

BUSINESS REVIEW

For the year ended March 31, 2003, turnover of the Group amounted to HK\$85,537,000 (year ended March 31, 2002: HK\$4,827,000). Net loss of the Group was HK\$69,673,000 (year ended March 31, 2002: loss of HK\$7,294,000) and loss per share was HK6.68 cents (loss per share for the year ended March 31, 2002: HK2.25 cents). Loss was mainly attributed to the increase in administrative expenses to HK\$34,176,000, impairment loss recognized in respect of investments in securities of HK\$28,060,000, impairment loss recognized in respect of property, plant and equipment of HK\$8,797,000 and deficit on revaluation of investment properties of HK\$4,123,000.

The Group is principally engaged in investments in natural gas. In order to reflect the business direction of the Group, the Company had changed its name into China Gas Holdings Limited since July 2002.

In May 2002, the Group acquired 60% equity interest in Beijing Zhongran Xiangke Oil Gas Technology Co. Ltd (formerly known as Beijing Xiangke Oil & Gas Technology Co. Ltd) ("Beijing Zhongran Xiangke"). Beijing Zhongran Xiangke is a sino-foreign equity joint venture company established in the People's Republic of China (the "PRC") and is engaged in the sale of oil, gas products and related chemical products, providing technical services on exploration of oil and gas fields and installation of related facilities, equipment and instrument. It is the first company in the PRC for the application of compressed natural gas to be used in private enterprise and has obtained and owns the patent granted by the relevant governmental authorities on the technique of compressed natural gas. Completion of the transaction took place in September 2002. During the period under review, turnover of Beijing Zhongran Xiangke amounted to HK\$24,998,000, representing 29.2% of the Group's total turnover. Profit after taxation was HK\$3,487,000.

In July 2002, the Group acquired 55% equity interest in Zhengzhou Standard Petrochemical Company Limited ("Zhengzhou Standard"), a company incorporated in the PRC and is principally engaged in the wholesale of refined petroleum including household liquefied petroleum gas. Completion of the transaction took place in October 2002. During the period, turnover of Zhengzhou Standard amounted to HK\$59,057,000, representing 69% of the Group's turnover and profit after taxation was HK\$3,162,000.

At the same time, in July 2002, the Group acquired the whole 16th floor of AXA Centre as the Group's principal place of business in Hong Kong. Completion of such transaction took place in September 2002.

In November 2002 and December 2002, the Group acquired approximately 53% interest each in Jiaozuo City Gas Development Co., Limited ("Jiaozuo City Gas") and Jiyuan City Gas Development Co. Ltd ("Jiyuan City Gas"). Jiaozuo City Gas and Jiyuan City Gas are companies incorporated in the PRC and are principally engaged in operating, managing and developing gas projects in Jiaozuo City District and Jiyuan City District of the Henan province in the PRC respectively.

In December 2002 and March 2003, the Group, through its wholly owned subsidiaries, entered into joint venture contracts with Yichang City Natural Gas Company Limited and Suizhou Municipal Projects Company for the establishment of a sino-foreign joint venture company in Yichang City ("Yichang JV") and Suizhou City ("Suizhou JV") of Hubei province in the PRC respectively. Both Yichang JV and Suizhou JV will engage in design, construct and operate natural gas pipeline and ancillary facilities as well as provision of piped natural gas in Yichang City District and Suizhou City District respectively. The Group will hold 70% and 90% interest in Yichang JV and Suizhou JV respectively. Business licence for Yichang JV was obtained in June 2003 while for Suizhou JV, it is still under processing.

In June 2003, the Group, through its wholly owned subsidiaries, entered into joint venture contracts with Huainan City Gas Company and Anhui Province Wuhu City Natural Gas Head Company for the establishment of a sino-foreign joint venture company in Huainan City ("Huainan JV") and Wuhu City ("Wuhu JV") of Anhui province in the PRC respectively. Huainan JV will engage in design, construct and operate natural gas pipeline and ancillary facilities as well as provision of piped natural gas, repair and maintenance of natural gas equipment and facilities as well as expansion of existing natural gas facilities in Huainan City District. For Wuhu JV, it will engage in the sale of natural gas, gas burning instruments and measurement equipment, provision of testing and maintenance services, construction and operation of natural gas pipelines, operation of natural gas and liquefied gas station in Wuhu City District. Upon establishment, the Group will hold 70% and 90% interest in Huainan JV and Wuhu JV respectively. Both Huainan JV and Wuhu JV are under the initial stage of formation.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the financial year, the Company placed 33,333,333 shares at HK\$0.90 per share and the net proceeds was HK\$29,000,000 and approximately HK\$18,834,000 was used to satisfy our investment in Beijing Zhongran Xiangke and the remaining was used as working capital of the Group.

As at March 31, 2003, the net assets of the Group was HK\$144,726,000, increased by approximately 39.3% as compared to March 31, 2002.

As at March 31, 2003, the Group's total bank and other borrowings amounted to HK\$246,805,000 (March 31, 2002: Nil) of which approximately 64.5%, 27.9%, 2.9% and 4.7% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively. The loans were secured by certain fixed assets, investments in securities, properties held for development and bank deposits of the Group.

As at March 31, 2003, the Group has a current ratio of approximately 1.19 (March 31, 2002: 9.63) and the gearing ratio was 1.71 (March 31, 2002: Nil). The calculation of gearing ratio was based on the total borrowings of HK\$246,805,000 and the net assets of HK\$144,726,000 as at March 31, 2003.

Capital commitments in respect of the acquisition of property, plant and equipment as at March 31, 2003 was HK\$58,002,000 (March 31, 2002: Nil) 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 Renminbi.

Charge on Assets

As at March 31, 2003, the Group pledged bank deposits of HK\$66,667,000 (March 31, 2002: Nil) and land use rights having a net book value of HK\$29,035,000 (March 31, 2002: Nil) to secure banking facilities granted to the Group.

The Group also pledged land and building, investment properties, investment in securities, certain investments in subsidiaries and properties held for development to a financial institution to secure for loan facilities granted to the Group (March 31, 2002: Nil).

Contingent Liabilities

Two former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,862,000 (March 31, 2002: HK\$1,862,000). The Directors are advised by the legal counsel of the Company that it is unlikely that the two former staff will succeed in their claims and no provision has been made.

As at March 31, 2003, guarantees given to bank by the Group in respect of banking facilities utilized by third party was RMB20,000,000.

As at March 31, 2003, except for the above, the Group did not have any material contingent liabilities.

Employees

As at March 31, 2003, the Group has 470 employees. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and normally reviewed annually.

MARKET RISK ANALYSIS

According to the “Notice regarding business tax and certain policies issues” issued by the State Tax Bureau and Ministry of Finance on January 15, 2003, it was mentioned that the gas pipeline connection fees collected by gas companies on behalf of the relevant departments should be subject to the levy of value-added tax (“VAT”) instead of business tax.

The implementation of such VAT could have different levels of effects on existing gas distributors currently under operation. However the impact of such tax issues on our Group is still minimal at present. As most of our joint venture companies are still at their initial stage of formation and our Chinese partners, most of them are local government bodies, are capable of negotiating and obtaining preferential treatments which would include the tax concessions for our joint venture companies. We believe that through our Chinese partners and their efforts, the VAT problem would not hinder our investments and developments in natural gas projects.

Liu Ming Hui

Managing Director

July 25, 2003