



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 MARCH 31, 2007

Highlights

- ♦ The Group's turnover increased by 96.1% to HK\$1,236,469,000 from HK\$630,522,000 in the previous fiscal year.
- ♦ The Group's profit for the year was HK\$225,563,000, as compared to HK\$180,068,000 in the previous fiscal year, a rise of 25.3%.
- ♦ Basic earnings per share was HK6.35 cents.
- ♦ Final dividend per share proposed was HK1.2 cents (2006: HK 1 cent).

The Board of Directors (the "Board" or the "Directors") of China Gas Holdings Limited (the "Company") announces the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2007, together with the comparative figures for the year ended March 31, 2006, as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended March 31, 2007	Year ended March 31, 2006
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	1,236,469	630,522
Cost of sales		<u>(816,173)</u>	<u>(325,168)</u>
Gross profit		420,296	305,354
Other income		100,093	39,580
Distribution costs		(44,593)	(27,463)
Administrative expenses		(173,961)	(145,254)
Change in fair value of investment properties		4,650	6,073
Change in fair value of held-for-trading investments		33,446	-
Impairment loss recognized in respect of available-for-sale investments		(2,200)	(4,400)
Allowance for trade and other receivables		(9,201)	(11,000)
Finance costs		(107,796)	(44,207)
Change in fair value of derivative financial instruments		(4,307)	25,669
Gain on disposal of subsidiaries		-	443
Discounts on acquisition of associates, jointly controlled entity and businesses		17,185	37,893
Share of results of associates		<u>5,742</u>	<u>(138)</u>
Profit before taxation		239,354	182,550
Taxation	4	<u>(13,791)</u>	<u>(2,482)</u>
Profit for the year	5	<u>225,563</u>	<u>180,068</u>
Attributable to:			
Equity holders of the Company		190,103	156,736
Minority interests		35,460	23,332
		<u>225,563</u>	<u>180,068</u>
Earnings per share	6		
Basic		<u>HK6.35 cents</u>	<u>HK6.15 cents</u>
Diluted		<u>HK5.54 cents</u>	<u>HK5.54 cents</u>

CONSOLIDATED BALANCE SHEET
As at March 31, 2007

		March 31, 2007 <i>HK\$'000</i>	March 31, 2006 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Investment properties		49,100	44,450
Property, plant and equipment		3,083,300	1,809,844
Prepaid lease payments		286,102	94,434
Interests in associates		75,278	613
Available-for-sales investments		23,149	27,989
Goodwill		299,965	275,375
Other intangible assets		83,006	-
Deposits for acquisition of property, plant and equipment		146,551	173,863
Deposits paid for acquisitions of subsidiaries		280,255	-
Loan receivable		15,000	-
		<u>4,341,706</u>	<u>2,426,568</u>
Current assets			
Inventories		137,032	108,024
Amounts due from customers for contract work		444,552	454,914
Trade and other receivables	7	719,326	347,666
Derivative financial instruments		33,298	27,660
Amount due from an associate		42,071	-
Prepaid lease payments		5,229	1,926
Held-for-trading investments		57,841	-
Pledged bank deposits		29,417	-
Bank balances and cash		1,482,930	1,727,130
		<u>2,951,696</u>	<u>2,667,320</u>
Current liabilities			
Trade and other payables	8	859,399	391,765
Derivative financial instruments		59,314	49,369
Amounts due to customers for contract work		5,721	1,209
Taxation		15,682	1,784
Bank and other borrowings – due within one year		686,781	345,662
Obligation under a finance lease – due within one year		-	64
Obligation on acquisition of a jointly controlled entity		157,965	-
		<u>1,784,862</u>	<u>789,853</u>
Net current assets		<u>1,166,834</u>	<u>1,877,467</u>
Total assets less current liabilities		<u>5,508,540</u>	<u>4,304,035</u>

Equity		
Share capital	30,962	29,216
Reserves	<u>2,316,901</u>	<u>1,836,242</u>
Equity attributable to equity holders of the Company	2,347,863	1,865,458
Minority interests	<u>333,357</u>	<u>255,308</u>
Total equity	<u>2,681,220</u>	<u>2,120,766</u>
Non-current liabilities		
Amount due to a minority shareholder of a subsidiary	311,411	244,505
Bank and other borrowings – due after one year	2,242,452	1,665,790
Convertible bonds	<u>273,457</u>	<u>272,974</u>
	<u>2,827,320</u>	<u>2,183,269</u>
	<u>5,508,540</u>	<u>4,304,035</u>

Notes:

1. Basis of preparation and principal accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at revaluated amounts or fair values.

2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after December 1, 2005, January 1, 2006 and March 1, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 23 (Revised)	Borrowing costs ²
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) - INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ⁶
HK(IFRIC) - INT 12	Service concession arrangements ⁷

- ¹ Effective for accounting periods beginning on or after January 1, 2007.
- ² Effective for accounting periods beginning on or after January 1, 2009.
- ³ Effective for accounting periods beginning on or after May 1, 2006.
- ⁴ Effective for accounting periods beginning on or after June 1, 2006.
- ⁵ Effective for accounting periods beginning on or after November 1, 2006.
- ⁶ Effective for accounting periods beginning on or after March 1, 2007.
- ⁷ Effective for accounting periods beginning on or after January 1, 2008.

3. Revenue and segment information

Revenue represents, the net amount received and receivable for sales of piped gas, gas connection services, properties rental and dividend income by the Group for the year.

Segment information about these businesses is presented below:

2007

	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas connection HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE	936	599	387,243	750,101	97,590	1,236,469
SEGMENT RESULT	5,586	34,045	166,055	114,501	1,526	321,713
Unallocated corporate revenue						74,772
Unallocated corporate expenses						(67,955)
Finance costs						(107,796)
Change in fair value of derivative financial instruments						(4,307)
Discount on acquisitions of associates , jointly controlled entity and businesses	-	-	-	17,185	-	17,185
Share of results of associates	-	-	-	5,742	-	5,742
Profit before taxation						239,354
Taxation						(13,791)
Profit for the year						225,563

2006

	Property investment HK\$'000	Financial and securities investment HK\$'000	Gas connection HK\$'000	Sales of piped gas HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE	1,070	487	325,632	288,115	15,218	630,522
SEGMENT RESULT	7,101	460	186,372	22,117	(7,708)	208,342
Unallocated corporate revenue						35,752
Unallocated corporate expenses						(81,204)
Finance cost						(44,207)
Change in fair value of derivative financial instruments						25,669
Gain on disposal of subsidiaries	-	-	-	443	-	443
Discount on acquisitions of subsidiaries, a jointly controlled entity and businesses	-	-	393	37,500	-	37,893
Share of results of associates	-	-	-	(138)	-	(138)
Profit before taxation						182,550
Taxation						(2,482)
Profit for the year						180,068

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 as the Group had no assessable profit for both years.

Taxation arising in other jurisdictions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%. The charge of PRC enterprise income tax for the years has been provided for after taking these tax incentives into account.

5. Profit for the year

Profit for the year has been arrived at after charging depreciation of HK\$96,769,000 (2006:HK\$46,868,000).

6. Earnings per share

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Earnings for the purpose of basic earnings per share, being profit for the year attributable to equity holders of the Company	190,103	156,736
Adjustment for the effect of dilutive potential ordinary shares:		
Change in fair value of stock subscription option	(2,100)	-
Change in fair value of embedded derivatives of convertible bonds	(2,560)	-
Adjustment in liability component of convertible bonds	(10,642)	-
Interest on convertible bonds	14,225	-
Earnings for the purpose of diluted earnings per share	<u>189,026</u>	<u>156,736</u>

	2007 '000	2006 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,995,323	2,548,931
Adjustment for the effect of dilutive potential ordinary shares:		
Share Options (note a)	228,419	234,148
Stock subscription option (note b)	10,740	2,407
Convertible bonds (note b)	179,087	N/A
Warrants	-	42,870
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,413,569</u>	<u>2,828,356</u>

(a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has been accounted for the effect of the options with dilutive effect and the effect of contingent issuable shares.

(b) Weighted average number of ordinary shares for the purpose of computation of diluted earnings per share has been accounted for the effect of potential issuance of shares upon exercise of the stock subscription option and conversion of convertible bonds.

The computation of diluted earnings per share for the year ended March 31, 2006 did not assume the conversion of the Company's outstanding convertible bonds, since their conversion would increase the earnings per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivative components of the convertible bonds.

7. Trade and Other Receivables

Other than certain major customers with good repayment history which the Group allows a longer credit period or settlement by instalment basis, the Group generally allows an average credit period of 30 to 180 days to its trade customers.

The following is an aged analysis of trade receivables net of impairment losses at the reporting date:

	2007 HK\$'000	2006 HK\$'000
0-180 days	240,170	101,618
181-365 days	64,483	29,825
Over 365 days	23,250	8,770
Trade receivables	327,903	140,213
Other receivables, deposits and prepayments	391,423	207,453
	<u>719,326</u>	<u>347,666</u>

At March 31, 2007, the carrying value of trade receivables includes an amount of HK\$164,300,000 (2006: nil) would be settle by instalment basis during the year ending March 31, 2008 of HK\$114,708,000 and March 31, 2009 of HK\$49,592,000 respectively.

During the year ended March 31, 2007, the Group made an allowance of HK\$9,201,000 (2006: HK\$11,000,000) in respect of the trade receivables.

8. Trade and Other Payables

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The following is an aged analysis of trade and other payables at the reporting date:

	2007 HK\$'000	2006 HK\$'000
0-90 days	109,511	128,365
91-180 days	77,326	19,412
Over 180 days	117,440	59,347
Trade payables	304,277	207,124
Other payables and accrued charges	555,122	184,641
	<u>859,399</u>	<u>391,765</u>

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of HK1.2 cent (2006:HK 1 cent) per ordinary share.

The final dividend will be paid on or about September 28, 2007 to shareholders whose names appear on the Registrar of Members of the Company on the date of the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The Registrar of Members of the Company will be closed from August 22, 2007 to August 29, 2007, both days inclusive, during which no period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on August 21, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the investment in, and the operation and management of, gas pipeline and the sale and distribution of piped natural gas and compressed natural gas in China.

For the year ended March 31, 2007, turnover of the Group amounted to HK\$1,236,469,000 (year ended March 31, 2006: HK\$630,522,000), increased by 96.1% over the same period of last year. Profit for the year amounted to HK\$225,563,000 (year ended March 31, 2006: HK\$180,068,000), increased by 25.3%. Earnings per share was HK6.35cents (year ended March 31, 2006: HK6.15 cents).

New Project Expansion

Since the last financial year, the Group's project expansion has gradually shifted to large to medium-sized cities. As at June 30, 2007, the Group had secured 57 city piped gas projects (with exclusive concession rights) in 15 provinces, autonomous regions and directly-administered cities, owned one natural gas company with natural gas exploration right, five long distance natural gas pipeline projects and two LNG liquefaction companies.

The new projects include nine city piped gas projects in regions of Wuwei County in Anhui Province, Dezhou City and Qingdao City in Shandong Province, Jinzhou City Economic Hi-Tech Development Zone in Liaoning Province, Qishan County in Shaanxi Province, Hohhot City, Baotou City and Wushen Banner in Inner Mongolia Autonomous Region and Yubei district in Chongqing Municipality, two long distance gas pipeline projects in Inner Mongolia Region and one in Tianjin Municipality, two LNG liquefaction companies located in Kaixian, Chongqing Municipality and XuanHang County, Sichuan Province and one natural gas company with natural gas exploration right in Dianjiang County, Chongqing Municipality.

Set out below is the nine new city piped gas projects secured by the Group by June 2007:

<u>Province/ Autonomous Region/ Directly-Administered Cities</u>	<u>City/Districts</u>
Anhui Province	Wuwei County
Inner Mongolia Autonomous Region	Hohhot City, Baotou City, Wushen Banner
Shandong Province	Dezhou City, Qingdao City
Chongqing Municipality	Yubei District
Liaoning Province	Jinzhou City Economic Hi-Tech Development Zone
Shaanxi Province	Qishan County

The above new projects cover a connectable city population of approximately 8,771,000 (approximately 2,741,000 households). The connectable city population covered by the Group's gas projects has increased to approximately 32,008,000 (approximately 10,009,000 households) as of June 2007, representing an increase by 39.0% compared to 2006.

In addition to the newly invested city piped gas projects, the Group also owns three long distance natural gas pipeline projects in Wushen Banner and Otog Banner, Ordos City, Inner Mongolia Autonomous Region and in Tianjin Municipality. Accordingly, the number of long distance gas pipeline projects owned by the Group has increased from last year's two (Dangyang and Xiaogan) to this year's five.

Last year, the Group actively sought for opportunities to invest in small scale natural gas liquefaction facilities close to natural gas source in the central and western region of China. In the last financial year, the Group decided to invest in two natural gas liquefaction factories in order to build up an independent gas supply system for the Group and to meet the demand of the downstream markets, thus further enhancing our competitiveness in tendering for new projects.

Looking into the next financial year, in the area of city gas distribution, the Group will continue to actively look for investment opportunities in large and medium-sized city gas projects with reasonable investment returns, expand its customer base and further integrate the existing city gas projects and increase the Group's overall project qualities and level of investment return. In the upstream exploration and transportation area, the Group will make preparation for participating in overseas natural gas exploration and transportation by collaborating with its strategic

shareholders. At the end of 2006, the Ministry of Commerce of the PRC granted the Group a licence allowing the Group to operate gas fuel business such as the import, export and wholesale of natural gas, liquefied natural gas, liquefied petroleum gas, methanol and dimethyl ether, etc. This licence will provide further support to the future gas supply system of the Group.

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 residential, industrial and commercial users, and charges them for such connection and gas usage.

During the financial year, the Group had completed 18 processing stations, two medium and high pressure regulating stations, high-pressure gas pipelines of 159 km, city medium and low-pressure gas pipeline of approximately 1,438 km and branch and customer pipeline network of 1,320 km.

As at March 31, 2007, the Group accomplished piped gas supply in 37 cities, and had built 43 processing stations, 22 medium to high pressure regulating stations, high-pressure gas pipelines of approximately 571 km, medium to low-pressure gas pipelines of approximately 4,466 km and branch and customer pipeline network of 4,798 km. Designed gas supply capacity of the processing stations reached 6,563,753 m³ per day.

Residential Customers

During the financial year, the Group acquired a number of large city gas projects with urban population over a million each. These cities are economically prosperous and their citizens have high demand for real properties. This has enhanced the development of residential customer base of the Group. During the period, the Group completed natural gas connections for 164,544 domestic households, increased by approximately 16.3% over the same period of last year. The average connection fee of residential users was RMB2,092.

During the financial year, the Group acquired a total of 379,135 residential users who were primarily from Fushun and Hohot projects. As at March 31, 2007, the Group had a total of 1,349,782 residential users, increased by 67.4% over the same period of last year, representing 16.7% of the total connectable domestic households.

Industrial and Commercial Customers

As versus residential users, industrial and commercial users, the focus of the Group's business direction, have much bigger demand for gas. During the financial year, the Group completed natural gas connections for 33 industrial customers and 369 commercial customers and acquired 5 industrial customers and 8,688 commercial customers. Industrial users are primarily in the building material productions, metallurgy and glass making industry.

As at March 31, 2007, the Group had a total of 111 industrial customers and 10,451 commercial customers, increased by 54.2% and 649.2% respectively compared with the last period. During the financial year, the connection fee for industrial fee for industrial users was calculated on the basis of the contracted daily gas volume at the average rate of RMB42.9 per m³ and the average connection fee paid by commercial customers was RMB147,039 per customer.

Connection fee represented approximately 31.3% to the Group's total revenue for the financial year under review.

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.

The Group sold a total of 357,726,000 m³ of natural gas, a substantial increase of 107.6% as compared to the same period of last year, of which 62,028,000 m³ was sold to residential users, 233,416,000 m³ to industrial users and 33,240,000 m³ to commercial users, 22,726,000 m³ to CNG vehicle drivers and 6,317,000 m³ to other users.

During the financial year, gas sold to industrial users represented 65.2% of the total natural gas volume sold, commercial users 9.3%, residential users 17.3% and CNG vehicles 6.4%. With a large proportion of industrial users in its customers mix, the Group enjoys a very big potential in its future gas sales. In addition, as local governments are generally more relaxed in controlling the tariffs for industrial users, it becomes much easier for the Group to transfer the risk of upstream natural gas price fluctuation to them.

During the financial year, the Group recorded natural gas sales income of HK\$661,800,000, representing approximately 53.5% of the Group's total revenue for

the year, an increase of approximately 142.4% over the same period of last year.

As at March 31, 2007, the daily natural gas supply capacity of the Group reached 1,618,160 m³, increased by approximately 114.0% over the same period of last year, of which the actual domestic usage was approximately 342,460m³ /day, actual industrial usage approximately 758,566m³ /day, actual commercial usage approximately 194,929 m³ /day, and actual CNG vehicles usage approximately 192,108 m³ /day. As of June 30, 2007, the total natural gas supply of the Group had exceeded 2,300,000 m³ per day.

In the past financial year, average selling price (pre tax) was RMB1.75 per m³ for residential users, RMB1.66 per m³ for industrial users, RMB2.31 per m³ for commercial users, and RMB2.23 per m³ for CNG vehicles.

The core business of the Group is natural gas supply. Because of historical reasons, some of the projects are still selling piped coal gas and liquefied petroleum gas (LPG). Piped coal gas and LPG sales income from Fushun Zhongran, Liuzhou Zhongran and Yangzhou Zhongran was recorded. A total of 74,469,000 m³ piped coal gas and LPG was sold during the financial year, of which 56,650,000 m³ was sold to residential customers, 7,388,000 m³ to industrial customers and 10,426,000 m³ to commercial customers.

Natural Gas Joint Venture Companies

For the year ended March 31, 2007, revenue contribution of the Group's major subsidiaries and jointly-controlled companies to the Group's total revenue is as follows:

Joint venture company	Revenue (HK\$'000)	As a percentage to the Group's total revenue (%)
Baoji Zhongran	188,043	15.21
Dangyang Zhongran	180,761	14.62
Wuhu Zhongran	167,963	13.58
Liuzhou Zhongran	108,776	8.80
Yichang Zhongran	73,149	5.92
Nanjing Zhongran	72,167	5.84
Yangzhou Zhongran	70,317	5.69
Beijing Zhongran Xiangke	53,603	4.34
Huainan Zhongran	49,166	3.97
Suzhou Zhongran	39,362	3.18
Fushun Zhongran	36,751	2.97
Xiaogan Zhongran	34,683	2.80
Yangzhong Zongran	23,151	1.87
Total	1,097,892	88.79

CNG Refilling Stations for Vehicles

Compared to gasoline, compressed natural gas (CNG) can help reduce emissions of pollutant gases such as carbon monoxide, carbon dioxide and sulphur dioxide, and particular pollutants from motor vehicles on the roads. It is thus a more environmental-friendly fuel. Moreover, CNG only costs 60% as much as gasoline to produce the same amount of heat content. CNG is internationally recognized as a preferred alternative energy for motor vehicles.

During the period of the Eleventh Five-Year Plan, the PRC government has clearly defined its energy strategy as giving priority to conservation and environmental protection. As environmental protection ranks higher in the government's agenda, and with the increased exploitation of natural gas resource and its widened application, the promotion and use of CNG-fueled vehicles will give a strong assurance to reducing environmental pollution, alleviating pressure from oil shortage and realizing sustainable social and economic development. It is believed that CNG-fueled vehicles will enjoy strong support from and promotion by the government due to its outstanding economic and social cost-efficiency.

In this financial year, the Group entered into a cooperation agreement with 長沙市液化石油氣發展有限公司(Changsha City LPG Development Limited) for the establishment of Changsha Zhongran Natural Gas Company Ltd to operate natural gas refilling station for vehicles business in Changsha City, the provincial capital of Hunan Province. The joint venture company has already obtained its business

registration licence which was issued by the People's Government of Changsha City. The Group also acquired 80% equity interest in 內蒙古包頭市申銀天然氣加氣有限公司 (Inner Mongolia Baotou City Shenyin Natural Gas Station Limited) recently, which has already completed one natural gas refilling main station and three sub-stations for vehicles in Baotou City.

The Group currently owns 24 CNG refilling stations for vehicles, with a daily capacity in excess of 240,000 m³. Sales income from CNG took up 6.4% of the Group's total sales income of natural gas in the period under review. In future, the Group will invest further in CNG refilling stations for vehicles with an aim to increasing its share of the market.

Furthermore, in order to develop the CNG refilling business for vehicles, the Group signed a joint venture agreement with GAIL, one of its existing shareholders, in June 2007 for the formation of a 50:50 joint venture company which is to invest in CNG projects, city gas supply projects and CNG refilling stations business in China, India and other countries.

Other Projects Development

In March 2007, the Group signed a joint venture agreement with SK E&S and SK Gas, subsidiaries of SK Group, the third largest corporation in Korea, for the establishment of a joint venture company to participate in such energy projects as exploitation, liquefaction, transportation of natural gas, distribution of city gas, and import and export of Liquefied Petroleum Gas (LPG) in China and overseas. According to the joint venture agreement, the new joint venture company will be incorporated in Hong Kong, China with a registered capital of US\$20 million to be contributed by the two sides, in which China Gas will contribute US\$10 million and hold 50% shares in the joint venture, and SK E&S and SK Gas will jointly contribute US\$10 million and hold the remaining 50% in the joint venture. After the joint venture is set up, the two sides shall draw on their individual strengths in capital, technology and other resources to assist the joint venture in capturing investment opportunities and developing its core business. The joint venture aspires to become a major gas and energy operator in the Asia Pacific region.

Gross Profit Margin and Net Profit Margin

During the financial year, the Group realized revenue of HK\$1,236,469,000 (2006: HK\$630,522,000), an increase of 96.1% over the same period of last year; gross profit of HK\$420,296,000 (2006: HK\$305,354,000), representing 34.0% of the

Group's overall gross profit margin (2006: 48.4%); net profit of HK\$225,563,000 (2006: HK\$180,068,000), representing an overall net profit margin of 18.2% (2006: 28.6%) .

Strategic Shareholders

In addition to Hai Xai Finance Holdings Limited, a major shareholder of the Company, Asian Development Bank has become a strategic shareholder of the Company since last year. Besides Asian Development Bank, the Company also has strategic cooperation with two of its strategic shareholders.

In May 2007, the Company and Oman Oil Company, S.A.O.C. entered into a joint venture agreement for the establishment of a 50:50 joint venture company in Bermuda. The Bermuda joint venture company will primarily be engaged in the business of importing into the PRC energy products including liquefied natural gas, liquefied petroleum gas, crude oil and fuel oil from the Middle East or other parts of the world, and developing, acquiring, owning and operating energy projects including oil and gas field exploration and production (including coal bed methane fields), transportation infrastructure (such as pipelines and gas liquefaction and re-gasification facilities) in the Middle East, PRC or other parts of the world. It is an objective of the Company and Oman Oil Company, S.A.O.C. that the joint venture will become a major energy importer and producer in Asia.

In June 2007, the Company and GAIL entered into a joint venture agreement for the establishment of a 50:50 joint venture company in Bermuda. This joint venture company will primarily be engaged in the business of purchase, sale, distribution and transportation of natural gas, LNG and CNG, construction, operation and maintenance of gas pipeline and other systems, especially in relation to the coal bed methane, CNG supply to motor vehicles and construction of CNG refilling stations and their ancillary facilities and conversion equipments.

Human Resources

A team of excellent employees is vital to the success of a corporation. The Group remains faithful to "people come first" management concept. It has put in place a system of recruitment and internal training. The system provides mechanism for upgrading the professionalism and competence of its staff at all levels on an ongoing basis and also creates a platform for knowledge exchange and experience sharing among its staff. The Group recruits and retains capable people through enhancing job satisfaction and attractive remuneration package.

As at March 31, 2007, the Group has approximately 7,343 employees, an increase of approximately 64.5% over last year. More than 99.9% of the Group's employees are located in the PRC. 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. Besides the basic salaries and pension fund contribution, some employees may be given discretionary bonuses, merit payment and share options depending on the financial results of the Group and the performances of these individual employees. The Group also provides extensive training including orientation tours for new employees and different levels of technical and management courses for the Group's management members and employees.

Excellence in Corporate Management

The Group's management team is committed to upgrading its corporate governance and transparency. In recognition of the effort of the Group's management, Capital Magazine once again awarded the Group with the "Capital's Outstanding PRC Natural Gas Supplier" title in May 2007. Capital Magazine is one of the best-selling and authoritative Chinese financial magazines in Hong Kong and the award panel was comprised of members from the editorial committee of Capital and 10 leading figures in the business community. This award demonstrates that the management standard of the Group is recognized by most of the investors.

Moreover, in June 2007, the Group was awarded first prize in "The Best Mid-Cap Company" and ranked seventh in both "The Best Managed Company" and "The Best Investor Relations" categories in the Mainland China section in the 2007 Asia's top companies poll organized by FinanceAsia, one of the leading financial magazines in Asia Pacific. This demonstrates that China Gas's effort in corporate management and investor relations are recognized by the investing community. The results of the poll were generated from the votes of some 200 securities analysts, fund managers and other figures in the Asian financial market who had been invited by FinanceAsia to pick their choices regarding the best companies in corporate management, leadership, corporate governance and investor relations etc. by a survey through email. China Gas stood out of the competition and was recognized by investors as an excellent Chinese business enterprise.

The Group was further elected by a dedicated gas industry portal in China – "博燃網" (Gasshow.com) as one of the "Top Ten Most Impressive Enterprises" in its "2006 Gasshow Performance Ranking" for three consecutive years, evidencing both

industry and consumer recognition of the Group. The list was arrived at based on recommendations of members of the website and online ballots, and the election criteria included yearly performance, integrity, contribution to industry development, and technological and managerial innovation of an enterprise.

Financial Review

Liquidity

As at March 31, 2007, the total assets of the Group was HK\$7,293,402,000, increased by approximately 43.2% as compared to March 31, 2006.

As at March 31, 2007, the Group's cash on hand was HK\$1,512,347,000 (March 31, 2006: HK\$1,727,130,000). The Group's total bank and other borrowings amounted to approximately HK\$2,929,233,000 (March 31, 2006: HK\$2,011,452,000) of which approximately 23.5%, 8.4%, 38.6% and 29.5% 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 1.65 (March 31, 2006: 3.38) and the net gearing ratio was 0.75 (March 31, 2006: 0.38). The calculation of net gearing ratio was based on the net borrowings of HK\$2,001,754,000 (total borrowings of HK\$3,514,101,000 less bank balances and cash of HK\$1,512,347,000) and the net assets of HK\$2,681,220,000 as at March 31, 2007.

Capital Structure

The Company entered into a subscription agreement with Asian Development Bank during the financial year for the subscription of 150,000,000 shares of the Company, and the net proceeds received by the Company was approximately HK\$186,700,000. These proceeds were mainly used for the new projects development of the Group.

The Company issued convertible bonds with 1% per annum coupon due June 29, 2010 with an aggregate principal amount of US\$40,000,000 (the "Bonds") in June 2005. The initial conversion price of the Bonds was HK\$1.731 but the conversion will be adjusted in accordance to the initial agreement if any shareholding dilution event happens. The Bonds have been listed on The Hong Kong Stock Exchange since June 1, 2006. As at July 20, 2007, a total of US\$23,000,000 of the Bond had been converted into a total of 103,639,506 ordinary shares of the Company.

Financial resources

In October 2006, the Group obtained a 9-years development-related loan facility of US\$50 million granted by Asian Development Bank. Such loan facility was used by the Group to invest in the infrastructures projects for the new natural gas transportation and distribution projects in China. Furthermore, the Group also obtained a total of US\$75 million 7-years development-related loan facility from The Royal Bank of Scotland and other commercial banks in June 2007 under the arrangement of Asian Development Bank. Interest rate for the first loan facility is at USD LIBOR plus 2% per annum, while the second loan facility was charged at USD LIBOR plus 1.35% per annum.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars, RMB and US dollars. Besides, the Group believes that RMB appreciation will continue in the foreseeable future. Since all the operating income of the Group is denominated in RMB, the Group is expected to be benefited from repaying foreign currency debts by RMB funding.

As the interest charged on the commercial loans and development capital loan granted to the Group was calculated on a floating basis, in order to minimize the interest rate risk, the Group has entered into interest rate swap contracts to mitigate interest rate risk and reduce finance costs. There were two interest rate swap contracts outstanding during the financial year. For the US\$60 million syndicated loan arranged by Societe Generale as the lead arranger, the Group is to pay floating interest charged at LIBOR+150Bps, but under the relevant interest swap contract, the Group only needs to pay interest at the fixed rate of 5.07% per annum. As to the US\$50 million development-related loan provided by FMO and Proparco, interest is charged at the floating rate of LIBOR+235Bps. At present, the Group only needs to pay interest at the fixed annual rate of 5.73% pursuant to the interest rate swap. The development capital loans of US\$50 million and US\$75 million under the Asian Development Bank facilities have also been put into similar interest rate swap arrangements in order to mitigate interest rate risk and reduce finance costs.

The Group's operating and capital expenditures are funded by operating cash income, subscription monies from strategic investors, bank loans, the Bonds and development capital loan facility. The Group has sufficient sources of funds to meet future capital expenditure and working capital requirements.

Charge on Assets

As at March 31, 2007, the Group pledged part of the fixed assets and investment properties having a net book value of approximately HK\$395,872,000 (March 31, 2006: HK\$371,867,000) and certain investments in subsidiaries to banks to secure loan facilities granted to the Group.

Capital Commitments

The Group has a 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, 2007 was HK\$392,357,000 (March 31, 2006: HK\$453,224,000) and HK\$56,006,000 (March 31, 2006: HK\$175,573,000), and such commitments would require a substantial part of the Group's present cash and external borrowings. The Group has also committed to acquire part of the PRC enterprise shares and to establish sino-foreign joint venture companies in the PRC.

Contingent Liabilities

As at March 31, 2007, the Group did not have any material contingent liabilities (as at March 31, 2006: Nil).

PROSPECTS

Our business is in a steady phase of growth. With a large portfolio of quality projects and sufficient capital support, the coming year is expected to be another year of rewards. We will continue to move towards our goals, pursue a more proactive investment strategy, invest in more gas projects and strengthen on investment in the upstream supply market, especially in the areas of liquefied natural gas and compressed natural gas. The Group will continue to work hard for better returns of our shareholders.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the year, except for the non-executive directors should be appointed for a specific term and be subject to re-election. All the existing non-executive directors of the Company are not appointed for specific term, but are subject to retirement and re-election at the Company's annual general meeting in accordance to the bye-laws of the Company.

COMPLIANCE OF THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules and all of the directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the financial year ended March 31, 2007.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended March 31, 2007.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 March 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The results announcement is required to be published on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.chinagasholdings.com.hk under "Announcements" respectively. The annual report of the Company for the year ended March 31, 2007 will be dispatched to the shareholders around July 30, 2007 and will publish on the websites of the HKEX's and the Company's websites accordingly.

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

Hong Kong, July 20, 2007

** for identification purpose only*

As at the date of this announcement, Mr. Li Xiao Yun, Mr. Xu Ying, Mr. Liu Ming Hui, Mr. Ma Jin Long and Mr. Zhu Wei Wei are the executive Directors, Mr. Feng Zhuo Zhi,, Mr. Mark Gelinis, Mr. Joe Yamagata and Mr. R.K. Goel are the non-executive Directors and Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue, Cynthia are the independent non-executive Directors.