

The directors present their annual report and the audited financial statements for the year ended March 31, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 16 and 17, respectively, to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 2004 are set out in the consolidated income statement on page 28.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 86.

INVESTMENT PROPERTIES

Movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group and the Company during the year during the year are set out in note 14 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2004 are set out on page 87.

SHARE CAPITAL

Movements in the share capital of the Company are set out in note 27 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and note 28 to the financial statements, respectively.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 43 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Li Xiao Yun	
Mr. Xu Ying	(redesignated as executive director on June 2, 2003)
Mr. Liu Ming Hui	
Mr. Zhu Wei Wei	
Mr. Ma Jin Long	
Mr. Liu Yujie	(resigned on June 2, 2003)
Mr. Wang Wen Liang	(resigned on June 10, 2003)

Non-executive directors

Mr. Wu Bangjie	
Mr. Xu Ying	(redesignated as executive director on June 2, 2003)

Independent non-executive directors

Mr. Zhao Yuhua	
Dr. Mao Er Wan	
Ms. Wong Sin Yue, Cynthia	(appointed on October 21, 2003)

In accordance with the provisions of the Company's Bye-laws, Mr. Xu Ying and Ms. Wong Sin Yue, Cynthia shall retire and, being eligible, offer themselves for re-election.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the above clause of the Company's Bye-laws.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at March 31, 2004, the interests or short positions of the directors and chief executives of the Company in the equity or debt securities and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company (the "Shares")

Name of director	Nature of interest	Number of attributable number of Shares held	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Liu Ming Hui	Personal	380,000,000 (Note)	24.39

Note: Pursuant to the subscription agreement dated January 16, 2004 entered into between the Company as issuer and Mr. Liu Ming Hui ("Mr. Liu") as subscriber, Mr. Liu has conditionally agreed to subscribe for 130,000,000 new Shares. Subsequent to March 31, 2004, those shares are issued and allotted to Mr. Liu.

Pursuant to the sale and purchase agreement dated January 16, 2004 (the "Sale and Purchase Agreement"), Mr. Liu has agreed to acquire an aggregate of 250,000,000 Shares from Heng Fung Holdings Limited and its wholly owned subsidiary, namely Sure World Capital Limited (collectively referred to as the "Heng Fung Group"). As at March 31, 2004, the sale and purchase of 90,000,000 shares has been completed. Details of this transaction were disclosed in the Company's announcement dated January 21, 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(continued)***Long positions** *(continued)**(b) Share options*

Name of director	Number of options held (Note)	Nature of interest	Number of underlying shares
Li Xiao Yun	5,000,000	Beneficial owner	5,000,000
Xu Ying	5,000,000	Beneficial owner	5,000,000
Mr. Liu	5,000,000	Beneficial owner	5,000,000
Zhu Wei Wei	4,000,000	Beneficial owner	4,000,000
Ma Jin Long	9,240,711	Beneficial owner	9,240,711
Wu Bangjie	2,000,000	Beneficial owner	2,000,000
Zhao Yuhua	1,000,000	Beneficial owner	1,000,000
Mao Er Wan	1,000,000	Beneficial owner	1,000,000
Wong Sin Yue, Cynthia	1,000,000	Beneficial owner	1,000,000

Note: The share options were granted under the share option scheme adopted by the Company on February 6, 2003 and the holders thereof are entitled to subscribe for Shares at an exercise price of HK\$0.80 per share during the period from September 1, 2004 to January 8, 2014.

Save as disclosed above, as at March 31, 2004, none of the directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the equity or debt securities and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests in Shares" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 41 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Name	Exercise price per share HK\$	Number of share options		
		Outstanding at April 1, 2003	Granted during the year	Outstanding at March 31, 2004
<i>Directors</i>				
Li Xiao Yun	0.80	–	5,000,000	5,000,000
Xu Ying	0.80	–	5,000,000	5,000,000
Mr. Liu	0.80	–	5,000,000	5,000,000
Zhu Wei Wei	0.80	–	4,000,000	4,000,000
Ma Jin Long	0.80	–	9,240,711	9,240,711
Wu Bangjie	0.80	–	2,000,000	2,000,000
Zhao Yuhua	0.80	–	1,000,000	1,000,000
Mao Er Wan	0.80	–	1,000,000	1,000,000
Wong Sin Yue, Cynthia	0.80	–	1,000,000	1,000,000
		–	33,240,711	33,240,711
<i>Other employees</i>	0.80	–	88,000,000	88,000,000
		–	<u>121,240,711</u>	<u>121,240,711</u>

The closing price of the Company's shares immediately before January 9, 2004, the date of grant, was HK\$0.77 per share.

SHARE OPTIONS *(continued)*

The fair value of the options granted in the current year measured at the date of grant on January 9, 2004 was HK\$0.73 per option. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1. an expected volatility of 115% based on historical volatility;
2. no annual dividend; and
3. the estimated expected life of the options granted during the year is 10 years. The corresponding 10 years Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 4.32% per annum.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2004, so far as was known to the directors and the chief executives of the Company, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name of shareholder	Capacity	Number or attributable number of shares held or short position	Approximate percentage or attributable percentage of shareholdings (%)
Heng Fung Holdings Limited	Beneficial owner	162,496,000 (L) <i>(Note 1)</i>	10.43
		160,000,000 (S) <i>(Note 2)</i>	10.27
Hai Xia Finance Holdings Limited	Beneficial owner	150,000,003 (L)	9.63
		150,000,003 (S)	9.63

L: Long position
S: Short position

SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

- (1) These shares are held as to 162,153,000 shares by Heng Fung Holdings Limited and as to 343,000 shares by Sure World Capital Limited, a wholly owned subsidiary of Heng Fung Holdings Limited.
- (2) Pursuant to the Sale and Purchase Agreement, the Heng Fung Group has agreed to sell and Mr. Liu has agreed to acquire an aggregate of 250,000,000 shares in cash at an aggregate consideration of HK\$180,000,000. As at March 31, 2004, the sale and purchase of 90,000,000 shares has been completed. Details of this transaction were disclosed in the Company's announcement dated January 21, 2004.

Save as disclosed herein, as at March 31, 2004, the directors and the chief executives of the Company were not aware of any person who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any member of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those set out in "Connected Transaction" below and note 42 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTION

On March 30, 2004, the Company issued 50,000,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$32,500,000 to a company, which was owned as to 24% by Mr. Zhu Wei Wei, an executive director of the Company, and as to 76% by Mr. Huang Yong, a director 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.

On May 19, 2004, 中亞燃氣實業(深圳)有限公司(Central Asia Natural Gas (Shenzhen) Company Limited) entered into an agreement with a minority shareholder of Huainan China Gas City Gas Development Co., Ltd. in relation to the acquisition of the remaining 30% equity interests of a non-wholly owned subsidiary - Huainan China Gas City Gas Development Co., Ltd. at zero consideration.

The independent non-executive directors confirm that the transactions have been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for less than 30% of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers were 65% of total purchases of the Group, with the largest supplier accounted for approximately 23%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended March 31, 2004 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited, except that the non-executive directors are not appointed for a specific term but are subject to a retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint, Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Xu Ying

VICE-CHAIRMAN

June 25, 2004