



# CHINESE PEOPLE GAS HOLDINGS COMPANY LIMITED

中民燃氣控股有限公司\*

(Incorporated in Bermuda with limited liability)  
(stock code: 681)

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2006 AND RESUMPTION OF TRADING

### FINANCIAL HIGHLIGHTS

This year, the Group recorded turnover of HK\$240,607,000, representing an increase of 197% compared with last year;  
Gross profit of HK\$127,326,000, representing an increase of 177% compared with last year;  
Profit attributable to shareholders (excluding the change in the fair value of convertible bonds) of HK\$61,739,000, representing an increase of 303% compared with last year;  
Basic loss per share of 2.13 HK cents; basic earnings per share of last year was 0.61 HK cent.  
Operating cash inflow before the change in operating capital reached HK\$112,178,000, representing a substantial increase of 203% over HK\$37,047,000 of last year;  
Net cash flow generated by operating activities of HK\$15,956,000, net outflow was HK\$44,444,000 last year;  
Net cash used in investment activities of HK\$42,854,000, representing an increase of 72% over HK\$24,971,000 of last year;  
Net cash generated by financing activities of HK\$148,684,000, representing an increase of 81% over HK\$82,189,000 of last year;  
Net cash and cash equivalents at the end of the year increased to HK\$132,986,000, representing an increase of 12.31 times over HK\$9,993,000 of year end last year.

The board of directors (the "Directors") of Chinese People Gas Holdings Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006, together with the comparative figures for the year ended 31 March 2005, as follows:-

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	NOTES	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover	3	240,607	81,080
Cost of sales		(113,281)	(35,177)
Gross profit		127,326	45,903
Other operating income		18,789	1,635
Administrative expenses		(46,112)	(15,725)
Decrease in fair value of investment properties		-	(6,000)
Loss on disposal of subsidiary		(5,519)	-
Change in fair value of convertible notes	4	(117,800)	-
Convertible notes issue expenses	4	(10,140)	-
Finance costs	5	(2,907)	(641)
Share of results of associates		652	2,264
Share of result of a jointly-controlled entity		-	(1)
(Loss) profit before taxation		(35,711)	27,435
Taxation	6	(19,400)	(11,603)
(Loss) profit for the year		(55,111)	15,832
Attributable to:			
Equity holders of the Company		(56,061)	15,336
Minority interests		950	496
		(55,111)	15,832
		HK cents	HK cents
(Loss) earnings per share	7	(2.13)	0.61
Basic			
Diluted		N/A	0.55

### CONSOLIDATED BALANCE SHEET AT 31 MARCH 2006

	NOTES	2006 HK\$'000	2005 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment		227,824	114,135
Investment properties		6,984	48,138
Prepaid lease payments		8,737	4,960
Goodwill		44,725	38,895
Interest in an associate		3,564	-
Available-for-sale investments		194	-
Investment in securities		-	190
		292,028	206,318
Current assets			
Inventories		4,404	1,366
Trade and other receivables		66,484	42,441
Prepaid lease payments		366	103
Pledged bank deposits		-	130
Bank balances and cash		132,986	9,993
		204,240	54,033
Current liabilities			
Trade and other payables		25,325	60,025
Provision for scheme debts		-	1,047
Taxation payable		28,835	10,812
Bank borrowings - amount due within one year		28,264	9,922
Convertible notes	4	133,788	-
		216,212	81,806
Net current liabilities		(11,972)	(27,773)
Total assets less current liabilities		280,056	178,545
Non-current liabilities			
Bank borrowings - amount due after one year		2,807	11,085
Deferred tax liabilities		61	61
		2,868	11,146
Net assets		277,188	167,399
Capital and reserves			
Share capital		201,989	183,030
Reserves		70,486	(17,465)
Equity attributable to equity holders of the Company		272,475	165,565
Minority interests		4,713	1,834
		277,188	167,399

### Notes

#### 1. BASIS OF PREPARATION

After reviewing the Group's and Company's budget for 2006/2007 and taking into consideration the cash inflow from issuing a convertible note in June 2006 and other longer term plans, the directors consider that adequate resources exist for the Group to continue in operational existence for the foreseeable future and are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

#### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively.

The effects of the changes in the accounting policies on the results for the current and prior year are as follows:

	2006 HK\$'000	2005 HK\$'000
Decrease in amortisation of goodwill	2,198	-
Recognition of share-based payment as expenses	(9,307)	-
Recognition of discount on acquisition of subsidiaries	2,812	-
Change in fair value of convertible notes	(117,800)	-
Decrease in profit for the year	(122,097)	-

An analysis of the decrease in profit for the period by line items presented according to their function is as follows:

	2006 HK\$'000	2005 HK\$'000
Increase in other income	2,812	-
Increase in administrative expenses	(7,109)	-
Change in fair value of convertible notes	(117,800)	-
	(122,097)	-

#### 3. TURNOVER AND SEGMENT INFORMATION

For management purposes the Group is currently organised into four operating divisions - supply of natural gas, gas pipeline connection, glass product, property holding and investment. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and contribution by business segment during the year is as follows:

	Supply of natural gas		Gas pipeline connection		Glass product		Property holding and investment		Building services (single-trade)		Packaged/design and build contracts		Environmental engineering services		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	85,539	28,632	129,271	41,738	24,070	6,680	1,727	2,293	-	309	-	419	-	1,009	240,607	81,080
Segment results	13,017	3,312	100,005	34,277	4,069	1,320	(3,889)	(6,686)	-	(405)	-	(514)	-	(1,346)	113,202	29,958
Unallocated other operating income															11,500	980
Change in fair value of convertible notes															(117,800)	-
Convertible notes issue expenses															(10,140)	-
Unallocated corporate expenses															(30,218)	(5,125)
Finance costs															(2,907)	(641)
Share of results of associates	652	2,264	-	-	-	-	-	-	-	-	-	-	-	-	652	2,264
Share of result of a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	-	(1)
(Loss) profit before taxation															(35,711)	27,435
Taxation															(19,400)	(11,603)
(Loss) profit for the year															(55,111)	15,832

#### 4. CONVERTIBLE NOTES

The Company issued US\$20 million, 2% coupon convertible notes at a par value of US\$1 million each on 28 October 2005 with a maturity date on 27 October 2008 (collectively referred to as the "Notes"). The Notes are unsecured and denominated in United States dollars. The Notes entitle the holders to convert them into ordinary shares of the Company in the period commencing from the date falling 2 calendar months after the issue date and ending on the date 3 weeks prior to the maturity date at the lesser of (i) fixed conversion price of HK\$0.3433 or (ii) floating conversion price, which is equal to the average of any four consecutive trading days as selected by the holders during the 30 consecutive trading days immediately prior to date of conversion. The Company is entitled to redeem the Notes by paying a premium of 6% per annum if the closing price of the Company is equal or less than 65% of the fixed conversion price of HK\$0.3433 (i.e. HK\$0.223 or below). In addition, if the amount of the Notes being converted is less than USD5 million after six months from the Grant Date or less than USD10 million after 12 months from the Grant Date, the Company is entitled to redeem the balancing amount of the convertibles which is not converted.

If the share price of any 10 consecutive trading days is equal or less than the 40% of the fixed conversion price, the holders can require the Company to redeem the Notes. The redemption schedule is 50% of the Notes to be redeemed within six months after notice, another 25% within nine months and the balance amount within twelve months. The Company's circular dated 12 October 2005 contained the details of the terms of the Notes.

As determined by an independent qualified valuer, Vigers Appraisal & Consulting Limited, no value has been assigned for these redemption options of the issuer and holder as they are considered to be insignificant in value.

The Company incurred one-off expenses of HK\$10,140,000 for the issuance of the Notes. Such expenses have been recognised in the income statement for the year.

The functional currency of the Group is Renminbi and the conversion option of these Notes is denominated in U.S. dollars. Since the conversion price for the Notes is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, it was determined that the Notes do not contain any equity component and the entire Notes were designated as "financial liabilities at fair value through profit or loss" which requires the Notes to be carried at fair value at the balance sheet date and the changes in fair values are recognised in the income statement. During the year, a charge on change in its fair value of HK\$117,800,000 is recognised in the income statement.

The fair value of the Notes at 31 March 2006 was calculated using the market value basis. The inputs into the model were as follows:

Stock price	HK\$0.57
Exercise price	0.3433
Expected volatility	40%
Stock borrowing cost	4.31%
Expected dividend yield	0%
Market yield	6.88%

## 5. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on convertible notes	1,063	–
Interest on bank loans and overdrafts: wholly repayable within five years	1,799	228
wholly repayable after five years	–	413
Interest on other borrowing	45	–
	<u>2,907</u>	<u>641</u>

## 6. TAXATION

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	19,400	11,603
Taxation attributable to the Company and its subsidiaries	<u>19,400</u>	<u>11,603</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit in Hong Kong for both years.

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

## 7. (LOSS) EARNINGS PER SHARE

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

	2006 HK\$'000	2005 HK\$'000
Earnings		
(Loss) earnings for the purposes of basic earnings per share	<u>(56,061)</u>	<u>15,336</u>

The diluted loss per share for the year ended 31 March 2006 was not presented as the exercise of the share options and convertible notes outstanding would result in a decrease in loss per share.

	Number of shares 2006	2005
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>2,629,455,628</u>	2,524,716,736
Effect of dilutive potential ordinary shares:		
– share options		<u>264,602,000</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share		<u>2,789,318,736</u>

Impact of changes in accounting policies and the restatement of figures for 2005:

Changes in the Group's accounting policies and the restatement of figures 2005 during the year are described in detail in note 2. The following table summarises the impact on basic earnings per share:

	2006 Impact on basic (loss) per share HK cents
Figures before adjustments	2.51
Adjustments arising from changes in accounting policies	<u>(4.64)</u>
As reported	<u>(2.13)</u>

## DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: nil).

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 3 October 2006. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 7 September 2006.

## CLOSURE OF REGISTER

The register of members of the Company will be closed from 27 September 2006 to 3 October 2006, both days inclusive, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 September 2006.

## BUSINESS REVIEW

### Distribution, Supply and Installation of Piped Natural Gas Businesses

#### Distribution and Supply of Piped Natural Gas

The Group's main business is providing natural gas to households and commercial and industrial customers through its gas pipeline networks, and the Group's income mainly comes from sales of piped natural gas. During this financial year, the Group achieved natural gas sales of 111.26 million cubic meters, of which 17.10 million cubic meters were sold to households and 94.16 million cubic meters were sold to commercial and industrial customers, realizing a gas sales income of HK\$85,539,000, an increase of 199% compared to last financial year. Income from sales of natural gas accounted for 35.6% of the Group's turnover for this financial year.

City gas has become a necessity during the process of urbanization in the PRC. In addition, city gas is a public utility and is monopolistic in nature. As the city gasification rate in which the Group is operating continued to rise and new gas projects of the Group continued to increase every year, sales of the Group's piped natural gas will grow steadily.

#### Piped Natural Gas Installation

The Group was also engaged in construction of main pipelines and branch pipelines networks and through the construction of gas pipeline networks to connect households with the gas networks and charge for connection fee. Such fee is another major income source of the Group. During this financial year, the Group has completed installation work for 50,544 households and 7,853 commercial and industrial customers, generating an income from installation fees HK\$129,271,000, an increase of 210% compared with last financial year. Installation fees income accounted for 53.7% of the Group's turnover for the financial year.

As at 31 March 2006, the Group has accumulated a total of 80,443 connected customers, of which 71,746 were households and 8,697 were commercial and industrial customers.

The Group anticipates that installation fees will remain in force for some time in the future before the gas price becomes absolutely market-oriented. As the number of users of natural gas in the areas where the Group is operating continued to increase and more new projects came into operation every year, income from installation fees will continue to be one of the most important income sources for the Group.

#### Development of Natural Gas Projects

During this financial year, the Group has acquired five piped natural gas projects, including:

The Han Wang Project (漢旺項目)

On 31 July 2005, the Group acquired 100% interests in Mianzhu City Han Wang Natural Gas Company Limited (綿竹市漢旺天然氣有限公司) in Mianzhu City. The project is located in Han Wang Town, Mian Zhu City, Sichuan Province. Han Wang Town is one of the first 57 pilot towns under the National Integrated Reform Program and the key industrial zone of Mianzhu City. The famous production base of steam turbine in China Dongfang Steam Turbine Works (東方汽輪機廠) is located in Han Wang Town. Its industrial gas consumption and household gas consumption of the workers residing in the industrial area will be the major targets for our future development. Han Wang Town has a total connectable population of 60,000 and the gasification rate is 15.3%.

The Bei Chuan Project (北川項目)

On 31 July 2005, the Group acquired the natural gas assets in Beichuan County and established the Beichuan County Zhongmin Gas Company Limited (北川縣中民燃氣有限公司). Beichuan County is located in Mian Yang City in Sichuan Province and is in the northwest of Sichuan Basin. Enterprises engaged in building materials and processing industries are the major commercial and industrial users of natural gas in Beichuan County. Lei Gu

Town (擂鼓鎮), which is 8 kilometers from Beichuan's county town, is constructing an industrial zone with an area of over 400 acres. The industrial zone is striving to introduce high value-added, low energy-consumption and technologically advanced environmental friendly enterprises. These enterprises will drive the development of gas consumption in Beichuan County. The total connectable population of Beichuan County is 160,000 and the gasification rate is 5.5%.

The Tong Nan Project (潼南項目)

On 1 August 2005, the Group acquired 100% interest in Chongqing Tong Nan Tongfa Gas Co. Ltd. (重慶市潼南縣通發燃氣有限責任公司) and renamed it as Chongqing Zhongmin Gas Company Limited (重慶中民燃氣有限公司). Tong Nan County, which is located in the linked terrain of Sichuan and Chongqing, is the hometown of the Former President of the PRC Mr. Yang Shang Kun. It is an important gateway for Chongqing to open to the outside world. The construction of a new city of 10 square kilometers which lies in the north side of Fu River (涪江) in Tong Nan County has founded its basic structure. An attractive regional industrial and economic zone that can bring about stimulating effect to the region is under construction. As many of the industrial enterprises in Chongqing urban areas move into the zone, the gas demand from industrial and commercial users and households will become higher. The total connectable population of Tong Nan County is 920,000 and the gasification rate is 6.7%.

The Fu Ping Project (富平項目)

On 5 August 2005, the Group acquired 80% interest in Fu Ping Natural Gas Co. Ltd (富平縣天然氣有限責任公司) and renamed it as Fu Ping County Zhongmin Gas Company Limited (富平縣中民燃氣有限公司). Fu Ping County is under Weinan City and is the fourth largest county in Shaanxi Province. The Zhuang Li Industrial Zone (莊裏工業園區) which is located in the northwest of and 12 kilometers away from the county town, is the foothold for the industrial development of Fu Ping County. The gas connectable population of Fu Ping County is 200,000 and the gasification rate is 3.3%.

The Yongning Project (永寧項目)

On 24 August 2005, the Group acquired 50% interest in Yongning Boneng Natural Gas Co. Ltd. (永寧縣博能天然氣有限公司) and renamed it as Yinchuan Zhongmin Gas Company Limited (銀川中民燃氣有限公司). Yongning County is a suburb county to the south of Yinchuan City, the provincial capital of Ningxia, and a satellite city of Yinchuan City. Wang Yuan Town, which is approximately 10 kilometres north to Yongning's county town, is constructing an industrial zone which will become the largest production base of antibiotics in China as well as in Asia. A new town area of county is under construction in the north of Yongning County. The area of Yongning's county town will be enlarged by 2/3 and the city population will increase by 30,000 upon completion. As the role of Yongning County as a satellite city of Yinchuan City becomes increasingly prominent, the future development of natural gas will be of great potential. The total gas connectable population of Yongning County is 200,000 and the gasification rate is 2.3%.

With the above new natural gas projects, turnover and operating profit of the Group have increased significantly. The foundation of natural gas business has been further solidified. As at 31 March 2006, together with the Mianzhu Project and the Yan Ting Project acquired in the last financial year, the number of the Group's gas projects has increased to seven, with business covering Sichuan Province, Chongqing, Shaanxi Province and Ningxia Autonomous Region and a connectable population of 2.65 million in this financial year, an increase of 139% when compared with 1.11 million in the last financial year. Income from sales of piped gas and installation fees of these cities will continue to have a significant contribution to the results of the Group.

### Property Holding and Investment

During the financial year, the Group has dwindled its property holding and investment business. The Group has disposed its entire shareholding in its wholly owned subsidiary Billion Treasure Holdings Limited and its saleable properties in Zhongda Square in Shanghai City at cash consideration of HK\$21,500,000 and HK\$13,480,000 respectively to recover cash for focusing on the development of gas projects. As at 31 March 2006, the Group owned 534 square meters of saleable properties in Zhongda Square in Shanghai City through its wholly owned subsidiary Penmark Limited (景達物業有限公司). During this financial year, this business contributed turnover of HK\$1,727,000 to the results of the Group.

### Glass Products Business

The Group, through Mian Zhu City Hong Sen Natural Gas Co., Ltd.(綿竹市紅森天然氣有限責任公司), indirectly owned 70% interests in Mian Zhu City Hongsen Glass Products Company Limited (綿竹市紅森玻璃製品有限公司). The company is primarily engaged in supplying glass products to the producer of the famous Chinese wine "Jian Nan Chun", using natural gas from the Group as fuel to produce glass products. During this financial year, such business contributed turnover of HK\$24,070,000 and earnings of HK\$4,069,000 to the results of the Group.

### Lottery Operating System Supply and Ancillary Services

In this financial year, the Group invested in the joint venture Zhongmin Zai Xian (Beijing) Technology Development Limited ("Zhongmin Zai Xian") (中民在線(北京)科技發展有限公司). Zhongmin Zai Xian intends to be engaged in supplying operating system of video welfare lottery business (視頻福利彩票業務) and ancillary services in the Mainland China. Zhongmin Zai Xian has also established a joint venture with Beijing Bei Ying Si Digital Technology Company Limited (北京貝英斯數碼技術有限公司) to engage in traditional lottery operating system supply and ancillary services in the PRC.

## FINANCIAL REVIEW

### Liquidity and Capital Resources

As at 31 March 2006, the Group had total assets of HK\$496,268,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$216,212,000, HK\$2,868,000, HK\$272,475,000 and HK\$4,713,000 respectively.

The Group continued to maintain a low gearing ratio, at 1%. It was calculated based on the long term borrowings of HK\$2,807,000 and long term capital of HK\$272,475,000.

On 8 September 2005, the company and Equator View Capital, an independent third party entered into a subscription agreement with respect to issue of US\$20,000,000 (equivalent to approximately HK\$155,600,000) 2 per cent. convertible bonds due in 2008 (the "Subscription Agreement"). Pursuant to the terms of the agreement, the Bonds can be convertible into Shares at a conversion price equal to the lower of the Fixed Conversion Price (HK\$0.3433) or the Floating Conversion Price. Unless previously redeemed, converted or purchased and cancelled, the Bonds shall be redeemed by the Company at 100% of their principal amount at the third anniversary of the Issue Date. The Bonds were issued on 28 October 2005, bringing more funds to the Company for acquisition of more projects, and further broadening the strategic investor base of the Company. As at 31 March 2006, the Company issued 201,989,000 Conversion Shares under the Bonds. Outstanding principal amount under the Bonds was US\$10,000,000 (equivalent to approximately HK\$77,800,000).

To comply with the new requirements of HKAS 39 and HKAS 32, the convertible bonds are designated as "financial liability at fair value through profit and loss", which is required to be calculated at fair value on each conversion date and balance sheet date after initial recognition, and the change in fair value is directly recognized as profit or loss during the period of its occurrence. There has been a remarkable increase of the Company's share price over the fixed convertible price (HK\$0.3433 per share) as at each of the conversion dates and the balance sheet date. The value of the converted shares calculated at the fair value as at the conversion date is in excess of HK\$62,212,000 over the value of the conversion price stated in the Subscription Agreement; and based on the closing price of HK\$0.57 per share at the balance sheet date, the fair value of the outstanding convertible bonds has increased by HK\$55,588,000. Accordingly, the aggregate change amounting to HK\$117,800,000 is included in the profit and loss account for this period according to the relevant accounting standards. The valuation result of the fair value is related to the share price at the assessment date and the remaining period of the convertible bonds, but does not concern the actual operating and financial positions of the Group, as well as the future changes in the Group's operations and actual cash flows. According to the valuation by an independent valuation institution, based on the Company's share closing price of HK\$0.345 per share as at 26 July, the fair value of the outstanding convertible bonds amounts to HK\$92,212,000, representing a significant decrease of HK\$41,576,000 over the fair value at the balance sheet date. According to the relevant requirements, the change in number can also be included as the Group's income next year.

The fair value of the outstanding convertible bonds at the balance sheet date \$133,788,000 is based on the assumption that the Company early redeems the outstanding convertible bonds from the holders of the convertible bonds and therefore needs to pay for its fair consideration. Since the Company has no right, plan or need to early redeem the outstanding convertible bonds from the holders of the convertible bonds at the above fair consideration, and the holders of the convertible bonds also have no right to demand the Company to early redeem the outstanding convertible bonds at the above fair consideration (except under certain special circumstances that the Company may redeem part of, or all convertible bonds at a consideration close to the nominal value of the convertible bonds), ultimately the outstanding convertible bonds may only be exercised or not exercised when due,



or partially exercised and partially not exercised when due. If the convertible bonds are exercised, the Company only needs to issue a certain number of shares of the Company to the holders of the convertible bonds at the convertible price under the subscription agreement and no cash is required for settlement. If the convertible bonds are not exercised when due, the Company is only required to redeem the convertible bonds at 100% of its nominal value according to the subscription agreement. Therefore, the fair value change of the convertible bonds stated in the Consolidated Income Statement for the year is only an accounting treatment made in accordance with the requirements of the Hong Kong accounting standards and will not actually affect the current and future actual operations and cash flows of the Group.

The Group has been applying for the change of registration to foreign investment enterprises for its various subsidiaries so as to enjoy the tax allowances benefits for foreign-invested enterprises under the relevant policy. Assuming that all registrations are successfully changed, it is estimated the Group will enjoy an allowance from the income tax accrued for this year amounting to not less than HK\$6,600,000.

#### Capital Structure

The Group's long-term capital mainly comprises shareholders' equity which is confirmed by the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

#### Exposure of Foreign Exchange Fluctuation

The Group's receivables and payables are denominated mainly in US dollar, Hong Kong dollar and Renminbi. Since Hong Kong dollar is pegged to US dollar and exchange rate of Renminbi is relatively stable, the Group considers the foreign exchange exposure risk not significant.

#### Capital Commitments

On 31 March 2006, the Group entered into an Equity Transfer Contract whereby the Group agreed to acquire a 51% equity interest in Wei Nan City Natural Gas Company ("渭南市天然氣公司") from Wei Nan City Development Company ("Vendor") at a provisional consideration of RMB33,000,000 (approximately HK\$31,942,697), which is subject to certain adjustments. The vendor will also procure that the Group will obtain the exclusive right to operate the business of supplying natural gas within the city of Wei Nan in Shaanxi province, the PRC. Weinan City currently has a population of approximately 5.31 million and an area of 13,000 square kilometers. Its GDP in 2005 amounted to RMB31.2 billion (equivalent to approximately HK\$30.2 billion), an increase of 11.7% from last year. As local economy continues to grow, development of natural gas in Weinan City has great potential in the future. The total gas connectable population of Linwei District (where the municipal government is situated), the major operating area of Weinan Natural Gas Company is 880,000 and the gasification rate is 5.1%. Deposit of RMB1,000,000 (approximately HK\$967,961) had been paid before year end date.

#### Contingent Liabilities

As at 31 March 2006, there were no material contingent liabilities to the Group.

#### Trading of Shares on the Frankfurt Stock Exchange

On 24 February 2006, the shares of the Company were admitted to the Open Market of the Frankfurt Stock Exchange (Freiverkehr). This potentially enhanced the liquidity of the shares of the Company, broaden shareholder base and enhanced the recognition of the Company in the international financial market.

#### POST BALANCE SHEET DATE EVENTS

On 28 April 2006, the Company entered into an agreement with Deson Ventures Limited, a company incorporated in the British Virgin Islands, for the disposal of Penmark Limited, a wholly-owned subsidiary of the Company. Pursuant to the terms of Agreement, Deson Ventures Limited will pay HK\$6,500,000 as consideration and the Company has assigned the indebtedness owed by Penmark Limited in the aggregate amount of HK\$7,806,848.33 to the Deson Ventures Limited. This resulted in a loss on disposal of HK\$171,000.

On 30 May 2006, the Company and Indopark Holdings Limited, an indirect wholly-owned subsidiary of Merrill Lynch, entered into a subscription agreement, with respect to the issue of US\$40,000,000 (equivalent to approximately HK\$310,000,000) 2 per cent. convertible bonds due in 2009 (the "Subscription Agreement"). Pursuant to the terms of the agreement, the Bonds can be converted into Shares at a conversion price of HK\$0.60 (adjustable). Unless previously redeemed, converted or purchased and cancelled, the Bonds shall be redeemed by the Company at 106% of their principal amount at the third anniversary of the Issue Date. The Bonds bear interest from the Issue Date at the rate of 2% per annum of the principal amount of the Bonds. The Bonds were issued on 15 June 2006, bringing more funds to the Company for the development of new projects, and further broadening the strategic investor base of the Company. It further indicates that achievement attained by the Group after business transformation was recognized by the international investment banks and they have great confidence to the future of the Group.

On 1 June 2006, the Company entered into an Equity Transfer Contract whereby the Company agreed to acquire a 50% equity associate interest in Yan Bian Hua Xin Oil Exploitation Company Limited at a consideration of HK\$30,000,000.

Yan Bian Hua Oil Exploitation Company Limited is engaged in the exploration and extraction of oil and gas in the Yanji Basin located in the Yan Bian Korean Nation Autonomous Area in Jilin Province, the PRC in cooperation with Daqing Oilfield Company. Details of the term of the Agreement was set out in the announcement dated 1 June 2006 issued by the Company.

Because the legal procedures of completing the acquisition are not yet finalised, management is still in the progress of gathering accounting information to determine the effect of business combination on the consolidated financial statements.

Yanji Basin covers an area of 403 sq. km. with rich oil and natural gas reserves. The total volume of oil reserves in the basin is estimated at 50 million tons during the second resources evaluation for the basin and it is estimated at 121.6 million tons using the basin analog method for calculation. In addition, it is initially confirmed that natural gas reserves to be submitted were around 1 billion to 5 billion cubic meters in the contract area.

On 8 June 2006, the Group entered into an Equity Transfer Contract whereby the Group agreed to acquire a 70% equity interest in a natural gas business at Yanliang District, Xian at a consideration of RMB42,500,000 (HK\$41,062,802) and formation of new joint venture company. Because the legal procedures of completing the acquisition is not yet finalised, management is still in the progress of gathering accounting information to determine the effect of business combination on the consolidated financial statements.

The new JV Company will engage in the sales distribution of natural gas, design of gas pipeline and related maintenance in the Yanliang District, Xian, Shaanxi province, the PRC. Details of the term of the Agreement was set out in the circular dated 3 July 2006 issued by the Company.

Yanliang District of Xian City is an aviation industrial city in the PRC, with a total of approximately 240,000 residents. It is an integrated aviation base comprising aircraft design and manufacturing, pilot flight testing and scientific research and training. The largest aircraft manufacturer in the PRC, Xian Aircraft Industry (Group) Co. Ltd. and many other enterprises and scientific research institutions are located in the district. In August 2004, the National Development and Reform Commission of the PRC approved the establishment of Yanliang District as the national aviation high-tech industry base, covering an area of approximately 40 square kilometers. The local government intends to take three to five years to build the base as one of the biggest aviation industry region in Asia.

On 18 July 2006, the Group entered an agreement with Tong Xin Energy whereby the parties agreed to form a Joint Venture Company in Huaihua City of Hunan province in the PRC. The registered capital of the Joint Venture Company is RMB18,180,000 (approximately HK\$17,650,485) of which a 55% and a 45% equity interest will be held by the Group and Tong Xin Energy respectively. After the formation of the JV Company, it will principally engage in the business of installation and supply of natural gas and the sell of liquefied petroleum gas in Huaihua City of Hunan province in the PRC.

Because the legal procedures of completing the acquisition are not yet finalised, management is still in the progress of gathering accounting information to determine the effect of business combination on the consolidated financial statements.

The location of Huaihua City of Hunan Province is near the borders of Hunan, Guangxi and Guizhou provinces, making it an important traffic hub and logistics centre in the central region of the PRC. Huaihua City has a total population of 5.1 million with 400,000 located in the urban area.

#### PROSPECTS

##### Distribution, Supply and Installation of Piped Natural Gas Business

It is expected that China's economy will maintain a constant, stable and rapid growth, and the pace of industrialization, modernization, urbanization, marketization and internationalization will speed up further. Industrialization, urbanization and upgrade in the consumption structure of urban and rural residents is one of the main factors which promote China's economy to grow constantly and drive the consumption of energies such as petroleum and natural gas to grow. According to the 2005 National Economy and Social Development Statistics,

the population of the mainland China in 2005 was 1.3 billion, urban population increased to 0.56 billion, and the ratio of urbanization rose to 43%. Pursuant to global urbanization development practices, once the urbanization ratio of a country is above 30%, its urbanization will enter into an accelerating development period. It is anticipated that China's population will reach 1.46 billion in 2020, and the urbanization ratio will be about 60%, and China's urbanized population will increase by more than 0.3 billion in next fifteen years. The increase in urban population will maintain a long term strong demand for infrastructure construction and investment including city gas, which, especially natural gas has become a sign of the urbanization of a region and an improvement in living quality of urban residents.

The Chinese government recently put forward a sustainable development strategy and put great emphasis on environment protection. It actively supports and encourages residents and industrial and commercial enterprises to use natural gas, to satisfy a strong demand for energy consumption driven by economic growth, make up for the shortage of petroleum supply and reduce environment pollution resulting from burning coal. Natural gas is featured by safety, high efficiency, environment protection and low price. It increasingly becomes the best clean energy to reduce the environment pollution and make up for the shortage of petroleum supply in the twenty-first century. With the steady growth of the China's economy, the continual increase in per capita national income, and the constant rise in urbanization and industrialization level and the continuous improvement in environment protection standard, natural gas will gradually replace coal and petroleum as the main energy used by Chinese urban residents and industrial and commercial enterprises. According to the data of Organization of the Petroleum Exporting Countries, in the current world energy consumption structure, natural gas accounts for approximately 21%. By 2025, this percentage will rise to approximately 30%. According to the forecast from Energy Study Institute of State Development and Reform Commission, the growth rate of the demand for natural gas in China will obviously outpace that of coal and petroleum in the next 20 years. By 2010, consumption of natural gas as a percentage of one-off consumed energy will increase to approximately 6%, and to further approximately 10% by 2020. The demand for natural gas will reach 93.8 billion cubic meters and 203.7 billion cubic meters respectively by that time. Therefore, there is a huge room for market development for natural gas business.

#### Exploitation of Petroleum and Natural Gas Resources Business

The constant and rapid economic growth of China in recent years has sustained a strong demand for energy including petroleum and natural gas, and China has become the world's second largest petroleum consumption country next to the United States. However, the total petroleum supply is far below total petroleum consumption, and the contradiction of supply shortage is prominent increasingly. According to the 2005 National Economy and Social Development Statistics, in 2005, China's petroleum output was 181 million tons, while petroleum consumption was 300 million tons, with approximately 40% of petroleum depending on imports. This fully showed the shortage of petroleum production to consumption. China's total consumption of petroleum and natural gas in the future will still be increasing with the steady growth of the economy, and the shortages of petroleum and natural gas supply will become even more acute. Therefore, strengthening the exploration and exploitation of domestic petroleum and natural gas would be an important approach of solving China's petroleum supply shortage and reducing the dependence on import of petroleum being a strategic resource. Under the situation that international crude oil price continues to maintain a high level trend, exploitation of petroleum and natural gas resources business has a broad market development outlook.

#### Lottery Operating System Supply and Ancillary Services

In 2005, the sales of lottery market in China broke through RMB70 billion with its total volume climbed to the ninth place in the world. In view of the continuous economic development in China that stimulates per capita income and the consumption power of the domestic residents, the lottery market in China will develop rapidly, and thus bring about huge demand for the lottery operating system supply and ancillary services of the Group.

Looking ahead, the Group will further develop several business areas including distribution, supply and installation of piped natural gas, exploitation of oil and gas resources, and lottery, to create maximum value for its shareholders.

#### EMPLOYEES

As at 31 March 2006, the Group had 518 employees, of which 514 were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors after consulting the Remuneration Committee. Apart from pension funds, individual employees may be granted discretionary bonus and share options as rewards for their outstanding performance.

#### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has complied with most of the Code Provisions save for certain deviations mentioned below:

##### Code Provision A.2.1

Under Code Provision A.2.1, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Company does not have a position of Chief Executive Officer but the Managing Director performs similar function as Chief Executive Officer. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable to those in the Code Provision.

##### Code Provisions A.4.1 and A.4.2

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The independent non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable to those in the Code Provision.

To comply with Code Provision A.4.2, relevant amendments to the Company's Bye-Laws were proposed and approved by the shareholders at the Company's annual general meeting held on 15 September 2005. Under the Company's existing Bye-Laws, every director, including those appointed for specific terms, should be subject to retirement by rotation at least once every three years. All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meetings.

#### REVIEW OF THE ANNUAL RESULTS

The Group's annual results for the year ended 31 March 2006 have been reviewed by the Audit Committee of the Company and audited by the Company's auditors, Deloitte Touche Tohmatsu.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

#### RESUMPTION OF TRADING OF SHARES

Pursuant to Rule 13.50 of the Listing Rules, trading in the shares of the Company on the Stock Exchange was suspended from 9:30 a.m. on 31 July 2006 pending the publication of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 4 September 2006.

On behalf of the board of  
**Chinese People Gas Holdings Company Limited**  
**Mo Shikang**  
*Managing and Executive Director*

Hong Kong, 1 September 2006

List of all Directors of the Company as at the date of this announcement:

<i>Executive Directors:</i>	<i>Independent Non-executive Directors:</i>
Mr. Xu Ruixin	Mr. Liu Junmin
Mr. Liu Jing	Mr. Tan Qinglian
Mr. Mo Shikang	Mr. Wong Shing Kay, Oliver
Mr. Zhu Peifeng	
Mr. Zhang Hesheng	
Mr. Jin Song	
Mr. Yan Wing Cheung	

\* For identification purposes only