

Natural gas sales and upstream investment fuel growth

➤ **1HFY07 result below market expectation.** China Gas posted its 1HFY07 net profit HK\$ 101m, up 107% yoy on revenue of HK\$475m, 81% yoy rise. Excluding non-cash non-recurring items, its core profit grew by 21% yoy. No growth in its basic EPS was recorded due to earning dilution. Slow new connections growth was the main reason of no upside surprise for 1HFY07 result.

➤ **Strong gas sales, the key-earning driver.** We expect China Gas to post a strong natural gas sales volume of 500m m³ in FY07 and 1bn m³ in FY08, shored up by strong demand from industrial users. Its piped natural gas sales contributed 57% to revenue in 1HFY07. With high penetration rates in its newly acquired big cities, we expect natural gas sale will remain as the main earning driver going forward.

➤ **Increasing competitiveness.** China Gas' history of establishment may be dwarfed by its arch rivals such as Xinao Gas and Hong Kong & China Gas, but it outperforms the others in securing natural gas sources and sufficient funding for development. China Gas is going upstream to secure more gas supply. Leveraging on strong alliance with its strategic investors such as Sinopec, Oman Oil and Asian Development Bank and its improving track record, China Gas grows increasingly competitive in winning quality coastal cities.

➤ **Margins slip quickly but stabilize from FY2010.** We project China Gas' piped gas sales will likely work as a key earning driver from FY07, contributing over 70% to the revenue. With revenue mix shifting away from high-margined (84%) one-off connection fees towards low-margined (21-23%) recurring piped gas sales, we expect its EBITDA margin to fall from 40% in FY06 to 21% in FY09 and stabilize at 18%-19% from FY2010.

➤ **A cagr 39% diluted EPS growth in FY07-09E.** Underpinned by significant profit contribution from its upstream investments, we expect China Gas to report a Cagr 39% diluted EPS growth in FY07-09E.

➤ **Buy.** We initiate coverage on China Gas with a buy rating. Our target price is HK\$1.87, based on 18x PE FY08-diluted. We believe that China Gas deserves a valuation of industry average on potential equity dilution risk.

HK\$=1 RMB

 Analyst: Nikita Zhang
 Nikita.zhang@firstshanghai.com.hk
 Tel: (852) 2532-1915

Industry Natural gas distribution

Price HK\$ 1.61

 Target price HK\$1.87
 (+16%)

Stock code 384

Market cap. HK\$4,952mn

O/S 3,077mn

52wk high/low HK\$1.75/1.14

NAV per share HK\$0.64

 Major shareholder Hai Xia Financial Holding Ltd (11.06%)
 Liu Ming Hui (8.05%)

Earning Summary

Year-end 31 Mar	FY05A	FY06A	FY07E	FY08E	FY09E
Turnover (HK\$ m)	411	631	1,284	2,541	3,551
Growth (%)	9%	53%	104%	98%	40%
Net Profit (HK\$ m)	97	157	209	378	419
Growth (%)	-27%	62%	33%	81%	11%
Fully diluted EPS (HK\$)	0.051	0.055	0.057	0.103	0.114
Growth (%)	-29%	9%	3%	80%	11%
PER (x)	32	29	28	16	14
DPS (HK\$)	0	0.01	0.01	0.02	0.02
Yield (%)	0%	1%	1%	1%	1%

Price Performance



Growing competitive

No upside surprise for 1HFY07 result

Stripping out non-cash non-recurring items such as gain on fair value of derivative financial instruments (HK\$15m) and gain on fair value changes of investments held for trading (HK\$27m), its 1HFY07 profit grew by 21% yoy. Its basic EPS in 1HFY07 did not increase due to 1) Slow new connections. Its 1HFY07 new connection grew 5.5% yoy; 2) High earning dilutions caused by issuing shares to strategic investors (Asian Development bank: 5.13% dilution and Oman Oil Company: 6% dilution) and employee share options or warrants exercise. However, its 1HFY07 natural gas sales volume grew 143% yoy due to strong demand from industrial users.

Unique strategic alliance

China Gas proves very successful in strategic tie-up with oil and gas giants such as Sinopec, Oman, etc. who ensure sufficient and stable natural gas supplies for China Gas and with banks such as Asian Development Bank (ADB), who provides much-needed capital to fund China Gas' aggressive expansion. In September 06, China Gas reached an agreement with ADB, which arranged a financial package to China Gas comprising (a) US\$24m equity (5.13% equity dilution) (b) long-term credit facility of US\$50m directly from ADB and US\$ 75m from syndicate loan by ADB. Strong strategic alliance with critical partners supports China Gas' rapid and fast development. China Gas grows increasingly competitive in acquiring concession cities despite its late entry into gas industry sector. Strong gas and funding sources and good track record are three key components for a city gas operator to win operation rights. With all these strengths, China Gas is now in a better position to compete with industry giants such as Xinao Gas and Hong Kong & China Gas for operation in big cities.

Table 1: China Gas's shareholdings structure

Major shareholders	Stake
Hai Xia Finance Holdings Ltd	11.06%
Liu Ming Hui	8.05%
Mackenzie Fin. Group	7.52%
Sinopec	6.83%
Oman Oil	6.83%
GAIL	6.83%
ADB	4.88%
Public	48.00%

Source: company information

Hai Xia Finance Holdings Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Strait Economic and Technologic Cooperation Center, which in turn is a unit of the Taiwan Affairs Office of the State Council.

ROE 13% of standard for new acquisitions

China Gas invests only in projects meeting ROE of 13%. China Gas now targets fast-growing cities where a strong demand for natural gas from commercial & industrial users is witnessed. China Gas is willing to accept acquisition cities with a high

penetration rate but with a huge potential of strong natural gas sales after acquired. Although some of China Gas' acquisition projects such as Dalian City look expensive, we believe these cities' return will improve significantly when natural gas sources available and be able to meet the company's ROE 13% level. We believe that its stringent standard enables China Gas to deliver a ROE meeting the industry's expectation.

Poised to become the largest city gas operator in China

Operating in 54 city projects covering 806,103 households in FY06, China Gas is expected to reach a total of 60 cities with 2,085,503 connectable households in FY07E. China Gas is expanding upstream to secure more natural gas sources as China is severely short of natural gas supply before CY08. Not only is the total number of China Gas' city projects increasing, but also the size of its new acquired city projects is becoming larger. China Gas targets cities in Zhejiang, Jiangsu, Guangdong provinces and Northeastern China. It is poised to become the largest city gas operator in China in the coming years.

China Gas is at acquisition stage, aggressive in acquiring new city projects while Xiniao Gas is now at penetration stage, focusing on its existing cities' organic expansion.

Table 2: China Gas's connected households forecast

	FY05	FY06	FY07E	FY08E	FY09E
Number of cities	22	54	60	64	66
Total connectable households	411,064	806,103	2,085,503	2,355,503	2,675,503
Penetration rate	9%	11%	19%	27%	37%

Source: Company information, FSSL estimates

Successful cost pass-through

China Gas faced cost increase of Rmb0.19/ m³ for Zhong-Wu pipeline, Rmb0.12/m³ for Shaanxi-Beijing Pipeline and Rmb 0.04/m³ for West-East pipeline. On average China Gas incurred a cost increase of Rmb 0.12/m³ this year. Except in Wuhu, China Gas has successfully raised retail prices in those cities facing rising costs at the beginning of this year. However, the retail price increment is much higher than gas cost hike, so China Gas has realized a full cost pass-through.

Gas sales, the key earning driver

New connections for households expected to improve

Over 85% of China Gas' connection income comes from household connections. Its new connections grew very slowly, at 7% yoy in FY06 and 5.5% yoy in 1HFY07, taking longer-than-expected time mainly because: 1) Its rich cities such as Yangzhou, Nanjing Jiangbei etc. can afford rising natural gas cost but in shortage of natural gas sources; 2) Despite having natural gas sources, economies in most of its cities in Hubei and Hebei provinces are growing slowly, dampening the demand for household connections. However, we expect new connections in FY07-09 will accelerate as natural gas sources become available to more and more of China Gas' current cities such as Nanjing and Yangzhou cities where economies are robust. Strong demand for household new connection from newly acquired cities such as Hohhot, Fushun will be expected. China Gas' connection fee per household improved to Rmb2,404 in 1HFY07 from Rmb2,372 in FY06. We expect its connection fee per household to keep stable in future

as China Gas charges connection fee per household in newly acquired cities much higher than Rmb2,372. The growth of new household connections in a city will slow down when the penetration rate of that city soars to reach 40%. We expect that China Gas will reach 37% penetration rate in CY08. Thus, we believe after CY09, new connections of China Gas will begin to slow down with 15-20% yoy growth.

Table 3: China Gas's new connections forecast

	FY05	FY06	FY07E	FY08E	FY09E
New connections	132,309	141,543	162,774	195,329	253,928
Yoy growth		7%	15%	20%	30%
Connection fee/per household (Rmb, incl.VAT)	2,217	2,372	2,404	2,404	2,404

Source: Company information, FSSL estimates

Strong natural gas demand from industrial users

China sold 172m m³ natural gas in FY06, up 364% yoy. We expect China Gas to continue to see its natural sales volume growing exponentially, underpinned by strong demand from industrial users. Revenues from China Gas' cities in CY05 and CY06 such as Yangzhou, Liuzhou and Baoji will be consolidated into its FY07 result. Yangzhou, Liuzhou and Baoji are large cities, fast-growing with strong appetite for natural gas as a clean energy source. We expect China Gas to sell natural gas 500m m³, 1bn m³, and 1.5 bn m³ in FY07, FY08 and FY09 respectively, representing a three-year Cagr of 73%.

Many concession cities under China Gas are bases of China's heavy industries. **Dangyang** is home to Hubei Sanxia New Building Materials Co.Ltd (600293 CH), the fourth largest glass manufacturer in China. Sanxia now consumes natural gas at 40,000 m³ per day. **Yichang**, a chemical products production centre in Hubei, is able to consume 30m m³ natural gas in CY06. With daily natural gas consumption at 80,000 m³, a chemical factory in Yichang will consume 18,000 m³ per day with the completion of phase II factory in Mar 07. Fast-growing Yichang city is expected to consume 70m m³ in CY07 and 1.2bn m³ in CY08. **Baoji**, a key production base of heavy industries in Western China, consumed 60m m³ in CY05. **Wuhu**, home to a big glass factory and an industrial center in Anhui province, is developing fast. In order to encourage industrial users to switch to the cleaner natural gas as an alternative, the Wuhu government has required coal-fired boilers of less than 6 tones to be converted to natural gas fired. Wuhu consumed 40m m³ in CY05. It is projected that Wuhu will consume natural gas at 90m m³ in CY06, 120m m³ in CY07 and 300m m³ in CY08. HINO, a renowned heavy truck maker in Japan, will complete its factory construction in **Conghua** of Guangdong province in CY07. HINO requests China Gas to supply natural gas 10m m³ per year.

Due to special manufacturing process of certain products, industries of auto, tobacco, construction, glass, porcelain and metallurgy (typically for copper) burn only natural gas for heating purpose, which cannot be replaced by other energy alternatives.

Table 4: China Gas's total natural gas sales FY07 forecast breakdown

City	Natural gas sales (m m ³)
Dangyang, Hubei	110
Baoji, Shaanxi	80
Wuhu, Anhui	90
Yichang, Hubei	30
Nanjing Jiangbei District, Jiangsu	30
Yangzhou, Jiangsu	20
Other cities	140
Total	500

Source: company information, FSSL estimates

Table 5: China Gas's natural gas volume forecast

m m ³	FY07E	FY08E	FY09E
Gas sales volume forecast	500	1,000	1,500
Natural gas sources			
W-E & Zhong-Wu pipelines	436	522	672
Others	64	478	828
Gas sources total	500	1,000	1,500

Source: company information, FSSL estimates

More natural gas sources will be available to China Gas

The annual capacity of PetroChina's W-E pipeline Phase I will be enhanced from 810m m³ in CY06 to 12 bn m³ in CY07 and 17 bn m³ in CY08. Additional natural gas in CY07 of 510m m³ will be supplied to Jiangsu province and Great Shanghai. Under the "Take-or-Pay" agreement with PetroChina in CY07, China Gas' Yangzhou city will have 20m m³ natural gas supply and its Nanjing Jiangbei District 30m m³.

Sinopec, one of China Gas' major shareholders, discovered in April 06 Pugang Gas field with aggregated proved recoverable reserves estimated at 251 bn m³, the largest and richest marine gas field ever discovered in China. Sinopec is planning to build a pipeline from Sichuan to Shanghai, providing natural gas to Shanghai, Jiangsu and Zhejiang areas. It is estimated that Sinopec's Pugang will begin to supply natural gas in CY08 with annual capacity of 9bn m³ by CY08 and 12bn m³ by CY2010. China Gas will benefit most from Sinopec's giant Pugang Gas field.

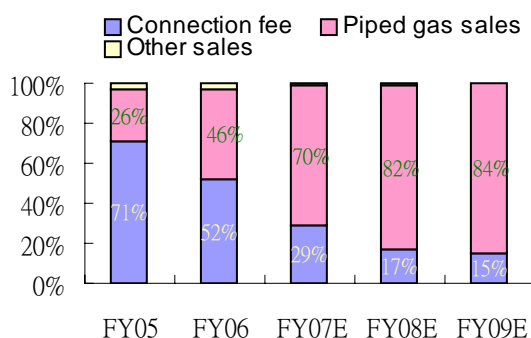
Further, China Gas is going upstream to secure more gas sources for its new and existing projects

Rely heavily on piped gas sales

The penetration rates of some big cities are already high when acquired by China Gas. Although we believe China Gas will improve its new connections, there will be no much room for new connections to keep growing after CY09. We expect sales of natural gas will keep as a key earning driver for the company from FY07 onwards.

will keep as a key-earning driver for the company from FY07 onwards.

Figure 1: Revenue mix



Source: Company information, FSSL estimates

Table 6: China Gas's new big cities at high penetration rates when acquired

	Connectable households	Connected households	Penetration rate
New city acquired in FY06			
Baoji	319,000	116,366	36%
New city acquired in FY07			
Hohhot	454,545	170,000	37%
Dalian	976,000	650,000	67%
Fushun	442,000	189,000	43%

Source: Company information, FSSL estimates

Rmb450 m one-off subsidy from Dalian government

In acquisition of Dalian city, China Gas was granted Rmb 450m one-off subsidy from Dalian Government. Additionally, Dalian city spent Rmb100m for the redundancy of employees in Dalian city gas sector. We expect China Gas will book the one-off subsidy in CY07 as China Gas expects Dalian city to be consolidated into its results from January 07. Dalian city recorded about Rmb106m loss in CY05. Dalian uses oil-based gas due to the lack of natural gas sources. Gas consumption was 250m³ (mainly residential) in CY05. PetroChina plans to build a LNG terminal in Dalian city, which is scheduled to commence operation in CY2010. After taking control of Dalian City, we expect China Gas to reduce the annual loss by 13%-14% every year on declining administrative costs and rising retail prices of oil-based gas. New connections in Dalian city are expected to reach 40,000 households per year.

Table 7: Retail prices for oil-based gas in Dalian

	Old (Rmb/ m ³)	New (Rmb/ m ³)	Chg (%)
Household	1.1	1.8	64%
C & I users	1.6	2	25%

Source: company information

Significant profit contribution from upstream expansion

China Gas intends to go upstream to secure natural gas sources. In Jun 06, China Gas made a strategic move into natural gas upstream by acquiring 38.69% stake in Chongqing Ding Fat (CDF) at very cheap valuation of about 2.5x CY06PE or 0.96x 05CYPB. CDF is a natural gas exploration company in Chongqing with proven natural gas reserve of about 10bn m³ according to China Gas. CDF owns 40 natural gas wells and produced approximately 150m m³ natural gas in CY05. CDF's new capacity of 350m m³ is under construction and scheduled to be completed by end of CY06. CDF made a profit of Rmb62m in CY05. CDF also is entitled to buy 500m m³ annually from CNPC, PetroChina's parent, at Rmb 0.7/m³.

Table 8: Forecast on Chongqing Ding Fat (CDF)'s profit contribution to China Gas

	Stake	Gas sales volume (m m ³)				Net profit (Rmb m)			
		5	6	7	8	5	6	7	8
CDF	38.69%	150	150	1,000	1,000	62	62	407	407

Note: we assume that CDF earns Rmb0.4/m³ on sales of 500m m³ entitled from CNPC

Source: Company information, FSSL estimates

On Dec 4, 06, China Gas announced that it would spend Rmb 800 m building a liquefied natural gas (LNG) processing plant in Kaixian of Chongqing. With designed processing capacity of 300,000 tons annually (450 million m³), this Chongqing LNG terminal will become operational in 08, transporting LNG by trucks to its piped-gas projects within 2,000km of Kaixian of Chongqing. According to China Gas and Xinao, gas liquefied cost is Rmb 0.3-0.4/ m³ and transportation fee by trucks for LNG is around Rmb 1-2 /ton per km (Rmb 0.67-1.33/m³ per 1000 km). To forecast China Gas' Chongqing LNG terminal's profit, Xinao's Weizhou Island LNG terminal is taken as a benchmark. 20% net profit margin in 1HCY06 for Weizhou Island LNG terminal is estimated, according to Xinao. Weizhou Island Terminal is designed with two phases with initial investment of Rmb 170m for Phase I and part of Phase II, so we expect its depreciation cost/ m³ is higher than that of Chongqing LNG terminal.

Based on our forecast of 8.7% net profit margin for Chongqing LNG terminal, we expect that China Gas' Chongqing LNG terminal can contribute about HK\$105m profit in CY08.

Table 9: Comparison between Chongqing LNG and Weizhou Island LNG terminal

	Chongqing LNG	Weizhou Island LNG
Total investment (Rmb m)	800	170
Annual capacity (m m ³)	450	40
Operation date	2008	Early 2006
Gas source	CNPC	CNOOC
Cost breakdown		
Gas cost (Rmb/ m ³)	0.88	0.68
Depreciation cost	0.19	0.21
Gas liquefied cost	0.36	0.36
Sea shipping cost (Rmb/ m ³)	-	0.38
Road transportation cost (Rmb/ m ³)	1.02	1.35
Labor cost (Rmb/ m ³)	0.01	0.02
Total cost (Rmb/ m ³)	2.46	3
Average selling price (Rmb/ m ³)	2.67	3.6
Net profit margin	8.70%	20%
Turnover (Rmb m)	1,202	144
Net profit (Rmb m)	105	29

Source: Company information, FSSL estimates

China Gas also plans to build LNG terminals in natural gas rich Hohhot in Northeastern China, moving gas to its concession cities in Northeastern China. CNG/LNG trucks cannot meet huge demand from large number of C&I users in a city but can provide enough gas for residential use, helping accelerate new household connections. We think that China Gas is following Xinao Gas' successful practice.

In addition, China Gas obtained the right to import overseas LNG. We believe China Gas will work with its strategic investor, Oman, whose country is rich in natural gas reserve to import LNG. The international LNG prices are surging, so we do not expect China Gas to be able to import LNG in 2-3 years. In sum, we welcome China Gas' move to the upstream.

Margin decelerate drastically but keep stable from FY2010

We project China Gas' piped gas sales will likely contribute to total revenue from 46% in FY06 to 70% in FY07. With rising gas sales, we expect China Gas' operating margin of piped natural gas to improve to 22% in FY08. As its revenue mix shifts away from high-margined one-off connection fees toward recurring piped gas sales from FY07, we expect its margins to slip drastically in FY06-07. We forecast its EBIT margin to decline to 18-19% at FY2010E but stabilize at this level in future.

Table 10: Forecast on China Gas' margins

	FY05	FY06	FY07E	FY08E	FY09E
Margins					
Gross margin	60%	48%	32%	27%	28%
EBITDA margin	33%	40%	29%	25%	21%
Net profit margin	23%	25%	16%	15%	12%
Operating margin breakdown					
Connection fee	84%	82%	84%	84%	84%
Natural gas sales	7%	15%	18%	22%	23%
Other sales	17%	16%	16%	16%	16%

Source: Company information, FSSL estimates

Minority interest not taking big share of profit in 2-3 years

Minority interest took bigger stake in China Gas' newly acquired big cities than before. However, we expect minority interest's share in China Gas' consolidated profit not to increase significantly as these new cities will not be able to contribute big profits to the revenue in 2-3 years due to the lack of natural gas sources.

A cagr 39% diluted EPS growth in FY07-09E

Supported by significant contribution from upstream investments, we expect China Gas to report a Cagr 39% diluted EPS growth in FY07-09E on the assumption of no earning dilution during 1HFY07-FY09.

Healthy balance sheet with 15% dividend payout

China Gas surprised the market by declaring dividend of a HK 1 cent per share for FY06. China Gas in August 06 proposed a capital reduction of HK\$382m to facilitate the proposed declaration of final dividend about HK\$ 29m because its accumulated profits in equity reserve item in FY06, HK\$6.42m, is not sufficient to pay FY06 dividend. We expect China Gas to keep 15% dividend payout ratio going forward.

China Gas' balance sheet is healthy on net gearing ratio of 50-70% and improving receivable days.

Equity dilution is a concern

The management did not confirm that there would be no new share options issuance in the coming years although there is no such plan at the current stage. We believe that the market is skeptical of management commitment to restrict equity dilution going forward given its large amount of share options and warrants issued before.

Table 11: China Gas' current outstanding stock options

Stock options	
Directors (m shares)	263.6
Employees (m shares)	372.9
Total (m shares)	636.5
Earning dilution effect on existing shares	17%

Source: Company information

Attractive valuation

China Gas is currently trading at 16x PE-diluted FY08. We initiate coverage on the counter with target price HK\$1.87, based on 18x FY08 PE-diluted. We believe that China Gas' operation performance will improve a lot from FY 08 on more natural gas supply available to its big cities. We are increasingly positive on China Gas' growth prospect, which is going to benefit from the burning Chinese natural gas industry.

Table 12: Valuation peer comparison

Name	Stock Code	Mkt Cap HK\$ mm	PE - diluted			ROE (%)			Yield (%)	Net Gearing (%) CY06
			CY06	CY07	CY08	CY06	CY07	CY08		
Xiniao Gas	2688	8,122	21	16	13	15	16	17	1.2	60
China Gas	384	4,952	27	16	14	10	16	15	0.7	50
Panva Gas	1083	4,780	52	20	16	5	12	14	0	88
HK & China Gas	3	96,624	21	20	19	26	21	14	2.1	45

Source: Bloomberg, FSSL estimates

Summary of Financials

Profit and Loss Statements					
FY-end Mar (HK\$ m)					
	FY05A	FY06A	FY07A	FY08A	FY09A
Revenue	411	631	1,284	2,541	3,551
Gross profit	247	305	409	691	1,008
Other income	16	40	118	390	222
SG&A	(119)	(173)	(274)	(710)	(782)
Other expenses	(3)	9	(42)	0	0
Operating profit	142	182	211	372	449
Finance costs	(27)	(44)	(72)	(116)	(126)
Associates & JV	0	(0.1)	50	208	208
Others	20	45	16	0	0
Earning before tax	134	183	248	464	531
Tax paid	(1)	(2)	(5)	(14)	(27)
Minority Interest	(36)	(23)	(34)	(72)	(86)
Net profit	97	157	209	378	419
Depreciation	11	47	81	138	174
EBITDA	137	250	367	646	745
Growth					
Revenue (%)		53%	104%	98%	40%
EBITDA (%)		83%	47%	76%	15%
EPS-diluted (%)		9%	3%	80%	11%

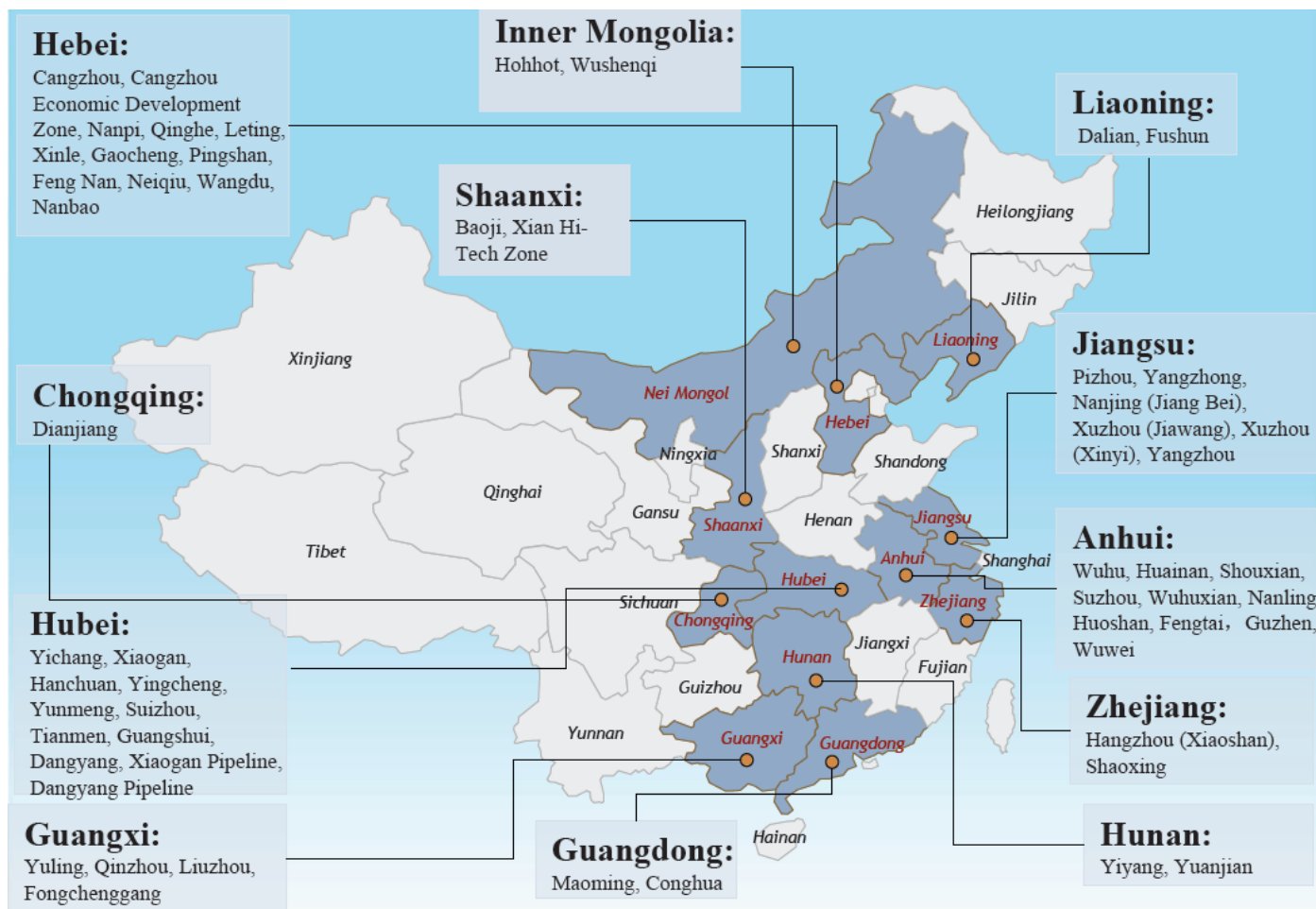
Ratio Analysis					
	FY05A	FY06A	FY07A	FY08A	FY09A
Margins					
Gross Margin (%)	60%	48%	32%	27%	28%
EBITDA margin (%)	33%	40%	29%	25%	21%
Net margin (%)	23%	25%	16%	15%	12%
Operating Performance					
SG&A / revenue (%)	29%	27%	21%	28%	22%
Effective tax rate (%)	1%	1%	2%	3%	5%
Dividend payout (%)	0%	15%	15%	15%	15%
Inventory turnover	37	62	58	36	36
Payable days	152	224	223	180	151
Receivable days	76	199	144	144	144
Financial					
Net debt to equity	0.7	0.3	0.5	0.8	0.9
Revenues / total assets	0.1	0.1	0.2	0.4	0.4
Total assets / equity	2.8	2.7	2.4	2.7	2.8
Interest coverage	5	5	4	4	5
ROE	10%	11%	10%	16%	15%

Balance Sheet					
FY-end Mar (HK\$ m)					
	FY05A	FY06A	FY07A	FY08A	FY09A
Cash&cash equivalent	712	1,727	618	419	429
Trade receivable	87	348	514	1,016	1,420
Inventories	43	108	205	254	355
Other current assets	382	485	485	485	485
Current assets	1,223	2,667	1,822	2,174	2,690
Fixed assets	955	1,810	2,928	4,291	4,917
Others	574	616	615	615	543
L-T investments	1	1	1	1	1
Total assets	2,753	5,094	5,366	7,081	8,150
S-T bank loan	173	346	192	192	192
Trade payables	173	392	796	1,270	1,491
Short-term liabilities	2	52	52	52	52
Convertible note	36	0	0	0	0
Total current liab.	383	790	1,040	1,514	1,736
L-T bank loan	1,151	1,666	1,287	2,108	2,508
Convertible note	0	273	273	273	273
Others	133	245	245	245	245
Total liabilities	1,667	2,973	2,845	4,140	4,762
Minority interest	97	255	289	361	447
Shareholders' eqt.	989	1,865	2,232	2,579	2,941
Book value per share	0.3	0.6	0.7	0.8	1.0
Working capital	(44)	64	(77)	0	284

Cash Flow Statement					
FY-end Mar (HK\$ m)					
	FY05A	FY06A	FY07A	FY08A	FY09A
PBT	134	183	248	464	531
Depreciation and amortati	11	47	81	138	174
Change in Working Capt.	76	(108)	141	(77)	(284)
Tax Paid	(2)	(1)	(5)	(14)	(27)
Others	(185)	(76)	(70)	(436)	58
Operating CF	35	44	395	75	453
CAPEX	(433)	(683)	(1,200)	(1,500)	(800)
Free cash flow	(398)	(639)	(805)	(1,425)	(347)
Other Investing Activities	(471)	119	(80)	151	79
Investing activities CF	(904)	(564)	(1,280)	(1,349)	(721)
Change in Debt	674	757	(379)	821	400
Change in Equity	321	731	187	0	0
Dividends			(29)	(31)	(57)
Other Financing Activities	114	50	(3)	284	(65)
Financing activities CF	1,109	1,539	(224)	1,074	278
Chang in cash	239	1,019	(1,109)	(199)	10
Cash at the beginning	472	712	1,727	618	419
Cash at the end	712	1,727	618	419	429

Source: Company information, FSSL

Appendix: China Gas’s operational locations



Source: Company information

Table 13: China Gas's concession cities' retail prices in Nov 06

Province	City	Gas retail price (Rmb/m3)				CNG	Gas source
		Households	Commercial users	Industrial users			
Hubei	Yichang	2.2	2.8	1.95		2.5	Natural gas
Hubei	Dangyang			1.48			Natural gas
Hubei	Xiaogan	2.45	2.45	2			Natural gas
Huan	Yiyang	2.6	2.95	2.5			Natural gas
Anhui	Huainan	2.1	2.50-3.20	1.9			Natural gas
Anhui	Suzhou	2.6	3	2.75			Natural gas
Anhui	Wuhu	2.1	2.52	2.14		2.1	Natural gas
Jiangsu	Nanjing	2.2	2.2	2.2		2.2	Natural gas
Jiangsu	Yangzhou	0.95	2.1	1.35			Coal gas
Jiangsu	Yangzhong	2.6	3	3			Natural gas
Shaanxi	Baoji	1.75	1.82	1.75		2.65	Natural gas
Beijing district	Beijing	2.20~2.60	2.55				Natural gas
Guangxi	Liuzhou	3.8	4.4	5			Natural gas
Guangxi	Yulin	3.5	3.5	3.5			Natural gas
Guangxi	Qinzhou	3.3					Natural gas
Guangxi	Fangchenggang	3.5	3.5	3.5			Natural gas
Guangdong	Maoming	3.5	3.5				Natural gas

Source: Company information

First Shanghai Securities Limited

19/F Wing On House
71 Des Voeux Road Central
Hong Kong
Tel: (852) 2522-2101
Fax (852) 2810-6789

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