

INTERIM DIVIDEND

The Directors resolved not to recommend the payment of an interim dividend for the six months ended 30 September, 2004 (six months ended 30 September, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group continued to consolidate its investment in piped natural gas business in China and to capture external funding through the introduction of strategic investors to the Company. With the efforts of the Directors and staff, the Group's natural gas business has made considerable progress.

BUSINESS REVIEW

For the six months ended 30 September, 2004, turnover of the Group amounted to HK\$187,724,000 (six months ended 30 September, 2003: HK\$83,444,000). Profit attributable to the shareholders was HK\$66,049,000 (six months ended 30 September, 2003: loss of HK\$19,057,000). Earnings per share was HK3.86 cents (loss per share for the six months ended 30 September, 2003: HK1.57 cents).

The Group had secured a number of natural gas projects during the period under review and pipeline networks of some of the projects were under construction and connection fee and gas sales fee were charged. Meantime, the Company successfully launched various fund raising exercises to meet the requirement of capital needs for the Group's natural gas projects.

Construction of Piped Gas Networks

During the period under review, the Group had built gas pipeline network of approximately 909 km (including branch and customer pipeline network), 62,950 domestic households and 17 industrial users completed the connection works.

As at 30 September, 2004, the Group accumulated approximately 3,127 km of gas pipeline network, accumulated natural gas connected domestic household reached 329,942 households, representing 9.4% of the Group's overall domestic households available for connection and accumulated natural gas connected industrial users reached 411 users. The Group's piped gas connection fee income amounted to approximately HK\$141,109,000 and gas connection fee income accounted for 75.2% of the Group's total turnover.

Sale of Piped Gas

During the period under review, coal gas sales income of Wuhu Zhongran and Huainan Zhongran and natural gas sales income of Beijing Zhongran Xiangke were recorded. The Group sold in total 28,890,000 m³ of gas (comprising coal gas and natural gas) of which 15,270,000 m³ of gas to domestic households and 13,620,000 m³ to industrial and commercial users. As at 30 September, 2004, gas sales income was HK\$36,478,000, representing approximately 19.4% of the Group's total turnover for the period under review.

Gross Profit Margin and Net Profit Margin

For the six months period ended 30 September, 2004, the Group realized revenue of HK\$187,724,000 and gross profit of HK\$117,712,000, representing 62.7% of the Group's overall gross profit margin (gross profit margin as of 31 March, 2004 : 44.8%). The Group realized net profit of HK\$66,049,000 representing an overall net profit margin of 35.2% (net profit margin as of 31 March, 2004: 21.3%).

Natural Gas Projects

As at the end of November 2004, the Group had further secured 12 new pipeline natural gas projects. There are six newly obtained projects in Hebei Province and are located in Cangzhou, Nanpi, Qinghe, Lingzhou, Zhanhuang and Nanhe; two in Anhui Province and are located in Suzhou and Wuhuxian; one in Hubei Province and is located in Tianmen; one in Shaanxi which is located in Xian National Hi-Tech Development Zone and two in Guangxi Province which are located in Qinzhou and Yulin. As at the end of November 2004, the Group accumulated 54 cities piped gas projects and 41 cities and districts with operating rights of piped gas, among which 35 of them were exclusive operating rights of piped gas. Those exclusive operating rights in Changping, Daxing, Yangqing, Tongzhou, Shunyi and Fangshan are now making application with Beijing Government.

Anhui Province

The Group currently has operations in Wuhu city, Huainan city, Suzhou city and Shouxian of Anhui Province.

As at 30 September, 2004, accumulated connected domestic households in Wuhu Zhongran reached 107,429 households and accumulated connected industrial and commercial users were 304 users. Contribution from Wuhu Zhongran accounted for approximately 14.6% of the Group's turnover for the six months ended 30 September, 2004.

Huainan Zhongran became a wholly owned subsidiary of the Group upon the transfer of 30% equity interest from Huainan City Gas Company, the Chinese partner of Huainan Zhongran in May 2004. During the period, accumulated connected domestic households in Huainan Zhongran reached 51,685 households. Contribution from Huainan Zhongran accounted for approximately 7.97% of the Group's turnover for the period under review.

The Group owns 75% interest in Suzhou Zhongran and 90% interest in Shouxian Zhongran. No contributions were recorded from the above two companies during the period under review.

Hubei Province

The Group currently has operations in Yichang city, Xiaogan city, Hanchuan city, Yingcheng city, Yunmeng city, Suizhou city of Hubei Province.

As at 30 September, 2004, accumulated connected domestic households reached 64,935 households in Yichang Zhongran. Contribution from Yichang Zhongran accounted for approximately 3.47% of the Group's turnover for the six months ended 30 September, 2004.

The Group acquired additional interests in the five joint ventures companies in Xiaogan city, Hanchuan city, Yingcheng city and Yunmeng city during the period under review. As a result of this, except for the Xiaogan Zhenrong joint venture company of which the Group currently holds 55% interest, Xiaogan Jiaxu joint venture company, Hanchuan Jiaxu joint venture company, Yumeng Jiaxu joint venture company and Yingcheng Jiaxu joint venture company are currently the wholly owned subsidiaries of the Group. As at 30 September, 2004, accumulated connected domestic households of the five joint venture companies reached 48,500 households. Contribution from the five joint venture companies accounted for approximately 23.41% of the Group's turnover for the six months ended 30 September, 2004.

Suizhou Zhongran became a wholly owned subsidiary of the Group upon the transfer of 10% equity interest from Suizhou Municipal Projects Company, the Chinese partner of Suzihou Zhongran in July 2004. As at 30 September, 2004, accumulated connected domestic households of Suizhou Zhongran reached 19,777 households. Contribution from Suizhou Zhongran accounted for approximately 16.02% of the Group's turnover for the six months ended 30 September, 2004.

Hunan Province

The Group currently has operation in Yiyang city of Hunan Province.

As at 30 September, 2004, accumulated connected domestic households of Yiyang Zhongran reached 24,207 households. Contribution from Yiyang Zhongran accounted for approximately 17.12% of the Group's turnover for the six months ended 30 September, 2004.

Jiangsu Province

The Group's wholly owned subsidiary in Puzhou city had been established during the period under review and the one of Yangzhong city is still under establishment and no contribution was made from Puzhou Zhongran to the Group's total turnover under the period review.

Beijing

Beijing Zhongran Xiangke Jiahua Oil Gas Technology Co. Ltd (“Beijing Zhongran Xiangke”) is the Group’s 60% owned joint venture company and is principally engaged in sale of natural gas to domestic households and industrial users around sub-urban areas of Beijing and part of sub-urban areas in Hebei Province and Tianjin. By the end of November 2004, Beijing Zhongran Xiangke owned 10 subsidiaries and with exclusive licence rights increased from last year’s 7 to 10. The newly added cities and districts included Lingshou, Zanhuang and Nanhe of Hebei Province.

As at 30 September, 2004, accumulated connected domestic households in Beijing Zhongran Xiangke reached 13,409 households. For the six months ended 30 September, 2004, turnover of Beijing Zhongran Xiangke amounted to HK\$25,621,000 (six months ended 30 September 2003: HK\$27,019,000), representing approximately 13.65% of the Group’s total turnover.

Others

In May 2004, a cooperation agreement was entered into between the Company and 北京市燃氣集團有限公司 (Beijing Gas Group Company Ltd) (“Beijing Gas Group”) for the joint investments and operation of the natural gas projects in six districts in Beijing. In November 2004, an agreement was signed by both parties that the joint venture company will be owned as to 51% by Beijing Gas Group and 49% by the Group with registered capital of RMB30,000,000.

In September 2004, the Group, through one of its subsidiaries, signed an agreement with Nanpixian Construction Bureau of Hebei Province and has obtained the exclusive operation right of Nanpi district for a term of 30 years. The newly established company, namely Nanpi Xian Zhongran City Gas Development Company Limited will be wholly owned by the Group.

In October 2004, the Group, through one of its subsidiaries, signed an agreement with Cangzhou Municipal Government of Hebei Province and has obtained the exclusive operation right of Cangzhou for a term of 30 years. The newly established company, namely Cangzhou Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group has obtained six new natural gas projects in November 2004.

The Group, through its subsidiaries, signed co-operative agreements with Qinhexian Municipal Government of Hebei Province and Tianmen Municipal Government of Hubei Province respectively and have obtained the exclusive piped gas operation rights of Qinghe district and Tianmen city for a term of 30 years. The two newly established companies, namely Qinghe Zhongran City Gas Development Company Limited and Tianmen Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group, through Wuhu Zhongran, signed a co-operative agreement with Wuhuxian Municipal Government of Anhui Province and has obtained the exclusive piped gas operation right of Wuhuxian of Anhui Province for a term of 30 years.

The Group, through one of its subsidiaries, signed an agreement with Xian National Hi-Tech Industrial Development Zone Administrative Committee of Shaanxi Province and has obtained the exclusive piped gas operation right of Xian National Hi-Tech Aviation Development Zone and new development zones in Hi-Tech Industrial Development Zone for a term of 30 years. The newly established company, namely Xian Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group, through its subsidiaries, signed co-operative agreements with Yulin City Construction Bureau of Guangxi Province and Qinzhou Municipal Government of Guangxi Province respectively and have obtained the exclusive piped gas operation rights of Yulin and Qinzhou for a term of 30 years. The two newly established companies, namely Yulin Zhongran City Gas Development Company Limited and Qinzhou Zhongran City Gas Development Company Limited will be wholly owned by the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September, 2004, the total assets of the Group was HK\$1,706,211,000, increased by approximately 27.1% as compared to 31 March, 2004.

As at 30 September, 2004, cash on hand was HK\$215,901,000 (31 March, 2004: HK\$471,823,000). The Group's total bank and other borrowings amounted to HK\$759,975,000 (31 March, 2004: HK\$591,719,000) of which approximately 38.9%, 3.3%, 25.3% and 32.5% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively. The borrowings were secured by portions of the Group's fixed assets.

As at 30 September, 2004, the Group has a current ratio of approximately 1.60 (31 March, 2004: 2.65) and the gearing ratio was 1.36 (31 March, 2004: 1.34). The calculation of gearing ratio was based on the total borrowings of HK\$857,040,000 (31 March, 2004: HK\$674,460,000) and shareholders' equity of HK\$630,252,000 (31 March, 2004: HK\$502,674,000) as at 30 September, 2004.

Capital commitments in respect of the acquisition of property, plant and equipment and construction materials contracted for but not provided in the financial statements as at 30 September, 2004 was HK\$714,801,000 (31 March, 2004: HK\$572,712,000) and HK\$578,876,000 (31 March, 2004: HK\$561,696,000) respectively which would require a substantial use of the Group's present cash resources and external funding. The Group has committed to acquire interests in certain PRC enterprises and to establish certain sino-foreign joint venture companies in the PRC.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and RMB.

Capital Structure

In September 2004, the Company placed a total of 90,000,000 shares at HK\$0.52 per share to an independent investor and the net proceeds of approximately HK\$46,700,000 had been received upon completion and the proceeds had been used as working capital of the Group.

In September 2004, the Company entered two warrants placing agreements with two independent investors for the placing of a total of 260,000,000 warrants at an issue price of HK\$0.01 per warrant (the "Warrant"). The Warrant has an initial exercise price of HK\$0.66 per share for a period of five years commencing from the date of issue of the Warrant. Net proceeds from the placing of Warrant of approximately HK\$2,500,000 had been used as working capital of the Group upon completion.

In October 2004, the Company entered into a repurchase agreement with Merrill Lynch International for (i) the repurchase of US\$3,500,000 convertible bonds at a repurchase price of US\$3,850,000; and (ii) to amend the terms of the remaining outstanding US\$3,500,000 convertible bonds ("Outstanding Bonds"). Pursuant to the terms of the agreement, the Company has the rights to make cash payment at 115% of the principal amount of the Outstanding Bonds to Merrill Lynch in full satisfaction of the conversion rights of the Outstanding Bonds converted. As at the end of November 2004, all of the Outstanding Bonds were being repurchased.

On 31 October, 2004, the Company entered into a subscription agreement with Sinopec Corp for the subscription of 210,000,000 shares of the Company at a subscription price of HK\$0.61 per share. Net proceeds of approximately HK\$128,000,000 would be received upon completion.

Charge on Assets

As at 30 September, 2004, the Group pledged portions of land and building, equipments and pipelines network 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.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 September, 2004.

Employees

The Group has over 1,600 employees as at 30 September, 2004. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and according to the prevailing industry practice in the respective regions in which it operates. Beside the basic salaries and pension fund, some employees are entitled to discretionary bonuses, merit payment and share options which depend on the financial results of the Group and the performances of individual employee. Share Options were granted to eligible staff during the period. Certain employees in China are provided with lodging house.

Strategic Partners Cooperation Agreements

The Company entered into a subscription agreement and a co-operation strategic agreement with Sinopec Corp in October 2004. Pursuant to the subscription agreement, Sinopec Corp will subscribe for 210,000,000 shares of the Company at a subscription price of HK\$0.61 per share. Sinopec Corp is the largest integrated energy and chemical company in China and is listed in four stock exchanges in the world. Meanwhile, the Company and Sinopec Corp had also entered into a strategic cooperation agreement where both parties agreed to co-operate as strategic business partners in the various aspects for the investment in natural gas and energy projects in China.

The Company signed a letter of Intent in May 2004 with Gazprom in relation to a possible cooperation between the Company and Gazprom in development of natural gas projects in China. Pursuant to the letter of Intent, Gazprom considered to become a strategic investor of the Company. Gazprom is a Russian open joint-stock company and is the largest gas producing company in the world as it shares about 20% of the world gas production.