

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's turnover for the year was HK\$78,787,000. This represented an increase of 106% as compared with that of last year. The net profit for the year was HK\$15,336,000. Basic earnings per share is HK\$0.0061.

The Board of directors did not recommend the payment of a final dividend.

BUSINESS REVIEW

Natural Gas Business

During the year, the Group acquired 100% interests in Xin Hua Resource Investment Limited ("Xin Hua"). Xin Hua is an investment holding company and is beneficially interested in the entire equity interest in Beijing Zhong Min Gas Company Limited ("Zhong Min"). Zhong Min was beneficially interested in 99.99% of each of Mian Zhu City Hong Sen Natural Gas Co., Limited ("Hong Sen") and Mian Zhu City Long Teng Gas Installation Co., Limited ("Long Teng"). Hong Sen is principally engaged in the distribution and supply of piped natural gas in the PRC whilst Long Teng is principally engaged in the installation of natural gas distribution facilities in PRC. Zhong Min is also beneficially interested in 99% equity interest of LongXin (YanTing) Natural Gas Company Limited ("Yan Ting"). Yan Ting is principally engaged in distribution and supply of piped natural gas and installation of natural gas distribution facilities in the PRC.

As the acquisition of 100% interests in Xin Hua was completed on 25 October 2004, only approximately 5 months' financial results of Xin Hua and its natural gas subsidiaries can be consolidated into the income statement of the Group.

Discontinued operation in Electrical and Mechanical Engineering Services Business

Due to the weak local economy and the keen competition in the local construction industry, the electrical and mechanical engineering services ("E&M") segment had record operating losses for the past years. The Directors considered the disposal of E&M business provides an opportunity for the Group to dispose of such loss-making operation and improve the financial performance of the Group. During the year, the Group disposed the E&M business to Deson Development International Holdings Limited ("Deson"), the previous holdings company of the Company and the Group is no longer be engaged in the provision of E&M services and related business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Property Holdings and Investment Business

To strengthen the financial and asset positions, the Group acquired 24th, 27th and 28th floor of Zhongda Square, Shanghai, PRC together with 19 carparks in May 2003 at a total consideration of HK\$46,000,000. The consideration was satisfied by the issue of 657,142,857 Shares. On 30 April 2004, the Group further acquired 3A floor of Zhongda Square at a consideration of HK\$7,500,000. The Group now has a total of 3,632.20 square metres of Zhongda Square together with 19 car parks as the reserve for property holdings and investment purpose.

Details of acquisition of natural gas business and the disposal of E&M business are included in “Material transactions” section of this report. After the reorganisation and acquisitions took place on 30 April 2004 and 25 October 2004, respectively, the principal activities of the Group are the distribution, supply and installation of piped natural gas and property holding and investment. The increase in turnover and profit during the year mainly attributable to the newly acquired nature gas business.

PROSPECTS

Natural Gas Business

The PRC has historically relied heavily on coal as its primary energy source but the PRC government in recent years encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market currently only share a very low percentage of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

As stated in the announcement of the Company on 17 November 2004 and 10 May 2005, respectively, the Group signed a total of four letters of intent with independent third parties for the acquisition of certain interests in four natural gas businesses in PRC. The negotiations are still in progress and at an early stage and the Group will make appropriate announcement in this regard as and when required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The total population and number of families of the city of Mian Zhu is 100,000 and 35,000, respectively and the total population and number of families of the city of Yan Ting is 60,000 and 20,000, respectively. The existing natural gas network only covers 59% and 60% of the total capacity of the city of Mian Zhu and the city of Yan Ting, respectively. The Directors are confident that income from the installation of remaining natural gas network and recurring income from the supply of natural gas in these two cities will have a significant contribution to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (Continued)

Property Holdings and Investment Business

The growth of economy in the PRC especially Shanghai is significant in these few years. This will have a positive impact on the commercial property market and the Group currently has a total of 3,632.20 square metres of Zhongda Square together with 19 parking spaces as the reserve for property holdings and investment purpose can benefit from this economy growth. In addition, the Directors believe the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property holding and investment segment will continue to contribute a sizeable contribution to the Group's operating results in coming years.

MATERIAL TRANSACTIONS

On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua and its related shareholders' loans for HK\$29,500,000 (the "Xin Hua Acquisition"). The consideration was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.

On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan at a consideration of HK\$7,500,000 (the "Penmark Acquisition"). The consideration was satisfied by issuing 75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group Limited and its shareholder's loan for HK\$7,000,000 to Deson (the "Kenworth Disposal"). The consideration was paid by Deson in cash.

On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each (the "Placing Agreement"). The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the Placing Agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited ("Super Win"), the immediate holding company of the Company (the "Subscription"). The Company issued 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000. Pursuant to the Subscription, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL TRANSACTIONS (Continued)

On 2 August 2004, Brilliant China Investments Limited (“Brilliant China”), a subsidiary of the Company, entered into an agreement with an independent third party to acquire 51% shareholding interests in Xin Hua, an associate of the Company at the time of acquisition for HK\$65 million. The consideration was paid by Brilliant China in cash out of the internal resources of the Group.

On 6 August 2004, a special resolution was proposed regarding the name of the Company to be changed to “Chinese People Gas Holdings Company Limited” and the Chinese translation of the name of the Company be changed from “基電控股有限公司” to “中民燃氣控股有限公司” for identification purpose only.

Transactions (1) to (5) were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004. Transactions (6) and (7) were approved by shareholders of the Company at a special general meeting on 20 October 2004 and completed on 25 October 2004.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2005, the Group had total assets of HK\$260,351,000 and current liabilities, long term liabilities, shareholders’ equity and minority interests of HK\$81,806,000, HK\$11,146,000, HK\$165,565,000 and HK\$1,834,000 respectively.

The Group continued to maintain a low gearing ratio, at 6.24%. It was calculated based on the long term borrowings of HK\$11,146,000 and long term capital of HK\$178,545,000.

CONNECTED TRANSACTIONS

On 18 February 2004, the Group entered into the following connected transactions:

- the First Xin Hua Acquisition;
- the Penmark Acquisition;
- the Kenworth Disposal; and
- the Subscription.

The above transactions were approved by the shareholders/independent shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

CAPITAL STRUCTURE

The Group’s long-term capital mainly comprised of shareholders’ equity which is confirmed with the low gearing ratio as discussed in the section “Liquidity and capital resources” above.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in Hong Kong dollar and Renminbi. Since Hong Kong dollar and Renminbi is relatively stable, we consider the exchange risk is not significant.

CONTINGENT LIABILITIES

As at 31 March 2005, there were no material contingent liabilities to the Group.

EMPLOYEE SCHEMES

As at 31 March 2005, the Group had 356 employees, 350 of whom were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors. Apart from pension funds, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

CAPITAL COMMITMENTS

As at 31 March 2005, the Group did not have any significant capital commitment.

CHARGES ON GROUP ASSETS

The bank loans and the Group's banking facilities are secured by the Group's time deposit of HK\$130,000 and completed properties for sale of HK\$41,569,000.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice (the "Code"), for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code, as set out in the Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.