NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 except as described below.

HKAS 18 Revenue

During the period, the Group acquired certain subsidiaries which are engaged in the businesses of gas pipelines construction and sale and distribution of gas fuel.

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the condensed consolidated income statement, condensed consolidated balance sheet and the condensed consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

HKAS 17 Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interest in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease.

HKAS 32 Financial Instruments : Disclosure and Presentation
HKAS 39 Financial Instruments: Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 has resulted in change in accounting policies for recognition, measurement, derecognition and disclosure of financial instruments.

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "SSAP 24". Under SSAP 24, investments in debt or equity securities are classified as "investments in securities" and "other investments" as appropriate. "Investments in securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39, Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss' and "available-for-sale financial assets' are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets of financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit or loss for the period in which they arise.

HKFRS 2 Share-based Payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2004. In relation to share options granted before 1 January 2004, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2004 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2004. Comparative figures have been restated.

In accordance with the transitional provisions of HKFRS 2, the impact in the change in accounting policy has resulted in a decrease in accumulated profits of HK$1,080,000 at 31 December 2004. For the six months ended 30 June 2005, such impact of share-based payments is a charge to expenses of HK$490,000.

HKFRS 3 Business Combinations

The Group resolved to early adopted HKFRS 3 for business combinations with agreement date entered on or after 1 January 2002. The adoption of HKFRS 3 has resulted in a change in accounting policy for goodwill. Prior to this, goodwill was amortised on a straight line basis over a period of not exceeding 20 years and assessed for the impairment at each balance sheet date.

In accordance with the transitional provisions of HKFRS 3, the Group ceased amortisation of goodwill from 1 January 2002 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place.

Effects of the changes in the accounting policies on consolidated income statement

	HK$'000
For the six months ended 30 June 2004	
Decrease in amortisation of goodwill	5,591
Increase in net profit for the period	5,591
For the six months ended 30 June 2005	
Increase in staff costs and related expenses	(490)
Decrease in net profit for the period	(490)

Effect of changes in the accounting policies on consolidated balance sheet

	HK$'000
At 31 December 2004	
Increase (decrease) in	
Property, plant and equipment	(39,472)
Prepaid lease payments	39,472
Goodwill	29,818
Employee share-based compensation reserve	1,080
Accumulated profits	28,738

Effect of changes in the accounting policies on the Group's equity

	HK$'000
At 1 January 2004	
Increase in accumulated profits	18,636

3. SEGMENT INFORMATION

For management purposes, the Group is organised into four operating divisions – electricity supplies, investment holding, sale and distribution of gas fuel and related products and gas pipelines construction upon the completion of acquisition of certain subsidiaries as set out in note 18. These divisions are the basis on which the Group reports its primary segment information.

In the prior period, the Group was organised into two operating divisions – electricity supplies and investment holding.

Business segments

Six months ended 30 June 2005

	Electricity supplies	Sales and distribution of gas fuel and related products	Gas pipelines construction	Investment holding	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	589,101	127,782	34,210	–	751,093
Segment result	87,602	17,171	13,774	106,053	224,600
Interest income					13,785
Unallocated corporate expenses					(25,290)
Profit before taxation					213,095
Taxation					(1,047)
Net profit for the period					212,048

Six months ended 30 June 2004

	Electricity supplies HK$'000 (restated)	Investment holding HK$'000	Consolidated HK$'000 (restated)
Turnover	364,675	–	364,675
Segment result	63,063	–	63,063
Interest income			478
Unallocated corporate expenses			(6,092)
Profit before taxation			57,449
Taxation			(4,458)
Net profit for the period			52,991

No geographical segment analysis is shown as the Group's operating businesses are solely carried out in the People's Republic of China (the "PRC").

4. DEPRECIATION

During the period, depreciation of HK$47,524,000 (1.1.2004 to 30.6.2004: HK$24,467,000) was charged in respect of the Group's property, plant and equipment.

5. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group disposed of its 41% equity interests in Xin Hua Control Engineering Company Limited which is classified as available-for-sale investments and certain other available-for-sale investments. The gain on disposal is computed as follows:

	Six Months ended 30.6.2005 HK$'000
Cash consideration	196,930
Net assets disposal of:	
Investment	83,188
Dividend receivable	3,475
Other receivable	191
	86,854
Gain on disposal	110,076

Included in the cash consideration is the long term receivable of HK$24,459,000 bearing market rate which will be released to the Group in 2006.

6. TAXATION

	The Group Six Months ended 30.6.2005 HK$'000	The Group Six Months ended 30.6.2004 HK$'000
Current tax:		
PRC income tax	**(1,047)**	(4,458)
Taxation attributable to the Group	**(1,047)**	(4,458)

No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred tax losses in both periods.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The tax rate applicable for all PRC subsidiaries ranges from 7.5% to 33%.

No provision for deferred taxation has been recognised in the condensed financial statements as the amount involved its insignificant.

7. DIVIDENDS

The directors declared an interim dividend of HK$0.01 (2004: nil) per share and a special interim dividend of HK$0.01 (2004: nil) per share.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	Six Months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
		(restated)
Earnings		
Net profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	**176,227**	35,459
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	**(770)**	–
	175,457	35,459

	Six Months ended	
	30.6.2005	30.6.2004
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,698,041,973**	1,937,865,050
Effect of dilutive share options	**38,590,839**	1,037,501
Weighted average number of shares for the purpose of diluted earnings per share	**2,736,632,812**	1,938,902,551

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK$112,453,000 (1.1.2004 to 30.6.2004: HK$406,342,000) on acquisition of property, plant and equipment.

10. INTERESTS IN ASSOCIATES

During the period, the Group acquired Panva Gas Holdings Limited ("Panva Gas") with its associates, which are principally engaged in the production and/or distribution of natural gas, coal gas, LP Gas, metallurgical coke and coke oil in the PRC.

11. PLEDGED OF ASSETS

	30.6.2005 HK$'000	31.12.2004 HK$'000
To secure the general banking facilities granted to the Group:		
Bank deposits	**218,761**	72,467

Details of the borrowings which are secured by the bank deposits are set out in note 14.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its customers.

Included in trade and other receivables, deposits and prepayments are trade receivables totalling HK$454,625,000 (31.12.2004: HK$147,420,000), the aged analysis of which is as follows:

	30.6.2005	31.12.2004
	HK$'000	HK$'000
Aged:		
0 to 90 days	**444,416**	147,420
91 to 180 days	**2,128**	–
181 to 360 days	**2,161**	–
Over 360 days	**5,920**	–
	454,625	147,420

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable of HK$224,865,000 (31.12.2004: HK$59,218,000), the aged analysis of which is as follows:

	30.6.2005	31.12.2004
	HK$'000	HK$'000
Aged:		
0 to 90 days	**209,583**	59,218
91 to 180 days	**8,929**	–
181 to 360 days	**1,087**	–
Over 360 days	**5,266**	–
	224,865	59,218

14. BORROWINGS

	30.6.2005 HK$'000	31.12.2004 HK$'000
Bank loans – secured	**328,223**	339,000
Bank loans – unsecured	**886,235**	966,665
Other loans – secured	**9,355**	–
Other loans – unsecured	**2,152**	–
Convertible bonds (Note a)	**332,835**	–
Exchangeable note (Note b)	**61,235**	–
Guaranteed senior notes (Note c)	**1,585,628**	–
	3,205,663	1,305,665

The maturity of the above borrowings is as follows:

On demand or within one year	**462,000**	364,166
More than one year but not exceeding two years	**313,834**	250,447
More than two years but not exceeding five years	**726,412**	650,734
More than five years	**1,703,417**	40,318
	3,205,663	1,305,665
Less: Amount due within one year shown under current liabilities	**(462,000)**	(364,166)
Amount due after one year	**2,743,663**	941,499

Notes:

(a) The convertible bonds were issued by Panva Gas, a subsidiary of the Company, on or after 7 June 2003 and up to 9 April 2008. The bonds are convertible into shares of Panva Gas. The conversion price at which each share shall be issued upon conversion was HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares). The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum.

(b) The exchangeable note was issued on 30 October 2004 by a subsidiary of the Company. The exchangeable note will be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue on 31 October 2006 at par. Interest is payable at 2% per annum.

(c) Panva Gas issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, Panva Gas may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of Panva Gas's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date.

15. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005	5,000,000,000	50,000
Increase of authorised share capital *(note)*	2,500,000,000	25,000
At 30 June 2005	7,500,000,000	75,000
Issued and fully paid:		
At 1 January 2005	2,290,933,904	22,909
Issue of shares – June 2005 *(note)*	2,540,915,880	25,409
At 30 June 2005	4,831,849,784	48,318

Note:

Pursuant to a resolution passed at the special general meeting held on 2 June 2005, the share capital of the Company was changed as follows:

- The authorised share capital of the Company was increased from HK$50,000,000 to HK$75,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK$0.01 each.

- The issue of 2,540,915,880 ordinary shares of HK$0.01 each of the Company at HK$0.91 per share for the acquisition of the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All Investments Limited ("Supreme All") from Sinolink Worldwide Holdings Limited ("Sinolink"), a substantial shareholder of the Company. Kenson and Supreme All holds 58.45% interest, in aggregate, in Panva Gas.

16. RELATED PARTY TRANSACTION

During the period ended 30 June 2005, the Group paid office expenses of HK$479,000 (1.1.2004 to 30.6.2004: HK$394,000) to Sinolink. The office expense is determined with reference to actual costs incurred.

17. CAPITAL COMMITMENTS

	30.6.2005 **HK$'000**	31.12.2004 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**131,936**	191,488

18. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired 100% equity interest of Kenson and Supreme All and 70% of the registered capital of and Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Limited ("Beijing Zhonglian") for aggregate cash and share consideration of approximately HK$2,324 million. Kenson and Supreme All together hold 58.45% interests in Panva Gas. The consideration for the acquisition of Kenson and Supreme All was calculated with reference to the market value of the share of Panva Gas. The details of the acquisition of Kenson and Supreme All are set out in the circular of the Company dated 17 May 2005. These transactions have been accounted for by the acquisition method of accounting.

	Kenson, Supreme All and Panva Gas* HK$'000	**Beijing Zhonglian*** HK$'000
Net assets acquired:		
Property, plant and equipment	1,219,813	450
Prepaid lease payments	45,509	–
Available-for-sale investments	208,999	–
Intangible assets	9,132	–
Interests in associates	454,030	–
Bank and cash balances	1,480,787	7,598
Inventories	59,240	–
Trade and other receivables	685,749	3,260
Trade and other payables	(345,165)	(3,383)
Tax liabilities	(52,389)	–
Borrowings	(1,956,302)	–
Derivative financial instruments	(118,256)	–
Net assets acquired	1,691,147	7,925
Minority interests	(986,863)	(2,377)
Goodwill arising on acquisition	1,607,950	6,405
	2,312,234	11,953
Total consideration:		
Satisfied by cash	–	11,953
Satisfied by issue of shares	2,312,234	–
	2,312,234	11,953
Net cash (inflow) outflow arising on acquisition		
Cash consideration	–	11,953
Bank balances and cash acquired	(1,480,787)	(7,598)
Net cash (inflow) outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(1,480,787)	4,355

* The acquiree's carrying amount of net assets immediate before acquisition approximates to its fair value except for the fair value adjustment of approximately HK$59 million in relation to guaranteed senior notes issued by Panva Gas.

The goodwill arising on the acquisition of Panva Gas and Beijing Zhonglian is attributable to the anticipated profitability of sales and distribution of gas fuel and related products and the gas pipeline construction operations and consulting services respectively.

From 13 June 2005 to 30 June 2005, the Group further acquired 1.43% equity interest of Panva Gas for cash consideration of approximately HK$42 million. The increase in goodwill and decrease in minority interests arising on the further acquisition amounted to approximately HK$20 million and HK$22 million respectively.

Panva Gas contributed HK$162 million revenue and HK$39 million to the Group's profit before tax for the period between the date of acquisition and 30 June 2005.

If the acquisition had been completed on 1 January 2005, total Group revenue for the period would have been HK$1,547 million, and net profit for the period attributable to equity holders of the Group would have been HK$267 million. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.