



CHINA GAS

中國燃氣

China Gas Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2004/05

CONTENTS

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to the Condensed Financial Statements	8
Interim Dividend	17
Management Discussion and Analysis	17
Prospects	24
Directors' Interests in Shares and in Share Options	25
Interests of Substantial Shareholders	27
Review by Audit Committee	28
Purchase, Sale and Redemption of Shares	28
Compliance with Code of Best Practice	28

China Gas Holdings Limited

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

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2004

	NOTES	Six months ended	
		30 September, 2004 HK\$'000 (unaudited)	30 September, 2003 HK\$'000 (unaudited)
Turnover	3	187,724	83,444
Cost of sales		(70,012)	(72,345)
Gross profit		117,712	11,099
Other operating income		8,451	2,772
Distribution costs		(4,429)	(83)
Administrative expenses		(32,261)	(18,982)
Impairment loss reversed in respect of property, plant and equipment		2,668	–
Negative goodwill released to income statement		10,815	–
Amortisation of goodwill		–	(663)
Unrealised holding loss on other investment		(1,850)	–
Profit (loss) from operations	4	101,106	(5,857)
Finance costs	5	(7,530)	(10,480)
Loss on disposal of a subsidiary	16	(1,650)	–
Profit (loss) before taxation		91,926	(16,337)
Taxation	6	(250)	(644)
Net profit (loss) before minority interests		91,676	(16,981)
Minority interests		(25,627)	(2,076)
Net profit (loss) for the period		66,049	(19,057)
Earnings (loss) per share			
Basic	7	HK3.86 cents	HK(1.57) cents
Diluted	7	HK3.70 cents	–

China Gas Holdings Limited

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER, 2004

	NOTES	30 September, 2004 HK\$'000 (unaudited)	31 March, 2004 HK\$'000 (audited)
Non-current assets			
Investment properties	8	1,620	9,620
Property, plant and equipment	8	554,570	237,469
Properties held for development		17,500	36,200
Deposits for acquisition and construction of property, plant and equipment		364,475	–
Investments in securities		5,490	5,490
Goodwill	9	114,049	107,133
Deposits for investments		11,034	12,381
		1,068,738	408,293
Current assets			
Inventories		40,952	12,714
Amounts due from customers for contract work		102,509	49,861
Trade and other receivables	10	265,161	384,788
Investments in securities		12,950	14,800
Bank balances and cash		215,901	471,823
		637,473	933,986
Current liabilities			
Trade and other payables	11	102,958	72,315
Amounts due to customers for contract work		–	343
Amounts due to minority shareholders of subsidiaries		983	985
Taxation		458	381
Bank and other borrowings – due within one year	12	293,333	278,489
Obligations under a hire purchase contract – due within one year		126	112
		397,858	352,625
Net current assets		239,615	581,361
		1,308,353	989,654

China Gas Holdings Limited

		30 September, 2004	31 March, 2004
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(audited)
Capital and reserves			
Share capital	13	17,542	15,578
Reserves		612,710	487,096
		<hr/> 630,252 <hr/>	<hr/> 502,674 <hr/>
Minority interests		114,520	91,121
Non-current liabilities			
Bank and other borrowings – due after one year	12	466,642	313,230
Obligations under a hire purchase contract			
– due after one year		116	185
Convertible note	14	42,300	46,800
Convertible bonds	14	54,523	35,644
		<hr/> 563,581 <hr/>	<hr/> 395,859 <hr/>
		<hr/> 1,308,353 <hr/>	<hr/> 989,654 <hr/>

China Gas Holdings Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2004

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Statutory funds HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31 March, 2003	18,423	284,290	-	1,175	1,602	2,140	(162,904)	144,726
Exchange gain on translation of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	140	-	-	-	140
Net loss for the period	-	-	-	-	-	-	(19,057)	(19,057)
At 30 September, 2003	18,423	284,290	-	1,315	1,602	2,140	(181,961)	125,809
Exchange gain on translation of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	1,926	-	-	-	1,926
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 period	-	-	-	-	-	-	99,117	99,117
Transfer	-	-	-	-	-	3,052	(3,052)	-
At 31 March, 2004	15,578	504,957	58,000	3,241	1,602	5,002	(85,706)	502,674
Exchange gain on translation of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	669	-	-	-	669
Private placement	1,300	83,200	(58,000)	-	-	-	-	26,500
Conversion of convertible bonds	664	34,980	-	-	-	-	-	35,644
Expenses on issuing convertible bonds	-	(1,284)	-	-	-	-	-	(1,284)
Net profit for the period	-	-	-	-	-	-	66,049	66,049
At 30 September, 2004	17,542	621,853	-	3,910	1,602	5,002	(19,657)	630,252

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2004

	Six months ended	
	30 September, 2004	30 September, 2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(19,315)	8,405
NET CASH USED IN INVESTING ACTIVITIES	(473,187)	(81,988)
NET CASH FROM FINANCING ACTIVITIES	235,911	148,631
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(256,591)	75,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	471,823	92,477
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	669	140
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	215,901	167,665
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	215,901	167,665

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER, 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March, 2004 except for the early application of the following Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") issued by the HKICPA with effective from 1 April 2004:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

The early application of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill, negative goodwill on acquisition, impairment of assets and intangible assets.

In accordance with the transition provision of HKFRS 3, goodwill arising on acquisition previously recognised in equity shall not be recognised in profit and loss upon disposal of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

Goodwill/negative goodwill on acquisition

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition (i.e. negative goodwill on acquisition) is credited in profit and loss in the period of acquisition.

Impairment of assets

In accordance with the provisions of HKAS 36, from the year ended 31 March 2004 onwards, goodwill is tested annually for impairment, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

Intangible assets

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

3. SEGMENT INFORMATION

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

Six months ended 30 September, 2004

	Property investment <i>HK\$'000</i>	Financial and securities investment <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Sales of piped gas <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue						
Turnover	397	–	141,109	36,478	9,740	187,724
Segment result	75	(1,852)	111,432	5,160	(52)	114,763
Unallocated corporate revenue						2,165
Unallocated corporate expenses						(15,822)
Profit from operations						101,106

Six months ended 30 September, 2003

	Property investment <i>HK\$'000</i>	Financial and securities investment <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Sales of piped gas <i>HK\$'000</i>	Sales of petroleum <i>HK\$'000</i> <i>(Note)</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue							
Turnover	693	–	2,069	23,514	52,924	4,244	83,444
Segment result	399	–	895	2,650	2,158	221	6,323
Unallocated corporate revenue							1,343
Unallocated corporate expenses							(13,523)
Loss from operations							(5,857)

Note: The Group's sales of petroleum business was disposed of to an independent third party in December 2003.

4. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30 September, 2004 <i>HK\$'000</i> (unaudited)	30 September, 2003 <i>HK\$'000</i> (unaudited)
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation	3,912	2,454
Interest income	(1,250)	(644)
Loss (gain) on disposal of property, plant and equipment	7	(171)
	<u>7</u>	<u>(171)</u>

5. FINANCE COSTS

	Six months ended	
	30 September, 2004 <i>HK\$'000</i> (unaudited)	30 September, 2003 <i>HK\$'000</i> (unaudited)
Interest on:		
Bank loans and other borrowings wholly repayable within five years	13,476	9,804
Bank loans not wholly repayable within five years	6,225	386
Obligation under a hire purchase contract	10	–
Convertible note	459	290
Convertible bonds	228	–
	<u>20,398</u>	10,480
Less: Interest capitalised to construction in progress	<u>(12,868)</u>	–
	<u>7,530</u>	<u>10,480</u>

6. TAXATION

No provision for Hong Kong Profits Tax has been made as there is no assessable profit for the period (six months ended 30 September, 2003: Nil).

The tax charge of HK\$250,000 for the period (six months ended 30 September, 2003: HK\$644,000) represents income tax arising in the People's Republic of China ("PRC"). 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 period.

7. EARNINGS (LOSS) PER SHARE

	Six months ended	
	30 September, 2004 HK\$'000 (unaudited)	30 September, 2003 HK\$'000 (unaudited)
Earnings (loss) for the purpose of basic earnings (loss) per share	66,049	(19,057)
Effect of dilutive potential ordinary shares:		
Interest on convertible note and convertible bonds	687	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	66,736	(19,057)

	Six months ended	
	30 September, 2004 '000 (unaudited)	30 September, 2003 '000 (unaudited)
Weighted average number of ordinary shares		
for the purpose of basic earnings (loss) per share	1,712,490	1,212,407
Effect of dilutive potential ordinary shares:		
Convertible note	21,150	–
Convertible bonds	69,259	–
Weighted average number of ordinary shares		
for the purpose of diluted earnings (loss) per share	1,802,899	1,212,407

The computation of diluted earnings per share for the six months ended 30 September, 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 period.

No diluted loss per share for the six months ended 30 September, 2003 is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share.

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$318,349,000 (year ended 31 March, 2004: HK\$184,719,000) of which approximately HK\$96,000 were acquired through acquisition of subsidiaries (year ended 31 March, 2004: approximately HK\$64,443,000).

China Gas Holdings Limited

During the period, the Group disposed of property, plant and equipment at carrying value of HK\$4,000 (year ended 31 March, 2004: HK\$131,476,000 of which HK\$118,915,000 were disposed through disposal of subsidiaries).

During the period, the Group dispose of investment property of HK\$8,000,000 (year ended 31 March, 2004: Nil).

9. GOODWILL

	<i>HK\$'000</i> (unaudited)
At 1 April, 2004	107,133
Arising on acquisition of a subsidiary during the period	<u>6,916</u>
At 30 September, 2004	<u><u>114,049</u></u>

10. TRADE AND OTHER RECEIVABLES

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

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

	30 September, 2004 <i>HK\$'000</i> (unaudited)	31 March, 2004 <i>HK\$'000</i> (audited)
Not yet due	149,551	93,574
Overdue by:		
0 – 30 days	7,414	2,198
31 – 60 days	7,597	2,519
61 – 90 days	2,264	2,568
91 – 120 days	7	514
121 – 180 days	640	–
Over 180 days	15,120	1,910
	<u>182,593</u>	<u>103,283</u>
Trade receivables	182,593	103,283
Deposits paid for construction materials	–	179,433
Other receivables, deposits and prepayments	45,424	63,419
Deposits paid to a minority shareholder of a subsidiary for acquisition of property, plant and equipment	36,593	37,066
Amount due from a minority shareholder of a subsidiary	551	1,587
	<u>265,161</u>	<u>384,788</u>

11. TRADE AND OTHER PAYABLES

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

	30 September, 2004 HK\$'000 (unaudited)	31 March, 2004 HK\$'000 (audited)
0 – 60 days	27,582	24,695
61 – 90 days	1,986	1,169
91 – 120 days	317	842
121 – 180 days	51	57
Over 180 days	16,572	3,946
	46,508	30,709
Trade payables	46,508	30,709
Other payables and accrued charges	56,450	41,606
	102,958	72,315

12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank and other borrowings of approximately HK\$169,524,000, of which approximately HK\$17,143,000 is repayable within one year. The borrowings bear interest at market rates.

During the period, the Group repaid bank and other borrowings of HK\$1,268,000.

13. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	Number of shares '000 HK\$0.01 each	HK\$'000	Number of shares '000 HK\$1 each	HK\$'000	
Authorised:					
At 1 April, 2004 and at 30 September, 2004	9,000,000	90,000	124,902	124,902	214,902
At 1 April, 2004	1,557,780	15,578	–	–	15,578
Issue of new ordinary shares	130,000	1,300	–	–	1,300
Conversion of convertible bonds	66,372	664	–	–	664
At 30 September, 2004	1,754,152	17,542	–	–	17,542

14. CONVERTIBLE NOTE AND CONVERTIBLE BONDS

During the period, the Company repaid HK\$4,500,000 to the holder of convertible note.

During the period, the holder of convertible bonds has exercised the option to convert US\$4,600,000 (equivalent to approximately HK\$35,644,000) convertible bonds into 66,372,000 ordinary shares of HK\$0.01 each.

On 10 June, 2004, the Company issued convertible bonds of US\$7,000,000 (approximately HK\$54,523,000) to Merrill Lynch International in accordance to the subscription agreement signed on 29 October, 2003.

15. ACQUISITION OF A SUBSIDIARY

During the period, the Company acquired 100% equity interest in United Keen Investment Limited at a consideration of RMB12,000,000 (equivalent to approximately HK\$11,387,000).

The effect of acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	4,471
Goodwill arising on acquisition	6,916
	<hr/>
	11,387
	<hr/>
Satisfied by:	
Cash consideration	11,387
	<hr/>
Net cash outflow arising on acquisition	
Cash consideration paid	(11,387)
Bank balances and cash acquired	4,789
	<hr/>
	(6,598)
	<hr/>

16. DISPOSAL OF A SUBSIDIARY

During the period, the Company disposed of 100% equity interest in Luckford Enterprises Limited at a consideration of HK\$17,050,000.

The effect of disposal is summarised as follows:

	<i>HK\$'000</i>
Net assets disposed of	18,700
Loss on disposal	(1,650)
	<hr/>
Total cash consideration	17,050
	<hr/>
Net cash inflow arising on disposal	
Cash consideration	17,050
	<hr/>

17. PLEDGE OF ASSETS

The Group pledged property, plant and equipment having a net book value of approximately HK\$266,795,000 (31 March, 2004: HK\$39,682,000), and certain investments in subsidiaries to secure loan facilities granted to the Group.

18. CAPITAL COMMITMENTS

- (i) On 15 March, 2004, the Company entered into a conditional Sale & Purchase 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 Investment Limited ("Glorywish") at a consideration of RMB9,500,000 (equivalent to approximately 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 Jihua City of Zhejiang Province. The Company has paid HK\$5,714,000. As at 30 September, 2004, the outstanding capital commitment by the Company amounted to HK\$3,334,000.
- (ii) On 31 March, 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.
- (iii) On 19 May, 2004, Central Asia Natural Gas (Shenzhen) Co., Ltd. ("Shenzhen Natural Gas"), a wholly owned subsidiary of the Company entered into the Share Transfer Agreement with the minority shareholder of Huainan China Gas City Gas Company Limited ("Huainan China Gas") in relation to the acquisition of 30% equity interests in Huainan China Gas at nil consideration. However, Shenzhen Natural Gas will have to assume the capital contribution obligations of RMB21,600,000 by the minority shareholder towards Huainan China Gas. A summary of the terms of agreement is set out in the announcement of the Company dated 24 May, 2004. As at 30 September 2004, the outstanding capital commitment amounted to RMB16,141,000.
- (iv) On 27 July, 2004, Shenzhen Natural Gas entered into the Share Transfer Agreement with the minority shareholder of Suizhou Zhongran City Gas Development Limited ("Suizhou China Gas") to acquired 10% equity interests in Suizhou China Gas at nil consideration. However, Shenzhen Natural Gas will have to assume the capital contribution obligations of RMB3,500,000 by the minority Shareholder towards Suizhou China Gas. A summary of the terms of the agreement is set out in the announcement of the Company dated 28 July, 2004.
- (v) On 19 August, 2004, the Company entered into the Sale and Purchase Agreement with the vendor in relation to the acquisition of the entire share capital and the shareholder loan of Great Sun Investments Co. Ltd. at a total consideration of RMB81,600,000 (equivalent to approximately HK\$77,714,000). On the same date, Shenzhen Natural Gas entered into the Share Transfer Agreements with the vendor in relation to acquisition of 10% equity interests in Hanchuan Jiaxu Gas Co., Ltd., Yingcheng Jiaxu Gas Co., Ltd., Yumeng Jiaxu Gas Co., Ltd., and Xiaogan Jianxu Gas Co., Ltd., at a total consideration of RMB17,700,000 (equivalent to approximately HK\$16,856,000). A summary of the acquisitions is set out in the announcement of the Company dated 23 August, 2004.

Save as disclosed above, as at 30 September, 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\$714,801,000 (31 March, 2004: HK\$572,712,000) and HK\$578,876,000 (31 March, 2004: HK\$561,696,000), respectively.

19. POST BALANCE SHEET EVENTS

- (i) On 7 October, 2004, the Company entered into the Repurchase Agreement with Merrill Lynch International ("Merrill Lynch") in relation to repurchase of a portion of convertible bonds of US\$3,500,000 by the Company at a repurchase price of US\$3,850,000. Pursuant to the Repurchase Agreement, the Company and Merrill Lynch agreed to amend certain terms of the outstanding convertible bonds of US\$3,500,000 on conversion so that the conversion rights in respect of the outstanding convertible bonds can be satisfied by the Company by making payment to the holder at an amount equal to 115% of the principal amount of the outstanding bonds converted. A summary of the terms of the agreement is set out in the announcement of the Company dated 8 October, 2004. Subsequently, all of the outstanding Bonds were repurchased.
- (ii) On 15 October, 2004, the Company entered into a conditional Sale and Purchase Agreement with an independent third party for the acquisition of China Gas Investment Construction Limited ("CGICL") for a consideration of HK\$53,110,000. The sole asset of CGICL is the 75% interest in Suzhou Zhongran City Gas Development Ltd, a company incorporated in the PRC which is principally engaged into a series of natural gas projects in Suzhou City of Anhui Province.
- (iii) On 24 October, 2004, China City Natural Gas Holdings Limited ("China City Natural Gas"), a wholly owned subsidiary of the Company entered into Agreement with Cangzhou Municipal Government to establish a joint venture ("Gangzhou JV") which will be principally engaged in the design, construction and operation of natural gas pipeline network in Cangzhou, Hebei Province of the people's Republic of China. Cangzhou JV will be owned as to 70% by China City Natural Gas and so as to the balance of 30% by Cangzhou Municipal Government. China City Natural Gas will contribute a total of RMB 35,000,000 (equivalent to approximately HK\$33,333,333) to the registered capital of Cangzhou JV. A summary of the terms of the agreement is set out in the announcement of the Company dated 25 October, 2004.
- (iv) On 31 October, 2004, the Company entered into the Subscription Agreement with Sinopec Corp., pursuant to which Sinopec Corp. has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 210,000,000 ordinary shares in cash at a subscription price of HK\$0.61 per Share. A summary of the terms of the agreement is set out in the announcement of the Company dated 1 November, 2004.
- (v) On 16 November, 2004, an agreement was signed between the Company, 北京市燃氣集團有限責任公司 and 北京市燃氣工程設計公司 for the acquisition of 49% equity interest in a joint venture ("Beijing JV") which is principally engaged in the operation of natural gas projects in six districts in Beijing at a consideration of RMB7,634,000. Pursuant to the agreement, both parties further agreed to increase the registered capital of the Beijing JV from RMB 10,000,000 to RMB30,000,000. The Company has to inject RMB9,800,000 to the capital of the Beijing JV.
- (vi) Subsequent to the period end, the Group obtained new bank borrowings of approximately HK\$309 million and repaid borrowings of approximately HK\$56 million.

INTERIM DIVIDEND

The Directors resolved not to recommend the payment of an interim dividend for the six months ended 30 September, 2004 (six months ended 30 September, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group continued to consolidate its investment in piped natural gas business in China and to capture external funding through the introduction of strategic investors to the Company. With the efforts of the Directors and staff, the Group's natural gas business has made considerable progress.

BUSINESS REVIEW

For the six months ended 30 September, 2004, turnover of the Group amounted to HK\$187,724,000 (six months ended 30 September, 2003: HK\$83,444,000). Profit attributable to the shareholders was HK\$66,049,000 (six months ended 30 September, 2003: loss of HK\$19,057,000). Earnings per share was HK3.86 cents (loss per share for the six months ended 30 September, 2003: HK1.57 cents).

The Group had secured a number of natural gas projects during the period under review and pipeline networks of some of the projects were under construction and connection fee and gas sales fee were charged. Meantime, the Company 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

During the period under review, the Group had built gas pipeline network of approximately 909 km (including branch and customer pipeline network), 62,950 domestic households and 17 industrial users completed the connection works.

As at 30 September, 2004, the Group accumulated approximately 3,127 km of gas pipeline network, accumulated natural gas connected domestic household reached 329,942 households, representing 9.4% of the Group's overall domestic households available for connection and accumulated natural gas connected industrial users reached 411 users. The Group's piped gas connection fee income amounted to approximately HK\$141,109,000 and gas connection fee income accounted for 75.2% of the Group's total turnover.

Sale of Piped Gas

During the period under review, coal gas sales income of Wuhu Zhongran and Huainan Zhongran and natural gas sales income of Beijing Zhongran Xiangke were recorded. The Group sold in total 28,890,000 m³ of gas (comprising coal gas and natural gas) of which 15,270,000 m³ of gas to domestic households and 13,620,000 m³ to industrial and commercial users. As at 30 September, 2004, gas sales income was HK\$36,478,000, representing approximately 19.4% of the Group's total turnover for the period under review.

Gross Profit Margin and Net Profit Margin

For the six months period ended 30 September, 2004, the Group realized revenue of HK\$187,724,000 and gross profit of HK\$117,712,000, representing 62.7% of the Group's overall gross profit margin (gross profit margin as of 31 March, 2004 : 44.8%). The Group realized net profit of HK\$66,049,000 representing an overall net profit margin of 35.2% (net profit margin as of 31 March, 2004: 21.3%).

Natural Gas Projects

As at the end of November 2004, the Group had further secured 12 new pipeline natural gas projects. There are six newly obtained projects in Hebei Province and are located in Cangzhou, Nanpi, Qinghe, Lingzhou, Zhanhuang and Nanhe; two in Anhui Province and are located in Suzhou and Wuhuxian; one in Hubei Province and is located in Tianmen; one in Shaanxi which is located in Xian National Hi-Tech Development Zone and two in Guangxi Province which are located in Qinzhou and Yulin. As at the end of November 2004, the Group accumulated 54 cities piped gas projects and 41 cities and districts with operating rights of piped gas, among which 35 of them were exclusive operating rights of piped gas. Those exclusive operating rights in Changping, Daxing, Yangqing, Tongzhou, Shunyi and Fangshan are now making application with Beijing Government.

Anhui Province

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

As at 30 September, 2004, accumulated connected domestic households in Wuhu Zhongran reached 107,429 households and accumulated connected industrial and commercial users were 304 users. Contribution from Wuhu Zhongran accounted for approximately 14.6% of the Group's turnover for the six months ended 30 September, 2004.

Huainan Zhongran became a wholly owned subsidiary of the Group upon the transfer of 30% equity interest from Huainan City Gas Company, the Chinese partner of Huainan Zhongran in May 2004. During the period, accumulated connected domestic households in Huainan Zhongran reached 51,685 households. Contribution from Huainan Zhongran accounted for approximately 7.97% of the Group's turnover for the period under review.

The Group owns 75% interest in Suzhou Zhongran and 90% interest in Shouxian Zhongran. No contributions were recorded from the above two companies during the period under review.

Hubei Province

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

As at 30 September, 2004, accumulated connected domestic households reached 64,935 households in Yichang Zhongran. Contribution from Yichang Zhongran accounted for approximately 3.47% of the Group's turnover for the six months ended 30 September, 2004.

The Group acquired additional interests in the five joint ventures companies in Xiaogan city, Hanchuan city, Yingcheng city and Yunmeng city during the period under review. As a result of this, except for the Xiaogan Zhenrong joint venture company of which the Group currently holds 55% interest, Xiaogan Jiaxu joint venture company, Hanchuan Jiaxu joint venture company, Yumeng Jiaxu joint venture company and Yingcheng Jiaxu joint venture company are currently the wholly owned subsidiaries of the Group. As at 30 September, 2004, accumulated connected domestic households of the five joint venture companies reached 48,500 households. Contribution from the five joint venture companies accounted for approximately 23.41% of the Group's turnover for the six months ended 30 September, 2004.

Suizhou Zhongran became a wholly owned subsidiary of the Group upon the transfer of 10% equity interest from Suizhou Municipal Projects Company, the Chinese partner of Suzihou Zhongran in July 2004. As at 30 September, 2004, accumulated connected domestic households of Suizhou Zhongran reached 19,777 households. Contribution from Suizhou Zhongran accounted for approximately 16.02% of the Group's turnover for the six months ended 30 September, 2004.

Hunan Province

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

As at 30 September, 2004, accumulated connected domestic households of Yiyang Zhongran reached 24,207 households. Contribution from Yiyang Zhongran accounted for approximately 17.12% of the Group's turnover for the six months ended 30 September, 2004.

Jiangsu Province

The Group's wholly owned subsidiary in Puzhou city had been established during the period under review and the one of Yangzhong city is still under establishment and no contribution was made from Puzhou Zhongran to the Group's total turnover under the period review.

Beijing

Beijing Zhongran Xiangke Jiahua Oil Gas Technology Co. Ltd (“Beijing Zhongran Xiangke”) is the Group’s 60% owned joint venture company and is principally engaged in sale of 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. By the end of November 2004, Beijing Zhongran Xiangke owned 10 subsidiaries and with exclusive licence rights increased from last year’s 7 to 10. The newly added cities and districts included Lingshou, Zanhuang and Nanhe of Hebei Province.

As at 30 September, 2004, accumulated connected domestic households in Beijing Zhongran Xiangke reached 13,409 households. For the six months ended 30 September, 2004, turnover of Beijing Zhongran Xiangke amounted to HK\$25,621,000 (six months ended 30 September 2003: HK\$27,019,000), representing approximately 13.65% of the Group’s total turnover.

Others

In May 2004, a cooperation agreement was entered into between the Company and 北京市燃氣集團有限公司 (Beijing Gas Group Company Ltd) (“Beijing Gas Group”) for the joint investments and operation of the natural gas projects in six districts in Beijing. In November 2004, an agreement was signed by both parties that the joint venture company will be owned as to 51% by Beijing Gas Group and 49% by the Group with registered capital of RMB30,000,000.

In September 2004, the Group, through one of its subsidiaries, signed an agreement with Nanpixian Construction Bureau of Hebei Province and has obtained the exclusive operation right of Nanpi district for a term of 30 years. The newly established company, namely Nanpi Xian Zhongran City Gas Development Company Limited will be wholly owned by the Group.

In October 2004, the Group, through one of its subsidiaries, signed an agreement with Cangzhou Municipal Government of Hebei Province and has obtained the exclusive operation right of Cangzhou for a term of 30 years. The newly established company, namely Cangzhou Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group has obtained six new natural gas projects in November 2004.

The Group, through its subsidiaries, signed co-operative agreements with Qinhexian Municipal Government of Hebei Province and Tianmen Municipal Government of Hubei Province respectively and have obtained the exclusive piped gas operation rights of Qinghe district and Tianmen city for a term of 30 years. The two newly established companies, namely Qinghe Zhongran City Gas Development Company Limited and Tianmen Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group, through Wuhu Zhongran, signed a co-operative agreement with Wuhuxian Municipal Government of Anhui Province and has obtained the exclusive piped gas operation right of Wuhuxian of Anhui Province for a term of 30 years.

The Group, through one of its subsidiaries, signed an agreement with Xian National Hi-Tech Industrial Development Zone Administrative Committee of Shaanxi Province and has obtained the exclusive piped gas operation right of Xian National Hi-Tech Aviation Development Zone and new development zones in Hi-Tech Industrial Development Zone for a term of 30 years. The newly established company, namely Xian Zhongran City Gas Development Company Limited will be wholly owned by the Group.

The Group, through its subsidiaries, signed co-operative agreements with Yulin City Construction Bureau of Guangxi Province and Qinzhou Municipal Government of Guangxi Province respectively and have obtained the exclusive piped gas operation rights of Yulin and Qinzhou for a term of 30 years. The two newly established companies, namely Yulin Zhongran City Gas Development Company Limited and Qinzhou Zhongran City Gas Development Company Limited will be wholly owned by the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September, 2004, the total assets of the Group was HK\$1,706,211,000, increased by approximately 27.1% as compared to 31 March, 2004.

As at 30 September, 2004, cash on hand was HK\$215,901,000 (31 March, 2004: HK\$471,823,000). The Group's total bank and other borrowings amounted to HK\$759,975,000 (31 March, 2004: HK\$591,719,000) of which approximately 38.9%, 3.3%, 25.3% and 32.5% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively. The borrowings were secured by portions of the Group's fixed assets.

As at 30 September, 2004, the Group has a current ratio of approximately 1.60 (31 March, 2004: 2.65) and the gearing ratio was 1.36 (31 March, 2004: 1.34). The calculation of gearing ratio was based on the total borrowings of HK\$857,040,000 (31 March, 2004: HK\$674,460,000) and shareholders' equity of HK\$630,252,000 (31 March, 2004: HK\$502,674,000) as at 30 September, 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 30 September, 2004 was HK\$714,801,000 (31 March, 2004: HK\$572,712,000) and HK\$578,876,000 (31 March, 2004: HK\$561,696,000) respectively 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 enterprises 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 September 2004, the Company placed a total of 90,000,000 shares at HK\$0.52 per share to an independent investor and the net proceeds of approximately HK\$46,700,000 had been received upon completion and the proceeds had been used as working capital of the Group.

In September 2004, the Company entered two warrants placing agreements with two independent investors for the placing of a total of 260,000,000 warrants at an issue price of HK\$0.01 per warrant (the "Warrant"). The Warrant has an initial exercise price of HK\$0.66 per share for a period of five years commencing from the date of issue of the Warrant. Net proceeds from the placing of Warrant of approximately HK\$2,500,000 had been used as working capital of the Group upon completion.

In October 2004, the Company entered into a repurchase agreement with Merrill Lynch International for (i) the repurchase of US\$3,500,000 convertible bonds at a repurchase price of US\$3,850,000; and (ii) to amend the terms of the remaining outstanding US\$3,500,000 convertible bonds ("Outstanding Bonds"). Pursuant to the terms of the agreement, the Company has the rights to make cash payment at 115% of the principal amount of the Outstanding Bonds to Merrill Lynch in full satisfaction of the conversion rights of the Outstanding Bonds converted. As at the end of November 2004, all of the Outstanding Bonds were being repurchased.

On 31 October, 2004, the Company entered into a subscription agreement with Sinopec Corp for the subscription of 210,000,000 shares of the Company at a subscription price of HK\$0.61 per share. Net proceeds of approximately HK\$128,000,000 would be received upon completion.

Charge on Assets

As at 30 September, 2004, the Group pledged portions of land and building, equipments and pipelines network having a net book value of approximately HK\$266,795,000 (31 March, 2004: HK\$39,682,000) and certain investments in subsidiaries to secure loan facilities granted to the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 September, 2004.

Employees

The Group has over 1,600 employees as at 30 September, 2004. 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 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 during the period. Certain employees in China are provided with lodging house.

Strategic Partners Cooperation Agreements

The Company entered into a subscription agreement and a co-operation strategic agreement with Sinopec Corp in October 2004. Pursuant to the subscription agreement, Sinopec Corp will subscribe for 210,000,000 shares of the Company at a subscription price of HK\$0.61 per share. Sinopec Corp is the largest integrated energy and chemical company in China and is listed in four stock exchanges in the world. Meanwhile, the Company and Sinopec Corp had also entered into a strategic cooperation agreement where both parties agreed to co-operate as strategic business partners in the various aspects for the investment in natural gas and energy projects in China.

The Company signed a letter of Intent in May 2004 with Gazprom in relation to a possible cooperation between the Company and Gazprom in development of natural gas projects in China. Pursuant to the letter of Intent, Gazprom considered to become a strategic investor of the Company. Gazprom is a Russian open joint-stock company and is the largest gas producing company in the world as it shares about 20% of the world gas production.

PROSPECTS

The Group had further secured 12 new pipeline natural gas projects with accumulated 54 cities piped gas projects, owned 35 cities and districts with exclusive operating rights of piped gas as at the end of November 2004. Most of our operating projects are located along the main pipelines of West-East Pipeline and Sichuan-East Pipeline.

The Company had entered into strategic cooperation agreements with Sinopec Corp. and Gazprom respectively. In the forthcoming year, the Company will continue to look for those well-established natural gas corporations to become our strategic investors. In addition, we will continue to explore new natural gas projects and actively take part in the investments in the natural gas projects.

We will further the development of the Group and will try our very best to maximize investment return for our shareholders.

DIRECTORS' INTEREST IN SHARES AND IN SHARE OPTIONS

As at 30 September, 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	385,000,000 <i>(Note)</i>	21.95

Note: As at 30 September, 2004, Mr. Liu Ming Hui ("Mr. Liu") held 225,000,000 shares in the Company. Pursuant to the sale and purchase agreement dated 16 January, 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 30 September, 2004, the sale and purchase of 90,000,000 shares has been completed.

(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 6 February, 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 1 September, 2004 to 8 January, 2014.

Save as disclosed above, as at 30 September, 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 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	160,002,000 (L) <i>(Note 1)</i>	9.12
		160,000,000 (S) <i>(Note 2)</i>	9.12
Hai Xia Finance Holdings Limited	Beneficial owner	150,000,003 (L)	8.55
		150,000,003 (S)	8.55

L: Long position

S: Short position

Notes:

- (1) These shares are held as to 159,759,000 shares by Heng Fung Holdings Limited and as to 243,000 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 30 September 2004, the sale and purchase of 90,000,000 shares has been completed.
- (3) On 28 September 2004, a warrant placing agreement was entered into between the Company and Mr. Kan Che Kin, Billy Albert ("Mr. Kan") in relation to a private placing of 180,000,000 warrants at an issue price of HK\$0.01 per warrant of which it entitled Mr. Kan to subscribe for 180,000,000 new Shares of the Company at an initial exercise price of HK\$0.66 per new Share for a period of five years commencing from the date of issue of the warrants. As at 30 September 2004, Mr. Kan beneficially owned 10,000,000 shares of the Company, representing 0.57% of the issued share capital of the Company.
- (4) On 28 September 2004, a warrant placing agreement was entered into between the Company and Mr. Liu Zhi He ("Mr. LZH") in relation to a private placing of 80,000,000 warrants at an issue price of HK\$0.01 per warrant of which it entitled Mr. LZH to subscribe for 80,000,000 new Shares of the Company at an initial exercise price of HK\$0.66 per new Share for a period of five years commencing from the date of issue of the warrants. As at 30 September 2004, Mr. LZH beneficially owned 28,264,000 shares of the Company, representing 1.61% of the issued share capital of the Company.
- (5) On 30 September 2004, a subscription agreement was entered into between the Company and Apollo Elite International Limited ("Apollo Elite") in relation to the subscription of 90,000,000 new Shares of the Company at a subscription price of HK\$0.52 per new Share. As at 30 September 2004, Apollo Elite did not hold any shares of the Company.

Save as disclosed herein, as at 30 September, 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.

REVIEW BY AUDIT COMMITTEE

The audit committee, comprising Messrs. Zhao Yuhua, Mao Erwan and Wong Sin Yue, Cynthia, has reviewed with the Management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September, 2004.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the six months ended 30 September, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors are of the opinion that the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the six months ended 30 September, 2004 except that the non-executive Directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

On Behalf of the Board of
China Gas Holdings Limited
Liu Ming Hui
Managing Director

Hong Kong, 10 December, 2004