables and accruals		1,608	3,759
Provision for scheme debts		1,047	1,047
Gross amounts due to contract customers		–	4,947
Interest-bearing bank borrowings		699	4,778
Due to fellow subsidiaries		–	11,652
Due to ultimate holding company		202	202
		<b>3,568</b>	<b>31,279</b>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>		<b>121,885</b>	<b>39,939</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>150,548</b>	<b>40,774</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		(7,080)	(7,432)
<b>MINORITY INTERESTS</b>		–	(274)
		<b>143,468</b>	<b>33,068</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	183,030	106,380
Reserves	12	(39,562)	(73,312)
		<b>143,468</b>	<b>33,068</b>

CONDENSED CONSOLIDATED SUMMARY  
STATEMENT OF CHANGES IN EQUITY*For the six month ended 30 September 2004*

	<b>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2003 (Unaudited) HK\$'000
Balance as at 1 April	<b>33,068</b>	(3,829)
Exercise of convertible notes, including share premium	–	29
Issue of new shares	<b>107,642</b>	46,000
Net profit/(loss) attributable to shareholders	<b>2,758</b>	(3,156)
Balance as at 30 September	<b><u>143,468</u></b>	<b><u>39,044</u></b>

CONDENSED CONSOLIDATED CASH  
FLOW STATEMENT*For the six months ended 30 September 2004*

	<b>2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2003 <b>(Unaudited)</b> <b>HK\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(10,310)</b>	(3,968)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>10,571</b>	(469)
<b>CASH FLOWS FROM FINANCING</b>	<b>71,017</b>	(1,211)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>71,278</b>	(5,648)
Cash and cash equivalents at beginning of period	<u>(2,781)</u>	<u>2,242</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>68,497</u></b>	<b><u>(3,406)</u></b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>68,497</b>	1,095
Bank overdrafts, secured	–	(4,501)
	<b><u>68,497</u></b>	<b><u>(3,406)</u></b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of presentation used in the preparation of these interim financial statements are consistent with those used in the audited financial statements for the year ended 31 March 2004.

## 2 SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment as follows:

### (a) Business Segment

	For the six months ended 30 September													
											Discontinuing operation		Consolidated	
	Property holding and investment		Natural Gas		Building services (single-trade)		Package / design and build contracts		Environmental engineering services					
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000 (Restated)	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000 (Restated)	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000 (Restated)	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000 (Restated)	2003 (Unaudited) HK\$'000 (Restated)	2004 (Unaudited) HK\$'000 (Restated)	2003 (Unaudited) HK\$'000 (Restated)		
Segment revenue:														
Sales to external customers	-	-	-	-	309	5,474	414	6,820	1,009	1,148	1,732	13,442		
Other revenue	997	514	-	-	-	4	-	4	5	1	1,002	523		
	997	514	-	-	309	5,478	414	6,824	1,014	1,149	2,734	13,965		
Segment results	922	351	-	-	(406)	(631)	(515)	(1,446)	(1,341)	(337)	(1,340)	(2,063)		
Interest income and unallocated gains											7,483	39		
Unallocated expenses											(2,305)	(882)		
Profit / (loss) from operating activities											3,838	(2,906)		
Finance costs											(236)	(209)		
Share of loss of associates	-	-	(1,069)	-	-	-	-	-	-	-	(1,069)	-		
Share of loss of a jointly-controlled entity	-	-	-	-	-	-	-	-	(1)	-	(1)	-		
Profit / (loss) before tax											2,542	(3,115)		
Tax											215	(53)		
Profit / (loss) before minority interests											2,757	(3,168)		
Minority interests											1	12		
Net profit / (loss) attributable to shareholders											2,758	(3,156)		

**(b) Geographical segments**

	Hong Kong		Mainland China		Consolidated	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Segment revenue :						
Sales to external customers	1,732	13,442	-	-	1,732	13,442

**3 TURNOVER, OTHER REVENUE AND GAINS**

The Group's turnover represents an appropriate proportion of the contract revenue of construction contracts. An analysis of its Group's turnover, other revenue and gains is as follows:

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000 (Restated)
Construction contracts	1,732	13,442
Interest income	1	39
Rental income from properties held for sale	962	514
Gain on disposal of subsidiaries	7,482	-
Other	40	9
Other revenue and gains	8,485	562

4 DISCONTINUING OPERATIONS

On 18 February 2004, The Group entered into the Kenworth Disposal agreement to dispose of its entire 100% equity interest in Kenworth Group Limited (“Kenworth Group”) and a related shareholder’s loan to Deson Development International Holdings Limited (“Deson”) the Company’s ultimate holding company. Upon completion of the disposal of Kenworth Group on 30 April 2004, the Group discontinued its business in the provision of electrical and mechanical engineering services, which includes building services, packaged/design and build contracts and environmental engineering services.

The turnover, other revenue, expenses and results of the discontinuing operations for the period from 1 April 2004 to the date of discontinuance, which have been included in the consolidated financial statements, are as follows:

	<b>Period from 1 April 2004 to 30 April 2004 (Unaudited) HK\$’000</b>	Six months ended 30 September 2003 (Unaudited) HK\$’000
Turnover	1,732	13,442
Cost of Sales	<u>(1,698)</u>	<u>(10,746)</u>
Gross profit	34	2,696
Other revenue and gains	5	47
Administrative expenses	<u>(2,303)</u>	<u>(5,132)</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	<b>(2,264)</b>	<b>(2,389)</b>
Finance costs	(16)	(91)
Share of loss of a jointly-controlled entity	<u>(1)</u>	<u>–</u>
<b>LOSS BEFORE MINORITY INTERESTS</b>	<b>(2,281)</b>	<b>(2,480)</b>
Minority interests	<u>1</u>	<u>12</u>
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>	<b><u>(2,280)</u></b>	<b><u>(2,468)</u></b>

The net cash flows from the discontinuing operations for the period from 1 April 2004 to the date of discontinuance are as follows:

	<b>Period from 1 April 2004 to 30 April 2004 (Unaudited) HK\$'000</b>	Six months ended 30 September 2003 (Unaudited) HK\$'000
Operating	(1,775)	(5,672)
Investing	468	26
Financing	938	–
	<u>(369)</u>	<u>(5,646)</u>

The carrying amounts of the total assets and liabilities, including balances with group companies, relating to the discontinuing operations on the date of discontinuance, are as follows:

	<b>30 April 2004 (Unaudited) HK\$'000</b>	30 September 2003 (Unaudited) HK\$'000
Total assets	22,883	28,516
Total liabilities	(520,815)	(518,561)
Minority interests	(273)	(671)
	<u>(498,205)</u>	<u>(490,716)</u>
Net liabilities of subsidiaries disposed of	<u>(498,205)</u>	<u>(490,716)</u>
Balances with group companies	<u>500,563</u>	<u>489,994</u>

## 5 FINANCE COSTS

	<b>For the six months ended 30 September</b>	
	<b>2004 (Unaudited) HK\$'000</b>	2003 (Unaudited) HK\$'000
Interest on convertibles notes	–	81
Interest on bank loans and overdrafts:		
wholly repayable within five years	16	91
not wholly repayable within five years	210	37
	<u>226</u>	<u>37</u>
Total finance costs	<u>226</u>	<u>209</u>



6 TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the current and prior period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Current year provision – elsewhere	96	53
Share of tax attributable to associates	(311)	–
	<u>(215)</u>	<u>53</u>

A reconciliation of the tax expense / (credit) applicable to profit / (loss) before tax using the statutory rate for the country in which the Company and its subsidiaries, a jointly-controlled entity and associates are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., statutory tax rate) to the effective tax rate, are as follows:

	For the six months ended 30 September			
	2004 (Unaudited) HK\$'000	%	2003 (Unaudited) HK\$'000	%
Profit / (loss) before tax	<u>2,542</u>		<u>(3,115)</u>	
Tax at the statutory tax rate of 17.5%	445	17.5	(545)	(17.5)
Effect of different tax rates for companies operating in other jurisdictions	(29)	(1.1)	(18)	(0.6)
Adjustments in respect of current tax of previous periods	(311)	(12.2)	–	–
Income not subject to tax	(1,309)	(51.5)	–	–
Expenses not deductible for tax	14	0.5	–	–
Tax losses not recognised	975	38.3	616	19.8
	<u>(215)</u>	<u>(8.5)</u>	<u>53</u>	<u>1.7</u>

**7 EARNING / (LOSS) PER SHARE**

The calculation of basic earning / (loss) per share is based on the net profit / (loss) attributable to shareholders for the period of HK\$2,758,000 (2003: net loss of HK\$3,156,000) and the weighted average number of 2,435,208,000 (2003: 1,361,481,000) shares in issue during the period.

The calculation of diluted earning per share for the period ended 30 September 2004 is based on the net profit attributable to shareholders of HK\$2,758,000 and the weighted average of 2,681,847,000 shares in issue during the period. The diluted loss per share for the six months ended 30 September 2003 have not been disclosed, as the convertible notes outstanding during last period had an anti-dilutive effect on the basic loss per share for last period.

A reconciliation of the weighted average number of shares used in the basic earning per share calculation to that used in the diluted earning per share calculation is as follows :

	<b>2004</b>
Weighted average number of shares in issue during the period used in the basic earning per share calculation	2,435,208,000
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of the share options expiring on 27 October 2006	<u>246,639,000</u>
Weighted average number of shares used in diluted earning per share calculation	<u><u>2,681,847,000</u></u>

8 INTERESTS IN ASSOCIATES

	<b>30 September 2004 (Unaudited) HK\$'000</b>	31 March 2004 (Audited) HK\$'000
Share of net assets	<b>(1,819)</b>	—
Due from an associate	<b>26,727</b>	—
	<b>24,908</b>	—
Goodwill on acquisition of associate	<b>3,755</b>	—
	<b>28,663</b>	—

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates at the balance sheet date are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Percentage of ownership attributable to the Group		Principal activities
			Direct	Indirect	
Xin Hua Resource Investment Limited ("Xin Hua")	Corporate	British Virgin Islands/PRC	49.0	—	Investment holding
Beijing Zhong Min Gas Co. Ltd. ("Zhong Min")	Corporate	PRC	—	49.0	Investment holding
LongXin (YanTing) Natural Gas Company Limited ("Yan Ting")	Corporate	PRC	—	48.5	Distribution and supply of piped natural gas and installation of natural gas distribution facilities
Mian Zhu City Hong Sen Natural Gas Co., Ltd. ("Hong Sen")	Corporate	PRC	—	49.0	Distribution and supply of piped natural gas
Mian Zhu City Long Teng Gas Installation Co. Ltd. ("Long Teng")	Corporate	PRC	—	49.0	Installation of natural gas distribution facilities
Mian Zhu City Hongsen Glass Products Company Limited	Corporate	PRC	—	34.3	Manufacturing and sale of glass products

**9 TRADE RECEIVABLES**

An aged analysis of trade receivables is as follows:

	30 September 2004			31 March 2004		
	Balance	Provision	Net	Balance	Provision	Net
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Current to 90 days	3	-	3	4,132	-	4,132
91 - 180 days	-	-	-	439	-	439
181 - 360 days	-	-	-	177	-	177
Over 360 days	-	-	-	38,702	(38,452)	250
	<u>3</u>	<u>-</u>	<u>3</u>	<u>43,450</u>	<u>(38,452)</u>	<u>4,998</u>
Retention money receivable	-	-	-	26,620	(25,673)	947
	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,620</u>	<u>(25,673)</u>	<u>947</u>
Total	<u><u>3</u></u>	<u><u>-</u></u>	<u><u>3</u></u>	<u><u>70,070</u></u>	<u><u>(64,125)</u></u>	<u><u>5,945</u></u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. For retention receivables in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

**10 TRADE AND BILLS PAYABLES**

An aged analysis of trade and bills payables is as follows:

	30 September 2004 (Unaudited) HKS'000	31 March 2004 (Audited) HKS'000
Current to 90 days	<u><u>-</u></u>	<u><u>3,736</u></u>

11 SHARE CAPITAL

	Notes	Number of ordinary shares (Unaudited)	Amount (Unaudited) HK\$'000
<b>Authorised:</b>			
At 1 April 2003		1,800,000,000	180,000
Capital reduction	(ii)	–	(54,000)
Increase in authorised capital	(iii)	771,428,571	54,000
At 31 March 2004		2,571,428,571	180,000
Increase in authorised capital	(iv)	2,428,571,428	170,000
At 30 September 2004		<u>4,999,999,999</u>	<u>350,000</u>
<b>Issued and fully paid:</b>			
At 1 April 2003		862,277,659	86,228
Capital reduction	(i)	–	(25,868)
Issue of new shares	(v)	657,142,857	46,000
Exercise of convertible notes	(vi)	295,220	20
At 31 March 2004		1,519,715,736	106,380
Arising on acquisition of a subsidiary and associates	(vii)	370,000,000	25,900
Arising on placement	(viii)	400,000,000	28,000
Arising on subscription	(ix)	325,000,000	22,750
At 30 September 2004		<u>2,614,715,736</u>	<u>183,030</u>

Note:

- (i) Pursuant to certain special resolutions passed at a special general meeting of the Company held on 12 May 2003 and board resolutions passed on the same date, a capital reorganisation was implemented on 13 May 2003. The nominal value of each issued ordinary share of the Company was reduced from HK\$0.10 to HK\$0.07 by the cancellation of HK\$0.03 of the paid-up capital (the “Capital Reduction”), and the credit arising from the Capital Reduction of approximately HK\$25,868,000 was applied to set off against the accumulated losses of the Company.
- (ii) Upon the Capital Reduction becoming effective on 12 May 2003, the authorised share capital of the Company was reduced to HK\$126,000,000, comprising 1,800,000,000 shares of HK\$0.07 each.
- (iii) On the same date, the authorised share capital of the Company was increased to HK\$180,000,000 by the creation of 771,428,571 new shares of HK\$0.07 each.

- (iv) Pursuant to certain ordinary resolutions passed at a special general meeting of the Company held on 16 April 2004, the authorised share capital of the Company was increased to HK\$350,000,000 by the creation of 2,428,571,428 new shares of HK\$0.07 each.
- (v) On 14 May 2003, the Group acquired a 100% interest in certain subsidiaries from Deson. The purchase consideration of HK\$46 million for the acquisition was satisfied by way of issuing 657,142,857 shares of the Company.
- (vi) The conversion rights attaching to HK\$29,522 convertible notes were exercised at the conversion price of HK\$0.10 per share, resulting in the issuance of 295,220 new ordinary shares of HK\$0.07 each. Share premium of HK\$8,857 has been included in the share premium account.
- (vii) On 18 February 2004, the Group had entered into agreements in relation to acquisition of a subsidiary and a related shareholder's loan from Deson and 49% interest in Xin Hua and a related shareholder's loan from independent third parties, further details of the transactions are included in the section headed "Connected Transactions" below. The consideration of HK\$7.5 million and HK\$29.5 million were satisfied by way of issuing 75,000,000 new shares and 295,000,000 new shares of the Company, respectively.
- (viii) On 18 February 2004, the Group had entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each. The issuance of the placing shares was approved by shareholders of the Company on 16 April 2004. On 30 April 2004, 400,000,000 new shares of the Company were issued at HK\$0.10 each to the placees.
- (ix) On 18 February 2004, the Group had entered into a subscription agreement with Deson in relation to subscription of shares, further details of the transaction are included in the section headed "Connected Transactions" below. The consideration of HK\$32.5 million was satisfied by way of issuing 325,000,000 new shares of the Company.

## 12 RESERVES

	Share Premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2004	9	89,800	(163,121)	(73,312)
Arising on acquisition of a subsidiary and associates	11,100	-	-	11,100
Arising on placement	10,142	-	-	10,142
Arising on subscription	9,750	-	-	9,750
Net profit for the period	-	-	2,758	2,758
At 30 September 2004	<u>31,001</u>	<u>89,800</u>	<u>(160,363)</u>	<u>(39,562)</u>

	Share Premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Reserves retained by				
Company and subsidiaries	31,001	89,800	(159,606)	(38,805)
Associates	-	-	(757)	(757)
	<u>31,001</u>	<u>89,800</u>	<u>(160,363)</u>	<u>(39,562)</u>
At 30 September 2004	<u>31,001</u>	<u>89,800</u>	<u>(160,363)</u>	<u>(39,562)</u>

### 13 RELATED PARTY TRANSACTIONS

Save as disclosed in note 11(v), 11(vii) and 11(ix) to the financial statements, during the period, the Group had the following material transactions with related parties:

		For the six months ended 30 September	
Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	
Construction contracting income received from fellow subsidiaries	(a) -	5,063	
Rental expense paid to a fellow subsidiary	(b) 48	290	
Management fee paid to a fellow subsidiary	(c) 6	41	
	<u>6</u>	<u>41</u>	

- (a) The Directors consider that the construction contracts were made according to conditions similar to those offered to the major customers of the Group.
- (b) The rental expenses were based on rates approximate to those of the market at that time.
- (c) The management fees were calculated by reference to costs incurred for services provided to the Group.

### 14 COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current period's presentation.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2004 (2003: Nil).

## BUSINESS AND SEGMENT INFORMATION REVIEW

The Group's turnover for the period was HK\$1,732,000. This represented an decrease of 87.12% as compared with that of last period. The net profit attributable to shareholders was HK\$2,758,000.

During the period, the Group disposed the Electrical and Mechanical engineering business ("E&M Business") to Deson, the ultimate holdings company of the Company, and acquired 49% interests in Xin Hua.

Xin Hua is an investment holding company and is beneficially interested in the entire equity interest in Zhong Min. Zhong Min is beneficially interested in 33% of each of Hong Sen and Long Teng. Hong Sen is principally engaged in the distribution and supply of piped natural gas in the PRC whilst Long Teng is principally engaged in the installation of natural gas distribution facilities in PRC.

Details of the disposal of E&M Business and acquisition of natural gas business are included in "Material transactions" section of this report. After the reorganization took place on 30 April 2004, the principal activities of the Group and its associates are the distribution, supply and installation of piped natural gas and property holding and investment. The decrease in turnover was due to the disposal of E&M Business during the period.



### **Natural Gas Business**

In May 2004, Xin Hua, through Zhong Min, increased its interests in Hong Sen and Long Teng from 33% to 99% and acquired a 99% interest in Yan Ting. The principal activities of Yan Ting is distribution and supply of piped natural gas and installation of natural gas distribution facilities in the PRC. As a result, the operation and asset base of the Group in natural gas business was strengthened.

### **Property holdings and investment**

To strengthen the financial and asset positions, the Group acquired 24th, 27th and 28th floor of Zhongda Square, Shanghai, PRC (“Zhongda Square”) together with 19 car parks in May 2003 at a total consideration of HK\$46,000,000. The consideration was satisfied by the issue of 657,142,857 shares. On 30 April 2004, the Group further acquired unit 2 of 3A floor of Zhongda Square. The Group now has a total of 3,632.2 m<sup>2</sup> of Zhongda Square together with 19 car parks as the reserve for property holdings and investment purpose. During this period, this segment contributed revenue and profit of HK\$997,000 and HK\$922,000, respectively to the results of the Group.

## **PROSPECTS**

### **Natural Gas Business**

The PRC has historically relied heavily on coal as its primary energy source but the PRC government in recent years encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market currently only share a very low percentage of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

As detailed in the section “Post Balance Sheet Event” of this report, on 25 October 2004, the Group further acquired 51% interests in Xin Hua to strengthen the asset base and operation in the natural gas business.

The total population and number of families of the city of Mian Zhu is 100,000 and 33,000, respectively and the total population and number of families of the city of Yan Ting is 60,000 and 20,000, respectively. The existing natural gas network only covers 42% and 60% of the total capacity of the city of Mian Zhu and the city of Yan Ting, respectively. The Directors are confident that income from the installation of remaining natural gas network and recurring income from the supply of natural gas in these two cities will have a significant contribution to the Group.

### **Property holdings and investment**

The growth of economy in the PRC especially Shanghai is significant in these few years. This will have a positive impact on the commercial property market and the Group currently has a total of 3,632.2 m<sup>2</sup> of Zhongda Square together with 19 car parks as the reserve for property holdings and investment purpose can benefit from this economy growth. In addition, the Directors believe the opening of the Universal Studios in 2006 in Shanghai, PRC and the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property holding and investment segment will continue to contribute a sizeable contribution to the Group's operating results in coming years.

## **MATERIAL TRANSACTIONS**

- 1 On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua and its related shareholders' loans for HK\$29,500,000 (the "First Xin Hua Acquisition"). The consideration was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.
- 2 On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan at a consideration of HK\$7,500,000 (the "Penmark Acquisition"). The consideration was satisfied by issuing

75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

- 3 On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group and its shareholder's loan for HK\$7,000,000 to Deson (the "Kenworth Disposal"). The consideration was paid by Deson in cash.
- 4 On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each (the "Placing"). The placing agent agreed to place to not less than six independent places i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the Placing agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.
- 5 On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited ("Super Win"), the immediate holding company of the Company. The Company will issue 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000 (the "Subscription"). Pursuant to the Subscription agreement, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

All the above transactions were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

## POST BALANCE SHEET EVENT

On 2 August 2004, Brilliant China Investments Limited (“Brilliant China”), a subsidiary of the Company, entered into an agreement with an independent third party to acquire a 51% shareholding interest in Xin Hua, an associate of the Company in which the Company owned as to 49% interest, and a related shareholder’s loan (collectively the “Second Xin Hua Acquisition”) for HK\$65 million. The consideration was paid by Brilliant China in cash out of the internal resources of the Group. The Second Xin Hua Acquisition was approved by the shareholders of the Company at a special general meeting on 20 October 2004 and was completed on 25 October 2004. Upon completion, Xin Hua becomes a wholly-owned subsidiary of the Company.

On 6 August 2004, a special resolution was proposed regarding the name of the Company to be changed to “Chinese People Gas Holdings Company Limited” and the Chinese translation of the name of the Company be changed from “基電控股有限公司” to “中民燃氣控股有限公司” for identification purpose only. The special resolution was approved by the shareholders of the Company at a special general meeting on 20 October 2004, and the new names became effective on 25 October 2004.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2004, the Group had total assets of HK\$154,116,000, and current liabilities, long term liabilities and shareholders’ equity of HK\$3,568,000, HK\$7,080,000 and HK\$143,468,000 respectively.

As at 30 September 2004, the Group’s gearing ratio stood at 4.70% (31 March 2004 : 18.23%). It was calculated based on the long term borrowings of HK\$7,080,000 (31 March 2004 : HK\$7,432,000) and long term capital of HK\$150,548,000 (31 March 2004 : HK\$40,774,000).

## CONNECTED TRANSACTIONS

On 18 February 2004, the Group entered into the following connected transactions :

- 1 First Xin Hua Acquisition
- 2 Penmark Acquisition
- 3 Kenworth Disposal
- 4 Subscription

The above transactions were approved by shareholders / independent shareholders of the Company at a special general meeting on 16 April 2004 and were completed on 30 April 2004.

## PROFORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES

As at the balance sheet date, the advance made to Xin Hua in the amount of HK\$26,727,000 represents approximately 18.63% of the net asset value of the Group. Pursuant to Listing Rules 13.22, a proforma combined balance sheet of Xin Hua as at 30 September 2004 is presented below:

	HK\$'000
Non-current assets	29,580
Current assets	46,511
Current liabilities	(24,657)
Non-current liabilities	(54,544)
Minority interest	(603)
Deficiency in shareholders' funds	<u>(3,713)</u>

## CAPITAL STRUCTURE

The Group's long-term capital mainly comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

## RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were dominated mainly in Hong Kong dollars and Renminbi. Since Hong Kong dollars and Renminbi are relatively stable, we consider the exchange risk is not significant.

## CONTINGENT LIABILITIES

In October 2000 Kenworth Engineering Limited ("Kenworth"), a former subsidiary of the Company, received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of three schemes of arrangement, which involving the Company and its two former subsidiaries, Kenworth and Kenworth Group and were established under Section 166 of the Hong Kong Companies Ordinance (the "Schemes"), the process commenced in August 2002 upon the appointment of the arbitrator.

As at the balance sheet date, a security deposit of HK\$5 million had been paid by the Group to the arbitrator. Both Kenworth and the main contractor are in the process of submitting information to the arbitrator for the assessment. The administrator of the Schemes (the “Scheme Administrator”) is required to await the arbitrator’s decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. On 3 December 2004 the Scheme Administrator received a notice from the contract employer to withdraw this claim.

Pursuant to an agreement dated 18 October 2000 entered into between Kenworth and the Company, the Company agreed to discharge the liabilities of Kenworth under the Schemes by the allotment of certain redeemable cumulative preference shares by Kenworth.

The Group appointed an independent chartered surveyor to estimate its potential exposure under the above two claims in 2003. According to the report of the surveyor, the maximum exposure of the above claims amounted to HK\$70 million. The Directors consider that the Group has valid defences against the claim and based on existing evidence believe that it is not probable that any material loss will be suffered by the Group. In addition, as the arbitration proceedings are in a preliminary stage, it is not currently possible to estimate the eventual outcome of the claims but the directors currently consider that no provision needs to be made in the financial statements.

## COMMITMENTS

Certain office properties leased by the Group are under operating lease arrangements. Lease for properties are negotiated for terms of two years. As at 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 September 2004 (Unaudited) HK\$'000</b>	31 March 2004 (Audited) HK\$'000
Within one year	—	140
In the second to fifth years, inclusive	—	129
	<u>—</u>	<u>129</u>
	<u>—</u>	<u>269</u>

As at 30 September 2004, the Group had no significant operating lease or capital commitments except as disclosed in the section “Post Balance Sheet Events” above.

## EMPLOYEE SCHEMES

As at 30 September 2004, the Group had 11 employees, one of whom was based in PRC.

The remuneration policy and package of the Group’s employees are reviewed and approved by the Directors. Apart from pension funds, discretionary bonuses and share options are linked to individual performance as recognition of and reward for value creation.



The Company operates a share option scheme (the “Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Option Scheme include full-time employees (including executive directors) of the Group. The Option Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

At 30 September 2003, no share options were outstanding under the Option Scheme and none of the Company’s Directors or the Group’s employees were granted share options during the period.

## CHARGES ON GROUP ASSETS

The Group’s banking facilities are secured by the Group’s time deposits of HK\$100,000 and completed properties for sales of HK\$46,569,000.

## DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests and short positions of the Company’s directors in the issued share capital and share options of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under

Sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions in ordinary shares and share options of the Company and associated corporations

#### (a) The Company

Name of director	Capacity and nature of interest	Number of shares held	Number of share options held	Percentage of the Company's issued share capital
Tjia Boen Sien	Through controlled corporation (Note 1)	1,361,724,256	200,000,000	59.73
Wang Jing Ning	Through controlled corporation (Note 1)	1,361,724,256	200,000,000	59.73
Mo Shikang	Through controlled corporation (Note 2)	30,000,000	-	1.15

Note: 1. 1,361,724,256 shares, representing 52.08% of the share capital of the Company and 200,000,000 share options, are held by Super Win Development Limited ("Super Win"), a wholly-owned subsidiary of Deson. Approximately 45.72% of the issued share capital of Deson is owned by Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets, respectively.

2. 30,000,000 shares of the Company are held by Smarksborne Limited, a company incorporated in the British Virgin Islands and is wholly owned by Mr. Mo Shikang.

**(b) Associated corporations**

Deson			Percentage of the associated corporation's issued share capital
Name of director	Capacity and nature of interest	Number of shares held	
Tjia Boen Sien	Through controlled corporation <i>(Note)</i>	2,362,500,000	45.72
	Directly beneficially owned	351,124,000	6.79
Wang Jing Ning	Through controlled corporation <i>(Note)</i>	2,362,500,000	45.72
	Directly beneficially owned	18,396,000	0.36
Wang Ke Duan	Directly beneficially owned	2,689,600	0.05
Siu Man Po	Directly beneficially owned	1,800,000	0.03

Note: Sparta Assets, a company incorporated in the British Virgin Islands, is beneficially interested in 2,362,500,000 shares of Deson. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets, respectively.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons were, directly or indirectly, beneficially interested in 5% or more of the issued share capital and share options of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Number of share options held	Percentage of the Company's issued share capital
Super Win	Directly beneficially owned <i>(Note)</i>	1,361,724,256	200,000,000	59.73
Deson Development Holdings Limited	Through a controlled corporation <i>(Note)</i>	1,361,724,256	200,000,000	59.73
Deson	Through a controlled corporation <i>(Note)</i>	1,361,724,256	200,000,000	59.73
Sparta Assets	Through a controlled corporation <i>(Note)</i>	1,361,724,256	<u>200,000,000</u>	<u>59.73</u>

Note: Super Win holds 1,361,724,256 shares and 200,000,000 share options in the Company. By virtue of Super Win being a wholly-owned subsidiary of Deson Development Holdings Limited (“DDHL”), and DDHL being a wholly-subsiary of Deson, and Sparta Assets being beneficially interested in 45.72% of the issued share capital of Deson, each of DDHL, Deson and Sparta Assets is deemed to be interested in the 1,361,724,256 shares and 200,000,000 share options held by Super Win.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2004.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules of the Stock Exchange, for any part of the accounting period covered by the interim

report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors on terms no less exactly than the required standard set out in the Model Code. Having made specific enquiry of the Directors, none of the Directors has not complied with, for any part of the accounting period under review, the required standard set out in the Model Code and its code of conduct regarding directors securities transactions.

## BOARD OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises six executive directors, namely, Mr. Wang Ke Duan, Mr. Tjia Boen Sien, Mr. Wang Jing Ning, Mr. Keung Kwok Cheung, Mr. Kong Kwok Fai and Mr. Mo Shikang, and three independent non-executive directors, namely, Mr. Siu Man Po, Miss Wong Sin Yee and Mr. Wong Shing Kay, Oliver.

On behalf of the board

**Mo Shikang**

*Managing Director and Executive Director*

Hong Kong, 6 December 2004