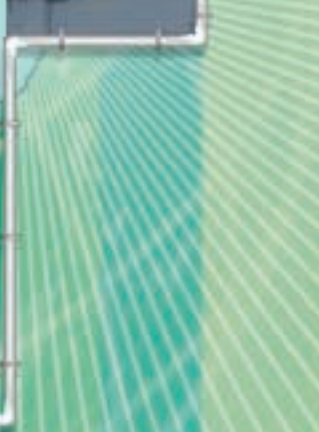




CHINA GAS
中國燃氣

CHINA GAS HOLDINGS LIMITED
中國燃氣控股有限公司



ANNUAL REPORT
年報 **2004**

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2 CORPORATE INFORMATION

Board of Directors

Executive Directors

Li Xiaoyun (*Chairman*)

Xu Ying (*Vice-Chairman*)

Liu Ming Hui (*Managing Director*)

Zhu Wei Wei

Ma Jin Long

Non-Executive Director

Wu Bangjie

Independent Non-Executive Directors

Zhao Yuhua

Mao Er Wan

Wong Sin Yue, Cynthia

Company Secretary

Yang Yan Tung, Doris

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

Hang Seng Bank Limited

Jian Sang Bank Limited

Head Office and Principal Place of Business

16th Floor
AXA Centre
151 Gloucester Road
Wan Chai
Hong Kong

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Legal Advisors

Michael Li & Co.

Li & Partners

Principal Share Registrars and Transfer Office

Butterfield Corporate Services Ltd
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Computershare Hong Kong Investors Services
Limited
Rooms 1901-1905
Hopewell Centre
183 Queen's Road East
Hong Kong

Stock Code : 384

The logo for CHINA GAS, featuring the company name in a bold, sans-serif font. The letter 'G' in 'GAS' is stylized with a circular element inside it. The logo is positioned to the right of a large, stylized green graphic that resembles a hand or a fan with multiple horizontal segments.

- Turnover and profit attributable to shareholders of the Group for the year ended March 31, 2004 recorded HK\$376,491,000 and HK\$80,060,000 respectively.
- Basic earnings per share during the period was HK6.15 cents.
- Approximately 87,930 domestic households and 6 industrial users were connected during the period under review.
- Connection fee for domestic households ranges from RMB1,800 to RMB2,700 per household, in average of RMB2,100 per household.
- Connection fee for industrial users varies from RMB200 to RMB800 per cubic meter, in average of RMB600 per cubic meter.

4 CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Directors") of China Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2004 annual report.

Annual Results

With the effort of the Directors and all the staff, the Group recorded profit during the period under review. For the year ended March 31, 2004, turnover amounted to HK\$376,491,000 and profit attributable to shareholders was HK\$80,060,000, basic earnings per share was HK6.15 cents.

During the financial year, the Group continued its expansion strategy as demonstrated by substantial cooperation with various local governments and/or state-owned gas companies for setting up natural gas joint venture companies in respective cities and districts, all with exclusive operating rights. As part of the expansion strategy, the Group acquired interests of natural gas companies from existing natural gas investors. The Group's earning ability is strengthened, market sharing is increased and asset bases are broadened and improved.

During the financial year, the Group had already secured 14 new pipeline natural gas projects. The new projects the Group secured during the financial year included Xiaogan city, Yingcheng city, Yunmeng city and Hanchuan city of Hubei Province; Wuhu city and Huainan city of Anhui Province; Pizhou city and Yangzhong city of Jiangsu Province, Yiyang city of Hunan Province; Neiqiu city, Xinle city, Pingshan city and Cangzhou Economic and Technology Development Zone of Hebei Province and Wucheng

district, Jinhua of Zhejiang Province. Besides, subsequent to the financial year ended, the Group secured the natural gas projects of six peripheral counties of Beijing and Shouxian Anhui Province such that the population available for gas connection increased to approximately 9,020,000. As at March 31, 2004, the accumulated connected domestic households were 266,992 households and connected industrial and commercial users were 307 users (designed daily gas supply capacity: 234,964 cubic meters). During the financial year, the Group's total sales of coal gas and natural gas was 39,130,000 cubic meters

Financial Results

As at March 31, 2004, cash on hand of the Group was approximately HK\$471,823,000, total borrowings amounted to approximately HK\$674,460,000 with approximately HK\$82,444,000 was convertible note and bonds. During the financial year, the Company had entered into strategic cooperation agreement with Industrial and Commercial Bank of China whereby the bank would provide project funding facilities in the amount of RMB6 billion. Meantime, the Group was successfully issued convertible note and convertible bonds and placed new shares, raising total proceeds of approximately HK\$368,630,000. The above external funding provided sufficient cash to meet the Group's needs for its investment in natural gas projects during the financial year.

Dividends

Given the cash need for continual business expansion, the Directors resolved not to recommend the payment of a final dividend for the year ended March 31, 2004.

Prospects

The economy of China maintained its rapid growth momentum in 2003, which, however, is associated with coal and electricity famine as a result of increasing demand for energy and deteriorating environment pollutions as well. In order to change the energy structure of the country that is over-dependant on coal, and to alleviate environmental pollutions, the Chinese government decides to implement structural adjustment to energy supply by increasing the proportion of use of natural gas. The proportion of use of natural gas in respect of the energy consumption of China will increase from 2.5% in 2001 to 10% in 2010. As natural gas has been stipulated by Chinese government as a kind of clean energy, the future of natural gas industry is promising. According to the statistics, the per capita consumption of natural gas of China in 2000 is 16 cubic meters, which is much lower than the international average level of 408 cubic meters. The use of natural gas in China is still at a low level. The Chinese government has formulated measures to encourage the use of natural gas. It is anticipated that national consumption of natural gas will increase from 50 billion cubic meters at present to 96 billion cubic meters by 2010, and the national demand for natural gas will reach 200 billion cubic meters by 2020. Among them, electricity generating and city gas account for most of the growth of use and it is expected that each will account for about one third of the total demand. To cope with the soaring demand for gas, China needs to introduce a great quantity of capital to build large-scale infrastructure, long distance pipelines, city distribution networks and related equipment. According to the estimates of the Energy Bureau of the National Development and Reform Commission, the natural gas

industry of China is in its historic period of rapid growth. In 2002 to 2020, the natural gas infrastructure construction of China requires total investment of more than RMB220 billion, which is mainly used in the building of natural gas pipelines of 50,000 km, 10 million ton-grade liquefied natural gas stations and million ton-grade transportation capability of liquefied natural gas. In light of the vast investment scale involved, the Chinese government has formulated favorable policies that encourage foreign investment in the construction and operation of projects relating to China natural gas risk exploration and development, gas pipelines, gas storage stations, natural gas power stations and city gas for large and medium cities. These policies are matched with complete law and regulations and a regulatory system for the natural gas industry, in order to establish a healthy market system that is characterized by separation of politics and enterprise, fair competition, open and orderly policies and forceful regulation and control, to form a more standardized investment environment. In particular, since the implementation of West-East Pipeline Project, the Chinese government has in succession modified 《中華人民共和國對外合作開採陸上石油資源條例》(Regulations of the PRC Regarding Land Oil Deposit Exploitation in Cooperation with Foreign Parties), 《中華人民共和國對外合作開採海洋石油資源條例》(Regulations of the PRC Regarding Petroleum Resources in Cooperation with Foreign Parties) and 《指導外商投資方向規定》(Interim Provisions on Guiding Foreign Investment) and other related laws and regulations, liberalizing certain restrictions on foreign investment. The above policies enacted by the Chinese government bring about enormous business opportunities for foreign investors' participation in city gas projects.

6 CHAIRMAN'S STATEMENT

The West-East Pipeline Project with an annual gas supply of 12 billion cubic meters is the Chinese government's key project to fuel utilization of natural gas. By the end of 2003, the construction works of the eastern section of the Project has completed and commenced commercial operation. In the middle of May 2004, Wuhu joint venture company of the Group has made gas connection to the West-East Pipeline Project, and has fully initiated switch to the use of natural gas in Wuhu City. It is expected that the West-East Pipeline Project will be completed on all fronts by the end of 2004, and by that time clean natural gas will be available to the resident users and industrial and commercial users in nine provinces along the line.

Gas from east Sichuan Project (the Zhongwu Pipeline Project) with an annual gas supply of 3 billion cubic meters will also be completed by the end of 2004, and by that time natural gas will be available to resident users and industrial and commercial users in the two provinces, Hunan Province and Hubei Province. Operating projects of the Group locate mostly along the main pipelines of West-East Pipeline and Zhongwu Pipeline. With the gas connection and ignition of the main pipelines, it is expected that all operations of the Group will achieve greater development in the next financial year.

The financial year 2004 was undoubtedly a remarkable and fruitful year for the Group. Yet, it is a beginning and the Group will continue to follow the growing path to expand the Group's natural gas business. The Directors are highly optimistic about the prospects of the business of the Group. The Group will still focus

on investing in natural gas downstream business as well as other natural gas-related business that bring in steady income. As an ongoing course, we will continue to identify and invest in new quality projects in different regions of China. Besides, we will constantly improve current operational efficiency, monitor the cost structure and advance the technologies employed.

Appreciation

On behalf of the Directors, I would like to express my sincere thanks to all of our staff, the management team and the fellow board members for their endeavors and dedication; to the shareholders, investors and bankers for their ongoing support and confidence. We will further the development of the Group and have set the goal to maximize investment return for our shareholders.

Li Xiaoyun
Chairman

June 25, 2004

During the financial year, the Group exerted itself in the development of piped natural gas business in China. With the efforts of the Directors and staff, the Group's natural gas business has made considerable progress.

Business Review

For the year ended March 31, 2004, turnover of the Group amounted to HK\$376,491,000 (year ended March 31, 2003: HK\$85,537,000). Profit attributable to the shareholder was HK\$80,060,000 (year ended March 31, 2003: loss of HK\$69,673,000). Earning per share was HK6.15 cents (loss per share for the year ended March 31, 2003: HK6.68 cents).

The Group is principally engaged in investments in natural gas projects in China. During the financial year, the Group secured a number of natural gas projects while pipeline networks of some of the projects were under construction and connection fee and gas sales fee were charged. Meantime, the Company also 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

Construction of city gas pipeline networks is one of the Group's principal businesses. The Group builds city main pipeline network and branch pipeline network

to make gas connection to resident users and industrial and commercial users, and charges from them gas connection fee and gas usage fee. During the financial year, the Group had built gas pipeline network of approximately 990 km (including branch and customer pipeline network), and had owned in accumulation approximately 2,218 km of gas pipeline network. During the year, there were 87,930 domestic households and 6 industrial users completed the connection works. The Group's piped gas connection fee income amounted to approximately HK\$185,045,000. Average connection fee for domestic households was RMB2,100. Average connection fee for industrial and commercial users was RMB600 per cubic meters. Gas connection fee income accounted for 49.15% of the Group's total turnover for the year.

As at March 31, 2004, the Group has made gas connection to a total of 266,992 domestic households, representing 8.9% of the Group's overall users available for connection.

Natural gas possesses relatively higher heat value and lower price than those of coal gas, liquefied petroleum gas (LPG), oil and electricity. In addition, as the Chinese government has in recent years kept intensifying efforts in the enforcement of environmental protection regulations so as to restrict the use of coal in urban areas, more and more industrial users and commercial users are switching to the use of natural gas as their main energy source. As at March 31, 2004, the Group has made gas connection to a total of 307 industrial and commercial users, with a designed daily gas supply capacity of 234,964 cubic meters/day.



Sale of Piped Gas

Connection fee is a one-off income, whereas the Group's ultimate profit comes from the sales income of piped gas. During the financial year, other than some coal gas sales income of Wuhu joint venture company and Huainan joint venture company, and some compressed natural gas sales income of Beijing Zhongran Xiangke, other projects were temporarily out of natural gas supply and recorded no gas sales income due to the fact that the CNPC's long distance pipelines are not completed. During the financial year, the Group sold in total 17,180,000 cubic meters of gas (comprising coal gas and natural gas) to domestic households, 21,950,000 cubic meters to industrial and commercial users, and recorded gas sales income of HK\$49,727,000, representing approximately 13.2% of the Group's total turnover for the year. The gas sales income was approximately 211% higher than that of the same period last year.

In the middle of May 2004, the Group's Wuhu joint venture company has made gas connection to the West-East Pipeline. In the second half of 2004, the Group's other project companies will make gas connection in succession. All the Group's project companies have entered into pay-as-charged gas purchase contracts with CNPC to secure adequate gas supply. As such, it is expected that the Group's natural gas sales will record greater growth.

Gross Profit Margin and Net Profit Margin

During the financial year, the Group realized revenue of HK\$376,491,000 and gross profit of HK\$168,410,000, representing 44.73% of the Group's overall gross profit margin (corresponding period last year: 24.9%). The main reason for the increase of the overall gross profit margin was that the Group set foot in the piped gas distribution industry in this financial year and consequently charged gas connection fee from residential users and industrial and commercial users whereas the projects introduced by the Group were in the stage of negotiation and research in the past financial year. During the financial year, the Group realized net profit of HK\$80,060,000, representing an overall net profit margin of 21.26% (loss making in the same period last year).



Natural Gas Joint Venture Companies

During the financial year, the Group had secured 13 new pipeline natural gas projects. The Group also further secured the city gas project of six peripheral counties in Beijing after the financial year ended. As at June 2004, the Group accumulated 40 cities piped gas projects, owned 27 cities and districts with exclusive operating rights of piped gas. Among them, Xiaogan city, Yingcheng city, Yunmeng city and Hanchuan city of Hubei Province; Yiyang city of Hunan Province; Wuhu city and Huainan city of Anhui Province; Pizhou city and Yangzhong city of Jiangsu Province; Neiqiu city, Xinle city, Pingshan City and Cangzhou Economic and Technology Development Zone of Hebei Province and Wucheng district, Jinhua of Zhejiang Province were the new projects secured during the financial year. Changping County, Daxing County, Shunyi County, Tongzhou County, Fangshan County, Yanqing County of Beijing and Shouxian, Anhui Province were the new project after the financial year ended. Yichang city and Suizhou city of Hubei Province, Zunhua city, Yueting city, Gaocheng city and Fengnan district in Tangshan city of Hebei Province (they are owned and operated by Beijing Zhongran Xiangke) were the projects secured in previous financial year by the Group. At present, natural gas projects with investment of the Group included piped natural gas joint venture companies in 16 cities 5 provinces, natural gas projects in some urban residential estates and the long distance pipeline project from Wuhan to Xiaogan (under construction).

Anhui Province

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

Wuhu city is under the direct governance of Anhui Province, the second largest city in Anhui Province and is also an industrial centre. It has four administrative districts and three counties with its ambit. Wuhu city has a population of approximately 2,180,000 and of whom approximately 700,000 of whom reside in the urban area. As at March 31, 2004, completed facilities included pipeline of approximately 797 km (approximately 407 km belongs to branch and customer pipeline network). The number of connected domestic households reached 99,966 households (including 82,115 original domestic households acquired from Wuhu Gas Company). The number of connected industrial and commercial users was 296 users (including 291 existing industrial and commercial users acquired from Wuhu Gas Company). Wuhu joint venture company made gas connection with West-East Pipeline in May 2004. As at March 31, 2004, contribution from Wuhu joint venture company accounted for 12.77% of the Group's turnover.

Huainan city is under the direct governance of Anhui Province and there are five districts and one county with its ambit. Huainan city has a population of approximately 2,100,000 of whom approximately 1,400,000 reside in the urban area. As at March 31, 2004, completed facilities included pipeline of approximately 356 km (approximately 229 km belongs to branch and customer pipeline network). The number of connected domestic households reached 46,365 households (including 31,299 existing households acquired from Huainan Gas Company). Huainan joint venture company will connect with West-East Pipeline in September 2004. Contribution from Huainan joint venture company accounted for 9.20% of the Group's turnover for the year ended March 31, 2004.

In June 2003, the Group entered into a joint venture agreement with 淮南市燃氣總公司 (Huainan City Gas Company) for the establishment of Huainan China Gas City Gas Development Company Limited ("Huainan China Gas") by way of capital contribution. The registered capital of the joint venture company was RMB72,000,000 and was 70% owned by the Group. In May 2004, after consultation, the Group entered into agreement with 淮南市燃氣總公司 (Huainan City Gas Company) for the transfer of 30% interest in Huainan China Gas by 淮南市燃氣總公司 (Huainan City Gas Company) to the Group.

Hubei Province

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

Yichang city is the second largest city in the Hubei Province and comprising three direct governance districts namely Xiling, Wujiang and Dianjun and two development zones namely Dongshan and Xiaoting, as well as two cities namely Zhijiang and Yidu and seven counties namely Yichang, Dangyang, Changyang, Yuanan, Wufeng, Xingshan and Zigui. Yichang city had a population of approximately 4,000,000 of whom approximately 1,330,000 resided in the urban areas. As at March 31, 2004, Yichang joint venture company had completed facilities included 491 km pipelines (approximately 207 km belongs to branch and customer pipeline network). The number of connected domestic households reached 63,017 households (including 60,000 existing households acquired from Yichang Gas Company). Supply of gas will commence in December 2004. Contribution from Yichang joint venture company accounted for 1.82% of the Group's turnover for the year ended March 31, 2004.

Xiaogan city, Hanchuan city, Yingcheng city and Yunmeng city in total have a population of

approximately 3,180,000 of which 670,000 reside in the urban areas. As at March 31, 2004, completed facilities included pipelines of approximately 299 km (approximately 269 km belongs to branch and customer pipeline network). The number of connected domestic households was 31,866 households (including 3,000 existing households acquired from the state-owned gas companies in the respective cities). Contribution from the four joint venture companies accounted for 16.07% of the Group's turnover for the year ended March 31, 2004.

Suizhou city is located in the northern part of the Hubei Province and five districts are under its direct governance. Suizhou city has a population of approximately 2,500,000 of which 780,000 resided in the urban areas. As at March 31, 2004, completed facilities included pipelines of approximately 45 km (approximately 44 km belongs to branch and customer pipeline network). The number of connected domestic households was 5,004 households. Contribution from Suizhou joint venture company accounted for 2.75% of the Group's turnover for the year ended March 31, 2004.

Hunan Province

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

Yiyang city comprises eight direct governance county districts with a total population of approximately 4,600,000 of whom 860,000 resided in urban areas. As at March 31, 2004, Yiyang joint venture company had completed facilities included pipelines of approximately 90 km (approximately 89 km belongs to branch and customer pipeline network). The number of connected domestic households was 10,011 households. Contribution from Yiyang joint venture company accounted for 5.77% of the Group's turnover for the year ended March 31, 2004.

Jiangsu Province

The Group's has obtained the piped gas exclusive rights in Pizhou city and Yangzhong city, Jiangsu Province.

Pizhou city is located in the centre of the designed Xulian urban circles, Jiangsu Province. It has a total area of 2,088 square miles and has a total population of 1,580,000 of whom 230,000 resided in the urban areas. There are approximately 70,000 unconnected domestic households. At present, there is no piped natural gas supplied in Pizhou city and the penetration rate of piped natural gas is zero. It is expected that the market for gas connection and consumption of natural gas in Pizhou city is huge. The Group will invest approximately RMB5,000,000 to set up with exclusive investment Pizhou Zhongran City Gas Development Company Limited, which was granted an exclusive right of piped gas operation in Pizhou city for a term of 30 years.

Yangzhong city is located in the heart of the delta of Yangzi River. It has a total area of 332 square miles and has a total population of 280,000 of whom 90,000 resided in the urban areas. Electronics, medical, chemical industries were well-developed in Yangzhou city and it is expected the prospects of industrial users of gas are huge. The Group, through a wholly owned subsidiary signed a cooperation agreement with the People's Government of Yangzhong, Jiangsu Province for the setting up of Yangzhong Zhongran City Gas Development Company Limited by the Company with exclusive investment. The registered capital of the company is US\$1,000,000 and the Group owned 100% interest.



Beijing

Beijing Zhongran Xiangke Oil Gas Technology Co. Ltd ("Beijing Zhongran Xiangke") is the Group's 60% owned joint venture company and is principally engaged in sale of compressed 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. At present, Beijing Zhongran Xiangke owns 9 wholly-owned subsidiaries, exclusive piped gas operating rights in seven cities and districts in Zunhua City, Neiqiu City, Yueting City, Xinle City, Gaocheng City, Pingshan City and Feng Nan District, Tangshan City of Hebei Province. As at March 31, 2004, Beijing Zhongran Xiangke had completed facilities included pipelines of approximately 139 km (approximately 132 km belongs to branch and customer pipeline network). The number of connected natural gas users was 10,763 users. Turnovers of Beijing Zhongran Xiangke amounted to HK\$65,331,000 (March 31, 2003: HK\$24,998,000), representing 17.35% of the Group's total turnover.

Other events

In May 2004, the Group entered into cooperation agreement with 北京市燃氣集團有限責任公司 (Beijing Gas Group Company Ltd.) (“Beijing Gas Group”) for the joint investments and operation of the natural gas project in 6 districts (counties) of Changping district, Daxing district, Shunyi district, Tongzhou district, Fangshan district, Yanqing county, Beijing. Population covered by the project is 4,000,000. It is expected that with the rapid expansion in sub-urban areas of Beijing, population in the above six districts will increase to 8,000,000 by 2010. Beijing is the largest natural gas consumption city of China and the natural gas consumption reached 2.2 billion cubic meters in 2003. The cooperation with Beijing Gas Group will further increase the Group’s customer base and profitability. Beijing Gas Group is a solely state-owned enterprise and is formed and invested by the People’s Government of Beijing. It owns the exclusive construction and operation right of natural gas in Beijing city and is the largest natural gas enterprise in China. It has a history of fifty years and the total assets of RMB10.6 billion.



In March 2004, the Group signed a cooperation agreement with 浙江金華市婺城新區管理委員會 (Wucheng District Management Association, Jinhua city, Zhejiang) through one of its subsidiaries and has obtained the exclusive construction and operation right of Wucheng district, Jinhua for a term of 30 years. The new established Jinhua Zhongran City Gas Development Company Limited has a registered capital of RMB5,000,000 and the Group owned 70% interest.

In March 2004, the Group signed a cooperation agreement with 河北省滄州經濟技術開發區管委會 (Cangzhou Economic and Technology Development District Management Association, Hebei Province) and has obtained the exclusive operation right of Cangzhou economic and technology development district for a term of 30 years. The Group will invest HK\$2,000,000 to set up with exclusive investment Cangzhou Zhongran City Gas Development Company Limited and is 100% owned by the Group.

In June 2004, the Group through its subsidiary, Huainan joint venture company signed a joint venture agreement with 安徽省壽縣建設投資有限公司 (Anhui Province Shouxian Construction Investment Co) for the joint investment and establishment of Shouxian Zhongran City Gas Development Company Limited. The registered capital is RMB3,000,000 and Huainan joint venture company owned 90% interest.

In order to cope with the Group’s development and investment strategy, the Group disposed its investments in Zhengzhou, Jiyuan city and Jiaozuo city of Henan province during the financial year.

Financial Review

Liquidity and Financial Resources

As at March 31, 2004, the total assets of the Group was HK\$1,342,279,000 increased by approximately 168% as compared to March 31, 2003.

As at March 31, 2004, cash on hand was HK\$471,823,000 (March 31, 2003: HK\$92,477,000). The Group's bank and other borrowings amounted to HK\$591,719,000 (March 31, 2003: HK\$246,805,000) of which approximately 47.1%, 4.2%, 25.5% and 23.2% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively. The borrowings are secured by the Group's certain fixed assets and certain investment in subsidiaries.

As at March 31, 2004, the Group has a current ratio of approximately 2.65 (March 31, 2003: 1.19) and the gearing ratio was 1.34 (March 31, 2003: 1.71). The calculation of gearing ratio was based on the total borrowings of HK\$674,460,000 and the net assets of HK\$502,674,000 as at March 31, 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 March 31, 2004 was HK\$572,712,000 (March 31, 2003: HK\$38,655,000) and HK\$561,696,000 (March 31, 2003: HK\$19,347,000) 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 enterprise 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 June 2003, the Company issued convertible note in the principal amount of US\$6,000,000 to a professional investor. The proceeds from convertible note of approximately HK\$46,800,000 has been applied as the Group's investment in Yichang China Gas & City Gas Company Limited.

In October 2003, the Company placed a total of 70,000,000 shares at HK\$0.72 per share to two independent investors and the net proceeds received was approximately HK\$50,000,000. HK\$44,000,000 has been used to repay the Group's short term liabilities and the balances was used as general working capital of the Group.

By the end of October 2003, the Company entered into agreements with Merrill Lynch International, an international investor, that the Company will issue up to US\$41,000,000 1.0 per cent. unlisted and unsecured convertible bonds due 2008 to Merrill Lynch International. The convertible bonds are divided into five tranches and the first tranche in the total principal amount of US\$6,000,000 was issued in November 2003 and the second tranche in the total principal amount of US\$7,000,000 was issued in June 2004. The net proceeds of approximately HK\$45,000,000 and HK\$54,000,000 were received

respectively. The net proceeds derived from the issue of the first tranche bonds has been used entirely as second stage capital contribution to the Group's natural gas projects in Huainan and Wuhu. During the financial year, a total of 16,921,911 shares were issued and allotted upon conversion of the convertible bonds held by Merrill Lynch International.

In November 2003, the Company through placing and subscription of 160,000,000 shares at HK\$0.84 per share to international investors to obtain funding with net proceeds of approximately HK\$130,000,000. Approximately HK\$78,000,000 has been applied as the Group's contribution to the enlarged registered capital of 中亞燃氣實業(深圳)有限公司 (Central Asia Natural Gas (Shenzhen) Company Limited), a wholly owned subsidiary of the Company and approximately HK\$45,000,000 has been applied to repay the Group's short term borrowings and approximately HK\$4,000,000 was used to acquire natural gas project in Xiaogan.

In January 2004, the Company entered into two subscription agreements with Mr. Liu Ming Hui, the managing director of the Company and Dragon Media Enterprises Limited for the subscription of 130,000,000 shares and 50,000,000 shares respectively of the Company at a subscription price of HK\$0.65 per share. Net proceeds of approximately HK\$117,000,000 were received. HK\$68,000,000 has been applied to repay the Group's short term borrowings and approximately HK\$13,000,000 and HK\$32,000,000 has been applied as the Group's contribution to the enlarged registered capital of 中亞燃氣實業(深圳)有限公司 (Central Asia Natural Gas (Shenzhen) Company Limited) and the Group's contribution in natural gas projects in Yiyang and Suizhou.

Charge on Assets

As at March 31, 2004, the Group has not pledged bank deposits (March 31, 2003: HK\$66,667,000) and land use rights (March 31, 2003: a net book value of HK\$29,035,000) to secure banking facilities granted to the Group.

As at March 31, 2004, the Group pledged land and buildings of a net book value of approximately HK\$39,682,000 (March 31, 2003: HK\$44,256,000) and certain investments in subsidiaries to banks to secure loan facilities granted to the Group. As at March 31, 2004, the Group has not pledged investment properties (March 31, 2003: a net book value of HK\$9,800,000), investments in securities (March 31, 2003: a carrying amount of HK\$5,490,000), properties held for development (March 31, 2003: a net book value of HK\$36,200,000) for loan facilities granted to the Group.

Contingent Liabilities

As at March 31, 2004, guarantees given to bank by the Company in respect of banking facilities utilized by a subsidiary was HK\$238,095,000 (March 31, 2003: Nil).

Except for the above, the Group did not have any material contingent liabilities as at March 31, 2004.

Employees

As at March 31, 2004, the Group has 2,100 employees, representing an increase of 346% over last year and this was mainly the increase in number of participating cities of natural gas projects. 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 contributions to 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 under this financial year. Certain employees in China are provided with lodging house.

Market Risk Analysis

To guarantee reasonable return for gas operators and to enhance the initiatives of gas operators to invest in the gas industry, the Chinese government has formulated favorable policies allowing gas companies to charge connection fee. Subject to the low utilization rate of natural gas in China, it is expected that the above connection fee policy will remain unchanged for the next five years. Nevertheless, as there are more and more gas using cities and gas users, and the gradual recoupment of investment of the gas operators, it is expected that Chinese government will, step by step, lower the charging rate of connection fee until its ultimate elimination. As a new entrant of the gas industry, connection fee is of significance in respect of the Group's recoupment of its initial investment in the short run. Therefore, should the

government change its connection fee policy, the Group's operations will be definitely subject to certain risks. To address any possible risk in relation to changes in the connection fee policy, the Group will accelerate construction progress of its all projects, rushing for early recoupment of its investment by way of connection fee before any change of government policy.

The selling price of natural gas is controlled and regulated by local governments and the Group cannot determine for itself the price according to market demand. Besides, the supply price of natural gas is set by upstream natural gas long distance pipeline operators and the Group has no negotiating power. Since the upstream purchasing price and downstream distribution price are vital to the Company's operating results, any fluctuation of such prices will put the Group's operation in risk. For purpose of reasonably sidestepping price risk, the Group's joint venture companies had provided explicitly in the joint venture contracts entered into with respective local governments the price shift system to the effect that the selling price shall be determined according to the upstream purchasing price and that the selling and purchasing prices shall maintain relatively stable price spread range with an aim to evade the risk on the Group's operation caused by price fluctuations.

Liu Ming Hui

Managing Director

June 25, 2004

Executive Directors

Mr. Li Xiaoyun, aged 48, is a Director of the Company since August 2001 and is appointed as Chairman of the Company since April 2002. Mr. Li graduated from Beijing University in 1979 and has over 21 years experience in economic management. Mr. Li is the President of Strait Travel Agency.

Mr. Xu Ying, aged 42, is a Director of the Company and is appointed as Vice-Chairman of the Company since August 2001. Mr. Xu graduated from Shanghai Jiao Tong University of Agriculture and Biology. Mr. Xu is the deputy President of Strait Travel Agency.

Mr. Liu Ming Hui, aged 41, is a Director of the Company since April 2002 and is appointed as Managing Director of the Company since July 2002. Mr. Liu received his Bachelor of Science Degree in Mathematics from Hebei Normal University in 1984. He had worked in various local government authorities and Chinese enterprises.

Mr. Ma Jin Long, aged 37, is a Director of the Company since September 2002. Mr. Ma received his Degree in Economics from Hebei University and has over 15 years experience in financial management. Mr. Ma is the President of Beijing Zhongran Xiangke Oil Gas Technology Company Limited.

Mr. Zhu Wei Wei, aged 33, is a Director of the Company since September 2002. Mr. Zhu received his Degree of Master in Finance from Zhong-nan University of Finance & Economic. Mr. Zhu has over 9 years experience in project management.

Non-Executive Director

Mr. Wu Bangjie, aged 70, is a non-executive Director of the Company since November 2002. Mr. Wu graduated from Shanghai No. 2 Medical Science University. He has been working on clinical medicine and education in Shanghai for a long period of time and making outstanding achievements in the field of medical treatment, education and studies. Mr. Wu had been an Associate Professor in Surgery of the Medical Faculty of Suzhou University and Professor in Surgery of the Nantong Medical Institute.

Independent Non-executive Directors

Mr. Zhao Yuhua, aged 37, appointed as an independent non-executive Director of the Company in November 2002. Mr. Zhao graduated from Institute of International Economic, Nankai University and holds a Master's Degree in Economic. He joined J&A Securities Company in 1993, engaging in corporate financing and advisory business.

Dr. Mao Er Wan, aged 41, appointed as an independent non-executive Director of the Company in January 2003. Dr. Mao graduated from Mathematics and System Sciences, Chinese Academy of Sciences and holds a Doctor Degree. He was the Chief Economist of Da Cheng Fund Management Co. Ltd. He is currently a professor of School of International Business, Beijing Foreign Studies University and a committee member of China Institute of Finance, Financial Engineering.

Ms. Wong Sin Yue, Cynthia, aged 52, appointed as an independent non-executive director of the Company in October 2003. Ms. Wong holds a MBA degree and has over 15 years of investment banking experience. She has worked at Deutsche Morgan Grenfell and Sociate Generale Hong Kong and held various senior positions during her services.

The directors present their annual report and the audited financial statements for the year ended March 31, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 16 and 17, respectively, to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 2004 are set out in the consolidated income statement on page 28.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 86.

INVESTMENT PROPERTIES

Movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group and the Company during the year during the year are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2004 are set out on page 87.

SHARE CAPITAL

Movements in the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and note 28 to the financial statements, respectively.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 43 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Li Xiao Yun	
Mr. Xu Ying	(redesignated as executive director on June 2, 2003)
Mr. Liu Ming Hui	
Mr. Zhu Wei Wei	
Mr. Ma Jin Long	
Mr. Liu Yujie	(resigned on June 2, 2003)
Mr. Wang Wen Liang	(resigned on June 10, 2003)

Non-executive directors

Mr. Wu Bangjie	
Mr. Xu Ying	(redesignated as executive director on June 2, 2003)

Independent non-executive directors

Mr. Zhao Yuhua	
Dr. Mao Er Wan	
Ms. Wong Sin Yue, Cynthia	(appointed on October 21, 2003)

In accordance with the provisions of the Company's Bye-laws, Mr. Xu Ying and Ms. Wong Sin Yue, Cynthia shall retire and, being eligible, offer themselves for re-election.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the above clause of the Company's Bye-laws.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at March 31, 2004, the interests or short positions of the directors and chief executives of the Company in the equity or debt securities and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company (the "Shares")

Name of director	Nature of interest	Number of attributable number of Shares held	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Liu Ming Hui	Personal	380,000,000 (Note)	24.39

Note: Pursuant to the subscription agreement dated January 16, 2004 entered into between the Company as issuer and Mr. Liu Ming Hui ("Mr. Liu") as subscriber, Mr. Liu has conditionally agreed to subscribe for 130,000,000 new Shares. Subsequent to March 31, 2004, those shares are issued and allotted to Mr. Liu.

Pursuant to the sale and purchase agreement dated January 16, 2004 (the "Sale and Purchase Agreement"), Mr. Liu has agreed to acquire an aggregate of 250,000,000 Shares from Heng Fung Holdings Limited and its wholly owned subsidiary, namely Sure World Capital Limited (collectively referred to as the "Heng Fung Group"). As at March 31, 2004, the sale and purchase of 90,000,000 shares has been completed. Details of this transaction were disclosed in the Company's announcement dated January 21, 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(continued)***Long positions** *(continued)**(b) Share options*

Name of director	Number of options held <i>(Note)</i>	Nature of interest	Number of underlying shares
Li Xiao Yun	5,000,000	Beneficial owner	5,000,000
Xu Ying	5,000,000	Beneficial owner	5,000,000
Mr. Liu	5,000,000	Beneficial owner	5,000,000
Zhu Wei Wei	4,000,000	Beneficial owner	4,000,000
Ma Jin Long	9,240,711	Beneficial owner	9,240,711
Wu Bangjie	2,000,000	Beneficial owner	2,000,000
Zhao Yuhua	1,000,000	Beneficial owner	1,000,000
Mao Er Wan	1,000,000	Beneficial owner	1,000,000
Wong Sin Yue, Cynthia	1,000,000	Beneficial owner	1,000,000

Note: The share options were granted under the share option scheme adopted by the Company on February 6, 2003 and the holders thereof are entitled to subscribe for Shares at an exercise price of HK\$0.80 per share during the period from September 1, 2004 to January 8, 2014.

Save as disclosed above, as at March 31, 2004, none of the directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the equity or debt securities and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests in Shares" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 41 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Name	Exercise price per share HK\$	Number of share options		
		Outstanding at April 1, 2003	Granted during the year	Outstanding at March 31, 2004
<i>Directors</i>				
Li Xiao Yun	0.80	–	5,000,000	5,000,000
Xu Ying	0.80	–	5,000,000	5,000,000
Mr. Liu	0.80	–	5,000,000	5,000,000
Zhu Wei Wei	0.80	–	4,000,000	4,000,000
Ma Jin Long	0.80	–	9,240,711	9,240,711
Wu Bangjie	0.80	–	2,000,000	2,000,000
Zhao Yuhua	0.80	–	1,000,000	1,000,000
Mao Er Wan	0.80	–	1,000,000	1,000,000
Wong Sin Yue, Cynthia	0.80	–	1,000,000	1,000,000
		–	33,240,711	33,240,711
<i>Other employees</i>	0.80	–	88,000,000	88,000,000
		–	<u>121,240,711</u>	<u>121,240,711</u>

The closing price of the Company's shares immediately before January 9, 2004, the date of grant, was HK\$0.77 per share.

SHARE OPTIONS *(continued)*

The fair value of the options granted in the current year measured at the date of grant on January 9, 2004 was HK\$0.73 per option. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 115% based on historical volatility;
2. no annual dividend; and
3. the estimated expected life of the options granted during the year is 10 years. The corresponding 10 years Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 4.32% per annum.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2004, so far as was known to the directors and the chief executives of the Company, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name of shareholder	Capacity	Number or attributable number of shares held or short position	Approximate percentage or attributable percentage of shareholdings (%)
Heng Fung Holdings Limited	Beneficial owner	162,496,000 (L) <i>(Note 1)</i>	10.43
		160,000,000 (S) <i>(Note 2)</i>	10.27
Hai Xia Finance Holdings Limited	Beneficial owner	150,000,003 (L)	9.63
		150,000,003 (S)	9.63

L: Long position
S: Short position

SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

- (1) These shares are held as to 162,153,000 shares by Heng Fung Holdings Limited and as to 343,000 shares by Sure World Capital Limited, a wholly owned subsidiary of Heng Fung Holdings Limited.
- (2) Pursuant to the Sale and Purchase Agreement, the Heng Fung Group has agreed to sell and Mr. Liu has agreed to acquire an aggregate of 250,000,000 shares in cash at an aggregate consideration of HK\$180,000,000. As at March 31, 2004, the sale and purchase of 90,000,000 shares has been completed. Details of this transaction were disclosed in the Company's announcement dated January 21, 2004.

Save as disclosed herein, as at March 31, 2004, the directors and the chief executives of the Company were not aware of any person who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any member of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those set out in "Connected Transaction" below and note 42 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTION

On March 30, 2004, the Company issued 50,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$32,500,000 to a company, which was owned as to 24% by Mr. Zhu Wei Wei, an executive director of the Company, and as to 76% by Mr. Huang Yong, a director of 中亞燃氣實業(深圳)有限公司 (Central Asia Natural Gas (Shenzhen) Company Limited), a wholly owned subsidiary of the Company.

On May 19, 2004, 中亞燃氣實業(深圳)有限公司(Central Asia Natural Gas (Shenzhen) Company Limited) entered into an agreement with a minority shareholder of Huainan China Gas City Gas Development Co., Ltd. in relation to the acquisition of the remaining 30% equity interests of a non-wholly owned subsidiary - Huainan China Gas City Gas Development Co., Ltd. at zero consideration.

The independent non-executive directors confirm that the transactions have been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for less than 30% of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers were 65% of total purchases of the Group, with the largest supplier accounted for approximately 23%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended March 31, 2004 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited, except that the non-executive directors are not appointed for a specific term but are subject to a retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint, Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Xu Ying

VICE-CHAIRMAN

June 25, 2004

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA GAS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

June 25, 2004

For the year ended March 31, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	4	376,491	85,537
Cost of sales		<u>(208,081)</u>	<u>(64,238)</u>
Gross profit		168,410	21,299
Other operating income	6	11,979	343
Distribution costs		(7,649)	(3,733)
Administrative expenses		(52,125)	(34,176)
Amortisation of goodwill		(1,959)	(654)
Depreciation and amortisation of property, plant and equipment		(9,605)	(4,232)
Deficit on revaluation of investment properties		(180)	(4,123)
Impairment loss reversed (recognised) in respect of property, plant and equipment		5,987	(8,797)
Negative goodwill released to income statement		–	3,488
Impairment loss recognised in respect of investments in securities		–	(28,060)
Unrealised holding gain on other investments		<u>370</u>	<u>–</u>
Profit (loss) from operations	7	115,228	(58,645)
Finance costs	8	(24,602)	(6,169)
Gain on disposal of subsidiaries		20,017	–
Profit on disposal of discontinued operation	5	7,569	–
Share of results of associates		–	(11)
Profit (loss) before taxation		118,212	(64,825)
Taxation	11	<u>(1,344)</u>	<u>(1,861)</u>
Profit (loss) before minority interests		116,868	(66,686)
Minority interests		<u>(36,808)</u>	<u>(2,987)</u>
Net profit (loss) for the year		<u><u>80,060</u></u>	<u><u>(69,673)</u></u>
Earnings (loss) per share	12		
Basic		<u><u>6.15 cents</u></u>	<u><u>(6.68 cents)</u></u>
Diluted		<u><u>6.04 cents</u></u>	<u><u>–</u></u>

CONSOLIDATED BALANCE SHEET

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At March 31, 2004

	NOTES	2004 HK\$ '000	2003 HK\$ '000
Non-current assets			
Investment properties	13	9,620	9,800
Property, plant and equipment	14	237,469	177,770
Properties held for development	15	36,200	36,200
Interests in associates	17	–	1,704
Investments in securities	18	5,490	5,490
Goodwill	19	107,133	20,130
Deposits for investments	20	12,381	–
		<u>408,293</u>	<u>251,094</u>
Current assets			
Inventories	21	12,714	14,058
Amounts due from customers for contract work	22	49,861	–
Trade and other receivables	23	384,788	75,012
Amount due from an associate		–	2,199
Investments in securities	18	14,800	–
Pledged bank deposits		–	66,667
Bank balances and cash		471,823	92,477
		<u>933,986</u>	<u>250,413</u>
Current liabilities			
Trade and other payables	24	72,315	38,111
Amounts due to customers for contract work	22	343	–
Amounts due to minority shareholders of subsidiaries		985	5,438
Taxation		381	6,695
Bank and other borrowings – due within one year	25	278,489	159,361
Obligations under a hire purchase contract – due within one year	26	112	–
		<u>352,625</u>	<u>209,605</u>
Net current assets		<u>581,361</u>	<u>40,808</u>
		<u>989,654</u>	<u>291,902</u>

At March 31, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Capital and reserves			
Share capital	27	15,578	18,423
Reserves		<u>487,096</u>	<u>126,303</u>
		<u>502,674</u>	<u>144,726</u>
Minority interests		<u>91,121</u>	<u>59,732</u>
Non-current liabilities			
Bank and other borrowings – due after one year	25	313,230	87,444
Obligations under a hire purchase contract			
– due after one year	26	185	–
Convertible note	30	46,800	–
Convertible bonds	31	<u>35,644</u>	–
		<u>395,859</u>	<u>87,444</u>
		<u><u>989,654</u></u>	<u><u>291,902</u></u>

The financial statements on pages 28 to 85 were approved and authorised for issue by the Board of Directors on June 25, 2004 and are signed on its behalf by:

Xu Ying
Vice-Chairman

Liu Ming Hui
Managing Director

BALANCE SHEET 31

At March 31, 2004

	NOTES	2004 HK\$ '000	2003 HK\$ '000
Non-current assets			
Property, plant and equipment	14	667	–
Interests in subsidiaries	16	493,536	281,748
Investment in an associate	17	–	1
Investments in securities	18	5,220	5,220
Deposits for investments	20	12,381	–
		<u>511,804</u>	<u>286,969</u>
Current assets			
Trade and other receivables		219	2,444
Amount due from an associate		–	858
Bank balances and cash		14,233	709
		<u>14,452</u>	<u>4,011</u>
Current liabilities			
Trade and other payables		3,895	4,122
Bank and other borrowings – due within one year	25	2,061	56,996
Obligations under a hire purchase contract – due within one year	26	112	–
		<u>6,068</u>	<u>61,118</u>
Net current assets (liabilities)		<u>8,384</u>	<u>(57,107)</u>
		<u>520,188</u>	<u>229,862</u>
Capital and reserves			
Share capital	27	15,578	18,423
Reserves	28	381,266	126,278
		<u>396,844</u>	<u>144,701</u>
Non-current liabilities			
Bank and other borrowings – due after one year	25	17,992	82,549
Obligations under a hire purchase contract – due after one year	26	185	–
Amounts due to subsidiaries	29	22,723	2,612
Convertible note	30	46,800	–
Convertible bonds	31	35,644	–
		<u>123,344</u>	<u>85,161</u>
		<u>520,188</u>	<u>229,862</u>

Xu Ying
Vice-Chairman

Liu Ming Hui
Managing Director

For the year ended March 31, 2004

	Share capital HK\$ '000	Share premium account HK\$ '000	Other reserve HK\$ '000	Translation reserve HK\$ '000	Special reserve HK\$ '000	Statutory funds HK\$ '000	Accumu- lated losses HK\$ '000	Total HK\$ '000
At April 1, 2002	110,753	82,660	-	-	1,602	-	(91,091)	103,924
Exchange gain on translation of operations outside Hong Kong and gain not recognised in the consolidated income statement	-	-	-	1,175	-	-	-	1,175
Exercise of share options	10	100	-	-	-	-	-	110
Private placement	334	29,666	-	-	-	-	-	30,000
Issue of shares for acquisition of subsidiaries	787	78,403	-	-	-	-	-	79,190
Conversion of preference shares	(93,461)	93,461	-	-	-	-	-	-
Net loss for the year	-	-	-	-	-	-	(69,673)	(69,673)
Transfer	-	-	-	-	-	2,140	(2,140)	-
At March 31, 2003	18,423	284,290	-	1,175	1,602	2,140	(162,904)	144,726
Exchange gain on translation of operations outside Hong Kong and gain not recognised in the consolidated income statement	-	-	-	2,066	-	-	-	2,066
Realised upon the disposal of a subsidiary	-	-	-	-	-	(190)	190	-
Private placements	2,800	214,500	-	-	-	-	-	217,300
Conversion of convertible bonds	169	10,717	-	-	-	-	-	10,886
Conversion of preference shares	(5,814)	5,814	-	-	-	-	-	-
Share issue expenses	-	(9,432)	-	-	-	-	-	(9,432)
Expenses on issuing convertible bonds	-	(932)	-	-	-	-	-	(932)
Proceeds of private placements received in advance	-	-	58,000	-	-	-	-	58,000
Net profit for the year	-	-	-	-	-	-	80,060	80,060
Transfer	-	-	-	-	-	3,052	(3,052)	-
At March 31, 2004	<u>15,578</u>	<u>504,957</u>	<u>58,000</u>	<u>3,241</u>	<u>1,602</u>	<u>5,002</u>	<u>(85,706)</u>	<u>502,674</u>

Note: The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The statutory funds are reserves required by the relevant laws of the People's Republic of China, other than Hong Kong (the "PRC") applicable to the Group's PRC subsidiaries.

Other reserve represents the advance payment from the subscriber for the private placement of which the shares have been issued and allotted after the balance sheet date.

CONSOLIDATED CASH FLOW STATEMENT

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For the year ended March 31, 2004

	2004 HK\$ '000	2003 HK\$ '000
OPERATING ACTIVITIES		
Profit (loss) from operations	115,228	(58,645)
Adjustments for:		
Deficit on revaluation of investment properties	180	4,123
Impairment loss (reversed) recognised in respect of property, plant and equipment	(5,987)	8,797
Impairment loss recognised in respect of investments in securities	–	28,060
Unrealised holding gain on other investments	(370)	–
Depreciation and amortisation of property, plant and equipment	9,605	4,232
Amortisation of goodwill	1,959	654
Negative goodwill released to income statement	–	(3,488)
(Gain) loss on disposals of property, plant and equipment	(173)	170
Loss on disposal of investments in securities	–	16
Interest income	(425)	(257)
Operating cash flows before movements in working capital	120,017	(16,338)
Increase in other investments	(14,430)	–
Increase in inventories	(8,825)	(7,288)
Increase in amounts due from customers for contract work	(49,861)	–
Increase in trade and other receivables	(298,067)	(46,077)
Decrease (increase) in amount due from an associate	2,199	(2,199)
Increase in amounts due to customers for contract work	343	–
Increase in trade and other payables	70,649	1,551
Increase in amounts due to minority shareholders of subsidiaries	2,395	2,895
Decrease in amount due to former ultimate holding company	–	(1,049)
Decrease in amount due to a former fellow subsidiary	–	(980)
Cash used in operations	(175,580)	(69,485)
Hong Kong Profits Tax paid	–	(170)
PRC income tax paid	(327)	(195)
NET CASH USED IN OPERATING ACTIVITIES	(175,907)	(69,850)

For the year ended March 31, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES			
Interest received		425	257
Investment in an associate		–	(1)
Deposits paid for investments		(12,381)	–
Decrease (increase) in pledged bank deposits		57,143	(57,143)
Purchase of additional interest in a subsidiary		(571)	–
Purchase of property, plant and equipment		(107,273)	(18,106)
Proceeds from disposal of property, plant and equipment		9,909	–
Proceeds from disposal of an associate		1,704	–
Proceeds from disposals of investments in securities		–	134
Purchase of subsidiaries, net of cash and cash equivalents acquired	33	(111,623)	(2,165)
Disposal of subsidiaries, net of cash and cash equivalents disposed of	34	43,152	–
NET CASH USED IN INVESTING ACTIVITIES		(119,515)	(77,024)
FINANCING ACTIVITIES			
Interest paid		(26,171)	(6,169)
Proceeds from issue of ordinary shares		217,300	30,000
Proceeds from issue of convertible note		46,800	–
Proceeds from issue of convertible bonds		46,530	–
Share issue expenses		(9,432)	–
Expenses on issuing convertible bonds		(932)	–
Proceeds from exercise of share options		–	110
New bank and other borrowings raised		640,976	222,571
Repayments of bank and other borrowings		(301,267)	(23,000)
Repayments of obligations under a hire purchase contract		(53)	–
Capital injected by a minority shareholder		933	–
Proceeds of private placements received in advance		58,000	–
NET CASH FROM FINANCING ACTIVITIES		672,684	223,512
NET INCREASE IN CASH AND CASH EQUIVALENTS		377,262	76,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		92,477	14,664
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		2,084	1,175
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		471,823	92,477
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		471,823	92,477

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the operation of natural gas and petroleum business, property investment and financial and securities investment.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
SSAP 35	Government Grants

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the standard has had no material effect on the results for the current or prior accounting years.

Government Grants

In the current year, the Group has adopted SSAP 35 Government Grants. In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the accounting provisions of SSAP 35 only to grants or portions becoming receivable or repayable after the adoption of the standard.

The adoption of the standard has had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Gas connection revenue is recognised when the outcome of a 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 year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Sales of petroleum, natural gas and gas appliances are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid less any discount on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investment in an associate is stated at cost, as reduced by any identified impairment loss.

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Properties held for development

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land use rights	Over the shorter of the term of the lease or the operation period of the relevant company
Leasehold land	Over the remaining terms of the leases
Buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceed and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the contract work is performed are included in the balance sheet as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer, are included in the balance sheet within trade and other receivables.

Inventories

Inventories, including construction materials, gas appliances and gas for sales, petroleum, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risk and rewards of ownership of the assets concern to the Group. Assets held under finance leases are capitalised at their fair value at the dates of acquisition. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases. The finance costs, which represent the difference between the total finance leases commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes are charged as an expense as they fall due.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as “other operating income”.

For the year ended March 31, 2004

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, sales of piped gas and petroleum, income from trading of securities, gas connection fees, dividend income and rental income received and receivable by the Group for the year and is analysed as follows:

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Gas connection fees	185,045	2,838
Sales of petroleum	129,791	58,140
Sales of piped gas	49,727	15,975
Sales of goods	3,410	3,658
Rental income	1,262	2,263
Income from trading of securities	–	134
Dividend income	94	2
Others	7,162	2,527
	<u>376,491</u>	<u>85,537</u>

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions – property investment, financial and securities investment, gas pipeline construction, sales of piped gas and petroleum. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2004

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas pipeline construction HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Sales of petroleum HK\$'000	
REVENUE							
Turnover	1,262	94	185,045	49,727	10,572	129,791	376,491
SEGMENT RESULT	(715)	54	130,015	8,152	2,556	(518)	139,544
Unallocated corporate revenue							10,109
Unallocated corporate expenses							(34,425)
Profit from operations							115,228
Finance costs							(24,602)
Gain on disposal of subsidiaries	-	-	-	20,017	-	-	20,017
Profit on disposal of discontinued operation	-	-	-	-	-	7,569	7,569
Profit before taxation							118,212
Taxation							(1,344)
Profit before minority interests							116,868
Minority interests							(36,808)
Net profit for the year							80,060
ASSETS							
Segment assets	45,966	20,290	164,601	858,012	9,087	-	1,097,956
Unallocated corporate assets							244,323
Consolidated total assets							1,342,279
LIABILITIES							
Segment liabilities	1,125	-	31,052	32,551	1,857	-	66,585
Unallocated corporate liabilities							681,899
Consolidated total liabilities							748,484
OTHER INFORMATION							
Additions to property, plant and equipment	-	-	-	166,486	-	14,955	181,441
Additions to property, plant and equipment (unallocated)							3,278
							184,719
Depreciation and amortisation	-	-	-	2,896	-	5,213	8,109
Depreciation and amortisation (unallocated)							1,496
							9,605
Deficit on revaluation of investment properties	180	-	-	-	-	-	180
Amortisation of goodwill	-	-	-	497	-	1,462	1,959

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2003

	Continuing operations					Discontinued operation	Consolidated HK\$'000
	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas pipeline construction HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Sales of petroleum HK\$'000	
REVENUE							
Turnover	2,263	136	2,838	15,975	6,185	58,140	85,537
SEGMENT RESULT	(3,836)	(28,423)	1,947	5,432	612	4,940	(19,328)
Unallocated corporate revenue							343
Unallocated corporate expenses							(39,660)
Loss from operations							(58,645)
Finance costs							(6,169)
Share of results of associates	-	-	-	(11)	-	-	(11)
Loss before taxation							(64,825)
Taxation							(1,861)
Loss before minority interests							(66,686)
Minority interests							(2,987)
Net loss for the year							(69,673)
ASSETS							
Segment assets	55,986	5,501	47,063	107,450	5,032	146,720	367,752
Interests in associates	-	-	-	1,704	-	-	1,704
Unallocated corporate assets							132,051
Consolidated total assets							501,507
LIABILITIES							
Segment liabilities	351	11	3,050	7,069	2,277	1,413	14,171
Unallocated corporate liabilities							282,878
Consolidated total liabilities							297,049
OTHER INFORMATION							
Additions to property, plant and equipment	-	-	722	26,960	-	103,960	131,642
Additions to property, plant and equipment (unallocated)							49,072
							180,714
Depreciation and amortisation	258	-	-	1,112	-	2,037	3,407
Depreciation and amortisation (unallocated)							825
							4,232
Deficit on revaluation of investment properties	4,123	-	-	-	-	-	4,123
Amortisation of goodwill	-	-	-	447	-	207	654
Impairment loss recognised in consolidated income statement	-	28,060	-	-	-	-	28,060
Negative goodwill released to income statement (unallocated)							3,488

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Other Information

In December 2003, the Group entered into a sale agreement to dispose of a subsidiary, Zhengzhou Standard Petrochemical Co., Ltd. ("Zhengzhou Standard"), which carried out all of the Group's sales of petroleum business. The disposal was effected in order to generate cash flow for the expansion of the Group's other business. The disposal was completed on March 29, 2004, on which date control of Zhengzhou Standard passed to the acquirer.

The results of the sales of petroleum business for the year were included above as discontinued operation.

During the year, the sales of petroleum business contributed HK\$129,791,000 (2003: HK\$58,140,000) to the Group's turnover and a loss of HK\$518,000 (2003: a profit of HK\$4,940,000) to the Group's profit (loss) from operations. It also contributed HK\$4,018,000 (2003: HK\$9,212,000) to the Group's net operating cash flows, paid HK\$14,539,000 (2003: HK\$8,403,000) in respect of investing activities and received HK\$7,576,000 (2003: paid HK\$571,000) in respect of financing activities.

The carrying amounts of the assets and liabilities of Zhengzhou Standard at the date of disposal, and at March 31, 2003, are follows:

	3.29.2004 <i>HK\$'000</i>	3.31.2003 <i>HK\$'000</i>
Total assets	<u>187,002</u>	<u>146,720</u>
Total liabilities	<u>148,154</u>	<u>46,635</u>

A profit of HK\$7,569,000 arose on the disposal of Zhengzhou Standard, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's property investment, financial and securities investment divisions are located in Hong Kong. Sales of piped gas and petroleum and gas pipeline construction are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2004	2003
	HK\$ '000	HK\$ '000
Hong Kong	1,356	1,482
The PRC	375,135	84,055
	<u>376,491</u>	<u>85,537</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2004	2003	2004	2003
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Hong Kong	149,372	99,812	888	44,481
The PRC	1,192,907	401,695	183,831	136,233
	<u>1,342,279</u>	<u>501,507</u>	<u>184,719</u>	<u>180,714</u>

For the year ended March 31, 2004

6. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	425	257
Subsidies of PRC governmental authorities	7,857	–
Sundry income	3,524	86
Gain on disposals of property, plant and equipment	173	–
	<u>11,979</u>	<u>343</u>

7. PROFIT (LOSS) FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration	900	750
Depreciation and amortisation of property, plant and equipment on:		
Owned assets	9,537	4,232
Asset held under a hire purchase contract	68	–
	9,605	4,232
Loss on disposals of property, plant and equipment	–	170
Minimum lease payments for operating leases in respect of:		
– rented premises	788	870
– equipment	351	340
Staff costs:		
Directors' emoluments (note 9)	5,253	4,581
Salaries and allowances of other staff	17,678	4,618
Contributions to retirement benefit scheme contributions	971	58
Less: amount capitalised in construction in progress	(608)	–
	23,294	9,257
Rental income from investment properties less outgoings of HK\$76,000 (2003: HK\$45,000)	<u>(1,186)</u>	<u>(2,218)</u>

For the year ended March 31, 2004

8. FINANCE COSTS

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Interest on:		
Bank loans and other borrowings wholly repayable within five years	25,081	5,773
Bank loans not wholly repayable within five years	1,713	396
Obligations under a hire purchase contract	13	–
Convertible note	759	–
Convertible bonds	165	–
	<u>27,731</u>	<u>6,169</u>
Less: Interest capitalised to construction in progress	(3,129)	–
	<u><u>24,602</u></u>	<u><u>6,169</u></u>

9. DIRECTORS' EMOLUMENTS

	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>
Directors' fees		
– executive	100	33
– non-executive	240	118
– independent non-executive	321	103
	<u>661</u>	<u>254</u>
Other emoluments		
– executive	4,592	2,492
– non-executive	–	1,835
	<u>4,592</u>	<u>4,327</u>
Total emoluments	<u><u>5,253</u></u>	<u><u>4,581</u></u>

For the year ended March 31, 2004

9. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	2004 No. of Directors	2003 No. of Directors
Nil to HK\$1,000,000	9	17
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	<u>2</u>	<u>–</u>

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: three) were directors of the Company. The emoluments of the remaining three (2003: two) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,525	574
Retirement benefit scheme contributions	<u>34</u>	<u>20</u>
	<u>1,559</u>	<u>594</u>

Emoluments of each of the three (2003: two) individuals were below HK\$1,000,000.

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Overprovision for Hong Kong Profits Tax in the previous year	–	18
PRC income tax for the year	<u>(1,344)</u>	<u>(1,879)</u>
	<u>(1,344)</u>	<u>(1,861)</u>

For the year ended March 31, 2004

11. TAXATION (continued)

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

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries operating in the PRC are eligible for tax holidays and concessions and were exempted from PRC income taxes for the year.

The taxation for the year can be reconciled to the profit (loss) before taxation per the income statement as follows:

	Hong Kong		PRC			Total	
	2004	2003	2004	2003	2004	2003	
	HK\$'000	% HK\$'000	% HK\$'000	% HK\$'000	%	HK\$'000	HK\$'000
Profit (loss) before taxation	<u>(2,002)</u>	<u>(69,768)</u>	<u>120,214</u>	<u>4,943</u>		<u>118,212</u>	<u>(64,825)</u>
Tax at the domestic income tax rate	(351)	17.5 (11,163)	16.0 39,671	33.0 1,631	33.0	39,320	(9,532)
Tax effect of expenses not deductible for tax purpose	712	7,698	1,526	1,899		2,238	9,597
Tax effect of income not taxable for tax purpose	(5,183)	(474)	(2,447)	(127)		(7,630)	(601)
Overprovision in respect of prior years	-	(18)	-	-		-	(18)
Tax effect of deferred tax asset not recognised	4,822	3,949	263	25		5,085	3,974
Effect of tax exemption granted to certain PRC subsidiaries	-	-	(37,669)	(1,549)		(37,669)	(1,549)
Others	-	(10)	-	-		-	(10)
Taxation for the year	<u>-</u>	<u>(18)</u>	<u>1,344</u>	<u>1,879</u>		<u>1,344</u>	<u>1,861</u>

For the year ended March 31, 2004

12. EARNINGS (LOSS) PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) per share	80,060	(69,673)
Effect of dilutive potential ordinary shares:		
Interest on convertible note and convertible bonds	924	–
Earnings (loss) for the purposes of diluted earnings (loss) per shares	<u>80,984</u>	<u>(69,673)</u>
	2004 '000	2003 '000
Weighted average number of ordinary shares		
for the purpose of basic earnings (loss) per share	1,300,959	1,043,403
Effect of dilutive potential ordinary shares:		
Convertible note	17,518	–
Convertible bonds	21,973	–
Weighted average number of ordinary shares		
for the purpose of diluted earnings (loss) per share	<u>1,340,450</u>	<u>1,043,403</u>

The computation of diluted earnings per share for the year ended March 31, 2004 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the year.

No diluted loss per share for the year ended March 31, 2003 is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share.

For the year ended March 31, 2004

13. INVESTMENT PROPERTIES

	THE GROUP	
	2004 HK\$ '000	2003 HK\$ '000
Valuation		
At beginning of the year	9,800	13,923
Deficit on revaluation	(180)	(4,123)
	<hr/>	<hr/>
At end of the year	<u>9,620</u>	<u>9,800</u>

Investment properties were revalued at their open market value at March 31, 2004 by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professionally qualified valuers, on an open market existing use basis. This valuation gave rise to a deficit on revaluation of HK\$180,000 (2003: HK\$4,123,000), which has been charged to the consolidated income statement.

All of the Group's investment properties are rented out under operating leases.

The market value of investment properties shown above comprises:

	2004 HK\$ '000	2003 HK\$ '000
Long lease in Hong Kong	8,020	8,020
Medium-term lease in Hong Kong	1,600	1,780
	<hr/>	<hr/>
	<u>9,620</u>	<u>9,800</u>

For the year ended March 31, 2004

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land use rights under medium- term leases in the PRC HK\$'000	Leasehold land and buildings HK\$'000	Pipelines HK\$'000	Construction in progress HK\$'000	Machinery and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST								
At April 1, 2003	29,310	118,584	13,200	14,152	10,749	1,893	5,579	193,467
Additions	–	1,166	10,275	96,927	2,152	2,866	6,890	120,276
Acquired on acquisition of subsidiaries	–	–	–	61,428	–	227	2,788	64,443
Reclassification	–	–	12,348	(12,348)	–	–	–	–
Disposal of subsidiaries	(29,310)	(58,862)	–	(25,916)	(800)	(205)	(3,822)	(118,915)
Disposals	–	(12,500)	–	–	–	(61)	–	(12,561)
At March 31, 2004	–	48,388	35,823	134,243	12,101	4,720	11,435	246,710
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At April 1, 2003	275	13,625	128	–	726	201	742	15,697
Provided for the year	660	4,446	463	–	1,439	478	2,119	9,605
Impairment loss reversed in the income statement (Note below)	–	(5,987)	–	–	–	–	–	(5,987)
Eliminated on disposal of subsidiaries	(935)	(4,742)	–	–	(103)	(57)	(1,412)	(7,249)
Eliminated on disposals	–	(2,821)	–	–	–	(4)	–	(2,825)
At March 31, 2004	–	4,521	591	–	2,062	618	1,449	9,241
NET BOOK VALUES								
At March 31, 2004	–	43,867	35,232	134,243	10,039	4,102	9,986	237,469
At March 31, 2003	29,035	104,959	13,072	14,152	10,023	1,692	4,837	177,770

For the year ended March 31, 2004

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

THE COMPANY

	Motor vehicles <i>HK\$'000</i>
COST	
Acquired during the year and at March 31, 2004	815
DEPRECIATION	
Provided for the year and at March 31, 2004	<u>148</u>
NET BOOK VALUE	
At March 31, 2004	<u><u>667</u></u>

The net book value of leasehold land and buildings of the Group shown above comprises:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
In Hong Kong		
Long lease	39,682	34,577
Medium-term lease	–	9,679
Outside Hong Kong		
Medium-term lease	<u>4,185</u>	<u>60,703</u>
	<u><u>43,867</u></u>	<u><u>104,959</u></u>

At March 31, 2004, interest capitalised in construction in progress amounted to HK\$3,129,000 (2003: nil).

The net book value of property, plant and equipment includes an amount of HK\$398,000 (2003: nil) in respect of an asset held under a hire purchase contract.

Note:

During the year, the directors determined that the impairment loss of HK\$5,987,000 of certain leasehold land and buildings held by the subsidiaries were reversed, due to the increase in the recoverable amount after the change of the core business of the Group.

For the year ended March 31, 2004

15. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium-term lease in Hong Kong – at cost	43,100	43,100
Less: Impairment loss recognised	<u>(6,900)</u>	<u>(6,900)</u>
	<u>36,200</u>	<u>36,200</u>

Properties held for development were reassessed at their open market value at March 31, 2004 on an open market existing use basis. The directors of the Company consider that no further impairment loss (2003: nil) was required to be charged to the consolidated income statement.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	325,689	129,504
Less: Impairment losses recognised	<u>(51,504)</u>	<u>(51,504)</u>
	<u>274,185</u>	<u>78,000</u>
Amounts due from subsidiaries	356,527	340,924
Less: Allowance	<u>(137,176)</u>	<u>(137,176)</u>
	<u>219,351</u>	<u>203,748</u>
	<u>493,536</u>	<u>281,748</u>

The amounts due from subsidiaries are unsecured and interest-free. In the opinion of the directors, the amounts will not be repaid within twelve months from the balance sheet date. Accordingly, they are classified as non-current.

For the year ended March 31, 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at March 31, 2004 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Faith Profit Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property holding
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK\$2	–	100	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK\$1,000 Non-voting deferred shares HK\$1,000,000 (Note 1)	–	100	Investment holding, property investment and provision of management services to group companies
Iwai's Investments Limited	The British Virgin Islands ("BVI")/ Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Investment holding
Luckford Enterprise Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property development
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	–	Property development
中亞燃氣實業(深圳) 有限公司(「中亞燃氣」)	PRC	Wholly foreign- owned enterprise	Registered US\$29,800,000	100	–	Investment holding and treasury

For the year ended March 31, 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
北京中燃翔科油氣技術有限公司 Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	–	60	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	–	100	Property holding
China Gas Corporate Services Limited	Hong Kong	Incorporated	Ordinary HK\$100	100	–	Provision of secretarial services
China Gas Development Group Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
China Natural Gas Investment Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
China City Gas Investment Limited	Samoa	Incorporated	Ordinary US\$1	100	–	Investment holding
China City Gas Development Limited	Samoa	Incorporated	Ordinary US\$1	100	–	Investment holding
武漢中燃投資有限公司 Wuhan China Natural Gas Investment Company Limited*	PRC	Limited liability company	Registered RMB69,980,000	–	100	Investment holding

For the year ended March 31, 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
益陽中燃城市燃氣發展有限公司 Yiyang Central Gas & City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	–	80	Trading of natural gas and gas pipeline construction
蕪湖中燃城市燃氣發展有限公司 Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	–	90	Trading of natural gas and gas pipeline construction
北京中油翔科科技 有限公司	PRC	Limited liability company	Registered RMB2,000,000	–	80	Trading of natural gas and gas pipeline construction
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	–	70	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	–	80	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	–	51	Trading of natural gas and gas pipeline construction
宜昌中燃城市燃氣發展有限公司 Yichang Zhongran City Gas Development Limited*	PRC	Limited liability company	Registered RMB70,000,000	–	70	Trading of natural gas and gas pipeline construction

For the year ended March 31, 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
藥城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	–	70	Trading of natural gas and gas pipeline construction
Clever Decision Enterprises Limited	BVI	Incorporated	Ordinary US\$100	100	–	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	Wholly foreign owned enterprise	Registered RMB20,000,000	–	100	Investment holding
淮南中燃城市燃氣發展有限公司 Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	–	70	Trading of natural gas and gas pipeline construction
隨州中燃城市燃氣發展有限公司 Suizhou Central City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	–	90	Trading of natural gas and gas pipeline construction
孝感振戎天然氣有限公司 Xiaogan Zhenrong Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB28,000,000	–	30 (Note 2)	Trading of natural gas and gas pipeline construction
孝感嘉旭天然氣有限公司 Xiaogan Jiayu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	–	65	Trading of natural gas and gas pipeline construction

For the year ended March 31, 2004

16. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
漢川嘉旭天然氣有限公司 Hanchuen Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB7,000,000	–	65	Trading of natural gas and gas pipeline construction
雲夢嘉旭天然氣有限公司 Yumeng Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB6,200,000	–	65	Trading of natural gas and gas pipeline construction
應城嘉旭天然氣有限公司 Yingcheng Jiaxu Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	–	65	Trading of natural gas and gas pipeline construction

* English name is for identification purposes only.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

- (1) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.
- (2) The Group holds 30% interest in Xiaogan Zhenrong Gas Co. Ltd. ("Xiaogan Zhenrong"). However, the Group has contractual right to appoint two out of three directors on the board of directors of Xiaogan Zhenrong and has the power to govern its financial and operating policies. Accordingly, it is accounted for as a subsidiary.

None of the subsidiaries had any debt securities outstanding at the end of the year.

For the year ended March 31, 2004

17. INTERESTS IN ASSOCIATES/INVESTMENT IN AN ASSOCIATE

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	—	1,704
	<u> </u>	<u> </u>
	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	—	1
	<u> </u>	<u> </u>

During the year, the Group disposed of its 30% equity interest in 北京城南之光燃氣技術開發有限公司.

At March 31, 2003, the Group also owned 49% equity interest in China Gas Development Group Limited (“China Gas Development”) which was an associate of the Group. During the year, the Company acquired the remaining 51% equity interest in China Gas Development. The details of the acquisition are set out in note 33.

For the year ended March 31, 2004

18. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Equity securities held in Hong Kong	<u>5,490</u>	<u>5,490</u>	<u>14,800</u>	<u>–</u>	<u>20,290</u>	<u>5,490</u>
Market value	<u>4,392</u>	<u>3,660</u>	<u>14,800</u>	<u>–</u>	<u>19,192</u>	<u>3,660</u>
Carrying amount analysed for reporting purpose as:						
Current	–	–	14,800	–	14,800	–
Non-current	<u>5,490</u>	<u>5,490</u>	<u>–</u>	<u>–</u>	<u>5,490</u>	<u>5,490</u>
	<u>5,490</u>	<u>5,490</u>	<u>14,800</u>	<u>–</u>	<u>20,290</u>	<u>5,490</u>
THE COMPANY						
Equity securities held in Hong Kong	<u>5,220</u>	<u>5,220</u>	<u>–</u>	<u>–</u>	<u>5,220</u>	<u>5,220</u>
Market value	<u>4,176</u>	<u>3,480</u>	<u>–</u>	<u>–</u>	<u>4,176</u>	<u>3,480</u>
Carrying amount analysed for reporting purpose as:						
Non-current	<u>5,220</u>	<u>5,220</u>	<u>–</u>	<u>–</u>	<u>5,220</u>	<u>5,220</u>

Note: The investment securities represent approximately 6.1% and 5.8% equity interests in Greater China Holdings Limited held by the Group and the Company, respectively.

For the year ended March 31, 2004

19. GOODWILL

	THE GROUP <i>HK\$ '000</i>
COST	
At April 1, 2003	20,784
Arising on acquisitions of subsidiaries during the year	93,501
Arising on acquisition of additional interest in a subsidiary	226
Eliminated on disposals of subsidiaries during the year	<u>(5,470)</u>
At March 31, 2004	<u>109,041</u>
AMORTISATION	
At April 1, 2003	654
Charge for the year	1,959
Eliminated on disposals of subsidiaries during the year	<u>(705)</u>
At March 31, 2004	<u>1,908</u>
NET BOOK VALUES	
At March 31, 2004	<u><u>107,133</u></u>
At March 31, 2003	<u><u>20,130</u></u>

The goodwill is amortised to the consolidated income statement on a straight-line basis over a period ranged from 11 to 20 years.

For the year ended March 31, 2004

20. DEPOSITS FOR INVESTMENTS

THE GROUP AND THE COMPANY

- (a) On March 12, 2004, the Company entered into a conditional Sales and Purchase Agreement (“S & P Agreement”) with an independent third party pursuant to which the third party has agreed to sell and the Company has agreed to acquire 100% equity interest in United Keen Investment Limited (“United Keen”) at a consideration of RMB12,000,000 (equivalent to HK\$11,429,000). During the year, the Company has paid HK\$6,667,000.
- (b) On March 15, 2004, the Company entered into another conditional S & P Agreement with an independent third party pursuant to which the third party has agreed to sell and the Company has agreed to acquire 100% equity interest in Glorywish Investment Limited (“Glorywish”) at a consideration of RMB9,500,000 (equivalent to HK\$9,048,000). During the year, the Company has paid HK\$5,714,000.

21. INVENTORIES

THE GROUP	
2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

The following is an analysis of inventories at the reporting date:

Construction materials	11,475	880
Consumables and spare parts	1,239	2,573
Natural gas	–	132
Petroleum	–	10,473
	<u>12,714</u>	<u>14,058</u>

The balance represents finished goods and is stated at cost.

For the year ended March 31, 2004

22. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	57,369	–
Less: progress billings	<u>(7,851)</u>	<u>–</u>
	<u>49,518</u>	<u>–</u>
Represented by:		
Due from customers included in current assets	49,861	–
Due to customers included in current liabilities	<u>(343)</u>	<u>–</u>
	<u>49,518</u>	<u>–</u>

At March 31, 2004 and 2003, there were no retention monies held by customers for contract work performed. At March 31, 2004, advances received from customers for contract work amounted to HK\$7,296,000 (2003: nil) which were included in trade and other payables.

For the year ended March 31, 2004

23. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers.

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

	THE GROUP	
	2004	2003
	HK\$ '000	HK\$ '000
Not yet due	73,111	–
Within credit period	20,463	3,066
Overdue by:		
0 – 30 days	2,198	436
31 – 60 days	2,519	290
61 – 90 days	2,568	1,331
91 – 120 days	514	1,793
Over 180 days	1,910	1,565
	<hr/>	<hr/>
Trade receivables	103,283	8,481
Deposits paid for construction materials	179,433	38,095
Other receivables, deposits and prepayments	63,419	10,939
Advance to a supplier – interest bearing (<i>Note</i>)	–	8,524
Advances to other suppliers – non-interest bearing	–	8,973
Deposit paid to a minority shareholder of a subsidiary for acquisition of property, plant and equipment	37,066	–
Amount due from a minority shareholder of a subsidiary	1,587	–
	<hr/>	<hr/>
	384,788	75,012
	<hr/> <hr/>	<hr/> <hr/>

Note: Advance to a supplier was interest bearing at commercial rate, unsecured and fully settled during the year.

For the year ended March 31, 2004

24. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	24,695	1,439
61 – 90 days	1,169	32
91 – 120 days	842	1,217
121 – 180 days	57	422
Over 180 days	3,946	4,292
	<hr/>	<hr/>
Trade payables	30,709	7,402
Other payables and accrued charges	41,606	30,709
	<hr/>	<hr/>
	72,315	38,111
	<hr/> <hr/>	<hr/> <hr/>

For the year ended March 31, 2004

25. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans	571,666	57,143	–	–
Mortgage loan	20,053	22,029	20,053	22,029
Loan from a financial institution (Note a)	–	55,590	–	55,590
Other unsecured loans (Note b)	–	107,148	–	61,926
Loans from employees (Note c)	–	4,895	–	–
	<u>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>
Secured	591,719	134,762	20,053	77,619
Unsecured	–	112,043	–	61,926
	<u>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>

The maturity profile of the above loans is as follows:

On demand or within one year	278,489	159,361	2,061	56,996
More than one year, but not exceeding two years	24,991	68,815	2,134	64,396
More than two years, but not exceeding five years	151,057	7,108	6,867	6,632
More than five years	137,182	11,521	8,991	11,521
	<u>591,719</u>	<u>246,805</u>	<u>20,053</u>	<u>139,545</u>
Less: Amount due within one year shown under current liabilities	<u>(278,489)</u>	<u>(159,361)</u>	<u>(2,061)</u>	<u>(56,996)</u>
Amount due after one year	<u>313,230</u>	<u>87,444</u>	<u>17,992</u>	<u>82,549</u>

Notes:

- Loan from a financial institution was secured, interest-bearing at commercial rates and repaid on November 20, 2003.
- Other loans were unsecured and fully repaid during the year. Included in other loans was a loan of HK\$61,926,000 which was interest-free (the relevant fund arrangement fee of HK\$2,917,000 was charged to consolidated income statement). The remaining balance of HK\$45,222,000 bore interest at commercial rates.
- Loans from employees represented advances from employees of a subsidiary.

For the year ended March 31, 2004

26. OBLIGATIONS UNDER A HIRE PURCHASE CONTRACT

	THE GROUP AND THE COMPANY			
	Minimum		Present value	
	lease payments		of minimum	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under a hire purchase contract:				
Within one year	132	–	112	–
In the second to fifth year inclusive	197	–	185	–
	<u>329</u>	<u>–</u>	<u>297</u>	<u>–</u>
Less: Future finance charges	(32)	–	–	–
	<u>297</u>	<u>–</u>	<u>297</u>	<u>–</u>
Present value of lease obligations	<u>297</u>	<u>–</u>	<u>297</u>	<u>–</u>
Less: Amount due for settlement within one year (shown under current liabilities)			(112)	–
			<u>185</u>	<u>–</u>

It is the Group's policy to lease certain of its property, plant and equipment under hire purchase contract. The average lease term is 3 years. For the year ended March 31, 2004, the average effective borrowing rate was approximately 8% per annum. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a hire purchase contract are secured by the lessor's charge over the leased asset.

For the year ended March 31, 2004

27. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	No. of shares '000 HK\$0.01 each	HK\$'000	No. of shares '000 HK\$1 each	HK\$'000	HK\$'000
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>124,902</u>	<u>124,902</u>	<u>214,902</u>
Issued and fully paid:					
At April 1, 2002	485,026	4,851	105,902	105,902	110,753
Issue of new ordinary shares	112,050	1,121	–	–	1,121
Conversion of preference shares to ordinary shares	614,331	6,143	(99,604)	(99,604)	(93,461)
Exercise of share options	<u>1,000</u>	<u>10</u>	<u>–</u>	<u>–</u>	<u>10</u>
At March 31, 2003	1,212,407	12,125	6,298	6,298	18,423
Issue of new ordinary shares (Notes a, b, c)	280,000	2,800	–	–	2,800
Conversion of convertible bonds (Note d)	16,922	169	–	–	169
Conversion of preference shares to ordinary shares (Note e)	<u>48,451</u>	<u>484</u>	<u>(6,298)</u>	<u>(6,298)</u>	<u>(5,814)</u>
At March 31, 2004	<u>1,557,780</u>	<u>15,578</u>	<u>–</u>	<u>–</u>	<u>15,578</u>

For the year ended March 31, 2004

27. SHARE CAPITAL (continued)

Notes:

- (a) On October 9, 2003, arrangements were proposed to make for a private placement to independent investors of 70,000,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.72 per share, representing a discount of 10% to the closing market price of the Company's shares on October 8, 2003. The net proceeds of approximately HK\$50 million were applied as to approximately HK\$44,000,000 for the repayment of the Group's short term borrowings and the remaining balance as general working capital of the Group. The issue of 70,000,000 shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on August 27, 2003.
- (b) On November 8, 2003, arrangements were made for a private placement to independent investors of 160,000,000 ordinary shares of HK\$0.01 each in the Company held by Heng Fung Holdings Limited, a substantial shareholder of the Company, at a price of HK\$0.84 per share, representing a discount of 22.94% to the closing market price of the Company's shares on November 6, 2003, being the latest trading day before the date of the announcement issued by the Company on November 11, 2003.

Pursuant to the conditional subscription agreement of the same date, Heng Fung Holdings Limited subscribed for 160,000,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.84 per share. The net proceeds of approximately HK\$130 million were applied as to approximately HK\$78 million for the contribution of the enlarged registered capital of 中亞燃氣, approximately HK\$45 million for the repayments of the Group's short term borrowings, approximately HK\$4 million for the acquisition of natural gas project in Xiaogan and the remaining balance as general working capital of the Group. The new shares were issued under the general mandate granted to the directors at the special general meeting held on December 19, 2003.

- (c) On January 21, 2004, arrangements were proposed to make for a private placement to a company in which was owned as to 24% by Mr. Zhu Wei Wei, an executive Director of the Company, and as to 76% by Mr. Huang Yong, a director of 中亞燃氣, a subsidiary of the Company, of 50,000,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.65 per share, representing a discount of 9.72% to the closing market price of the Company's shares on January 16, 2004, being the latest trading day before the date of the announcement issued by the Company on January 21, 2004. The net proceeds of approximately HK\$32 million were applied for the repayments of the Group's short term borrowings. The new shares were issued under the general mandate granted to the directors at the special general meeting held on March 4, 2004.
- (d) During the year, the holder of convertible bonds has exercised the options to convert US\$1,400,000 (approximately HK\$10,886,000) convertible bonds into 16,922,000 ordinary shares of HK\$0.01 each.
- (e) During the year, the holders of preference shares have exercised the options to convert 6,298,000 Convertible Preference ("CP") shares at HK\$0.13 per share into 48,451,000 ordinary shares of HK\$0.01 each.

These shares issued during the year rank pari passu with the existing shares in all respects.

27. SHARE CAPITAL *(continued)*

The CP shares shall carry equal rights and rank pari passu with one another as follows:

- (i) Holders of the CP shares issued during the year ended March 31, 1999 are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated February 12, 1999 and two supplement agreements dated February 15, 1999 and March 9, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is cumulative and payable semi-annually in arrears on March 31 and September 30 in each year during the conversion period which falls after the second anniversary from the date of issue of the CP shares and the first payment is due on September 30, 2001. No interest is payable for the first and second year in which the CP shares are outstanding. The conversion price of the CP shares is HK\$0.13 each and the maturity date of the CP shares is March 30, 2004.
- (ii) Dividend on CP shares issued on January 4, 2001 will only be payable commencing on the third year at 2.5 per cent. per annum on the principal amount of the respective CP shares outstanding. The conversion price of the CP shares is HK\$0.20 each, subject to adjustments, and the maturity date of the CP shares is January 3, 2006.
- (iii) The CP shares are convertible in multiples of 1,000,000 into ordinary shares of the Company.
- (iv) The CP shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (v) The CP shares do not have any voting rights.

For the year ended March 31, 2004

28. RESERVES

	Share premium HK\$ '000	Contributed surplus HK\$ '000	Other reserve HK\$ '000	Accumulated losses HK\$ '000	Total HK\$ '000
THE COMPANY					
At April 1, 2002	82,660	94,712	–	(205,807)	(28,435)
Private placement	29,666	–	–	–	29,666
Exercise of share options	100	–	–	–	100
Issue of shares for acquisition of subsidiaries	78,403	–	–	–	78,403
Conversion of preference shares	93,461	–	–	–	93,461
Net loss for the year	–	–	–	(46,917)	(46,917)
At March 31, 2003	284,290	94,712	–	(252,724)	126,278
Private placements	214,500	–	–	–	214,500
Conversion of convertible bonds	10,717	–	–	–	10,717
Conversion of preference shares	5,814	–	–	–	5,814
Share issue expenses	(9,432)	–	–	–	(9,432)
Expenses on issuing convertible bonds	(932)	–	–	–	(932)
Proceeds of private placements received in advance (note 2 below)	–	–	58,000	–	58,000
Net loss for the year	–	–	–	(23,679)	(23,679)
At March 31, 2004	<u>504,957</u>	<u>94,712</u>	<u>58,000</u>	<u>(276,403)</u>	<u>381,266</u>

Notes:

- (1) The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as a result of the group reorganisation prior to the listing of the Company's shares in 1995 and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (2) The amount represents the advance payment from the subscriber for the private placement of which the shares have been issued and allotted after the balance sheet date.

At March 31, 2004 and 2003, the Company had no reserve available for distribution.

29. AMOUNTS DUE TO SUBSIDIARIES

The amounts of the Company are unsecured, interest-free and have no fixed term of repayment. The subsidiaries have confirmed that repayment of the amounts will not be demanded within one year from the balance sheet date and accordingly, the amounts are classified as non-current.

30. CONVERTIBLE NOTE

THE GROUP AND THE COMPANY

Pursuant to an agreement dated on June 10, 2003, the Company has issued a convertible note (the "Note") amounting to US\$6 million to an independent third party, Eastern Linker Holdings Limited. The Note bears interest at the rate of 2% per annum on the outstanding principal amount of the Note. The conversion price is HK\$2 per share and would be matured at 24 months from the date of the issue of the Note.

31. CONVERTIBLE BONDS

THE GROUP AND THE COMPANY

On October 29, 2003, the Company and Merrill Lynch International ("ML") entered into a subscription agreement ("Agreement") pursuant to which the Company will issue up to US\$41 million 1.0 per cent unlisted and unsecured convertible bonds due 2008 in five tranches ("Bonds") and ML will subscribe in an aggregate principal amount of US\$6 million ("Tranche 1 Bonds") under whereas the Agreement, the Company will grant to ML options to subscribe for additional four tranches of the Bonds in aggregate principal amount of up to US\$35 million. Under the terms and conditions of the Bonds, ML may convert the Bonds at any time from and including the respective date of issue of the Bonds up to the day falling one week prior to October 30, 2008 ("Maturity Date"). The Bonds could be converted, at the option of ML, either at (i) HK\$1.128 initially (subject to adjustments) or (ii) 90 percent of the average of any eight closing prices per share as selected by ML during the 30 consecutive business days immediately prior to the date on which a conversion notice of ML is received by the Company and such price shall not be less than the par value of the shares on the date of conversion.

Besides, the Company has also entered into a subscription letter on October 29, 2003 with ML pursuant to which the Company has granted to ML, the rights to subscribe for new shares of the Company (the "Letter"). Under the terms of the Letter, ML will have a right to subscribe for new shares up to 15% of the principal amount of each tranche of the Bonds issued divided by 0.94 with a subscription price of HK\$1.128 per share (subject to adjustment). The subscription right are exercisable by ML at any time from and including the date of issue of the relevant tranche of the Bonds to and including the Maturity Date.

The Tranche 1 Bonds of US\$6 million and Tranche 2 Bonds of US\$7 million were issued to ML on November 13, 2003 and June 10, 2004, respectively.

For the year ended March 31, 2004

31. CONVERTIBLE BONDS *(continued)*

The issue of Tranche 3 Bonds, Tranche 4 Bonds and Tranche 5 Bonds is subject to the approval from the shareholders of the Company. The proposed resolutions to approve the issue of these three Bonds and the shares to be issued upon conversion of such Bonds and the exercise of the related subscription rights were not passed by the shareholders at the Special General Meeting held on December 19, 2003.

32. DEFERRED TAXATION

The following is the deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods.

THE GROUP

	Accelerated tax depreciation <i>HK\$ '000</i>	Tax losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At April 1, 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	319	(319)	–
	<hr/>	<hr/>	<hr/>
– as restated	319	(319)	–
(Credit) charge to income statement for the year	(316)	316	–
	<hr/>	<hr/>	<hr/>
At March 31, 2003	3	(3)	–
(Credit) charge to income statement for the year	(1)	1	–
Effect of change in tax rate	1	(1)	–
	<hr/>	<hr/>	<hr/>
At March 31, 2004	<u>3</u>	<u>(3)</u>	<u>–</u>

At March 31, 2004, the Group has estimated unused tax losses of HK\$116,208,000 (2003: HK\$87,857,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$15,000 (2003: HK\$18,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$116,193,000 (2003: HK\$87,839,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK\$2,003,000 (2003: HK\$1,206,000) that will expire within 5 years. Other losses may be carried forward indefinitely.

THE COMPANY

At March 31, 2004, the Company has estimated unused tax losses of HK\$47,538,000 (2003: HK\$24,998,000) available for offset against future profits. No deferred tax asset has been recognised due to uncertainty of future profits streams. Losses may be carried forward indefinitely.

For the year ended March 31, 2004

33. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 51% and 100% of China Gas Development and Clever Decision Enterprises Limited, respectively, at a total consideration of HK\$118,173,000. These acquisitions have been accounted for by the purchase method of accounting and the goodwill arising as a result of these acquisitions was HK\$93,501,000.

	2004 HK\$ '000	2003 HK\$ '000
NET ASSETS ACQUIRED		
Property, plant and equipment	64,443	162,608
Investment in an associate	–	1,714
Inventories	–	6,770
Trade and other receivables	26,007	28,709
Pledged bank deposits	–	9,524
Bank balances and cash	6,550	16,669
Trade and other payables	(10,783)	(33,891)
Amount due to a minority shareholder	–	(2,543)
Taxation	–	(4,853)
Bank and other borrowings	(38,095)	(47,234)
Minority interests	(23,450)	(56,745)
	<u>24,672</u>	<u>80,728</u>
Goodwill	93,501	20,784
Negative goodwill	–	(3,488)
	<u>118,173</u>	<u>98,024</u>
SATISFIED BY		
Cash consideration	118,173	18,834
Issue of ordinary shares	–	79,190
	<u>118,173</u>	<u>98,024</u>
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash consideration paid	(118,173)	(18,834)
Bank balances and cash acquired	6,550	16,669
	<u>(111,623)</u>	<u>(2,165)</u>

The subsidiaries acquired during the year contributed HK\$60,536,000 (2003: HK\$84,055,000) to the Group's turnover, and a profit of HK\$50,747,000 (2003: HK\$2,242,000) to the Group's profit (loss) from operations.

For the year ended March 31, 2004

34. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of 55%, 93% and 93% of Zhengzhou Standard, 焦作中燃城市燃氣發展有限公司 and 濟源中燃城市燃氣發展有限公司, respectively, at a total consideration of HK\$107,350,000.

	2004 HK\$'000	2003 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	111,666	–
Goodwill	4,765	–
Inventories	10,169	–
Trade and other receivables	14,298	2
Pledged bank deposits	9,524	–
Bank balances and cash	64,198	–
Trade and other payables	(48,788)	–
Amount due to a minority shareholder	(6,848)	–
Taxation	(7,331)	–
Bank and other borrowings	(32,890)	–
Minority interests	(38,999)	–
	<u>79,764</u>	<u>2</u>
Gain (loss) on disposals	<u>27,586</u>	<u>(2)</u>
Total cash consideration	<u><u>107,350</u></u>	<u><u>–</u></u>
Net cash flow arising on disposal:		
Cash consideration	107,350	–
Bank balances and cash disposed of	(64,198)	–
	<u><u>43,152</u></u>	<u><u>–</u></u>

The subsidiaries disposed of during the year contributed HK\$129,791,000 to the Group's turnover and a loss of HK\$518,000 to the Group's profit from operations.

The subsidiary disposed of during the year ended March 31, 2003 did not contribute any material effect on the Group's turnover and the Group's loss from operations.

For the year ended March 31, 2004

35. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC, a minority shareholder of a subsidiary contributed the capital in the form of property, plant and equipment with carrying amount of HK\$9,524,000 (2003: nil).

During the year, the Group entered into a finance lease arrangement in respect of an asset with a total capital value of the inception of the lease of HK\$350,000 (2003: nil).

36. OPERATING LEASE ARRANGEMENTS

The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitment for future minimum lease payments under non-cancellable operating leases in respect of rented premises and petrol stations which fall due as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	727	1,572	–	75
In the second to fifth year inclusive	1,788	2,299	–	–
Over five years	–	17,724	–	–
	<u>2,515</u>	<u>21,595</u>	<u>–</u>	<u>75</u>

Operating lease payments represent rentals payable by the Group and the Company in respect of leasehold land and buildings. Leases for rented premises are negotiated for an average term of 2 years with fixed rental.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	684	1,473
In the second to fifth year inclusive	18	815
	<u>702</u>	<u>2,288</u>

Leases are negotiated for an average term of two years.

For the year ended March 31, 2004

37. CAPITAL COMMITMENTS

- (i) On March 12, 2003, a subsidiary of the Company entered into an agreement with Suizhou Municipal Projects Company ("SMPC") and Wuhan China Natural Gas Investment Company Limited ("Wuhan Natural Gas") pursuant to which all parties have agreed to establish a Sino-foreign equity joint venture company ("Suizhou JV") in the PRC which principally engages in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Suizhou. Pursuant to the terms of the agreement, the subsidiary will contribute HK\$24,000,000 to Suizhou JV. Suizhou JV will be owned as to 49% by the Group, 10% by SMPC and 41% by Wuhan Natural Gas. Wuhan Natural Gas is, however, a wholly owned subsidiary of the Group. A summary of the terms of the agreement is set out in the announcement of the Company dated March 13, 2003. As at March 31, 2004, the outstanding capital commitment by the Group to Suizhou JV amounted to HK\$18,340,000.
- (ii) On March 12, 2004, the Company entered into a conditional S & P Agreement with an independent third party pursuant to which the third party agreed to sell and the Company has agreed to acquire 100% equity interest in United Keen at a consideration of RMB12,000,000 (equivalent to HK\$11,429,000). The sole asset of United Keen is the 100% interest in Pizhou Zhongran City Gas Development Company Ltd., a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Pizhou City of Jiangsu Province. During the year, the Company has paid HK\$6,667,000. As at March 31, 2004, the outstanding capital commitment by the Company amounted to HK\$4,762,000.
- (iii) On March 15, 2004, the Company entered into a conditional S & P Agreement with an independent third party pursuant to which the third party agreed to sell and the Company has agreed to acquire 100% equity interest in Glorywish at a consideration of RMB9,500,000 (equivalent to HK\$9,048,000). The sole asset of Glorywish is the 70% interest in Jinhua Zhongran City Gas Development Company Ltd. a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Jinhua City of Zhejiang Province. During the year, the Company has paid HK\$5,714,000. As at March 31, 2004, the outstanding capital commitment by the Company amounted to HK\$3,334,000.
- (iv) On March 19, 2004, a wholly owned subsidiary of the Company signed a cooperation agreement with 河北省滄州經濟技術開發區管委會(Cangzhou Economic and Technology Development District Management Association, Hebei Province) and has obtained the exclusive operation right on natural gas business in Cangzhou economic and technology development district for a term of 30 years. The Group will invest HK\$2,000,000 to set up a wholly foreign-owned enterprise, which principally engages in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Cangzhou Economic and Technology Development District, Hebei Province.

37. CAPITAL COMMITMENTS *(continued)*

- (v) On March 31, 2004, a wholly owned subsidiary of the Company signed a cooperation agreement with the People's Government of Yangzhong, Jiangsu Province for the establishment of a wholly foreign-owned enterprise ("Yangzhong Zhongran") in Yangzhong which principally engages in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Yangzhong. The registered capital of Yangzhong Zhongran will not be less than US\$1,000,000 and the Group will own 100% equity interest.

Save as disclosed above, as at March 31, 2004, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK\$572,712,000 (2003: HK\$38,655,000) and HK\$561,696,000 (2003: HK\$19,347,000), respectively.

38. PLEDGE OF ASSETS

THE GROUP

At March 31, 2004, the Group has not pledged any bank deposits (2003: HK\$66,667,000 pledged) and land use rights (2003: a net book value of HK\$29,035,000 pledged) to secure banking facilities granted to the Group.

The Group pledged land and buildings having a net book value of HK\$39,682,000 (2003: HK\$44,256,000) and certain investments in subsidiaries to banks to secure loan facilities granted to the Group. The Group has not pledged any investment properties (2003: a net book value of HK\$9,800,000 pledged), investments in securities (2003: a carrying amount of HK\$5,490,000 pledged), or properties held for development (2003: a net book value of HK\$36,200,000 pledged) for loan facilities granted to the Group.

39. CONTINGENT LIABILITIES

The Company has given guarantees to banks in respect of banking facilities utilised by a subsidiary amounted to HK\$238,095,000 (2003: nil).

For the year ended March 31, 2004

40. RETIREMENT BENEFITS SCHEMES

With effective from December 1, 2000, the Group has joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

The calculation of contributions for PRC eligible staff is based on certain percentage of the applicable payroll costs. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

During the year, the retirement benefit scheme contributions amounted to HK\$971,000 (2003: HK\$58,000).

41. SHARE OPTION SCHEMES

(a) Share Option Scheme adopted on October 2, 1995 (“Old Scheme”)

Under the terms of the Old Scheme which became effective on October 2, 1995 for the primary purpose of providing incentive to directors and eligible employees, the board of directors of the Company may offer to any directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cents. of the issued share capital of the Company from time to time. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25 per cent. of the aggregate number of shares under the Old Scheme. Upon acceptance of option, the grantee shall pay HK\$1 to the Company as consideration.

The life of the Old Scheme was originally effective for 10 years until October 2, 2005. The Old Scheme was resolved by the shareholders of the Company to have been terminated on February 6, 2003. However, the options granted under the Old Scheme are still exercisable in accordance with the terms of the Old Scheme.

41. SHARE OPTION SCHEMES *(continued)*

(b) Share Option Scheme adopted on February 6, 2003 (“New Scheme”)

The Company’s New Scheme was adopted by the shareholders pursuant to a resolution passed on February 6, 2003 for the primary purpose of providing incentives to any directors, any employees or any employee, partner or director of any business consultant, joint venture partner, financial adviser or legal adviser of the Group.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders’ approval of the New Scheme (“Scheme Mandate Limit”) or, if such 10% limit is refreshed, at the date of shareholders’ approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to substantial shareholder or an independent non-executive directors or any of their respective associate would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company’s issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company’s shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$10 per each grant. Options may be exercised at any time from the date to be determined by the board of directors to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company’s shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

The life of the New Scheme is effective for 10 years from the date of adoption until February 6, 2013.

For the year ended March 31, 2004

41. SHARE OPTION SCHEMES (continued)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holding during the two years ended March 31, 2004:

Name of schemes	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 4.1.2002	Exercised during the year	Number of share options at 3.31.2003	Granted during the year	Number of share options at 3.31.2004
<i>Directors</i>								
Old Scheme	2.10.1998	2.10.1998 to 2.9.2008	0.11	1,000,000	(1,000,000)	-	-	-
New Scheme	1.9.2004	9.1.2004 to 1.8.2014	0.80	-	-	-	33,240,711	33,240,711
<i>Others</i>								
New Scheme	1.9.2004	9.1.2004 to 1.8.2014	0.80	-	-	-	88,000,000	88,000,000

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK\$1,000 (2003: nil).

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

42. RELATED PARTY TRANSACTIONS

On March 30, 2004, the Company issued 50,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$32,500,000 to a company, which was owned as to 24% by Mr. Zhu Wei Wei, an executive director of the Company, and as to 76% by Mr. Huang Yong, a director of 中亞燃氣, a wholly owned subsidiary of the Company.

43. POST BALANCE SHEET EVENTS

- (a) On May 19, 2004, 中亞燃氣, a wholly owned subsidiary of the Company, entered into an agreement with a minority shareholder of Huainan China Gas City Gas Development Co., Ltd. in relation to the acquisition of the remaining 30% equity interests of a non-wholly owned subsidiary – Huainan China Gas City Gas Development Co., Ltd. at zero consideration. This transaction constitutes as a major and connected transaction which is subject to the approval by independent shareholders.
- (b) On June 10, 2004, pursuant to an Agreement dated October 29, 2003 with ML, the Company has issued US\$7 million, 1.0 per cent unlisted and unsecured convertible bonds due 2008 to ML.

	For the year ended March 31,				
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
RESULTS					
TURNOVER	<u>10,966</u>	<u>4,169</u>	<u>4,827</u>	<u>85,537</u>	<u>376,491</u>
(LOSS) PROFIT BEFORE TAXATION	(490)	(5,172)	(7,383)	(64,825)	118,212
TAXATION (CHARGE) CREDIT	<u>(157)</u>	<u>–</u>	<u>89</u>	<u>(1,861)</u>	<u>(1,344)</u>
(LOSS) PROFIT BEFORE MINORITY INTERESTS	(647)	(5,172)	(7,294)	(66,686)	116,868
MINORITY INTERESTS	<u>–</u>	<u>–</u>	<u>–</u>	<u>(2,987)</u>	<u>(36,808)</u>
NET (LOSS) PROFIT FOR THE YEAR	<u>(647)</u>	<u>(5,172)</u>	<u>(7,294)</u>	<u>(69,673)</u>	<u>80,060</u>
			At March 31,		
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS AND LIABILITIES					
TOTAL ASSETS	19,009	71,754	108,968	501,507	1,342,279
TOTAL LIABILITIES	(3,014)	(4,569)	(5,044)	(297,049)	(748,484)
MINORITY INTERESTS	<u>–</u>	<u>–</u>	<u>–</u>	<u>(59,732)</u>	<u>(91,121)</u>
SHAREHOLDERS' FUNDS	<u>15,995</u>	<u>67,185</u>	<u>103,924</u>	<u>144,726</u>	<u>502,674</u>

Location	Type	Group's interest (%)	Lease term
<i>Leasehold land and buildings</i>			
In Hong Kong:			
No. 151 Gloucester Road, 16/F., AXA Centre Wan Chai Hong Kong	Office premises	100	Long lease
In the People's Republic of China:			
深圳市濱河大道 5002 號 聯合廣場 B 座 1301 室	Commercial	100	Medium term lease
<i>Investment properties</i>			
20/F., and car parking spaces Nos. 10 and 11 on 3/F SUP Tower No. 4 Mercury Street and No. 75-83 King's Road North Point, Hong Kong	Office premises	100	Long lease
<i>Properties held for development</i>			
No. 28-30 Kai Tak Road Kowloon City Kowloon Hong Kong	Vacant land	100	Medium term lease
No. 16, 18 and 20 Baker Street Hung Hom Kowloon Hong Kong	Vacant land	100	Medium term lease



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Gas Holdings Limited (the “Company”) will be held at 16th Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong on Thursday, August 12, 2004 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended March 31, 2004;
2. To re-elect directors and to fix the directors’ remuneration;
3. To re-appoint auditors and to authorise the board of directors of the Company to fix the auditors’ remuneration;

As special business, to consider and, if thought fit, pass with or without amendments, each of the following resolutions 4, 5, 6 and 7 as an Ordinary Resolution:

4. **“THAT:**
 - (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (defined as below) of all powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange recognised, for this purpose by the Securities and Futures Commission and the Stock Exchange, subject to and in accordance with all applicable laws and requirements, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
 - (c) for the purpose of this Resolution:

“Relevant Period” means the period from the time of passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by laws to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

5. "THAT:

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the Relevant Period, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period (as defined below) to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) an issue of shares upon the exercise of subscription rights or conversion rights under any warrants of the Company or any securities of the Company which are convertible into shares of the Company; (iii) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iv) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees or directors of the Company and/or any of its subsidiaries of shares in the capital of the Company or rights, to acquire shares in the capital of the Company shall not exceed aggregate of (i) 20 per cent. of the nominal amount of the share capital of the Company in issue as at the date of this Resolution; plus (ii) in addition, subject to the passing of Resolution No. 6 below, all those number of shares which may from time to time be purchased by the Company pursuant to the general mandate granted under Resolution No. 4 above, and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:

"Relevant Period" means the period from the time of passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by laws to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means the allotment, issue or grant of shares pursuant to an offer open for a period fixed by the directors of the Company to holders of shares or any class thereof on the register of members of the Company on a fixed record date pro rata to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body of any stock exchange in, any territory outside Hong Kong).

6. “**THAT** conditional upon the passing of Resolution Nos. 4 and 5 above set out in the notice of the meeting of which this resolution forms part, the aggregate nominal amount of the shares which are repurchased by the Company pursuant to and in accordance with Resolution No. 4 above shall be added to the aggregate nominal amount of the shares which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with Resolution No. 5 above, provided that such additional amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution.”
7. “**THAT** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), granting listing of, and permission to deal in, the shares of HK\$0.01 each in the share capital of the Company (the “Shares”) to be issued pursuant to the exercise of options which may be granted under the New Scheme Limit (as defined below), the refreshment of the scheme limit of the Company’s share option scheme adopted on 6 February 2003, up to 10 per cent. of the number of Shares in issue as at the date of passing this resolution (the “New Scheme Limit”) be and is hereby approved and any director of the Company be and is hereby authorized to do such act and execute such document to effect the New Scheme Limit.”

As a special business, to consider and, if thought fit, to pass with or without amendments the following resolution 8 as a special resolution of the Company:

8. “**THAT** the existing Bye-laws of the Company be and are hereby amended in the following manners:
 - (a) by inserting the following new definition after the definition of “Act” in bye-law 1:

““associate” the meaning attributed to it in the rules of the Designated Stock Exchange.”
 - (b) by deleting from the definition of “clearing house” in bye-law 1, the words “a recognized clearing house within the meaning of Section 2 of the Securities and Futures (Clearing House) Ordinance of Hong Kong or”;

- (c) by substituting the existing bye-law 2(e) with the following new bye-law 2(e):–

“expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations;”

- (d) by replacing the full stop “.” appearing at the end of bye-law 2(j) with a semi-colon “;”, by inserting the word “and” immediately after the semi-colon and by inserting the following new bye-law 2(k):–

“(k) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.”;

- (e) by substituting the existing bye-law 3(1) with the following new bye-law 3(1):–

“(1) The share capital of the Company at the date on which these Bye-laws come into effect shall be divided into shares of \$0.01 each.”;

- (f) by substituting the existing bye-law 6 with the following new bye-law 6:–

“The Company may from time to time by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Act, any share premium account or other undistributable reserve.”;

- (g) by substituting the existing bye-law 9 with the following new bye-law 9:–

“9. Subject to Sections 42 and 43 of the Act, these Bye-laws, and to any special rights conferred on the holders of any shares or attaching to any class of shares, any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder if so authorised by its memorandum of association, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Members alike.”

- (h) by substituting the existing bye-law 10(a) with the following new bye-law 10(a):–
- “(a) the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a Member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person (or in the case of a Member being a corporation, its duly authorised representative) or by proxy (whatever the number of shares held by them) shall be a quorum;”
- (i) by substituting in bye-law 12(1), the words “Subject to the Act and these Bye-laws” with the following words:–
- “Subject to the Act, these Bye-laws, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange”;
- (j) by substituting the existing bye-law 19 with the following new bye-law 19:–
- “19. Share certificates shall be issued within the relevant time limit as prescribed in the Act or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.”
- (k) by inserting the words “, in respect of any shares that are not fully paid,” after the word “and” in the second line of bye-law 43(1)(a);
- (l) by inserting, in bye-law 44, after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange”, the following words:–
- “or by any means and in such manner as may be accepted by the Designated Stock Exchange”;
- (m) by substituting the existing bye-law 46 with the following new bye-law 46:
- “46. Subject to these Bye-laws, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.”;

(n) by deleting the word “the Board” in the third line of bye-law 47 and substituting therewith the words “Without prejudice to Bye-law 46, the Board”;

(o) by inserting, in bye-law 51, after the words “by advertisement in an appointed newspaper and in the Newspapers”, the following words:–

“or by any means and in such manner as may be accepted by the Designated Stock Exchange”;

(p) by re-numbering the existing bye-law 76 as bye-law 76(1) and by inserting the following new bye-law 76(2):

“(2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

(q) by deleting the last two sentences in bye-law 78 and replacing therewith the following sentences:

“A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Member. In addition, a proxy or proxies representing either a Member who is an individual or a Member which is a corporation shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise.”

(r) by substituting the existing bye-law 84(2) with the following new bye-law 84(2):–

“Where a Member is a clearing house (or its nominee(s) and, in each case, being a corporation), it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Bye-law shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.”

- (s) by substituting the words “Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors.” with the words “Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2) and there shall be no maximum number of Directors.” in bye-law 86(1);
- (t) by substituting the words “special resolution” with the words “ordinary resolution” appearing in bye-law 86(4);
- (u) by substituting the existing bye-law 88 with the following new bye-law 88:–

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”;
- (v) by deleting the words “whereupon the Board resolves to accept such resignation” from bye-law 89(1);
- (w) by substituting the existing bye-law 103 with the following new bye-law 103:–

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

 - (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (vi) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.
 - (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
 - (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”
- (x) by re-numbering the existing bye-law 136 as bye-law 136(1) and by inserting the following paragraph as new bye-law 136(2):
- “(2) Notwithstanding any provision contained in these Bye-laws, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Bye-law and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Bye-law shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.”

- (y) by inserting in bye-law 153 after the words "Subject to Section 88 of the Act", the following words:–

"and Bye-law 153A";

- (z) by inserting the following as new bye-law 153A:–

"153A. To the extent permitted by and subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Bye-law 153 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon."

- (aa) by inserting the following as new bye-law 153B:–

"The requirement to send to a person referred to in Bye-law 153 the documents referred to in that provision or a summary financial report in accordance with Bye-law 153A shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Bye-law 153 and, if applicable, a summary financial report complying with Bye-law 153A, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents."

- (bb) by deleting the words "fourteen (14) days" in bye-law 154(2) and substituting therewith the words "twenty-one (21) days";

(cc) by replacing the existing bye-law 160 with the following new bye-law 160:–

“160. Any Notice or document (including any “corporate communication” within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Bye-laws from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspapers (as defined in the Act) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company’s website or the website of the Designated Stock Exchange, and giving to the member a notice stating that the notice or other document is available there (a “notice of availability”). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.”

(dd) by replacing the existing bye-law 161 with the following new bye-law 161:

“161. Any Notice or other document:

- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;

- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website or the website of the Designated Stock Exchange, is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
 - (c) if served or delivered in any other manner contemplated by these Bye-laws, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof; and
 - (d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations."
- (ee) by inserting the words "or electronic" immediately after the words "a cable or telex or facsimile" in bye-law 163.
- (ff) by deleting the words "willful negligence, willful default," from bye-laws 166(1) and (2).
- (gg) by substituting the word "respecting" appearing in bye-law 167 with the words "in respect of".

By Order of the Board of
China Gas Holdings Limited
Yang Yan Tung Doris
Company Secretary

Hong Kong, June 25, 2004

Principal Place of Business in Hong Kong:

16th Floor
AXA Centre
151 Gloucester Road
Wan Chai
Hong Kong

Registered Office:

Clarendon House
Church Street
Hamilton HM11
Bermuda

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use in connection with the annual general meeting is enclosed with the Company's 2004 annual report. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the Hong Kong Branch Share Registrars of the Company, Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
3. Details of the directors proposed to be re-elected and further information on the repurchase mandate, amendments of Bye-laws and the mandate for the issue of shares under the share option scheme are set out in the circular and the notice of annual general meeting which will be dispatched to the members together with the Company's 2004 annual report.
4. As of the date hereof, Messrs. Li Xiaoyun, Xu Ying, Liu Ming Hui, Zhu Wei Wei and Ma Jin Long are the executive directors, Mr. Wu Bangjie is the non-executive director and Mr. Zhao Yuhua, Dr. Mao Er-wan and Ms. Wong Sin Yue, Cynthia are the independent non-executive directors.



CHINA GAS HOLDINGS LIMITED
中國燃氣控股有限公司