NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands.

The principal activities of the Group are property development, sale and distribution of liquefied petroleum gas and natural gas ("Gas Fuel"), construction of gas pipelines and electricity supplies.

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 (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICES

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

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 16 Property, Plant and Equipment

The Group has changed its accounting policy and elected for the leasehold buildings of the Group to be stated at cost less accumulated depreciation rather than at their revalued amount. As the value of the properties within the Group has not experienced any material fluctuations in the past, the Group believes that by stating its building at cost would reflect a more accurate position to user of the financial statements. Comparative figures have been restated.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("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 condensed presentation of the condensed consolidated income statement, condensed consolidated balance sheet and the 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.

2. PRINCIPAL ACCOUNTING POLICES *(Continued)*

HKAS 17 Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. 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. If the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

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 changes in accounting policies for recognition, measurement, derecognition and disclosure of financial instruments.

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. The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Group that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

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.

2. **PRINCIPAL ACCOUNTING POLICES** *(Continued)*

Classification and measurement of financial assets and financial liabilities *(Continued)*

By 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. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

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

By 31 December 2004, interest rate swaps entered into for hedging purposes were accounted for on an accrual basis and were included in the related category of income and expense in the income statement on the same basis as that arising from the underlying hedging transactions.

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 or 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.

2. **PRINCIPAL ACCOUNTING POLICES** *(Continued)*

Derivatives and hedging *(Continued)*

The Group has applied the relevant transitional provisions in HKAS 39. From 1 January 2005 onwards, the Group has applied hedge accounting in accordance with HKAS 39 to account for such hedges. For derivatives that are not held for hedging purposes, on 1 January 2005, the Group recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005, amounting to HK$70.4 million, in the Group's accumulated profits.

HKFRS 2 Share-based Payment

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 or 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 2005. In relation to share options granted before 1 January 2005, 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 2005 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 2005. Comparative figures have been restated.

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 and negative 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. Negative goodwill was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted.

In accordance with the transitional provisions of HKFRS 3, the Group ceased amortization of goodwill from 1 January 2002 onwards and goodwill will be tested for impairment at least annually of in the financial year in which the acquisition takes place. The Group has derecognised all negative goodwill previously presented as a deduction from assets with a corresponding increase to accumulated profits.

2. **PRINCIPAL ACCOUNTING POLICES** *(Continued)*

Hong Kong Interpretation 3 Pre-completion Contracts for the Sale of Development Properties ("HK-Int 3")

Previously, the Group applied the stage of completion method to recognise revenue from pre-completion contracts for the sale of development properties. In the current period, the Group has, for the first time, applied HK-Int 3 which clarifies that the use of stage of completion method to recognise revenue from pre-completion contracts for the sale of development properties is not appropriate. Under HK-Int 3, revenue arising from pre-completion contracts for the sale of development properties is recognised only when all of the criteria specified in paragraph 14 of HKAS 18 Revenue are met. The Group has elected to early adopt the requirements of HK-Int 3 to pre-completion contracts for the sale of development properties entered into on or after 1 January 2004. Accordingly, comparative figures have been restated.

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Expenses in relation to share options granted to employees	**(22,047)**	(483)
Decrease in amortisation and depreciation of property, plant and equipment	**20**	20
Decrease in amortisation of goodwill	**8,177**	2,194
Decrease in release of negative goodwill to consolidated income statement	**(692)**	(965)
Increase in negative fair value of derivatives	**2,014**	–
Increase in share of results of associates	**–**	1,978
Effect of the application of HK-Int3	**(218,651)**	–
Decrease (increase) in minority interests' share of results for the period	**40,096**	(137)
(Decrease) increase in net profit for the period	**(191,083)**	2,607

2. **PRINCIPAL ACCOUNTING POLICES** *(Continued)*

Hong Kong Interpretation 3 Pre-completion Contracts for the Sale of Development Properties ("HK-Int 3") *(Continued)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 are summarised below:

	HK$'000
Balance sheet items	
Decrease in property, plant and equipment	(83,011)
Increase in prepaid lease payments	76,888
Increase in goodwill	72,729
Decrease in negative goodwill	40,125
Increase in interests in associates	118
Increase in stock of properties	226,033
Increase in trade and other payables	(327,407)
Decrease in taxation payable	15,881
Decrease in borrowings – amount due after one year	49,077
Changes in equity	
Increase in accumulated profits	12,183
Increase in convertible bonds reserve	28,261
Decrease in asset revaluation reserve	(2,881)
Increase in employee share-based compensation reserve	3,104
Decrease in goodwill reserve	(2,632)
Increase in minority interests	32,398

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarized below:

	HK$'000
Increase in accumulated profits	48,725
Decrease in goodwill reserve	(2,632)
Increase in convertible bonds reserve	30,988
Decrease in asset revaluation reserve	(3,129)
Increase in minority interests	20,998

An amount of HK$77,950,000 was reclassified from bank balances and cash to non-current pledged bank deposits during the period.

3. **SEGMENT INFORMATION**

For management purposes, the Group is currently organised into three operating divisions-property development, gas fuel business and electricity supplies. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2005 is as follows:

Six months ended 30 June 2005

	Property Development HK$'000	Gas Fuel Business HK$'000	Electricity Supplies HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER						
External	28,621	958,053	589,101	15,437	–	1,591,212
Inter-segment	–	–	–	1,684	(1,684)	–
Total	28,621	958,053	589,101	17,121	(1,684)	1,591,212
SEGMENT RESULT	(7,975)	207,455	87,602	4,127	–	291,209
Other operating income						56,279
Unallocated corporate expenses						(142,407)
Finance costs						(69,003)
Gain on group restructuring exercise						180,401
Gain on partial disposal of a subsidiary	–	–	40,658	–	–	40,658
Gain on disposal of available-for-sale investments						110,075
Share of results of associates	–	28,561	–	–	–	28,561
Profit before taxation						495,773
Taxation						(16,733)
Net profit for the period						479,040

3. SEGMENT INFORMATION *(Continued)*

Six months ended 30 June 2004

	Property Development HK$'000	Gas Fuel Business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER					
External	83,217	848,634	13,625	–	945,476
Inter-segment	–	–	4,771	(4,771)	–
Total	83,217	848,634	18,396	(4,771)	945,476
SEGMENT RESULT	10,592	126,806	2,691	–	140,089
Other operating income					9,708
Unallocated corporate expenses					(30,484)
Finance costs					(6,467)
Loss on deemed disposal arising from dilution of interest in a subsidiary	–	(3,917)	–	–	(3,917)
Gain on disposal of subsidiaries	3,898	–	–	–	3,898
Share of results of associates					14,191
Profit before taxation					127,018
Taxation					(9,334)
Net profit for the period					117,684

Inter-segment sales are charged at prevailing market prices.

As over 90% of the consolidated turnover is derived from the People's Republic of China ("PRC"), an analysis of the consolidated turnover by geographical location is not presented.

4. FINANCE COSTS

	Six months ended 30.6.2005 HK$'000	Six months ended 30.6.2004 HK$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	**47,935**	17,308
Bank and other borrowings not wholly repayable within five years	**69,141**	–
Amortisation of direct issuance costs of guaranteed senior notes	**3,312**	–
Amortisation of premium payable on redemption of convertible bonds	**2,924**	–
	123,312	17,308
Net interest (receivable) payable on interest rate swaps	**(43,806)**	12
	79,506	17,320
Less: Amount capitalised to properties under development	**(7,649)**	(10,950)
Amount capitalised to construction in progress	**(7,014)**	–
	64,843	6,370
Others	**4,160**	97
	69,003	6,467

5. GAIN ARISING ON GROUP RESTRUCTURING EXERCISE

During the period, the Group carried out a group restructuring exercise of which the Group disposed its entire interest of 58.45% in Panva Gas Holdings Limited ("Panva Gas") to a non-wholly owned subsidiary, Enerchina Holdings Limited ("Enerchina"), at a consideration of 2,540,915,880 new shares of Enerchina which was settled by the allotment and issued credited as fully paid to the Group. A gain of approximately HK$180,401,000 was resulted from the above group restructuring exercise.

6. 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 investment and certain other available-for-sale investments. The gain on disposal is completed as follow:

	HK$'000
Net assets disposal of:	
Investments	83,188
Dividend receivable	3,475
Other receivable	191
	86,854
Gain on disposal	110,075
Cash consideration	196,929

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

7. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**72,225**	18,765
Amortisation of prepaid lease payments	**1,259**	726
Share of tax of associates (included in share of results of associates)	**5,336**	–
and after crediting:		
Interest income	**27,882**	3,062
Fair value changes on investments held-for-trading	**5,414**	–

8. TAXATION

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Charge for the period		
PRC income tax	**16,733**	9,334

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor derived from, Hong Kong.

The tax rate applicable for all PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC enterprise income tax for the period has been provided for after taking these tax incentives into account.

9. DIVIDENDS

The directors have resolved to declare an interim dividend of HK3.0 cents (2004: HK1.5 cents) per share and a special interim dividend of HK3.3 cents (2004: nil) per share in respect of six months ended 30 June 2005. The interim dividend and the special interim dividend are payable on or before 14 October 2005 to shareholders whose names appear on the register of members of the Company on 7 October 2005.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Earnings for the purpose of basic earnings per share	**328,652**	69,657
Adjustment to the share of result of subsidiaries based on dilution of their earnings per share	**(5,882)**	(4,783)
Earnings for the purpose of diluted earnings per share	**322,770**	64,874

	Number of shares	
	30.6.2005	30.6.2004
Weighted average number of shares for the purpose of basic earnings per share	**2,344,964,505**	2,299,340,261
Effect of dilutive potential ordinary shares:		
Share options	**7,343,098**	14,327,267
Weighted average number of shares for the purpose of diluted earnings per share	**2,352,307,603**	2,313,667,528

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$283,171,000 (2004: HK$213,626,000) on acquisition of property, plant and equipment.

12. INTERESTS IN ASSOCIATES

During the period, the Group acquired a 48% equity interest in Changchun Gas Holdings Limited ("Changchun Gas Holdings") at a total consideration of HK$354,724,000. Changchun Gas Holdings and its subsidiaries are principally engaged in the production and/or distribution of natural gas, coal gas, LP Gas, metallurgical coke and coke oil.

13. AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group acquired certain investments amounting to HK$198,584,000. These investments represent debentures and certain listed and unlisted securities in Hong Kong and the PRC.

14. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 5 years are also allowed by the Group. Included in trade and other receivables are trade receivables of HK$455,073,000 (31.12.2004: HK$306,885,000), the aged analysis of which is as follows:

	30.6.2005 HK$'000	31.12.2004 HK$'000
Aged:		
0 to 90 days	**444,864**	303,752
91 to 180 days	**2,128**	841
181 to 360 days	**2,161**	1,798
Over 360 days	**5,920**	494
	455,073	306,885

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$241,535,000 (31.12.2004: HK$105,381,000), the aged analysis of which is as follows:

	30.6.2005 HK$'000	31.12.2004 HK$'000
Aged:		
0 to 90 days	**211,466**	74,595
91 to 180 days	**11,736**	6,482
181 to 360 days	**3,687**	9,258
Over 360 days	**14,646**	15,046
	241,535	105,381

16. BORROWINGS

During the period, the Group obtained new bank and other borrowings of the amount of HK$607,285,000 which bear interest at prevailing market interest rate. The Group also made repayment of bank and other borrowings of HK$853,577,000 during the period.

17. SHARE CAPITAL

	30.6.2005	31.12.2004
	HK$'000	HK$'000
Shares of HK$0.10 each		
Authorised:		
4,800,000,000 shares of HK$0.10 each	**480,000**	480,000
Issued and fully paid:		
2,349,722,240 shares (31.12.2004: 2,333,452,240) of HK$0.10 each	**234,972**	233,345

A summary of the movement in the issued capital of the Company is as follows:

	No. of shares	HK$'000
At 1 January 2005	2,333,452,240	233,345
Issue of shares on exercise of share options	16,270,000	1,627
At 30 June 2005	2,349,722,240	234,972

18. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions carried out during the period:

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	HK$'000
Skillful Assets Limited *(Notes a & b)*		
– Rental paid thereto	**498**	498
Enerchina Holdings Limited *(Note a)*		
– Interest received therefrom	**–**	152
– Office expenses paid thereto	**–**	394

Notes:

a. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules.

b. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.

19. CONTINGENT LIABILITIES

	30.6.2005 HK$'000	31.12.2004 HK$'000
Guarantees given to banks for the mortgage loans arranged for the purchasers of the Group's properties	**463,816**	261,484

20. CAPITAL COMMITMENTS

	30.6.2005 HK$'000	31.12.2004 HK$'000
Commitments in respect of properties under development:		
– authorised but not contracted for	**181,520**	296,004
– contracted for but not provided in the financial statements	**406,041**	381,359
	587,561	677,363
Capital expenditure in respect of unpaid capital contribution of investment projects		
– contracted for but not provided in the financial statements	**34,520**	526,008
Capital expenditure in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	**97,416**	191,488
	719,497	1,394,859

21. PLEDGE OF ASSETS

At 30 June 2005, the Group has pledged bank deposits of HK$218,761,000 (31 December 2004: HK$150,417,000) and its land held under medium term leases included in the stock of properties, with an aggregate carrying amount of approximately HK$245,075,000 (31 December 2004: HK$441,956,000) to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment with an aggregate carrying amount of approximately HK$406,217,000 (31 December 2004: HK$56,472,000) to secure bank loans granted to the subsidiaries of the Company.

22. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired 70% and 100% of the registered capital of Pengshan Panva Gas Co., Ltd. ("Pengshan Panva") and Jianyang Panva Gas Co., Ltd. ("Jianyang Panva"), respectively and 70% of the registered capital of Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Limited ("Beijing Zhonglian") for an aggregate cash consideration of approximately HK$58 million. These transactions have been accounted for by the acquisition method of accounting.

	HK$'000
Net assets acquired:	
Non-current assets	61,000
Current assets	27,774
Non-current liabilities	(12,004)
Current liabilities	(37,015)
Net assets acquired	39,755
Minority interests	(9,866)
Goodwill arising on acquisition	28,369
Cash consideration	58,258
Net cash outflow arising on acquisition:	
Cash consideration	58,258
Bank balances and cash acquired	(8,445)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	49,813

* The acquiree's carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required.

The goodwill arising on the acquisition are principally attributable to the anticipated profitability of sales and distribution of Gas Fuel and related product of the Group and the gas pipeline construction operations and consulting services.

The subsidiaries acquired during the period contributed HK$36,668,000 to the Group's turnover and HK$19,817,000 to the Group's profit before taxation for the period between the date of acquisition and 30 June 2005.