



CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 384)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2004

The Board of Directors (the “Directors”) of China Gas Holdings Limited (the “Company”) announced the audited financial results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2004, together with the figures for the year ended 31 March 2003 are as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Year ended 31 March 2004 HK\$'000	Year ended 31 March 2003 HK\$'000
Turnover	2	376,491	85,537
Cost of sales		(208,081)	(64,238)
Gross profit		168,410	21,299
Other operating income		11,979	343
Distribution costs		(7,649)	(3,733)
Administrative expenses		(52,125)	(34,176)
Amortisation of goodwill		(1,959)	(654)
Depreciation and amortization of property, plant and equipment		(9,605)	(4,232)
Deficit on revaluation of investment properties		(180)	(4,123)
Impairment loss reversed (recognized) in respect of property, plant and equipment		5,987	(8,797)
Negative goodwill released to income statement		–	3,488
Impairment loss recognized in respect of investments in securities		–	(28,060)
Unrealised holding gain on other investments		370	–
Profit/(loss) from operations	3	115,228	(58,645)
Finance costs		(24,602)	(6,169)
Gain on disposal of subsidiaries		20,017	–
Profit on disposal of discontinued operation		7,569	–
Share of results of associates		–	(11)
Profit/(loss) before taxation		118,212	(64,825)
Taxation	4	(1,344)	(1,861)
Profit/(loss) before minority interests		116,868	(66,686)
Minority interests		(36,808)	(2,987)
Net profit/(loss) for the year		80,060	(69,673)
Earnings/(loss) per share	5		
Basic		6.15 cents	(6.68 cents)
Diluted		6.04 cents	–

Notes:

1. 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 (“SSAPs”) 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. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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.

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 these standards had had no material effect on the results for the current or prior accounting years. Accordingly, no prior period adjustment has been required.

2. Turnover and segment information

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.

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	<u>1,262</u>	<u>94</u>	<u>185,045</u>	<u>49,727</u>	<u>10,572</u>	<u>129,791</u>	<u>376,491</u>
SEGMENT RESULT	<u>(715)</u>	<u>54</u>	<u>130,015</u>	<u>8,152</u>	<u>2,556</u>	<u>(518)</u>	<u>139,544</u>
Unallocated corporate revenue							10,109
Unallocated corporate expenses							<u>(34,425)</u>
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	<u>7,569</u>
Profit before taxation							118,212
Taxation							<u>(1,344)</u>
Profit before minority interests							116,868
Minority interests							<u>(36,808)</u>
Net profit for the year							<u>80,060</u>
OTHER INFORMATION							
Depreciation and amortization	-	-	-	2,896	-	5,213	8,109
Depreciation and amortization (unallocated)							<u>1,496</u>
							<u>9,605</u>
Deficit on revaluation of investment properties	180	-	-	-	-	-	180
Amortisation of goodwill	<u>-</u>	<u>-</u>	<u>-</u>	<u>497</u>	<u>-</u>	<u>1,462</u>	<u>1,959</u>

	Continuing Operations					Discontinued Operation	Consolidated HK\$'000
	Property Investment HK\$'000	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)
OTHER INFORMATION							
Depreciation and amortization	258	-	-	1,112	-	2,037	3,407
Depreciation and amortization (unallocated)							825
							4,232
Deficit on revaluation of investment properties	4,123	-	-	-	-	-	4,123
Amortisation of goodwill	-	-	-	447	-	207	654
Impairment loss recognized in consolidated income statement	-	28,060	-	-	-	-	28,060
Negative goodwill released to income statement (unallocated)							3,488

3. Profit (loss) from operations

Profit (loss) from operations has been arrived at after charging depreciation and amortization of property, plant and equipment of HK\$9,605,000 (2003: HK\$4,232,000)

4. Taxation

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

No provision for Hong Kong Profits Tax has been made as the Group has 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.

5. Earnings (Loss) per share

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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	<u>924</u>	<u>–</u>
Earnings (loss) for the purposes of diluted earnings (loss) per shares	<u>80,984</u>	<u>(69,673)</u>
	2004 <i>'000</i>	2003 <i>'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,300,959	1,043,403
Effect of dilutive potential ordinary shares:		
Convertible note	17,518	–
Convertible bonds	<u>21,973</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes 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 31 March 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 31 March 2003 is presented as the exercise of potential dilutive ordinary shares would result in reduction in loss per share.

FINAL DIVIDEND

Given the cash need for continual business expansion, the Directors resolved not to recommend the payment of a final dividend for the year ended 31 March 2004 (year ended 31 March 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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 31 March 2004, turnover of the Group amounted to HK\$376,491,000 (year ended 31 March 2003: HK\$85,537,000). Profit attributable to the shareholder was HK\$80,060,000 (year ended 31 March 2003: loss of HK\$69,673,000). Earning per share was HK6.15 cents (loss per share for the year ended 31 March 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 31 March 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 keep intensifying efforts in the enforcement of environmental protections regulations so as to restricting 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 31 March 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 PetroChina Company Limited 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 and consequently charged gas connection fee from residential users and industrial and commercial users while the projects introduced by the Group in previous year are still in the stage of negotiation and research. 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, Puzhou city and Yangzhong city of Jiangsu Province, Neiqiu city, Xinle city, Pingshan City of Hebei and Wucheng district, Jinhua of Zhejiang Province were the new projects secured during the financial year. Changping District, Daxing District, Shunyi District, Tongzhou District, Fangshan District, Yanqing District of Beijing and Cangzhou economic and technology development district, Hebei Province and Shouxian, Anhui Province were the new projects 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 Wuhuan 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 31 March 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 31 March 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 31 March 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 31 March 2004.

In June 2003, the Group entered into a joint venture agreement with 淮南市燃氣總公司 for the establishment of Huainan China Gas and 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 for the transfer of 30% interest in Huainan China Gas by 淮南市燃氣總公司 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 31 March 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 1.8% of the Group's turnover for the year ended 31 March 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 31 March 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 31 March 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 31 March 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 31 March 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 31 March 2004, Yichang 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 31 March 2004.

Jiangsu Province

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

Puzhou city is located in the centre of the designed Xulian urban circles, Jiangsu Province. It has a total area of 2,088 square miles kilometers 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 Puzhou 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 Puzhou 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 kilometers 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 Yangzhong 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 揚中市人民政府 (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 and Gaocheng City, Pingshan City and Feng Nan District, Tangshan City of Hubei Province. As at 31 March 2004, Beijing Zhongran 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 (31 March 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 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 district, 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 北京市燃氣集團 will further increase the Group's customer base and profitability. 北京市燃氣集團 is a solely state-owned enterprise and is formed and invested by 北京市人民政府 (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 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 one of its subsidiaries, Huainan joint venture company signed a joint venture agreement with 安徽省壽縣建設投資公司 (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 31 March 2004, the total assets of the Group was HK\$1,342,279,000, increased by approximately 168% as compared to 31 March 2003.

As at 31 March 2004, cash on hand was HK\$471,823,000 (31 March 2003: HK\$92,477,000). The Group's total bank and other borrowings amounted to HK\$591,719,000 (31 March 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 31 March 2004, the Group has a current ratio of approximately 2.65 (31 March 2003: 1.19) and the gearing ratio was 1.34 (31 March 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 31 March 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 31 March 2004 was HK\$572,712,000 (31 March 2003: HK\$38,655,000) and HK\$561,696,000 (31 March 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 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 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 principle amount of US\$6,000,000 was issued in November 2003 and the second tranche in the total principle 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\$0.82 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, 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 and the Group's contribution in natural gas projects in Yiyang and Suizhou respectively.

Charge on Assets

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

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

Contingent Liabilities

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

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

Employees

As at 31 March 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 funds, 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.

PROSPECTS

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.

REVIEW BY AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2004.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 March 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 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") from 1 April 2003 to 31 March 2004.

As of the date of this announcement, 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.

PROPOSAL FOR AMENDMENT OF BYE-LAWS OF THE COMPANY

The Stock Exchange has revised the Listing Rules and the amended Listing Rules took effect on 31 March 2004. In addition, the Securities and Future Ordinance ("SFO") has become effective on 1 April 2003.

The Directors therefore proposed to make certain amendments to the Bye-laws in the forthcoming annual general meeting so as to in compliance with the new Listing Rules and at the same time bring the Bye-laws up to date with the SFO. Details of the amendment of the Bye-laws will be set out in the notice of the annual general meeting of the Company.

PUBLICATION OF FINANCIAL INFORMATION ON THE WEBSITE OF STOCK EXCHANGE OF HONG KONG LIMITED

All information required by paragraphs 45(1) to 45 (3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

Hong Kong, 25 June 2004

* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.