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 2005

FINANCIAL HIGHLIGHTS

- Audited total asset of the Group was HK$2,750,723,000, increased by 105%
- Turnover reached HK$410,202,000, increased by 9.0%
- Net profit attributable to shareholders reached HK$132,249,000, up 65.2%
- Sales of piped gas reached HK$103,843,000, increased by 108.8%
- Basic earnings per share was HK7.17 cents, up 16.6%

The Board of Directors (the "Directors") of China Gas Holdings Limited (the "Company") is pleased to announce the audited financial results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005, together with the figures for the year ended 31 March 2004 are as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended 31 March 2005** *HK$'000*	Year ended 31 March 2004 *HK$'000*
Turnover	*2*	**410,202**	376,491
Cost of sales		**(163,086)**	(208,081)
Gross profit		**247,116**	168,410
Other operating income		**15,657**	12,349
Distribution costs		**(12,469)**	(7,649)
Administrative expenses		**(75,526)**	(61,730)
Amortisation of goodwill		**–**	(1,959)
Deficit on revaluation of investment properties		**–**	(180)
Impairment loss reversed in respect of property, plant and equipment		**2,668**	5,987
Profit from operations	*3*	**177,446**	115,228
Finance costs		**(21,270)**	(24,602)
(Loss) gain on disposal of subsidiaries		**(1,650)**	20,017
Discount on acquisitions of subsidiaries and an associate		**15,998**	–
Profit on disposal of discontinued operation		**–**	7,569
Share of results of an associate		**(1,035)**	–
Profit before taxation		**169,489**	118,212
Taxation	*4*	**(1,475)**	(1,344)
Profit before minority interests		**168,014**	116,868
Minority interests		**(35,765)**	(36,808)
Net profit for the year		**132,249**	80,060
Earnings per share	*5*		
Basic		**HK7.17 cents**	HK6.15 cents
Diluted		**HK6.82 cents**	HK6.04 cents

Notes:

1. Adoption of New Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS(s)") (hereinafter collectively referred to as "new HKFRS(s)") which are effective for accounting periods beginning on or after 1 January, 2005. In the current year, the Group resolved to early adopt the following new HKFRSs:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets

HKFRS 3 applies to accounting for business combination for which the agreement date is on or after 1 January, 2005. The early adoption of HKFRS 3 and HKAS 36 from 1 April, 2004 has resulted in Group ceasing annual amortisation of goodwill and to test for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). Discount on acquisition is credited to the income statement in the period of acquisition. The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amount of the accumulated amortisation by approximately HK$1,908,000 with a corresponding entry to the cost of goodwill. As a result of this change in accounting policy, the profit of the Group for the year has been increased by approximately HK$22,056,000.

2. Turnover and segment information

Turnover represents the net amounts received and receivable for goods sold, sales of piped gas, 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:

2005

	Property investment *HK$'000*	Financial and securities investment *HK$'000*	Gas pipeline construction *HK$'000*	Sales of piped gas *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
REVENUE						
Turnover	**494**	**368**	**292,150**	**103,843**	**13,347**	**410,202**
SEGMENT RESULT	**(940)**	**(7)**	**200,895**	**9,013**	**276**	**209,237**
Unallocated corporate revenue						**5,931**
Unallocated corporate expenses						**(37,722)**
Profit from operations						**177,446**
Finance costs						**(21,270)**
Loss on disposal of subsidiaries	**(1,650)**	**–**	**–**	**–**	**–**	**(1,650)**
Discount on acquisitions of subsidiaries and an associate	**–**	**–**	**–**	**15,998**	**–**	**15,998**
Share of results of an associate						**(1,035)**
Profit before taxation						**169,489**
Taxation						**(1,475)**
Profit before minority interests						**168,014**
Minority interests						**(35,765)**
Net profit for the year						**132,249**

2004

	Continuing operations					Discontinued operations	
	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*	Consolidated *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

3. Profit from operations

Profit from operations has been arrived at after charging depreciation and amortisation of HK$11,071,000 (31 March 2004: HK$9,605,000).

4. Taxation

The amount represents PRC income tax for both years.

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

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 the PRC income taxes for the year.

5. Earnings per share

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

	2005	2004
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**132,249**	80,060
Effect of dilutive potential ordinary shares:		
Interest on convertible note and convertible bonds	**1,045**	924
Earnings for the purposes of diluted earnings per share	**133,294**	80,984

	2005	2004
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,844,957	1,300,959
Effect of dilutive potential ordinary shares:		
Convertible note	21,593	17,518
Convertible bonds	916	21,973
Share options	55,882	–
Warrants	31,275	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,954,623	1,340,450

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 was higher than the average market price for shares for the year ended 31 March 2004.

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 2005 (year ended 31 March 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

China's demand for energy is increasing as the Chinese economy enters a new era of high-speed development. In 2003, China surpassed Japan to become the second largest petroleum consumer only after the USA. China's petroleum consumption accounted for 23% of its consumption composition of disposable energy, while coal consumption even took up 66% of its consumption composition of disposable energy. However, since it becomes more difficult to raise output now due to the increasing difficulty in the exploitation of some oil fields in China, coupled with the rising international crude oil prices recently, these have created an impact on the Chinese economic development to a certain extent, while China's over reliance upon coals has given rise to not only a serious environmental pollution problem but also a major risk involved during the exploitation of resources. Thus, China's defective energy composition has drawn growing concerns.

The Chinese Government is mapping out a medium and long-term development plan for the natural gas industry to further accelerate the exploration, development and utilization of nature gas, and to optimize the energy composition for the security of the country's energy. In its sustainable development strategies, the Chinese Government has proposed an adjustment to the energy consumption composition, and the development and utilization of recyclable energy and new energy sources. This has offered a precious opportunity for the development of the natural gas industry, in particular, the downstream natural gas distribution business.

The Group moved into the urban gas distribution market in 2002, and since then it has been fully leveraging on the precious opportunity of China's move to open the downstream natural gas distribution market to foreign investors by taking a proactive approach to developing urban natural gas projects in China, with the success in securing a lot of franchised urban gas projects, resulting in a rapid growth in the development of the Group's business.

Business Review

For the year ended 31 March 2005, turnover of the Group amounted to HK$410,202,000 (year ended 31 March 2004: HK$376,491,000). Profit attributable to the shareholder was HK$132,249,000 (year ended 31 March 2004: HK$80,060,000). Earnings per share was HK7.17 cents (year ended 31 March 2004: HK6.15 cents).

New Projects Developments

In order to further develop the Group's business, during the financial year, the Group actively developed new projects in the central eastern part of China and achieved excellent results. We have secured 13 city piped gas projects (with exclusive operating rights) and one natural gas long distance pipeline project. The Group further secured 9 city piped gas projects (with exclusive operating rights) after the financial year. As at 30 June 2005, the Group secured the exclusive operating rights of city piped gas projects in 43 cities and districts across 9 provinces and two natural gas long distance pipeline projects.

The Group has obtained the following city piped gas projects during the financial year:

Anhui	Suzhou, Shouxian, Wuhuxian
Hebei	Cangzhou, Nanpixian, Qinhexian, Ningshouxian
Henan	Yuanjiang city
Jiangsu	Jiangbei district of Nanjing city
Guangxi Zhuang Autonomous Region	Qinzhou, Yulin
Shanxi	Xi'an National Hi-Tech Development District
Hubei	Tianmen city

The Group has obtained the following new natural gas long distance pipeline projects during the financial year:

Hubei	Zhijiang — Dangyang long distance gas pipeline

The Group has obtained the following city piped gas projects after the financial year:

Anhui	Nanlinxian, Huoshanxian, Fengtaixian
Zhejiang	Xiaoshan district of Hangzhou city, Xiaoxingxian
Jiangsu	Jiawang district of Xuzhou city, Xinyi city
Guangdong	Maoming city
Hubei	Guangshui city

As at the year 2004, the above projects were intended to serve the gas connectable population of approximately 14,575,000 (approximately 4,555,000 households). As compared with the gas connectable population of 9,060,000 last year, (approximately 2,831,000 households), representing an increase of 60.9%.

The standards for urban economic development and industrial scale of the projects which the Group secured this year have increased remarkably over those of previous years. In January this year, the Group succeeded in bidding for the piped gas project in the Jiangbei District, Nanjing. In April, it also secured the piped gas project in the Xiaoshan District, Hangzhou. The Jiangbei District in Nanjing and the Xiaoshan District in Hangzhou are the two districts where Nanjing's and Hangzhou's industrial users are densely populated, thus offering bright prospects for natural gas consumption. The success in securing the Nanjing and Hangzhou projects demonstrates the enhanced competitive edge of the Group and the government's trust in the Group.

Construction of Piped Gas Networks

Construction of city gas pipeline networks, through which to distribute natural gas, 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 completed 12 processing stations, 12 gas pressure regulating stations and built high-pressure gas pipelines of 283 km, city medium to low pressure gas pipelines of approximately 541 km and branch and customer pipeline network of 710 km.

Natural gas projects in Wuhu, Huainan, Suzhou, Yichang, Suizhou, Xiaogan, Yingcheng, Yumeng, Hanchuen and Dangyong invested by the Group commenced operation. In particular, it took only three months that Dangyong's project completed 54 km high-pressure pipelines and its related facilities and put it into commercial production. It served as a miracle for completing projects to the industrial players in China and valuable experience for the Group to build and manage long distance pipeline projects. As at 31 March 2005, the total number of completed city piped gas reached 19 cities.

As at 31 March 2005, the Group accumulated 18 processing stations, high-pressure gas pipelines of 617 km, city medium to low pressure gas pipelines of approximately 1,109 km and branch and customer pipeline network of 2,025 km. Designed daily gas supply capacity of processing stations is 5,223,140 cubic meters/day.

Residential Customers

The rapid development of the Chinese economy and the changes in industrial structure have resulted in substantial labour forces switching from the rural areas to the urban districts. With the increasing percentage of urban population in China, cities' demand for energy is expected to grow sharply. Besides, given that the environmental issue has sparked popular concerns in many countries around the world, environmental protection has become part of China's primary national policy. Local governments are taking a proactive approach to formulating and improving specific measures for environmental protection. The use of clean energy, with natural gas as the principal source, will undoubtedly bring about a positive impact on environmental protection. In comparison with coal, coal gas and liquefied petroleum gas, natural gas is the top priority as a safe and environmental friendly energy source for residential users. With the accelerated process of urbanization and increased income levels of urban residents in China, more and more urban residents will be able to use clean and highly efficient natural gas.

During the financial year, the Group completed natural gas connections for 132,309 domestic households, 50.47% compared to the same period of last year. The Group acquired 11,763 domestic households during the financial year. As at 31 March 2005, the Group accumulated connected domestic households reached 411,064 households, an increase of 53.96% compared to last year, representing 9.02% of the total gas connectable domestic households. During the financial year, the average connection fee paid by domestic households was RMB2,217.

Industrial and Commercial Customers
Industrial users mainly use natural gas as the fuels or raw materials. Industrial and commercial users use gas much more than residential users. As the increasing international crude oil prices in recent years has led to rising prices of petrol, diesel and heavy oil, while the stringent Chinese environmental protection legislation and strengthened regulation of small coal mines have resulted in a short supply of coals in China and rising coal prices, more and more industrial and commercial users have switched to the use of clean and highly efficient natural gas to save their production costs.

During the financial year, the Group completed natural gas connections for 46 industrial and commercial customers and acquired 171 industrial and commercial customers. As at 31 March 2005, the Group accumulated connected industrial and commercial customer reached 524 users. The connection fee for industrial and commercial customers was calculated based on the contracted capacity in average of RMB50 per cubic meter per day and average connection fee paid by industrial and commercial customers was RMB110,673 per customer.

Connection fee represented approximately 71% to the Group's total turnover during the year.

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, natural gas sales from the companies in Wuhu, Yichang, Suizhou, Xiaogan, Huainan and Beijing Xiangke were recorded. The Group sold in total 37,099,520 m^3 of natural gas of which 9,666,920 m^3 to domestic customers, 24,736,000 m^3 to industrial users and 2,707,600 m^3 to commercial users and recorded natural gas sales income of HK$76,218,000, representing approximately 19% of the Group's total turnover for the year. The natural gas sales income was approximately 140% higher than that of the same period last year.

As at 31 March 2005, actual usage for domestic customers was approximately 52,700 m^3/day, the scale of actual daily usage for industrial customers was approximately 286,900 m^3/day, the scale of actual usage for commercial customers was approximately 63,600 m^3/day. Average selling price (including tax) was RMB2.21 per cubic meter for domestic customers, RMB1.82 per cubic meter for industrial customers, RMB2.34 per cubic meter for commercial customers.

During the financial year, piped coal gas sales from Wuhu Zhongran and Yichang Zhongran was recorded while piped LPG sales income was recorded from Yangzhong Zhongran, Suzhou Zhongran and Huainan Zhongran. A total of 39,183,390 cubic meters of coal gas and LPG was sold during the financial year of which 27,063,120 cubic meters of coal gas and and LPG to domestic customers and 2,783,270 cubic meters of coal gas and LPG to industrial customers and 9,337,000 cubic meters of coal gas and LPG to commercial customers. Income from coal gas and LPG was HK$27,625,000, representing approximately 6.7% to the Group's total turnover.

Gross Profit Margin and Net Profit Margin
During the financial year, the Group realized revenue of HK$410,202,000 and gross profit of HK$247,116,000 (2004: HK$168,410,000), representing 60% of the Group's overall gross profit margin (2004: 45%). The Group realized net profit of HK$132,249,000 (2004: HK$80,060,000), representing an overall net profit margin of 32% (2004: 21%).

Attracting strategic shareholders to enhance competitiveness
During the financial year, the Group made a big move by bringing in one of the three major petroleum companies in China, Sinopec Corporation and India's largest natural gas operator, GAIL (India) Limited as the Group's strategic shareholders. The Group and Sinopec Corporation will have full strategic cooperation in the exploration and exploitation of natural gas, transportation trade, procurement and supply, investment in long distance natural gas transmission pipelines, investment in the construction and operation of urban gas pipe networks, information exchange and human resources for the joint development of China's rapid-growing and huge natural gas market. Sinopec's involvement in the Group as a strategic shareholder will enable the Group's downstream gas distribution business to secure a strong support from the upstream and midstream manufacturers. The Group has also entered into an agreement with GAIL for the joint development of CNG automobile gassing business in China. The Group's cooperation with experienced GAIL in this potential market will enable GAIL to become a new business growth point of the Group.

In addition, the Group has also entered into a strategic cooperation framework agreement with the world's largest natural gas company Gazprom, the world's largest LNG business operator Korea Gas Corporation and Asia's most long-standing company City Gas Pte Ltd.. These international energy companies have all indicated their intention to join the Group as strategic shareholders and to carry out full cooperation with the Group in their respective areas where they have competitive edges.

The Group believes that bringing in strategic shareholders will not only be able to secure the financial support which the Group is in urgent need for the development of its natural gas business, but also be able to rapidly raise the Group's technical, operation and management standards in all areas of natural gas, which in turn will be a great benefit to the Company's speedy development. Building up a company background with international shareholders will enable the Company to develop itself in future into an energy corporation that focuses on the natural gas business and has international competitiveness and an ever-lasting brand.

Establishing a safety operation and management system
The Group is engaged in public utilities by transmitting clean energy sources to numerous residents as well as industrial, commercial and corporate users. Hence, the Group is fully aware that safety operation is vital to the Group's business.

During the financial year, a HSE Safety Management Department was particularly set up in accordance with the requirements of the industry's international standards, and subsequently further improvements were made to the Group's safety management manual in line with the Group's actual circumstances and in combination with the safety operation standards of the international energy industry, and training was provided to all project companies of the Group in accordance with the new standards. Immediately after the training, an inspection was carried out on a regular basis to identify, on a timely basis, safety problems of the project companies arising during project construction, production and operation, and to urge these companies to make improvements in accordance with the new standards.

Improvements have also been made to the safety management network within the Group, and for this purpose a safety production committee has been set up, comprising members from the senior management of the Group's head office and general managers of the project companies under the Group. The HSE Safety Management Department will convene meetings on a regular basis to assess and inspect safety management and draw conclusions thereon, and to fully implement the Group's measures in all areas of safety production, operation and management.

Human Resources

The Group's development relies upon the retention and education of talented people. Only with competent and high quality staff can the Group's competitiveness be secured completely. The Group is committed to the "people-centered" business concept. It has carried out a lot of measures for attracting and training talented people in the areas below.

The Group has set up中燃哈工大燃氣技術研究院 (Gas Technology Research Institute of China Gas and HIT) and哈工大中燃產學研基地 (Production Research Base of HIT and China Gas) with 哈爾濱工業大學 (Harbin Institute of Technology), a Chinese domestic university which is the strongest in the gas discipline. This is the first time for the Group to join hands with a Chinese domestic university to set up the research institutes. Harbin Institute of Technology is the first institution in China that runs the gas discipline, and is stronger in research and advantage in the area of natural gas transmission and distribution. The establishment of the Gas Technology Research Institute of China Gas and HIT and the Production Research Base of HIT and China Gas will be beneficial to the Group's education and training of various gas technicians and management staff, and enhancement of the standards for its construction, operation and management of urban natural gas projects. Furthermore, the Group is negotiating with Harbin Institute of Technology about assigning the Group as哈爾濱工業大學燃氣博士後工作流動站 (Post-doctorate Gas Work Mobile Station of Harbin Institute of Technology), 哈爾濱工業大學研究生工作實習站 (Fieldwork Station for Post-graduates of Harbin Institute of Technology) and哈爾濱工業大學本科生實習基地 (Fieldwork Station for Undergraduates of Harbin Institute of Technology). In this way, the Group is also able to attract outstanding graduates trained from that university every year. At present, there is a batch of outstanding people with doctorate and master degree stationed at the work station of the Group.

The Group has established a system for providing general training, on-the-job training and senior management training. Through general training, each new staff member, upon joining the Group, will be able to understand the Group's fundamental concept, management concept, corporate culture, business and technical procedures, primary codes, etc.. On-the-job training will enable professional technicians and operators to acquire professional operating skills, updates of gas technology development, new technology and methods in accordance with the Group's requirements and standards. For this purpose, an in-house training base has been set up particularly and a detailed plan formulated for offering on-the-job training on a shift basis. Training for senior management is carried out mainly through the Production Research Base of HIT and China Gas. By providing training to the senior management of the Group's head office and its subsidiaries, the senior management will be able to broaden their perspectives, renew and enrich their knowledge base and further raise their management standards.

As at 31 March 2005, the Group has approximately 1,750 employees, representing a decrease of approximately 16% over last year. The decrease was mainly attributable to the layout of staff from the Group as a result of re-organization of positioning and systems. 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 performances of individual employee. Share options were granted to eligible staff in this financial year.

Natural Gas Joint Venture Companies

Anhui Province

The Group currently has operations in Wuhu city, Huainan city, Suzhou city, Wuhuxian and Shouxian, Auhui Province.

As at 31 March 2005, completed facilities in Wuhu Zhongran included pipelines of approximately 980 km (approximately 557 km belongs to branch and customer pipeline network), an increase of 22.96% compared to the last financial year. The number of connected domestic households reached 116,632 households and the number of accumulated connected industrial and commercial users was 311 users, an increase of approximately 16.7% and 5.1% respectively. As at 31 March 2005, contribution from Wuhu Zhongran accounted for 17.8% of the Group's turnover.

Wuhuxian Zhongran is a wholly owned subsidiary of the Group and established in January 2005 and is in its stage of preparation of construction works. As at 31 March 2005, no contribution was recorded.

As at 31 March 2005, completed facilities in Huainan Zhongran included pipelines of approximately 437 km (approximately 292 km belongs to branch and customer pipeline network), an increase of 22.25% compared to the last financial year. Accumulated connected domestic households reached 53,368 households and accumulated industrial and commercial users reached 11 users, an increase of approximately 15.1% and 175% respectively. Contribution from Huainan Zhongran accounted for 6.0% of the Group's turnover for the year ended 31 March 2005.

Shouxian Zhongran is a 90% owned subsidiary of the Group and established in October 2004 and in its stage of preparation of construction works. As at 31 March 2005, no contribution was recorded.

Suzhou city has a total population of 5,930,000 of whom 452,000 resided in the urban areas. The Group owned 75% in Suzhou Zhongran. As at 31 March 2005, completed facilities in Suzhou Zhongran included pipelines of approximately 59 km (approximately 40 km belongs to branch and customer pipeline network). Accumulated connected domestic households was 13,393 households and accumulated connected industrial and commercial users was 11 users. Contribution from Suzhou Zhongran accounted for 5.9% of the Group's turnover for the year ended 31 March 2005.

Hubei Province

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

As at 31 March 2005, Yichang Zhongran had completed facilities included 573 km pipelines (approximately 244 km belongs to branch and customer pipeline network). Accumulated connected domestic households reached 66,925 households and accumulated connected industrial and commercial users was 91 users. Contribution from Yichang Zhongran accounted for 3.6% of the Group's turnover for the year ended 31 March 2005.

As at 31 March 2005, the joint venture companies of Xiaogan, Hanchuan, Yingcheng, Yunmen and Xiaogan Zenrong had completed facilities included pipelines of approximately 889 km (approximately 370 km belongs to branch and customer pipeline network). Accumulated connected domestic households was 65,453 households and accumulated connected industrial and commercial users was 1 user. Contribution from the five joint venture companies accounted for 19.6% of the Group's turnover for the year ended 31 March 2005.

As at 31 March 2005, Suizhou Zhongran completed facilities included pipelines of approximately 157 km (approximately 116 km belongs to branch and customer pipeline network) as at 31 March 2005. Accumulated connected domestic households was 28,684 households. Contribution from Suizhou Zhongran accounted for 11.2% of the Group's turnover for the year ended 31 March 2005.

Tianman Zhongran is a wholly owned subsidiary of the Group. Tianman has a total population of 1,600,000 of whom 400,000 resided in the urban areas. Tianman Zhongran was in its stage of establishment during the financial year ended 31 March 2005.

Hunan Province

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

As at 31 March 2005, Yiyang Zhongran had completed facilities included pipelines of approximately 301 km (approximately 272 km belongs to branch and customer pipeline network). Accumulated connected domestic households was 30,237 households. Contribution from Yiyang Zhongran accounted for 10.4% of the Group's turnover for the year ended 31 March 2005.

Jiangsu Province

The Group currently has operation in Puzhou city, Yangzhong city and Jiang Bei district of Nanjing city, Jiangsu Province.

As at 31 March 2005, Puzhou Zhongran completed facilities included pipelines of approximately 22 km and accumulated connected domestic households was 7,166 households. Contribution from Puzhou Zhongran accounted for 3.4% of the Group's turnover for the year ended 31 March 2005.

As at 31 March 2005, Yangzhong Zhongran completed facilities included pipelines of approximately 86 km (approximately 29 km belongs to branch and customer pipeline network) and accumulated connected domestic households was 9,283 households and accumulated connected industrial and commercial users was 48 users. Contribution from Yangzhong Zhongran accounted for 1.9% of the Group's turnover for the year ended 31 March 2005.

In January 2005, the Group was granted the licence for a period of 30 years to operate the piped gas for the Jiang Bei District of Nanjing City, the PRC. Nanjing Zhongran is a wholly owned subsidiary of the Company with registered capital of US$24,180,400 and was duly set up in June 2005. Nanjing city is the capital of Jiangsu Province and Jiang Bei district of Nanjing city includes Luhe district and Pukou district and the area of which covers more than 50% of the Nanjing city. The planned population of this area is about 3.6 million. Pukou district is an important strategic development area and is planned to be a luxury residential area and high technology development zone while Luhe district is a major area for petroleum chemical industry for Nanjing city.

Zhejiang Province

The Group currently has its investments in Xiaoshan district of Hanzhou city, Zhejiang Province.

In March 2005, the Group signed a cooperation agreement with People's Government of Xiaoshan district, Hangzhou city to establish a wholly owned subsidiary to be named Xiaoshan Zhongran and was granted an exclusive licence to operate natural gas projects in Xiaoshan district, Hangzhou city for a term of 30 years. Xiaoshan Zhongran will have its registered capital of RMB100,000,000 and is a wholly-owned subsidiary of the Group. As of 31 March 2005, Xiaoshan Zhongran was in the process of establishment.

Hebei Province

The Group currently has operation in Cangzhou city, Cangzhou Economic and Technology Development Zone, Nanpixian and Qinhexian, Hebei Province.

Cangzhou Zhongran, a wholly-owned subsidiary of the Group was established in October 2004 and was granted a 30-years exclusive operating rights to operate natural gas project in Cangzhou Economic and Technology Development Zone. As at 31 March 2005, accumulated connected domestic households was 131 households and accumulated connected industrial and commercial users was 1 user.

In October 2004, the Group signed a joint venture agreement with Cangzhou Municipal Government for the establishment of a joint venture company to operate natural gas project in Cangzhou city. The joint venture company will have a registered capital of RMB50,000,000 and total investment of RMB150,000,000 and the Group would have 70% interest in the joint venture company. Cangzhou city is located in south-east of Hebei Province comprising two direct governance districts and ten counties. It has a total population of approximately 6,770,000. As at 31 March 2005, the joint venture company of Cangzhou city is under the stage of establishment with no contribution recorded.

Nanpixian is located in south-east part of Hebei Province and has a total area of 800 square miles with total population of 360,000 of whom 50,000 resided in the urban areas. Nanpi Zhongran was established in October 2004. As at 31 March 2005, no contribution was recorded from Nanpi Zhongran.

Qinhexian is located in south-east part of Hebei Province and has a total area of 502 square miles with total population of 360,000 of whom 40,000 resided in the urban areas. As at 31 March 2005, Qinhexian Zhongran was under the stage of establishment.

Guangxi Zhuang Autonomous Region

The Group currently has its investment in Yulin city and Qinzhou city, Guangxi Zhuang Autonomous Region.

Yulin city is located in south-east part of Guangxi Province and has a total area of 12,800 square miles with total population of 5,400,000 of whom 400,000 resided in the urban areas. As at 31 March 2005, the Yulin Zhongran was in the process of establishment.

Qinzhou city is located along the coastal of the southern part of Guangxi Province and has a total area of 10,800 square miles with total population of 3,300,000 of whom 220,000 resided in the urban areas. Qinzhou Zhongran was established in January 2005 and is wholly owned by the Group. As at 31 March 2005, no contribution was recorded.

Shanxi Province

This is the first time of the Group to have its investment in Shanxi province.

A cooperation agreement was entered into between the Company and Xi'an National Hi-Tech Industrial Development Zone Administrative Committee for the establishment of Xi'an Zhongran, a wholly-owned subsidiary of the Group, to operate natural gas project in Xi'an National Hi-Tech Aviation Development Zone and the new development zones around X'ian National Hi-Tech Industrial Development Zone in November 2004.

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. As at 31 March 2005, Beijing Zhongran Xiangke owned 13 wholly-owned subsidiaries, exclusive piped gas operating rights in ten cities and districts including Zunhua City, Neiqiu City, Yueting City, Xinle City and Gaocheng City, Pingshan City, Fengnan City, Lingshou, Longyao and Xingtang of Hubei Province. As at 31 March 2005, Beijing Zhongran Xiangke had completed facilities included pipelines of approximately 185 km (approximately 85 km belongs to branch and customer pipeline network). Accumulated connected natural gas domestic customers was 19,792 households and accumulated connected industrial and commercial users reached 50 users, an increase of 81.23% and 600% compared to last financial year. Turnovers of Beijing Zhongran Xiangke represented 18.5% of the Group's total turnover for the year ended 31 March 2005.

Following the cooperation agreement entered into between the Company and北京市燃氣集團有限責任公司 (Beijing Gas Group Company Limited) ("Beijing Gas Group") in May 2004, a joint venture company namely Beijing Jinggang Gas Development Company Limited ("Beijing Jinggang") was formed by and the Company and Beijing Gas Group in January 2005. Beijing Jinggang has a registered capital of RMB30,000,000 and was owned as to 49% by the Company and 51% by Beijing Gas Group and it will operate natural gas projects in the suburb areas including six districts in Beijing.

Other events

In March 2005, the Group, through its subsidiaries, signed a cooperation agreement with People's Government of Nanlinxian, Anhui province for the establishment of a wholly owned subsidiary namely Nanlinxian Zhongran and will have a registered capital of RMB10,000,000.

In April 2005, the Group, through its subsidiaries, signed a cooperation agreement with People's Government of Guangshui city for the establishment of a wholly owned subsidiary namely Guangshui Zhongran and will have a registered capital of HK$7,500,000.

In April 2005, the Group, through its subsidiaries, signed a joint venture agreement with 紹興縣中國輕紡城管道燃氣有限公司 (Shaoxing County China Qing Fang City Piped Gas Company Limited) ("China Qing Fang City") for the establishment of Shaoxing Zhongran to be engaged in the natural gas project in Shaoxing, Zhejiang province with exclusive rights for the operation of the piped gas business for 30 years. Shaoxing Zhongran will have a registered capital of RMB70,000,000 and owned as to 55% by the Group and 45% by China Qing Fang City.

In April 2005, the Group signed a cooperation agreement with 廣東省茂名市建設局(Maoming City Construction Bureau, Guangdong province) in April 2005 for the establishment of a wholly-owned subsidiary by the Company namely Maoming Zhongran to operate natural gas project in Maoming city, Guangdong province. Maoming Zhongran will have a registered capital of RMB50,000,000.

In May 2005, the Group, through its subsidiaries, signed《徐州市賈汪區燃氣利用工程項目經營合同書》(Operation Agreement of Exploitation of Natural Gas Construction Project of Jiawang district, Xuzhou city) and《新沂市燃氣利用工程項目經營合同書》(Operation Agreement of Exploitation of Natural Gas Construction Project of Xinyi city) with People's Government of Xinyi city, Jiangsu province for the establishment of two wholly owned subsidiaries in Jiawang district, Xuzhou city and Xinyi city namely Xuzhou Zhongran and Xinyi Zhongran respectively and with registered capital each of RMB10,000,000.

In May 2005, the Group, through its subsidiaries, signed two cooperation agreements in Fengtai county and Huoshan county, Anhui province for the establishment of two wholly owned subsidiaries in Fengtaixian and Huoshanxian namely Fengtaixian Zhongran and Huoshanxian Zhongran respectively and with registered capital each of RMB5,000,000.

Financial Review

Liquidity and Financial Resources

As at 31 March 2005, the audited total assets of the Group was HK$2,750,723,000, increased by approximately 105% as compared to 31 March 2004.

As at 31 March 2005, cash on hand was HK$695,389,000 (31 March 2004: HK$471,823,000). The Group's total bank and other borrowings amounted to HK$1,323,446,000 (31 March 2004: HK$591,719,000) of which approximately 13.1%, 5.5%, 31.7% and 49.7% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively.

The Group has a current ratio of approximately 3.15 (31 March 2004: 2.65) and the net gearing ratio was 0.81 (31 March 2004: 0.4). The calculation of net gearing ratio was based on the net borrowings of HK$797,073,000 (total borrowings of HK$1,492,462,000 less bank balances and cash of HK$695,389,000) and the net assets of HK$988,541,000 as at 31 March 2005.

Capital commitments in respect of the acquisition of property, plant and equipment and construction materials contracted for as at 31 March 2005 was HK$661,157,000 (31 March 2004: HK$572,712,000) and HK$405,968,000 (31 March 2004: HK$561,696,000) 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

During the financial year, the Group obtained various funds from institutions or by placing of shares to strategic investors.

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 was received.

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. As at 31 March 2005, 170,000,000 Warrants were exercised and the proceeds from exercising of Warrants HK$112,200,000 were received.

In October 2004, the Group 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 Group 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. During the financial period under review, a total of US$2,500,000 of the Outstanding Bonds was being repurchased by the Group and US$1,000,000 of the Outstanding Bonds was converted into ordinary shares of the Group.

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 was received.

In February 2005, the Company entered into a subscription agreement with GAIL (India) Limited for the subscription of 210,000,000 shares of the Company at a subscription price of HK$1.158 per share. Net proceeds of approximately HK$242,000,000 was received. Completion of the transaction was taken place in May 2005.

In April 2005, the Company and eleven foreign banks signed a syndicated loan agreement for a five-year international syndicated loan in the amount of US$60,000,000. The syndicated loan was arranged and underwritten by SG, Commerzbank and OUS together with eight other banks from South Korea, Thailand, Italy, France, Russia, Indonesia and Hong Kong. This is the first time the Group had obtained an unsecured bank since engaging in natural gas business and will mainly be used to invest in natural gas projects and of general working capital.

In June 2005, a subscription agreement was entered into among the Group, CQS Convertible and Quantitative Strategies Master Fund Limited ("CQS") and Courtenay Enterprise Limited ("Courtenay") for the subscription of US$40,000,000 convertible bonds by CQS and Courtenay. CQS will subscribe for an amount of US$25,000,000 and Courtenay will subscribe for an amount of US$15,000,000. The conversion price of the Convertible Bonds is HK$1.731 and the maturity date will be 29 June 2010 with 1 per cent interest. Net proceeds of approximately HK$301,860,000 will be applied to the investment of natural gas projects and for the general working capital of the Group.

Charge on Assets

As at 31 March 2005, the Group pledged part of fixed assets having a net book value of approximately HK$399,393,000 (31 March 2004: HK$39,682,000) and certain investments in subsidiaries to financial institutions to secure loan facilities granted to the Group.

Contingent Liabilities

As at 31 March 2005, the Group did not have any material contingent liabilities (31 March 2004: Nil).

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 2005.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 March 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

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") (which was in force prior to 1 January 2005) except that the non-executive director and independent non-executive directors are not appointed for a specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws 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 in due course.

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

Hong Kong, 8 July 2005

* *for identification purpose only*

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. Feng Zhuo Zhi 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.

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