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On behalf of the Board of Directors (the "Directors") of China Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2004 annual report.

Annual Results

With the effort of the Directors and all the staff, the Group recorded profit during the period under review. For the year ended March 31, 2004, turnover amounted to HK\$376,491,000 and profit attributable to shareholders was HK\$80,060,000, basic earnings per share was HK6.15 cents.

During the financial year, the Group continued its expansion strategy as demonstrated by substantial cooperation with various local governments and/or state-owned gas companies for setting up natural gas joint venture companies in respective cities and districts, all with exclusive operating rights. As part of the expansion strategy, the Group acquired interests of natural gas companies from existing natural gas investors. The Group's earning ability is strengthened, market sharing is increased and asset bases are broadened and improved.

During the financial year, the Group had already secured 14 new pipeline natural gas projects. The new projects the Group secured during the financial year included Xiaogan city, Yingcheng city, Yunmeng city and Hanchuan city of Hubei Province; Wuhu city and Huainan city of Anhui Province; Pizhou city and Yangzhong city of Jiangsu Province, Yiyang city of Hunan Province; Neiqiu city, Xinle city, Pingshan city and Cangzhou Economic and Technology Development Zone of Hebei Province and Wucheng

district, Jinhua of Zhejiang Province. Besides, subsequent to the financial year ended, the Group secured the natural gas projects of six peripheral counties of Beijing and Shouxian Anhui Province such that the population available for gas connection increased to approximately 9,020,000. As at March 31, 2004, the accumulated connected domestic households were 266,992 households and connected industrial and commercial users were 307 users (designed daily gas supply capacity: 234,964 cubic meters). During the financial year, the Group's total sales of coal gas and natural gas was 39,130,000 cubic meters

Financial Results

As at March 31, 2004, cash on hand of the Group was approximately HK\$471,823,000, total borrowings amounted to approximately HK\$674,460,000 with approximately HK\$82,444,000 was convertible note and bonds. During the financial year, the Company had entered into strategic cooperation agreement with Industrial and Commercial Bank of China whereby the bank would provide project funding facilities in the amount of RMB6 billion. Meantime, the Group was successfully issued convertible note and convertible bonds and placed new shares, raising total proceeds of approximately HK\$368,630,000. The above external funding provided sufficient cash to meet the Group's needs for its investment in natural gas projects during the financial year.

Dividends

Given the cash need for continual business expansion, the Directors resolved not to recommend the payment of a final dividend for the year ended March 31, 2004.

Prospects

The economy of China maintained its rapid growth momentum in 2003, which, however, is associated with coal and electricity famine as a result of increasing demand for energy and deteriorating environment pollutions as well. In order to change the energy structure of the country that is over-dependant on coal, and to alleviate environmental pollutions, the Chinese government decides to implement structural adjustment to energy supply by increasing the proportion of use of natural gas. The proportion of use of natural gas in respect of the energy consumption of China will increase from 2.5% in 2001 to 10% in 2010. As natural gas has been stipulated by Chinese government as a kind of clean energy, the future of natural gas industry is promising. According to the statistics, the per capita consumption of natural gas of China in 2000 is 16 cubic meters, which is much lower than the international average level of 408 cubic meters. The use of natural gas in China is still at a low level. The Chinese government has formulated measures to encourage the use of natural gas. It is anticipated that national consumption of natural gas will increase from 50 billion cubic meters at present to 96 billion cubic meters by 2010, and the national demand for natural gas will reach 200 billion cubic meters by 2020. Among them, electricity generating and city gas account for most of the growth of use and it is expected that each will account for about one third of the total demand. To cope with the soaring demand for gas, China needs to introduce a great quantity of capital to build large-scale infrastructure, long distance pipelines, city distribution networks and related equipment. According to the estimates of the Energy Bureau of the National Development and Reform Commission, the natural gas

industry of China is in its historic period of rapid growth. In 2002 to 2020, the natural gas infrastructure construction of China requires total investment of more than RMB220 billion, which is mainly used in the building of natural gas pipelines of 50,000 km, 10 million ton-grade liquefied natural gas stations and million ton-grade transportation capability of liquefied natural gas. In light of the vast investment scale involved, the Chinese government has formulated favorable policies that encourage foreign investment in the construction and operation of projects relating to China natural gas risk exploration and development, gas pipelines, gas storage stations, natural gas power stations and city gas for large and medium cities. These policies are matched with complete law and regulations and a regulatory system for the natural gas industry, in order to establish a healthy market system that is characterized by separation of politics and enterprise, fair competition, open and orderly policies and forceful regulation and control, to form a more standardized investment environment. In particular, since the implementation of West-East Pipeline Project, the Chinese government has in succession modified 《中華人民共和國對外合作開採陸上石油資源條例》(Regulations of the PRC Regarding Land Oil Deposit Exploitation in Cooperation with Foreign Parties), 《中華人民共和國對外合作開採海洋石油資源條例》(Regulations of the PRC Regarding Petroleum Resources in Cooperation with Foreign Parties) and 《指導外商投資方向規定》(Interim Provisions on Guiding Foreign Investment) and other related laws and regulations, liberalizing certain restrictions on foreign investment. The above policies enacted by the Chinese government bring about enormous business opportunities for foreign investors' participation in city gas projects.

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The West-East Pipeline Project with an annual gas supply of 12 billion cubic meters is the Chinese government's key project to fuel utilization of natural gas. By the end of 2003, the construction works of the eastern section of the Project has completed and commenced commercial operation. In the middle of May 2004, Wuhu joint venture company of the Group has made gas connection to the West-East Pipeline Project, and has fully initiated switch to the use of natural gas in Wuhu City. It is expected that the West-East Pipeline Project will be completed on all fronts by the end of 2004, and by that time clean natural gas will be available to the resident users and industrial and commercial users in nine provinces along the line.

Gas from east Sichuan Project (the Zhongwu Pipeline Project) with an annual gas supply of 3 billion cubic meters will also be completed by the end of 2004, and by that time natural gas will be available to resident users and industrial and commercial users in the two provinces, Hunan Province and Hubei Province. Operating projects of the Group locate mostly along the main pipelines of West-East Pipeline and Zhongwu Pipeline. With the gas connection and ignition of the main pipelines, it is expected that all operations of the Group will achieve greater development in the next financial year.

The financial year 2004 was undoubtedly a remarkable and fruitful year for the Group. Yet, it is a beginning and the Group will continue to follow the growing path to expand the Group's natural gas business. The Directors are highly optimistic about the prospects of the business of the Group. The Group will still focus

on investing in natural gas downstream business as well as other natural gas-related business that bring in steady income. As an ongoing course, we will continue to identify and invest in new quality projects in different regions of China. Besides, we will constantly improve current operational efficiency, monitor the cost structure and advance the technologies employed.

Appreciation

On behalf of the Directors, I would like to express my sincere thanks to all of our staff, the management team and the fellow board members for their endeavors and dedication; to the shareholders, investors and bankers for their ongoing support and confidence. We will further the development of the Group and have set the goal to maximize investment return for our shareholders.

Li Xiaoyun
Chairman

June 25, 2004