

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2004

### 1. BASIS OF PREPARATION

The unaudited 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 and the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 30th June, 2004.

### 3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the condensed financial statements for the six months ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

#### 4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the gross proceeds from trading of gas related products being business acquired in 2004, securities trading and investment holding and treasury activities.

##### Business segments

Income statement for the six months ended 31st December, 2004

	<b>Trading of gas related products (unaudited) HK\$'000</b>	<b>Securities trading and investment holding (unaudited) HK\$'000</b>	<b>Treasury activities (unaudited) HK\$'000</b>	<b>Consolidated (unaudited) HK\$'000</b>
<b>TURNOVER</b>				
External	38,104	14,007	225	52,336
Segment result	3,588	(7,496)	168	(3,740)
Unallocated other operating income				225
Amortisation of goodwill	(2,491)			(2,491)
Loss from operations				(6,006)

Income statement for the six months ended 31st December, 2003

	<b>Securities trading and investment holding (unaudited) HK\$'000</b>	<b>Treasury activities (unaudited) HK\$'000</b>	<b>Consolidated (unaudited) HK\$'000</b>
<b>TURNOVER</b>			
External	73,926	1,069	74,995
Segment result	(2,020)	419	(1,601)
Unallocated other operating income			326
Unrealised gain on other investments	3,737		3,737
Profit from operations			2,462



#### 4. TURNOVER AND SEGMENT INFORMATION (Continued)

##### Geographical segments

The Group's operations are located in the People's Republic of China (the "PRC"), Hong Kong and Singapore. The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market	
	31.12.2004 (unaudited) HK\$'000	31.12.2003 (unaudited) HK\$'000
The PRC	38,104	-
Hong Kong	14,232	74,843
Singapore	-	152
	<b>52,336</b>	74,995

#### 5. (LOSS) PROFIT FROM OPERATIONS

	Six months ended	
	31.12.2004 (unaudited) HK\$'000	31.12.2003 (unaudited) HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Depreciation:		
Owned assets	945	194
Assets held under finance leases	298	57
	<b>1,243</b>	251

#### 6. FINANCE COSTS

	Six months ended	
	31.12.2004 (unaudited) HK\$'000	31.12.2003 (unaudited) HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,516	-
Finance leases	53	10
	<b>1,569</b>	10

## 7. TAXATION

	<b>Six months ended</b>	
	<b>31.12.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	31.12.2003 <b>(unaudited)</b> <b>HK\$'000</b>
The charge comprises:		
Profit for the period		
Other jurisdictions	<b>348</b>	–
Share of taxation attributable to associates	<b>36</b>	–
	<b>384</b>	–

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the period.

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions.

At 31st December, 2004, the Group has unutilised tax losses of approximately HK\$125 million (30.6.2004: HK\$209 million) available to offset against future profits. The deferred tax asset has not been recognised in the financial statements due to the unpredictability of future profits streams.

## 8. (LOSS) EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>31.12.2004</b> <b>(unaudited)</b>	31.12.2003 <b>(unaudited)</b>
Net (loss) profit for the period (HK\$'000)	<b>(8,220)</b>	2,218
Weighted average number of shares for the purposes of basic and diluted (loss) earnings per share	<b>3,261,473,277</b>	2,464,504,856

The weighted average number of ordinary shares for the calculation of basic earning per share for the six months ended 31st December, 2003 has been adjusted for the rights issue of the Company which was completed on 16th February, 2004.

The computation of diluted loss per share for the six months ended 31st December, 2004 did not assume the exercise of the Company's outstanding unlisted warrants as their exercise would result in a decrease in net loss per share for the period. The Company did not have any potential ordinary shares during the six months ended 31st December, 2003.

## 9. INVESTMENTS IN SECURITIES

	Other investments		Investment securities		Total	
	31.12.2004	30.6.2004	31.12.2004	30.6.2004	31.12.2004	30.6.2004
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted overseas equity securities	-	-	148,209	146,796	148,209	146,796
Listed equity securities	-	11,268	-	-	-	11,268
Impairment loss recognised	-	-	(5,862)	(5,862)	(5,862)	(5,862)
	-	11,268	142,347	140,934	142,347	152,202
Market value of listed securities	-	11,268	-	-	-	11,268
Carrying amount analysed for reporting purposes:						
Non-current	-	-	142,347	140,934	142,347	140,934
Current	-	11,268	-	-	-	11,268
	-	11,268	142,347	140,934	142,347	152,202

The impairment loss in respect of the investment securities recognised is determined by the directors by reference to the consideration paid by the new investors to subscribe for the shares offered by the investee companies.

Investment securities included the Company's investment in 35% interest in the issued shares of CMEP Limited ("CMEP") at cost of HK\$137,858,000 (30.6.2004: HK\$137,858,000). CMEP is a company incorporated in the British Virgin Islands and is principally engaged in holding of a contractual right to receive fees from the business of trading of television commercial airtime in the PRC.

Pursuant to the Agreement in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited ("the Sale and Purchase Agreement") dated 2nd January, 2003 entered into between China Media International Group Limited ("CMI") and the Company, the Company acquired 35% interest in CMEP. The consideration was satisfied by cash of HK\$82,000,000 and by the allotment and issue of 200,000,000 new ordinary shares in the Company of HK\$0.02 each. The new ordinary shares issued was by reference to the closing market price of the shares of the Company at 10th February, 2003, the date of the allotment of shares, of HK\$0.275 per share.

## 9. INVESTMENTS IN SECURITIES (Continued)

In accordance with the Sale and Purchase Agreement, CMI undertakes to the Company that CMI should procure that the net profit after tax of CMEP for the period from 27th May, 2002 (the date of incorporation of CMEP) to 30th June, 2003, as shown in the audited financial statements of CMEP for such period, should not be less than HK\$100,000,000, and that for each of the year ending 30th June, 2004 and 30th June, 2005 should not be less than HK\$150,000,000. If the amount of the net profit after tax fall short of the undertaking amount, CMI should pay to or cause CMEP to pay, out of CMI's entitlement in CMEP's net profit for that period, to the Company the amounts of downward adjustment to the consideration. Furthermore, CMI undertakes to procure at least 80% of the accounts receivables at 30th November, 2002 could be recovered in full within 9 months from the date of the Sale and Purchase Agreement. In other case, CMI undertakes to pay to the Company an amount equal to 35% of the corresponding amount of profit after tax on the difference between the actual amount recovered and 100% of the accounts receivables at 30th November, 2002.

In addition, pursuant to the shareholders agreement dated 10th February, 2003 ("the Shareholders Agreement") entered into between CMI and the Company, the board of directors of CMEP shall comprise not less than two and not more than three directors, in which the Company should be entitled to appoint one director and CMI should be entitled to appoint up to two directors. However, after continuous negotiations between the Company and CMI, the Company could not appoint any representative to the board of CMEP. Since the Company does not have the ability to exercise significant influence over CMEP, the investment in CMEP is classified as investments in securities.

As CMEP is undergoing a business portfolios restructuring and the restructuring exercise is still in progress, the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation) to 30th June, 2003 were not yet available up to the date of approval of the interim financial report. As the directors of the Company were unable to obtain the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 or other reliable financial information of CMEP, the directors were unable to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the interim financial report.

As such, the Company issued a writ of summons in the Court of First Instance in Hong Kong against CMI on 18th February, 2004 to claim for, among others, damages for breach of Sale and Purchase Agreement and the Shareholders Agreement. The writ served on 19th February, 2004 and the litigation is currently in progress. Details of pending litigation are set out in note 15.

## 10. TRADE RECEIVABLES

The Group allowed an average credit period of 90 to 120 days to its trade customers.

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

	<b>31.12.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	30.6.2004 (audited) HK\$'000
0 – 90 days	<b>8,211</b>	2,343
91 – 120 days	<b>2,046</b>	1,267
Over 120 days	<b>5,489</b>	5,883
	<b>15,746</b>	9,493

## 11. TRADE PAYABLES

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

	<b>31.12.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	30.6.2004 (audited) HK\$'000
0 – 90 days	<b>11,568</b>	7,444
91 – 120 days	<b>3,513</b>	184
Over 120 days	<b>1,812</b>	265
	<b>16,893</b>	7,893

## 12. BORROWINGS

	<b>31.12.2004</b> <b>(unaudited)</b> <b>HK\$'000</b>	30.6.2004 (audited) HK\$'000
Bank loans ( <i>note a</i> )		
Secured	<b>8,101</b>	9,420
Unsecured	<b>45,216</b>	7,536
	<b>53,317</b>	16,956
Other loans ( <i>note b</i> )	<b>39,650</b>	92,179
	<b>92,967</b>	109,135
The maturity of borrowings is as follows:		
Within one year	<b>55,467</b>	71,635
In the second year	<b>37,500</b>	37,500
	<b>92,967</b>	109,135
Less: Amounts due within one year shown under current liabilities	<b>(55,467)</b>	(71,635)
Amount due after one year	<b>37,500</b>	37,500

*Notes:*

- (a) The Group obtained bank loans upon the acquisition of certain subsidiaries in March 2004. The loans bear interest at market rates and will be repayable within one year. Bank loan amounting to HK\$8,101,000 (30.6.2004: HK\$9,420,000) is secured by a gas station and the shares of certain subsidiaries of the Company.
- (b) The amounts at 31st December, 2004 included promissory note of HK\$37,500,000 (30.6.2004: HK\$37,500,000) issued upon the Group's acquisition of the 49% interest in Solution Technology Limited and its subsidiary in March 2004. The amount is unsecured, interest free and repayable in 2006. The remaining amount represented other loan of HK\$2,150,000 (30.6.2004: nil) advanced from a third party. It is unsecured, interest free and repayable within one year.

At 30th June, 2004, the other loans also included promissory notes of HK\$54,679,000 issued upon acquiring 51% in Global King Investments Limited and 30% of Tone Communication Limited. The amounts have been settled during this period.



### 13. SHARE CAPITAL

	Number of of shares '000	Nominal amount HK\$'000
<b>Share</b>		
Ordinary shares of HK\$0.02 each		
Authorised:		
At 31st December, 2004 and 30th June, 2004	100,000,000	2,000,000
Issued and fully paid:		
At 1st July, 2004	3,149,517	62,990
Issue of shares by placements	200,000	4,000
At 31st December, 2004	3,349,517	66,990

On 25th August, 2004, the Company entered into two Placing Agreements (the "Placing") with Asian Basin Limited and Helmsman Limited (the "Placees"). As a result, an aggregate of 200,000,000 shares at the price of HK\$0.095 per share were placed to the Placees. The placements were completed on 20th September, 2004.

#### Unlisted Warrants

In connection with the Placing mentioned above, the Company also placed (a) 200,000,000 2005-warrants, with an issue price of HK\$0.003 per unit, at an initial subscription price of HK\$0.096 (subject to adjustment) for a period of twelve months commencing from the date of allotment and issue of 2005-warrants; and (b) 200,000,000 2006-warrants, with an issue price of HK\$0.005 per unit, at an initial subscription price of HK\$0.098 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2006-warrants, to the Placees.

No warrant was exercised during the six months ended 31st December, 2004.

### 14. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged land and building with net book value of HK\$7,983,000 (30.6.2004: HK\$7,968,000) and equity interests in certain subsidiaries as collateral for loan facilities of HK\$8,101,000 (30.6.2004: HK\$9,420,000) granted to the Group by a bank. At the balance sheet date, HK\$8,101,000 (30.6.2004: HK\$9,420,000) was utilised by the Group.

## 15. PENDING LITIGATION

In respect of the Company's acquisition of 35% issued share capital of CMEP (details are set out in note 9), the Company issued a writ of summons in the Court of First Instance in Hong Kong against CMI on 18th February 2004 to claim for, among others, damages for breach of the Sale and Purchase Agreement and Shareholders Agreement including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount of profit after tax on the difference between the actual amount of accounts receivables (as shown in the management accounts of CMEP for the period from the date of its incorporation to 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of accounts receivables.

The writ served on CMI on 19th February, 2004 and a settlement was made between CMI and the Company in May 2004 and a consent order dated 6th May, 2004 was granted by the Court of First Instance wherein (i) CMI was obliged to deliver to the Company signed copies of the auditors' report of CMEP for the year 2003 together with a certificate of the amount of adjustment which is required to be made to the purchase consideration of the 35% of the issued share capital in CMEP for the year 2003 on or before 20th June, 2004; (ii) CMI should provide all necessary information, including but not limited to all necessary management accounts and/or consolidated accounts and/or other accounts and/or records, to ascertain the amount of the unrecovered profits on the accounts receivables of CMEP which the Company is entitled to receive under the Sale and Purchase Agreement; and (iii) CMI should pay the Company all sums due from CMI and the Company pursuant to the Sale and Purchase Agreement within 30 days of the date of delivery of the auditors report and information as referred to above.

However, CMI has failed and/or refused to comply with any of the terms of the said order and therefore an application for judgment against CMI was made by the Company on 9th July, 2004. In reply, CMI attempted to challenge the validity of the consent order on the alleged ground that it was being misled by the Company to enter into the settlement and informally asked the court to set aside the consent order. The hearing of the matter is now being adjourned to a date to be fixed when the court will hear submissions from both parties to determine whether judgment should be entered against CMI or the consent order should be set aside.

No date has yet been fixed for the aforesaid hearing since the solicitors for CMI have ceased to act for CMI by virtue of an order dated 13th September, 2004. With the ceasing to act of CMI's solicitors, CMI has now no legal representative on record and the Company's solicitors consider that there may be a higher chance of success in application of judgment.

## 15. PENDING LITIGATION (Continued)

In the opinion of the directors, the litigation is still in progress and it is unable to reasonably determine the final outcome of the litigation. Accordingly, the directors were unable to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements and no adjustment has been made to the financial statements on this respect.

## 16. POST BALANCE SHEET EVENTS

Subsequent to 31st December, 2004, the following significant events took place:

- (a) On 28th February, 2005, the Company entered into a Master Agreement with 北京中油潔能環保科技有限責任公司 (Beijing Sinogas Company Limited) ("Beijing Sinogas") in relation to the supply of equipment for the operations of liquefied natural gas and compressed natural gas stations in the PRC. Beijing Sinogas is owned indirectly as to 51% by the Company and as to 49% by Best Rich International Limited, which is in turn owned as to 50% each by Ms. Ka Ying, an executive director of the Company and Ms. Wen Tong Jun, a former director of the Company. The Master Agreement is subject to be approved by the independent shareholders at the Extra General Meeting ("EGM") to be held on 15th April, 2005.
- (b) On 28th February, 2005, the Board proposed that the name of the Company be changed from "Millennium Group Limited 豐泰集團國際有限公司" to "Sino Gas Group Limited 中油潔能集團有限公司". The Board has also resolved to change the financial year end date of the Company from 30th June to 31st December commencing from the financial year 2005, covering a period from 1st July, 2004 to 31st December, 2005. The change of name is subject to the passing of a special resolution at the EGM by the shareholders.
- (c) On 14th March, 2005, the Company and Beijing Sinogas entered into a Facility Agreement pursuant to which the Company has conditionally agreed to provide up to HK\$40,000,000 to Beijing Sinogas (the "Facility"). The Facility is available from the date of the Facility Agreement to 31st December, 2006 and is repayable within 12 months from the date of drawdown. The Facility is unsecured and bears interest at 3-month Hong Kong Inter-Bank Offer Rate plus 2.5% per annum, payable quarterly in arrears. Arrangement fee of 2.5% on the Facility, is payable on the date of the first drawdown and commitment fee of 0.5% per annum on undrawn amount of the Facility is payable quarterly in arrear. The Facility Agreement is subject to the passing of the ordinary resolution by the independent shareholders at EGM approving the Facility Agreement and the transactions contemplated thereunder including the Facility.

**17. RELATED PARTY TRANSACTIONS**

During the period, the Group has entered into an agreement with a bank in respect of loan facilities granted to the Group amounting to HK\$28,260,000 (1.7.2003 to 31.12.2003: nil). The bank loan is guaranteed by an associate of the Group.

**18. GAIN ON DISPOSAL OF SUBSIDIARIES**

The net assets of subsidiaries at the date of disposal were as follows:

	<b>01.07.2004</b> <b>to</b> <b>31.12.2004</b> <b>(unaudited)</b> HK\$'000
Net assets disposal of	8,768
Exchange reserve released	(2,562)
Capital reserve released	(1,647)
	4,559
Gain on disposal	2,541
Total consideration satisfied by cash	7,100
Net cash inflow arising on disposal:	
Cash consideration	7,100
Bank balances and cash disposed of	(66)
	7,034