

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2004

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March, 2004 except for the early application of the following Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") issued by the HKICPA with effective from 1 April 2004:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

The early application of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill, negative goodwill on acquisition, impairment of assets and intangible assets.

In accordance with the transition provision of HKFRS 3, goodwill arising on acquisition previously recognised in equity shall not be recognised in profit and loss upon disposal of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

#### Goodwill/negative goodwill on acquisition

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition (i.e. negative goodwill on acquisition) is credited in profit and loss in the period of acquisition.

#### Impairment of assets

In accordance with the provisions of HKAS 36, from the year ended 31 March 2004 onwards, goodwill is tested annually for impairment, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

#### Intangible assets

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

### 3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – property investment, financial and securities investment, gas pipeline construction and sales of piped gas. These principal operating activities are the basis on which the Group reports its primary segment information.

#### Six months ended 30 September, 2004

		Financial and securities investment	Gas pipeline construction	Sales of piped gas	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>						
Turnover	397	–	141,109	36,478	9,740	187,724
Segment result	75	(1,852)	111,432	5,160	(52)	114,763
<b>Unallocated corporate revenue</b>						2,165
<b>Unallocated corporate expenses</b>						(15,822)
<b>Profit from operations</b>						<b>101,106</b>

#### Six months ended 30 September, 2003

		Financial and securities investment	Gas pipeline construction	Sales of piped gas	Sales of petroleum (Note)	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>							
Turnover	693	–	2,069	23,514	52,924	4,244	83,444
Segment result	399	–	895	2,650	2,158	221	6,323
Unallocated corporate revenue							1,343
Unallocated corporate expenses							(13,523)
Loss from operations							(5,857)

*Note:* The Group's sales of petroleum business was disposed of to an independent third party in December 2003.

## 4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30 September, 2004 <i>HK\$'000</i> (unaudited)	30 September, 2003 <i>HK\$'000</i> (unaudited)
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation	3,912	2,454
Interest income	(1,250)	(644)
Loss (gain) on disposal of property, plant and equipment	7	(171)
	<b>7</b>	<b>(171)</b>

## 5. FINANCE COSTS

	Six months ended	
	30 September, 2004 <i>HK\$'000</i> (unaudited)	30 September, 2003 <i>HK\$'000</i> (unaudited)
Interest on:		
Bank loans and other borrowings wholly repayable within five years	13,476	9,804
Bank loans not wholly repayable within five years	6,225	386
Obligation under a hire purchase contract	10	–
Convertible note	459	290
Convertible bonds	228	–
	<b>20,398</b>	10,480
Less: Interest capitalised to construction in progress	(12,868)	–
	<b>7,530</b>	10,480

## 6. TAXATION

No provision for Hong Kong Profits Tax has been made as there is no assessable profit for the period (six months ended 30 September, 2003: Nil).

The tax charge of HK\$250,000 for the period (six months ended 30 September, 2003: HK\$644,000) represents income tax arising in the People's Republic of China ("PRC"). Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries operating in the PRC are eligible for tax holidays and concessions and were exempted from PRC income taxes for the period.

## 7. EARNINGS (LOSS) PER SHARE

	<b>Six months ended</b>	
	<b>30 September, 2004 HK\$'000 (unaudited)</b>	30 September, 2003 HK\$'000 (unaudited)
Earnings (loss) for the purpose of basic earnings (loss) per share	<b>66,049</b>	(19,057)
Effect of dilutive potential ordinary shares:		
Interest on convertible note and convertible bonds	<b>687</b>	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	<b>66,736</b>	(19,057)

	<b>Six months ended</b>	
	<b>30 September, 2004 '000 (unaudited)</b>	30 September, 2003 '000 (unaudited)
Weighted average number of ordinary shares		
for the purpose of basic earnings (loss) per share	<b>1,712,490</b>	1,212,407
Effect of dilutive potential ordinary shares:		
Convertible note	<b>21,150</b>	–
Convertible bonds	<b>69,259</b>	–
Weighted average number of ordinary shares		
for the purpose of diluted earnings (loss) per share	<b>1,802,899</b>	1,212,407

The computation of diluted earnings per share for the six months ended 30 September, 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 period.

No diluted loss per share for the six months ended 30 September, 2003 is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share.

## 8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$318,349,000 (year ended 31 March, 2004: HK\$184,719,000) of which approximately HK\$96,000 were acquired through acquisition of subsidiaries (year ended 31 March, 2004: approximately HK\$64,443,000).

# China Gas Holdings Limited

During the period, the Group disposed of property, plant and equipment at carrying value of HK\$4,000 (year ended 31 March, 2004: HK\$131,476,000 of which HK\$118,915,000 were disposed through disposal of subsidiaries).

During the period, the Group dispose of investment property of HK\$8,000,000 (year ended 31 March, 2004: Nil).

## 9. GOODWILL

	<i>HK\$'000</i> (unaudited)
At 1 April, 2004	107,133
Arising on acquisition of a subsidiary during the period	<u>6,916</u>
At 30 September, 2004	<u><u>114,049</u></u>

## 10. TRADE AND OTHER RECEIVABLES

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

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

	<b>30 September,</b> <b>2004</b> <b><i>HK\$'000</i></b> <b>(unaudited)</b>	31 March, 2004 <i>HK\$'000</i> (audited)
Not yet due	<b>149,551</b>	93,574
Overdue by:		
0 – 30 days	<b>7,414</b>	2,198
31 – 60 days	<b>7,597</b>	2,519
61 – 90 days	<b>2,264</b>	2,568
91 – 120 days	<b>7</b>	514
121 – 180 days	<b>640</b>	–
Over 180 days	<b>15,120</b>	1,910
	<u><b>182,593</b></u>	<u>103,283</u>
Trade receivables	<b>182,593</b>	103,283
Deposits paid for construction materials	–	179,433
Other receivables, deposits and prepayments	<b>45,424</b>	63,419
Deposits paid to a minority shareholder of a subsidiary for acquisition of property, plant and equipment	<b>36,593</b>	37,066
Amount due from a minority shareholder of a subsidiary	<b>551</b>	1,587
	<u><b>265,161</b></u>	<u><u>384,788</u></u>

## 11. TRADE AND OTHER PAYABLES

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

	<b>30 September, 2004 HK\$'000 (unaudited)</b>	31 March, 2004 HK\$'000 (audited)
0 – 60 days	<b>27,582</b>	24,695
61 – 90 days	<b>1,986</b>	1,169
91 – 120 days	<b>317</b>	842
121 – 180 days	<b>51</b>	57
Over 180 days	<b>16,572</b>	3,946
	<b>46,508</b>	30,709
Trade payables	<b>46,508</b>	30,709
Other payables and accrued charges	<b>56,450</b>	41,606
	<b>102,958</b>	72,315

## 12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank and other borrowings of approximately HK\$169,524,000, of which approximately HK\$17,143,000 is repayable within one year. The borrowings bear interest at market rates.

During the period, the Group repaid bank and other borrowings of HK\$1,268,000.

## 13. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	Number of shares '000 HK\$0.01 each	HK\$'000	Number of shares '000 HK\$1 each	HK\$'000	
Authorised:					
At 1 April, 2004 and at 30 September, 2004	9,000,000	90,000	124,902	124,902	214,902
At 1 April, 2004	1,557,780	15,578	–	–	15,578
Issue of new ordinary shares	130,000	1,300	–	–	1,300
Conversion of convertible bonds	66,372	664	–	–	664
At 30 September, 2004	1,754,152	17,542	–	–	17,542

## 14. CONVERTIBLE NOTE AND CONVERTIBLE BONDS

During the period, the Company repaid HK\$4,500,000 to the holder of convertible note.

During the period, the holder of convertible bonds has exercised the option to convert US\$4,600,000 (equivalent to approximately HK\$35,644,000) convertible bonds into 66,372,000 ordinary shares of HK\$0.01 each.

On 10 June, 2004, the Company issued convertible bonds of US\$7,000,000 (approximately HK\$54,523,000) to Merrill Lynch International in accordance to the subscription agreement signed on 29 October, 2003.

## 15. ACQUISITION OF A SUBSIDIARY

During the period, the Company acquired 100% equity interest in United Keen Investment Limited at a consideration of RMB12,000,000 (equivalent to approximately HK\$11,387,000).

The effect of acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	4,471
Goodwill arising on acquisition	6,916
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	11,387
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Satisfied by:	
Cash consideration	11,387
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Net cash outflow arising on acquisition	
Cash consideration paid	(11,387)
Bank balances and cash acquired	4,789
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	(6,598)
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## 16. DISPOSAL OF A SUBSIDIARY

During the period, the Company disposed of 100% equity interest in Luckford Enterprises Limited at a consideration of HK\$17,050,000.

The effect of disposal is summarised as follows:

	<i>HK\$'000</i>
Net assets disposed of	18,700
Loss on disposal	(1,650)
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Total cash consideration	17,050
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Net cash inflow arising on disposal	
Cash consideration	17,050
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## 17. PLEDGE OF ASSETS

The Group pledged property, plant and equipment having a net book value of approximately HK\$266,795,000 (31 March, 2004: HK\$39,682,000), and certain investments in subsidiaries to secure loan facilities granted to the Group.

**18. CAPITAL COMMITMENTS**

- (i) On 15 March, 2004, the Company entered into a conditional Sale & Purchase 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 Investment Limited ("Glorywish") at a consideration of RMB9,500,000 (equivalent to approximately 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. The Company has paid HK\$5,714,000. As at 30 September, 2004, the outstanding capital commitment by the Company amounted to HK\$3,334,000.
- (ii) On 31 March, 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.
- (iii) On 19 May, 2004, Central Asia Natural Gas (Shenzhen) Co., Ltd. ("Shenzhen Natural Gas"), a wholly owned subsidiary of the Company entered into the Share Transfer Agreement with the minority shareholder of Huainan China Gas City Gas Company Limited ("Huainan China Gas") in relation to the acquisition of 30% equity interests in Huainan China Gas at nil consideration. However, Shenzhen Natural Gas will have to assume the capital contribution obligations of RMB21,600,000 by the minority shareholder towards Huainan China Gas. A summary of the terms of agreement is set out in the announcement of the Company dated 24 May, 2004. As at 30 September 2004, the outstanding capital commitment amounted to RMB16,141,000.
- (iv) On 27 July, 2004, Shenzhen Natural Gas entered into the Share Transfer Agreement with the minority shareholder of Suizhou Zhongran City Gas Development Limited ("Suizhou China Gas") to acquired 10% equity interests in Suizhou China Gas at nil consideration. However, Shenzhen Natural Gas will have to assume the capital contribution obligations of RMB3,500,000 by the minority Shareholder towards Suizhou China Gas. A summary of the terms of the agreement is set out in the announcement of the Company dated 28 July, 2004.
- (v) On 19 August, 2004, the Company entered into the Sale and Purchase Agreement with the vendor in relation to the acquisition of the entire share capital and the shareholder loan of Great Sun Investments Co. Ltd. at a total consideration of RMB81,600,000 (equivalent to approximately HK\$77,714,000). On the same date, Shenzhen Natural Gas entered into the Share Transfer Agreements with the vendor in relation to acquisition of 10% equity interests in Hanchuan Jiaxu Gas Co., Ltd., Yingcheng Jiaxu Gas Co., Ltd., Yumeng Jiaxu Gas Co., Ltd., and Xiaogan Jianxu Gas Co., Ltd., at a total consideration of RMB17,700,000 (equivalent to approximately HK\$16,856,000). A summary of the acquisitions is set out in the announcement of the Company dated 23 August, 2004.

Save as disclosed above, as at 30 September, 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\$714,801,000 (31 March, 2004: HK\$572,712,000) and HK\$578,876,000 (31 March, 2004: HK\$561,696,000), respectively.

## 19. POST BALANCE SHEET EVENTS

- (i) On 7 October, 2004, the Company entered into the Repurchase Agreement with Merrill Lynch International ("Merrill Lynch") in relation to repurchase of a portion of convertible bonds of US\$3,500,000 by the Company at a repurchase price of US\$3,850,000. Pursuant to the Repurchase Agreement, the Company and Merrill Lynch agreed to amend certain terms of the outstanding convertible bonds of US\$3,500,000 on conversion so that the conversion rights in respect of the outstanding convertible bonds can be satisfied by the Company by making payment to the holder at an amount equal to 115% of the principal amount of the outstanding bonds converted. A summary of the terms of the agreement is set out in the announcement of the Company dated 8 October, 2004. Subsequently, all of the outstanding Bonds were repurchased.
- (ii) On 15 October, 2004, the Company entered into a conditional Sale and Purchase Agreement with an independent third party for the acquisition of China Gas Investment Construction Limited ("CGICL") for a consideration of HK\$53,110,000. The sole asset of CGICL is the 75% interest in Suzhou Zhongran City Gas Development Ltd, a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Suzhou City of Anhui Province.
- (iii) On 24 October, 2004, China City Natural Gas Holdings Limited ("China City Natural Gas"), a wholly owned subsidiary of the Company entered into Agreement with Cangzhou Municipal Government to establish a joint venture ("Gangzhou JV") which will be principally engaged in the design, construction and operation of natural gas pipeline network in Cangzhou, Hebei Province of the people's Republic of China. Cangzhou JV will be owned as to 70% by China City Natural Gas and so as to the balance of 30% by Cangzhou Municipal Government. China City Natural Gas will contribute a total of RMB 35,000,000 (equivalent to approximately HK\$33,333,333) to the registered capital of Cangzhou JV. A summary of the terms of the agreement is set out in the announcement of the Company dated 25 October, 2004.
- (iv) On 31 October, 2004, the Company entered into the Subscription Agreement with Sinopec Corp., pursuant to which Sinopec Corp. has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 210,000,000 ordinary shares in cash at a subscription price of HK\$0.61 per Share. A summary of the terms of the agreement is set out in the announcement of the Company dated 1 November, 2004.
- (v) On 16 November, 2004, an agreement was signed between the Company, 北京市燃氣集團有限責任公司 and 北京市燃氣工程設計公司 for the acquisition of 49% equity interest in a joint venture ("Beijing JV") which is principally engaged in the operation of natural gas projects in six districts in Beijing at a consideration of RMB7,634,000. Pursuant to the agreement, both parties further agreed to increase the registered capital of the Beijing JV from RMB 10,000,000 to RMB30,000,000. The Company has to inject RMB9,800,000 to the capital of the Beijing JV.
- (vi) Subsequent to the period end, the Group obtained new bank borrowings of approximately HK\$309 million and repaid borrowings of approximately HK\$56 million.