



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

Turnover of the Group for the six months ended 31st December, 2004 was HK\$52.3 million as compared to turnover of HK\$75.0 million for the six months ended 31st December, 2003. The turnover for the six months ended 31st December, 2004 included HK\$38.1 million on trading of gas related products. The Group engaged in trading of gas related products since the acquisition of Beijing Sinogas Company Limited and its subsidiaries ("Beijing Sinogas") in March 2004. Gross profit for the six months ended 31st December, 2004 was HK\$6.5 million. This represented an improvement of 55% on gross profit of HK\$4.2 million for the six months ended 31st December, 2003.

The activities of trading of gas related products for the six months ended 31st December, 2004 contributed HK\$3.6 million profit to the total segment results of the Group while the activities of security trading and investment holding for the same period recorded a segment loss of HK\$7.5 million as compared to a segment loss of HK\$2.0 million for the six months ended 31st December, 2003. The operating loss for the six months ended 31st December, 2004 was HK\$6.0 million which was mainly due to the loss in the security trading and investment holding activities. For the six months ended 31st December, 2003, the Group reported an operating profit of HK\$2.5 million.

During the six months ended 31st December, 2004, the Group disposed of its entire interest in Shandong International Economic Development Corporation and recognised a disposal gain of HK\$1.9 million which was included in the gain on disposal of subsidiaries in the income statement.

The net loss of the Group for the six months ended 31st December, 2004 was HK\$8.2 million as compared to the net profit of HK\$2.2 million for the six months ended 31st December, 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### FINANCIAL RESOURCES

Total borrowings of the Group as at 31st December, 2004 were amounted to HK\$109.2 million of which HK\$14.1 million was loan from an associate denominated in RMB. Other RMB borrowings were HK\$53.3 million bank loans at operating subsidiaries level funding the local PRC operation requirements.

During the six months ended 31st December, 2004, the Group was not materially expose to exchange risk.

As at 31st December, 2004, total borrowings of the Group were HK\$109.2 million and shareholders' equity was HK\$305.6 million. Accordingly, the gearing ratio of the Group as at 31st December, 2004 was 35.7%.

### LITIGATION

The Company issued a writ of summons in the Court of First Instance in Hong Kong against China Media International Group Limited ("CMI") on 18th February, 2004 to claim for, among others, damages for breach of the sale and purchase agreement (the "Sale and Purchase Agreement") in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited ("CMEP") dated 2nd January, 2003 and the shareholders agreement dated 10th February, 2003 in respect of CMEP, both entered into between the Company and CMI, including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from the date of its incorporation to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount after tax net profit on the difference between the actual amount of account receivables (as shown in the management account of CMEP as at 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of account receivables. The action is currently in progress.

The Company's investment in 35% interest in the issued shares of CMEP is stated at cost of HK\$137,858,000 and is recorded as investment securities in the balance sheet. 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.

## **STAFF BENEFIT**

The Company reviews remuneration packages on an annual basis. Apart from salary, other benefits include contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies and a discretionary bonus.

## **BUSINESS OUTLOOK**

The Group will continue to focus its activities of trading of conversion parts and gas station equipment and operation of gas station. The Group intends to expand its natural gas business in the PRC, principally through its subsidiary Beijing Sinogas. The use of liquefied natural gas ("LNG") and compressed natural gas ("CNG") in the PRC is becoming more popular, partly due to government policies in the PRC in promoting natural gas as a more environmental friendly energy source and partly due to the fact that natural gas is more cost-efficient than other energy sources such as petroleum. In addition to the use of LNG and CNG in households and for industrial purposes, LNG and CNG have also become increasingly popular energy sources for motor vehicles. More people will turn to use natural gas which is a cheaper and cleaner substitute of petroleum. In light of the growth in car ownership due to the improving living standard in the PRC, the Group intends to expand its natural gas business, through Beijing Sinogas, by constructing more LNG/CNG refueling gas stations in various cities in the PRC including Jinan, Shenyang, Handan, Luoyang, Taiyuan, Zhengzhou, Wuxi, Nanjing and Shijiazhuang. The Group will continue to capitalize on its experience and management expertise to development its business in this natural gas field.

## **APPROVAL OF INTERIM REPORT**

The interim report was approved by the Board on 29th March, 2005.

For and on behalf of the Board

### **Dr. George Han Hsiao Yue**

*Chief Executive Officer*

Hong Kong, 29th March, 2005

*As at the date of this interim report, the executive Directors are Mr. Ji Guirong, Dr. George Han Hsiao Yue, Mr. Liu Yangu, Ms. Ka Ying, Mr. Sun Wenhao and Mr. Wu Ding; and the independent non-executive Directors are Mr. Li Xinzhong, Mr. Tian Jianli, Ms. Li Zheng, Mr. Wang Zhonghua and Mr. Zhong Qiang.*