CHINA GAS 中國燃氣

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, 2009

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, 2009, together with the comparative figures for the year ended March 31, 2008, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended March 31, 2009** ***HK$'000***	Year ended March 31, 2008 *HK$'000* *(Restated)*
Revenue	3	**6,323,823**	2,552,075
Cost of sales		**(4,894,474)**	(1,805,956)
Gross profit		**1,429,349**	746,119
Other income		**225,756**	188,726
Distribution costs		**(330,414)**	(110,296)
Administrative expenses		**(468,475)**	(342,556)
Change in fair value of investment properties		**5,726**	85,825
Change in fair value of held-for-trading investments		**(23,843)**	(1,232)
Impairment loss recognised in respect of available-for-sale investments		**(14,947)**	-
Impairment loss recognised on amounts due from customers for contract work		**(36,864)**	(79,623)
Allowance for trade and other receivables		**(53,883)**	(57,190)
Finance costs		**(409,800)**	(240,029)
Change in fair value of derivative financial instruments		**(366,320)**	(166,884)
Discounts on acquisition of an associate, a jointly controlled entity and businesses		**236,262**	40,476
Share of results of associates		**12,884**	138,013
Profit before taxation		**205,431**	201,349
Taxation	4	**(71,472)**	(13,778)
Profit for the year	5	**133,959**	187,571
Attributable to:			
Equity holders of the Company		**103,679**	141,059
Minority interests		**30,280**	46,512
		133,959	187,571
Dividends paid	6	**39,997**	38,619
Earnings per share			
Basic	7	**HK3.11 cents**	HK4.39 cents
Diluted		**HK2.93 cents**	HK3.85 cents

CONSOLIDATED BALANCE SHEET
As at March 31, 2009

	Notes	**March 31, 2009**	March 31, 2008
		HK$'000	*HK$'000*
			(Restated)
Non-current assets			
Investment properties		**295,127**	219,100
Property, plant and equipment		**9,239,775**	5,566,276
Prepaid lease payments		**869,075**	397,301
Interests in associates		**1,006,332**	214,291
Available-for-sales investments		**41,995**	18,376
Goodwill		**633,620**	429,422
Other intangible assets		**320,297**	318,821
Deposits for acquisition of property, plant and equipment		**276,197**	128,492
Prepayment for acquisition of a subsidiary and an associate		**63,218**	566,988
Loan receivable		**-**	15,000
Amounts due from associates		**68,966**	-
Deferred tax assets		**56,890**	34,203
		12,871,492	7,908,270
Current assets			
Inventories		**540,898**	285,530
Amounts due from customers for contract work		**219,993**	283,426
Trade and other receivables	8	**1,285,698**	935,715
Derivative financial instruments		**1,261**	10,976
Amounts due from associates		**243,250**	158,617
Prepaid lease payments		**16,173**	6,878
Held-for-trading investments		**11,544**	42,074
Pledged bank deposits		**847,759**	164,597
Bank balances and cash		**2,048,698**	1,510,044
		5,215,274	3,397,857
Current liabilities			
Trade and other payables	9	**2,603,313**	1,348,652
Derivative financial instruments		**782**	4,264
Amounts due to customers for contract work		**121,743**	12,247
Taxation		**51,733**	15,072
Bank and other borrowings – due within one year		**3,103,855**	157,061
Convertible bonds		**-**	14,334
		5,881,426	1,551,630
Net current (liabilities) assets		**(666,152)**	1,846,227
Total assets less current liabilities		**12,205,340**	9,754,497

	March 31, 2009	March 31, 2008
	HK$'000	*HK$'000*
		(Restated)
Equity		
Share capital	**33,336**	33,314
Reserves	**3,189,934**	3,107,258
Equity attributable to equity holders of the Company	**3,223,270**	3,140,572
Minority interests	**794,001**	545,435
Total equity	**4,017,271**	3,686,007
Non-current liabilities		
Derivative financial instruments	**360,087**	-
Amount due to a minority shareholder of a subsidiary	**356,591**	339,092
Bank and other borrowings – due after one year	**7,194,067**	5,624,454
Convertible bonds	**14,823**	-
Deferred taxation	**262,501**	104,944
	8,188,069	6,068,490
	12,205,340	9,754,497

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the financial statements include applicable disclosure 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 value.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANARDS

In the current year, the Group has applied the following amendments and interpretations ("New HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning April 1, 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these New HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2008 [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 1 (Revised)	Presentation of financial statements [3]
HKAS 23 (Revised)	Borrowing costs [3]
HKAS 27 (Revised)	Consolidated and separate financial statements [4]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [3]
HKAS 39 (Amendment)	Eligible hedged items [4]
HKFRS 1	First-time adoption of financial reporting standards [4]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [3]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [3]
HKFRS 3 (Revised)	Business combinations [4]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [3]
HKFRS 8	Operating segments [3]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives [5]
HK(IFRIC) - INT 13	Customer loyalty programmes [6]
HK(IFRIC) - INT 15	Agreements for the construction of real estate [3]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation [7]
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners [4]
HK(IFRIC) - INT 18	Transfer of assets from customers [8]

[1] Effective for accounting periods beginning on or after January 1, 2009 except the amendments to HKFRS 5, effective for accounting periods beginning on or after July 1, 2009.
[2] Effective for accounting periods beginning on or after January 1, 2009, July 1, 2009 and January 1, 2010, as appropriate.
[3] Effective for accounting periods beginning on or after January 1, 2009.
[4] Effective for accounting periods beginning on or after July 1, 2009.
[5] Effective for accounting periods ending on or after June 30, 2009.
[6] Effective for accounting periods beginning on or after July 1, 2008.
[7] Effective for accounting periods beginning on or after October 1, 2008.
[8] Effective for transfers on or after July 1, 2009.

The adoption of HKFRS 3 (revised) may affect the Group's accounting for business combination for which the acquisition date is on or after April 1, 2010. HKAS 27 (revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company are still assessing the potential impact of the above new and revised standards and have not yet quantified the potential impact.

3. REVENUE AND SEGMENT INFORMATION

The Group is currently organized into four operating divisions - sales of piped gas, gas connection, sales of liquefied petroleum gas ("LPG") and sales of coke and gas appliances. These principal operating activities are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented below:

2009

	Sales of piped gas HK$'000	Gas connection HK$'000	Sales of LPG HK$'000	Sales of coke and gas appliances HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE	**2,678,377**	**1,127,403**	**2,272,173**	**244,086**	**1,784**	**6,323,823**
SEGMENT RESULT	**384,844**	**364,461**	**(3,992)**	**5,415**	**5,306**	**756,034**
Unallocated corporate revenue						**125,586**
Unallocated corporate expenses						**(149,215)**
Finance costs						**(409,800)**
Change in fair value of derivative financial instruments						**(366,320)**
Discount on acquisition of a jointly controlled entity	**8,860**	**-**	**-**	**-**	**-**	**8,860**
Discount on acquisition of an associate						**227,402**
Share of results of associates						**12,884**
Profit before taxation						**205,431**
Taxation						**(71,472)**
Profit for the year						**133,959**

2008

	Sales of piped gas HK$'000	Gas connection HK$'000	Sales of coke and gas appliance HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE	1,691,159	615,282	244,146	1,488	2,552,075
SEGMENT RESULT	165,828	168,261	5,844	84,957	424,890
Unallocated corporate revenue					103,705
Unallocated corporate expenses					(98,822)
Finance costs					(240,029)
Change in fair value of derivative financial instruments					(166,884)
Discounts on acquisition of a jointly controlled entity and businesses	40,476	-	-	-	40,476
Share of results of associates					138,013
Profit before taxation					201,349
Taxation					(13,778)
Profit for the year					187,571

4. TAXATION

	2009 *HK$'000*	2008 *HK$'000*
The People's Republic of China ("PRC") Enterprise Income Tax	**98,696**	31,755
Deferred taxation	**(27,224)**	(17,977)
	71,472	13,778

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit derived in Hong Kong for both years.

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

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 ("Tax preference"). 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.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and will affect the PRC group entitles of the Company from January 1, 2008.

On December 26, 2007, the State Council of the PRC issued a circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled to preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transition to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the Tax preference can continue enjoying the tax preference based on the original tax rate until after the expiration of the tax preference. Entities that did not start Tax preference before 2008 because they were still in loss position shall start the Tax preference from 2008.

5. PROFIT FOR THE YEAR

	2009	2008
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**333,914**	189,383
Release of prepaid lease payment	**20,614**	8,401
Amortisation of intangible assets included in cost of sales	**12,685**	7,936
Minimum lease payments for operating leases	**74,124**	18,086
Cost of inventories recognised as expenses	**4,201,048**	1,660,115
Rental income from investment properties less outgoings	**(9,005)**	(4,801)

6. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Final dividend paid in respect of 2008 of HK$0.012 (2008: HK$0.012 in respect of 2007) per share	**39,997**	38,619

The final dividend in respect of 2009 of HK$0.014 (2008: HK$0.012) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. 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:

	2009	2008
	HK$'000	*HK$'000*
		(Restated)
Earnings for the purpose of basic earnings per share, being profit for the year attributable to equity holders of the Company	**103,679**	141,059
Adjustment for the effect of dilutive potential ordinary shares:		
Change in fair value of stock subscription option	**-**	(5,400)
Earnings for the purpose of diluted earnings per share	**103,679**	135,659

	2009	2008
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,333,233**	3,209,579
Adjustment for effect of dilutive potential ordinary shares:		
Share options (note a)	**204,537**	312,319
Stock subscription option (note b)	**-**	751
Convertible bonds (note c)	**-**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,537,770**	3,522,649

(a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the options with dilutive effect.

(b) Weighted average number of ordinary shares for the purpose of computation of diluted earnings per share has taken into account the effect of potential issuance of shares upon exercise of the stock subscription option.

(c) The computation of diluted earnings per share does not assume the conversion of convertible bonds for both years as the conversion would result in an increase in earnings per share.

8. 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:

	2009	2008
	HK$'000	*HK$'000*
0-180 days	**344,066**	271,250
181-365 days	**92,333**	67,857
Over 365 days	**219,375**	141,809
Total trade receivables before accumulated allowances	**655,774**	480,916
Less: Accumulated allowances	**(146,079)**	(79,187)
Trade receivables	**509,695**	401,729
Deposits paid for construction and other materials	**75,134**	77,027
Deposits paid for purchase of natural gas and LPG	**130,983**	81,825
Advanced payments to contractors	**105,806**	72,477
Other receivables, deposits and prepayments	**328,528**	219,271
Amounts due from minority shareholders of subsidiaries	**70,155**	40,506
Amounts due from shareholders of jointly controlled entities	**65,397**	42,880
	1,285,698	935,715

9. 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:

	2009	2008
	HK$'000	*HK$'000*
0-90 days	**1,142,836**	234,247
91-180 days	**119,262**	31,311
Over 180 days	**249,131**	94,110
Trade and bill payables	**1,511,229**	359,668
Other payables and accrued charges	**499,483**	569,314
Advance payments from customers	**186,196**	164,772
Advance received from customers for contract work that have not yet been started	**258,592**	230,340
Amounts due to minority shareholders of subsidiaries	**99,745**	24,558
Deferred cash consideration for the acquisition of businesses	**48,068**	-
	2,603,313	1,348,652

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of HK1.4 cents (2008:HK 1.2 cents) per ordinary share.

The final dividend will be paid on or about September 30, 2009 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 24, 2009 to August 28, 2009, both days inclusive, during which no period no transfer of shares will be effected. In order to quality 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, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a gas operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminal, storage and transportation facilities, gas logistics system, transmission of natural gas and LPG to residential, industrial and commercial users, construction and operation of gasoline and CNG refilling stations as well as the development and application of technologies relating to petroleum, natural gas and LPG in China.

<u>Business Review</u>

Despite the impact on the export trading, real estate, steel and cement sectors in China as a result of the global financial tsunami that arose in the fourth quarter, alongside with the closure of many small to medium sized enterprises and soaring urban unemployment rate, the operations of the Group also experienced drastic changes. However, through the improvement of existing management measures over the past financial year, the Group managed to minimize the operational risks and maintained continuous growth in the sales volume and user base of natural gas. The sales volume of natural gas rose by approximately 104.2% over the same period last year; whereas the accumulated connected residential users, accumulated connected industrial users and accumulated connected commercial users grew by approximately 66.2%, 127.5% and 47.5% respectively over the same period last year. The number of city gas projects increased from 68 projects for the past year to 110 projects for the current year.

For the year ended March 31, 2009, turnover of the Group amounted to HK$6,323,823,000 (year ended March 31, 2008: HK$2,552,075,000), increased by 147.8% over the same period last year. Gross profit amounted to HK$1,429,349,000 (year ended March 31, 2008: HK$746,119,000), increased by 91.6%. Overall gross profit margin was 22.6% (2008: 29.2%). Profit for the year was HK$133,959,000 (2008 (restated): HK$187,571,000), decreased by 28.6%. Overall net profit margin was 2.1% (2008 (restated): 7.3%). Earnings per share amounted to HK3.11 cents (year ended March 31, 2008: earnings per share amounted to HK4.39 cents).

During the period under review, the Group recognized an impairment of HK$366,320,000 in respect of the fair value of the financial derivative instruments in the income statement for the year, primarily attributable to the drop in the fair value of the interest rate swap contracts entered into by the Group for some of its loans, as a result of the rapid fall in global interest rates since October 2008. The Group has entered into interest swaps for part of the long-term loans since December 2005 in order to minimize the risk of rising interest rates and to control borrowing costs. So far, the Group has entered into interest swaps for approximately 37% of its total liabilities. During the financial year of 2007 and 2008, such interest rate swaps achieved interest savings of approximately HK$9,400,000 and approximately HK$20,900,000 respectively for the Group. In order to cope with the deteriorating economic conditions due to the global financial meltdown that arose in the fourth quarter of 2008, various countries adopted a series of quantitative easing policies to push interest rates at an extremely low level. Accordingly, during the second half of financial year 2009, as the US dollars interest rate was lower than that prescribed under such interest rate swaps, the Group paid an additional interest expense of approximately HK$23,600,000 during the period under review, representing an additional interest rate of approximately 0.23% based on its total liabilities. In addition, such low level of US dollars interest rate had an impact on the fair value of the financial derivative instruments under the interest rate swaps currently held by the Group. Under the HKAS, as the non-cash fair value movement arising from the interest swap contracts and convertible bonds held by the Group from March 31, 2008 to March 31, 2009 were credited to the income statement for the period, the Group recorded a non-cash impairment of HK$366,320,000. Without taking into account of the fair value movement of the non-cash and non-operational financial derivative instruments, the Group would have recorded a profit after tax and profit attributable to shareholders for the period of HK$500,279,000 and HK$469,999,000 respectively, representing an increase of 41.1% and 52.6% for the same period last year. Earning per share grew by 47.0% over the same period last year to HK14.1 cents.

Looking into the financial year of 2010, with general market consensus that the USD interest rate is expected to gradually increase and inflation driven up by the measures to stimulate the economy of the US and expansion of money supply, the fair value of the interest swaps agreements currently held by the Group as of March 31, 2010 may be higher than that as at March 31, 2009, resulting in a possible substantial positive fair value movement and the write-back thereof in the income statement for the financial year of 2010.

New Projects Expansion

As of July 20, 2009, the Group had secured 110 city piped gas projects (with exclusive concession rights) in 18 provinces, autonomous regions and directly-administered cities, eight long distance natural gas pipeline projects, 60 CNG vehicle refilling stations, one natural gas development project, one natural gas purification treatment project, as well as 35 LPG distribution projects.

The new projects include 42 city piped gas exclusive concession projects (with exclusive concession rights) covering 28 cities and regions in Fujian Province; Liaoyang City, Linghai City, Gaizhou City and Zhuanghe City of Liaoning Province; Jiamusi City and Shuangcheng City of Heilongjiang Province; Dongmeng Economic Development Area in Nanning City, Laibin City and Baise City of Guangxi Zhuang Autonomous Region; Helingeer County, Tuoketuo County, Tuzuoqi and Wuchuan County of Inner Mongolia Autonomous Region and Linyou County of Shaanxi Province; as well as one long-distance natural gas pipeline project in each of Chongqing City and Hubei Province.

In respect of the city piped gas projects with exclusive concession rights, the Group acquired 49% equity interests in Fujian Anran Gas Investment Ltd. ("Anran") and hence the operation and management over its 28 city piped gas projects. This transaction has significantly expanded the Group's natural gas user base and sales volume, while also provided an exposure to the Fujian market, one of the largest LPG consumers. In particular, the successful acquisition of Anran represents a strong backing for its subsidiary, Zhejiang Zhongyou Hua Dian Group to integrate the downstream LPG distribution market in Fujian and also establishes a solid foundation for the Group to further expand the Fujian gas market as a part of the Group's strategic planning. Currently, the natural gas resources in Fujian Province are supplied by Fujian LNG project, which is owned by China National Offshore Oil Corporation (CNOOC). Upon the acquisition of Anran, the Group will be able to enhance the business cooperation with CNOOC, providing strong backing for gas supply to its project companies in Fujian Province, and capitalize on its well-established expertise and experience in the construction of CNG refilling stations, alongside with its capital strength as well as support from CNOOC for gas supply so as to expand the CNG refilling stations project in Fujian Province.

Set out below is the additional 42 new city piped gas projects secured by the Group as of July 20, 2009:

Province/Autonomous Region/Directly-Administered City	**City/District**
Guangxi Zhuang Autonomous Region	Dongmeng Economic Development Area in Nanning City, Laibin City and Baise City
Inner Mongolia Autonomous Region	Helingeer County, Tuoketuo County, Tuzuoqi and Wuchuan County
Guangdong Fujian Province	28 cities and regions in Fujian Province
Liaoning Province	Liaoyang City, Gaizhou City, Linghai City and Zhuanghe City
Heilongjiang Province	Jiamusi City and Shuangcheng City
Shaanxi Province	Linyou County

The above new projects cover a connectable city population of approximately 7,800,000 (approximately 2,400,000 households). The connectable city population covered by the Group's gas projects has increased to approximately 50,550,000 (approximately 15,800,000 households) as of July 2009, representing an increase of 18.1% as compared to that in 2008.

In addition to the newly invested city piped gas projects, the Group also invested in one additional long distance pipeline stretching from Changshou to Nanchuan, Fuling in Chongqing and one long distance pipeline stretching from Huanggang City via Ezhou to Daye City. Accordingly, the number of long distance natural gas pipeline projects owned by the Group has increased from last year's six to this year's eight.

Moreover, during the financial year, the Group completed the acquisition of 83% equity interests in Zhejiang Zhongyou Hua Dian Group and 48% equity interests in the city gas project in Harbin City, Heilongjiang Province. Zhongyou Hua Dian Group is currently the largest LPG trader in China mainly engaged in the sale of LPG and chemicals; whereas Harbin City is the capital city of Heilongjiang Province with a population of over 10 million.

Gas Business Review

The Group's gas business is managed under 2 segments, namely natural gas and LPG, the customer bases and market strategies of which are different from each other. The performance of each segment for the year ended March 31, 2009 is discussed as follows.

Natural Gas Business

As a gas supplier and service provider specializing in natural gas, the Group has already established a unique and well-fit operation management system in domestic gas industry over six years of development with a view to improving the management efficiency and operating results.

Construction of Piped Gas Networks

Construction of city gas pipeline networks is one of the Group's principal businesses. Through the construction of city main pipeline network and branch pipeline network, the Group connects natural gas to residential, industrial and commercial users, and charges them for such connection and gas usage.

During the financial year, the Group had completed 21 processing stations, high-pressure gas pipelines of 431 km, city medium and low-pressure gas pipeline of approximately 4,415 km and branch and customer pipeline network of4,232 km.

As at March 31, 2009, the Group accomplished piped gas supply in 63 cities, and had 77 processing stations, high-pressure gas pipelines of approximately 1,245 km, medium to low-pressure gas pipelines of approximately 12,197 km and branch and customer pipeline network of 12,424 km constructed. Designed gas supply capacity of the processing stations reached 17,164,000 m^3 per day.

Piped Gas Users

The natural gas users of the Group mainly include residential users, industrial and commercial users and CNG vehicle refilling stations.

Residential Customers
During the financial year, the Group completed natural gas connections for 418,695 domestic households, an increase of approximately 49.4% over the same period last year. The average piped gas connection fee for residential users was RMB 2,437.

During the financial year, the Group also acquired 1,073,631 residential users who were primarily from Harbin projects. As at March 31, 2009, the accumulated connected residential users of the Group grew by approximately 66.2% over the same period last year to 3,745,370, representing 24.7% of the total connectable domestic households.

Industrial and Commercial Customers
Compared to residential users, industrial and commercial users have higher demand for gas and are the focus of the Group's business direction. During the financial year, the Group completed connections for 186 industrial customers and 2,616 commercial customers and acquired 51 industrial customers and 6,570 commercial customers. Industrial users are primarily engaged in the petrochemical, porcelain making, building material productions, metallurgy and glass making industries.

As at March 31, 2009, the accumulated acquired and connected industrial customers and commercial customers of the Group were 420 and 28,511, representing an increase of approximately 127.0% and 47.5% respectively as compared with that in the same period last year. During the financial year, connection fee for industrial users was calculated on the basis of the contracted daily gas volume at the average rate of RMB 46 per m^3 and the average connection fee paid by commercial customers was RMB 45,818 per customer.

During the financial year, the Group's gas connection income grew by approximately 83.2% over the same period last year to HK$1,127,403,000, representing approximately 17.8% of the Group's total revenue for the year.

CNG refilling stations for vehicles
The Group currently owns 60 CNG refilling stations for vehicles, with a daily capacity in excess of 700,000 m^3. Sales income from CNG for vehicles took up 7.9% of the Group's total sales income natural gas during the financial year, representing an increase of approximately 60.0% as compared to the same period last year.

<u>Sale of Natural Gas</u>
Sale of natural gas includes connection fee and sales 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 2,130,295,000 m^3 of natural gas, an increase of 104.2% as compared to the same period last year, of which 276,706,000 m^3 was sold to residential users, 1,463,283,000 m^3 to industrial users and 221,873,000 m^3 to commercial users and 168,433,000 m^3 to CNG vehicle drivers.

During the financial year, gas sold to industrial users accounted for approximately 68.7% of the total natural gas volume sold, commercial users approximately 10.4%, residential users approximately 13.0% and CNG vehicle drivers approximately 7.9%. With a large proportion of industrial users in its customer mix, the Group enjoys huge potential in its future gas sales. In addition, as the local government implements more relaxed tariff control for industrial users, it is much easier for the Group to transfer the risk of upstream natural gas price fluctuation to them.

During the financial year, the Group's natural gas sales income grew by approximately 58.4% over the same period last year to HK$2,678,377,000, representing approximately 42.4% of the Group's total revenue for the year.

As at March 31, 2009, the daily natural gas supply capacity of the Group reached 6,855,126 m^3, increased by approximately 74.4% over the same period last year, of which the actual domestic usage was approximately 626,858 m^3/day, actual industrial usage approximately 5,174,582 m^3/day, actual commercial usage approximately 436,653 m^3/day, and actual CNG vehicles usage approximately 617,033 m^3/day. As of June 30, 2009, the total natural gas supply of the Group had exceeded 7,600,000 m^3 per day.

In the past financial year, the average selling price (pre tax) was RMB 1.85 per m^3 for residential users, RMB 1.97 per m^3 for industrial users, RMB 2.06 per m^3 for commercial users, and RMB 2.08 per m^3 for CNG vehicle drivers.

The core business of the Group is natural gas supply. However, some of the projects are still selling piped coal gas. During the period, sales income of piped coal gas from Fushun, Liuzhou, Yangzhou, Qingdao and Harbin was recorded. A total of 195,606,000 m^3 piped coal gas was sold during the financial year, of which 123,857,000 m^3 was sold to residential customers, 51,965,000 m^3 to industrial customers and 19,785,000 m^3 to commercial customers.

Liquefied Petroleum Gas Business

In 2008, the Group entered the LPG business in China through the acquisition of Zhongyou Hua Dian Group. Headquartered in Shanghai, Zhongyou Hua Dian Group's major investments include four large petrochemical product storage and logistic bases in Xiaomen Island of Wenzhou, Nansha of Guangzhou, Jingjiang of Jiangsu and Fangchenggang of Guangxi where each location contains a LPG designated terminal with a capacity of 50,000-ton grade. Meanwhile, Zhongyou Hua Dian Group also owns seven small LPG terminals with a capacity ranging from 2,000-ton grade to 5,000-ton grade in Shantou, Fuzhou, Jingjiang, Wenzhou and Haiyan. All terminals are well equipped with terminal transportation pipelines and storage facilities that could satisfy the berthing and docking of foreign and domestic vessels with a total berthing capacity of 220,000 tonnes. In addition, Zhongyou Hua Dian Group possesses four first-class, nine second-class and twenty-two third-class LPG storages, equipped with three sets of dimethyl ether production systems with a total LPG storage capacity of 274,715 m^3, chemical storage capacity of 78,000 m^3 and annual dimethyl ether production capacity of 130,000 tonnes.

<u>LPG Market Outlook</u>

Over more than two decades' rapid growth, China has become the second largest LPG consumer in the world. Estimates indicated that China's LPG market demand will reach 30 million tonnes by 2015 with a market value of RMB200 billion. Despite the slowdown over the past two years owing to the high LPG price, China's LPG consumption is expected to pick up and resume stable growth in the coming years due to the following reasons. Firstly, the Chinese government has recently begun to deregulate the pricing of a number of energy products, thereby aligning the domestic prices of refined oil, natural gas and coal with the international standards and hence narrow the price gap between China's LPG and other energy products to stimulate the LPG market demand. Secondly, in most mid and small sized cities and broader rural areas with no access to piped gas, bottled LPG is bound to be the first choice and thus building up the LPG market demand. Thirdly, as the Chinese government places more emphasis on environmental protection, LPG, as one of the clean fuels, is poised to win a market share from unclean fuels such as coal and heavy oil. Fourthly, RMB appreciation will bring down the purchase cost of imported LPG and expand the domestic market demand for LPG. Lastly, despite the currently significant impact of natural gas on the LPG demand in China, the market demand is unlikely to be sufficiently met by either the limited production of natural gas locally or the tight and increasingly expensive supply of LNG globally. On the contrary, the global supply of LPG is very abundant and has a bright future to be used as a complementary alternative to the natural gas. Looking forward, we believe that the Chinese LPG market will see a stable growth in demand.

<u>LPG Business Review</u>

During the past financial year, the Group rebuilt a complete set of well-designed management and procedural systems for Zhongyou Hua Dian Group and enhanced the collection and analysis of market information. In terms of sales, as certain city gas projects are located in Zhongyou Hua Dian's LPG sales network, the Group has capitalized on its existing resources in certain cities where the concession rights for city gas projects are acquired to establish a LPG terminal distribution network, meanwhile integrated with Zhongyou Hua Dian's existing wholesale network in these cities to increase the LPG sales volume and margin of Zhongyou Hua Dian.

From September 2008 when the acquisition of Zhongyou Hua Dian was completed up to the end of the financial year, the purchase of LPG totaled at 495,155 tonnes.

During the financial year, the Group recorded a total sales income for LPG of HK$2,272,173,000, accounting for approximately 35.9% of the Group's turnover for the year.

<u>Human Resources</u>

A team of excellent employees is vital to the success of a corporation. The Group adheres to the management concept of "people come first". It has established and improved the 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 quality staff through enhancing job satisfaction and attractive remuneration package.

As at March 31, 2009, the Group has approximately 16,114 employees, an increase of approximately 64.7% over last year. More than 99.9% of the Group's employees are located in China. Remuneration is determined with reference to the qualifications and experience of the staff and according to the prevailing industry practice in the respective regions where it operates. Apart from 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 performance of these individual employees. The Group also provides extensive training including training programs for new employees and different levels of technical and management courses for the Group's management 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, the Group was named "Capital's Outstanding PRC Natural Gas Supplier" four years in a row by Capital Magazine. 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 Magazine and 10 leading figures in the business community.

Moreover, the Group was granted three awards in the 2009 Asia's top companies poll organized by FinanceAsia, one of the leading financial magazines in Asia Pacific in June 2009, namely the sixth prize in "The Best Mid-Cap Company", the second prize in "The Best Investor Relations" and the seventh prize in "The Best Corporate Governance" categories in the Mainland China section. This demonstrates that China Gas efforts in corporate management, investor relations and corporate governance are well endorsed by the investing community.

Meanwhile in November 2008, the Group was ranked the ninth among Hong Kong listed companies in the Thomson Reuters Extel Asia Survey 2009 for Investor Relations Award, which recognized the Group's relentless efforts over years to enhance corporate transparency and responsibility.

The Group was elected by a dedicated gas industry portal in China – "博燃網" (Gasshow.com) as one of the "2008 Top Ten Brand Enterprises" in the performance assessment of the "2008 Top Ten Gas Industry Players". Such campaign has reflected that the Group is highly recognized in the industry in terms of social responsibility and integrity. The election was based on public votes and expert assessment, and the election criteria included yearly performance, integrity, social citizenship responsibility, contribution to industry development and technological and managerial innovation of an enterprise.

Financial Review

Liquidity

In face of the prevailing economic conditions, it is essential for any company to maintain sufficient liquidity. Due to its business nature, the Group has an inherently robust cashflow. Coupled with the effective and well-established capital management system, the Group is able to maintain its competitive edge under the pressure of credit crunch.

As at March 31, 2009, the total assets of the Group was HK$18,086,766,000, increased by approximately 60.0% as compared to that as at March 31, 2008. The Group's cash on hand was HK$2,896,457,000 (March 31, 2008: HK$1,674,641,000). The Group had a current ratio of approximately 0.89 (March 31, 2008: 2.19). After deducting the import letter of credit and trust receipt loans of Zhongyou Hua Dian amounting to HK$2,122,318,000, the Group's current ratio was 1.39. The net gearing ratio was 1.37 (March 31, 2008: 1.21). The calculation of net gearing ratio was based on the net borrowings of HK$5,517,220,000 (total borrowings of HK$10,669,336,000 less the discounted bills and trust receipts of Zhongyou Hua Dian amounting to HK$2,255,659,000 and bank balances and cash of HK$2,896,457,000) and the net assets of HK$4,017,271,000 as at March 31, 2009.

The Group has always been pursuing a prudent financial management policy. The majority of the cash available was deposited with credible banks as demand and time deposits.

Financial resources

Before the global financial storm started to take hold in the fourth quarter of 2008 and the subsequent credit tightening of various banks and financial institutions, the Group secured a syndicated loan in the amount of US$45 million from OCBC and other commercial banks. The bank loan will be used as general working capital and accrue interest at US$ LIBOR+1.25%.

Owing to its continuous efforts in seeking a long-standing relationship with local, Chinese and foreign banks, the Group is able to obtain additional available credit facilities from new banks apart from the ongoing project finance provided by China Development Bank. As of July 2009, over 20 banks extended syndicate loans and credit facilities to the Group and most syndicate loans have a term longer than five years with an average maturity of nine years.

	2009	2008
	HK$'000	*HK$'000*
Less than one year	3,103,855*	157,061
After one year but not more than two years	355,753	205,922
After two years but not more than five years	2,430,918	899,345
After five years	4,407,396	4,519,187
	10,297,922	5,781,515

**of these, the discounted bills and trust receipts of Zhongyou Hua Dian amounted to HK$2,255,659,000*

As at March 31, 2009, the Group had bank loans and other loans amounting to HK$10,669,336,000, representing an increase of 73.9% over that of 2008, of which HK$2,698,073,000 represented the new liabilities incorporated from the acquisition of Zhongyou Hua Dian and over 83.6% belonged to the short-term letter of credit and relevant trade finances.

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 events arise. The Bonds have been listed on the Hong Kong Stock Exchange since June 1, 2006. Currently, the bonds with an aggregate amount of US$38,000,000 have been converted into 171,230,491 ordinary shares of the Company. During the financial year, no bonds were converted into the ordinary shares of the Company.

The operating and capital expenditures of the Group are financed by operating cash income, subscription moneys from strategic investors, bank loans, bonds, revolving credit facilities and development financial loans. The Group has sufficient funding to satisfy its future capital expenditures and working capital requirements.

Foreign Exchange

No significant foreign exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB and US dollars.

Charge on Assets

As at March 31, 2009, the Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of approximately HK$457,164,000 and HK$37,047,000 (2008: HK$6,297,000 and HK$22,181,000) respectively, investment properties having a net carrying value of HK$19,200,000 (2008: HK$20,100,000), trade receivables having a net carrying value of HK$45,878,000 (2008: HK$24,232,000), inventories having carrying value of HK$87,651,000 (2008: Nil), pledged bank deposits of HK$847,759,000 (2008:HK$164,597,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

Capital Commitments

The Group has a capital commitment in respect of the acquisition of property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements as at March 31, 2009 was HK$208,150,000 (as at March 31, 2008: HK$201,256,000) and HK$93,312,000 (as at March 31, 2008: HK$119,897,000) respectively, and such commitments would require a substantial part of the Group's present cash and external borrowings. The Group has promised to acquire shares of some Chinese enterprises and set up Sino-foreign joint venture companies in China.

Contingent Liabilities

As at March 31, 2009, the Group did not have any material contingent liabilities (as at March 31, 2008: Nil).

PROSPECTS

Despite the far-reaching impact of the abrupt global financial meltdown on the world's economy, China has still recorded a growth for the first two quarters of 2009 with a sustained strong demand for energy. During the past year, the Group followed its consistent investment strategy by actively investing in both downstream city gas projects and midstream long distance gas pipeline projects and more importantly, expanding into China's LPG market through the acquisition of Zhongyou Hua Dian to improve its competitiveness in China's overall gas supply market. In the past financial year, our LPG distribution business has become one of the major revenue sources of the Group.

Looking forward to the next financial year, for the city gas distribution segment, the Group will continue to seek investment opportunities of city gas projects across mid and large cities in China where reasonable return can be expected. Although domestic property market has experienced a major change from overheated development into a recession, the connection fee collected by the Group remains substantially intact. As the government endeavors to launch the clean energy policies, the Group is expected to see more city gas users switching to natural gas. Moreover, as the shortage in upstream gas sources alleviates, the Company will speed up the conversion program for the existing residential, industrial and commercial users in its 109 cities and accelerate the connection of new users so as to drive increased usage of natural gas and expedite the development of domestic CNG refilling business.

For LPG, the Group will strengthen the business cooperation with upstream suppliers and fully utilize the existing terminal loading and storage capacities and distribution network of Zhongyou Hua Dian Group so as to expand the LPG wholesale and retail businesses. The LPG business of the Group is expected to generate sustainable revenue and profit growth to the Group.

The Group will continue to adopt a prudent and sound approach to monitor the operational and financial management of the project companies. Besides, the Group will continue to establish and maintain long-term working relationships with domestic and overseas banks so as to cope with the future business development and planning of the Group. Meanwhile, the Group is fully aware of the importance and impact of corporate social responsibility. Accordingly, the Group will continue to manage the project facilities in our places of operation in a responsible manner and actively participate in the social affairs therein.

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, 2009.

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, 2009.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended March 31, 2009, 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 The 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, 2009 will be dispatched to the shareholders around July 29, 2009 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 21, 2009

** 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. Joe Yamagata, Mr. R.K. Goel, Mr. Kim Joong Ho and Mr. William Rackets 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.