

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

Business Review

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

The Group is principally engaged in investments in natural gas projects in China. During the financial year, the Group secured a number of natural gas projects while pipeline networks of some of the projects were under construction and connection fee and gas sales fee were charged. Meantime, the Company also successfully launched various fund raising exercises to meet the requirement of capital needs for the Group's natural gas projects.

Construction of Piped Gas Networks

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

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

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

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



Sale of Piped Gas

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

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

Gross Profit Margin and Net Profit Margin

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



Natural Gas Joint Venture Companies

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

Anhui Province

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

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

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

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

Hubei Province

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

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

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

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

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

Hunan Province

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

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

Jiangsu Province

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

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

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



Beijing

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

Other events

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



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

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

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

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

Financial Review

Liquidity and Financial Resources

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

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

As at March 31, 2004, the Group has a current ratio of approximately 2.65 (March 31, 2003: 1.19) and the gearing ratio was 1.34 (March 31, 2003: 1.71). The calculation of gearing ratio was based on the total borrowings of HK\$674,460,000 and the net assets of HK\$502,674,000 as at March 31, 2004.

Capital commitments in respect of the acquisition of property, plant and equipment and construction materials contracted for but not provided in the financial statements as at March 31, 2004 was HK\$572,712,000 (March 31, 2003: HK\$38,655,000) and HK\$561,696,000 (March 31, 2003: HK\$19,347,000) which would require a substantial use of the Group's present cash resources and external funding. The Group has committed to acquire interests in certain PRC enterprise and to establish certain sino-foreign joint venture companies in the PRC.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and RMB.

Capital Structure

In June 2003, the Company issued convertible note in the principal amount of US\$6,000,000 to a professional investor. The proceeds from convertible note of approximately HK\$46,800,000 has been applied as the Group's investment in Yichang China Gas & City Gas Company Limited.

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

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

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

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

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

Charge on Assets

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

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

Contingent Liabilities

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

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

Employees

As at March 31, 2004, the Group has 2,100 employees, representing an increase of 346% over last year and this was mainly the increase in number of participating cities of natural gas projects. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and according to the prevailing industry practice in the respective regions in which it operates. Beside the basic salaries and contributions to pension fund, some employees are entitled to discretionary bonuses, merit payment and share options which depend on the financial results of the Group and the performances of individual employee. Share options were granted to eligible staff under this financial year. Certain employees in China are provided with lodging house.

Market Risk Analysis

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

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

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

Liu Ming Hui

Managing Director

June 25, 2004