

On behalf of the board of directors of Chinese People Gas Holdings Company Limited (the "Company") and all of its subsidiaries (collectively the "Group"), I am pleased to present the Group's annual report for the year ended 31 March 2007 to the shareholders.

INDUSTRY REVIEW

During the course of the implementation of the "10th Five-Year Plan", China adhered to its energy adjustment strategy and increased the proportion of natural gas in the overall energy consumption structure. In respect of non-renewable energy, the production volume of natural gas increased from 27.2 billion cubic meters in 2000 to 49.3 billion cubic meters in 2005, with an average annual growth of 12.6% as to the total consumption of non-renewable energy, natural gas consumption increased from 24.5 billion cubic meters in 2000 to 47.9 billion cubic meters in 2005, with an average annual growth of 14.4%. Natural gas ranked top among the non-renewable energies in terms of production and consumption growth.

The economy of China achieved continuous, rapid and stable growth in 2006. According to the data released by the National Bureau of Statistics of China, the annual gross national production in 2006 was RMB21 trillion, representing an increase of 11.1% as compared to the previous year and it has been raising over 10% for four consecutive years. The growth of the Chinese economy brought along a continuous rise in the total consumption of energy, which amounted to 2.46 billion tons of standard coal equivalent in 2006, representing a growth of 9.3% from the previous year, in which the consumption growth rate of coal, crude oil and natural gas were 9.6%, 7.1% and 19.9%, respectively, as compared to the prior year, with natural gas still ranks first among all types of energy. Natural gas, being a kind of clean and highly efficient energy, occupied an ever more important role in the energy structure in China as well as in sustaining the growth of the Chinese economy.

本人謹代表中民燃氣控股有限公司(「本公司」)董事會及全體附屬公司(統稱「本集團」)，欣然向股東提呈本集團截至2007年3月31日之年度報告。

行業回顧

「十五」期間，中國貫徹能源調整戰略，增加天然氣在能源結構中的比例。在非再生能源生產總量方面，天然氣產量從2000年的272億立方米上升到2005年的493億立方米，年均增長12.6%；在非再生能源消費總量方面，天然氣消費量從2000年的245億立方米上升到2005年的479億立方米，年均增長14.4%。在非再生能源生產和消費增長幅度中，天然氣均為各類能源之首。

2006年，中國經濟持續、快速、穩定增長。中國國家統計局發佈的相關數據顯示，2006年全年國家生產總值人民幣為21萬億元，比上年增長11.1%，增長速度連續4年超過10.0%。中國經濟的增長，帶動了能源消費總量不斷攀升，2006年全年能源消費總量24.6億噸標準煤，比上年增長9.3%，其中煤炭消費量比上年增長9.6%，原油消費量比上年增長至7.1%，天然氣消費量比上年增長19.9%，消費量增長居各類能源之首。作為一種清潔、高效的能源，天然氣在中國能源結構中佔有日益重要之地位，並在保障中國經濟持續發展過程中起到日益重要之作用。

INDUSTRY PROSPECT

According to the “Development Plan for Energy in the 11th Five-Year Plan” issued by the National Development and Reform Commission, the principle of supporting the sustainable growth of social economy of China by sustainable energy development was introduced and China will accelerate the exploration of petroleum and natural gas resources during the course of the implementation of the 11th Five-Year Plan, provide key support to the construction of energy bases and speed up the building of oil and gas bases. Pursuant to the principle of “Exploiting the potential of the East, Developing the West, Accelerating the development in the sea area and Exploring the South”, the national output of crude oil and natural gas in 2010 will be increased to 193 million tons and 92 billion cubic meters respectively. Meanwhile, the construction of energy storage and transportation projects will become the policy focus. The building of oil and gas pipeline networks will be expedited under the framework of “Transporting oil and gas from the West to the East, from the Northeast to the South and from sea to land” and the key pipelines network for oil and gas will be strengthened by building more necessary multiple lines and key linkages as well as accelerating the construction of connecting terminals and strategic reserves facilities with an aim to gradually constructing a national core pipelines network and key regional networks for oil and gas. China will lay approximately 50,000 kilometers in aggregate of natural gas pipelines and build 10 Liquefied Natural Gas (“LNG”) terminals in the coastal areas (the first phase of which will have a capacity of handling 33-35 million tons of LNG) by 2020.

According to experts' projections, the proportion of natural gas consumption in China's total non-renewable energy consumption will increase to approximately 6.0% (amounting to 110 to 120 billion cubic meters) in 2010 and further increase to approximately 10.0% in 2020, and by then the demand for natural gas will be 210 to 230 billion cubic meters. The gas supply in urban areas will account for one-third of the natural gas consumption and this represents a growth that is significantly higher than that of coal and petroleum. The rapid growth in consumption demand will widen the gap between supply and demand of natural gas in China where the discrepancy of 20 billion cubic meters by the year of 2010 be filled up mainly by imported natural gas. Diversification of natural gas sources will help gradually bring the prices of natural gas in China in line with the international level, push up the price for the seriously underpriced domestic natural gas and nationalize the pricing mechanism for natural gas.

行業展望

根據國家發展和改革委員會發佈的《能源發展「十一五」規劃》中提出的以能源可持續發展支持中國經濟社會可持續發展的方針，「十一五」期間中國將加快開發石油天然氣資源，重點扶持能源基地建設工程，加快建設油氣基地。按照「挖潛東部、發展西部、加快海域、開拓南方」的原則，使2010年全國原油、天然氣產量分別達到1.93億噸和920億立方米。同時將重點建設能源儲運工程，加快油氣輸送管網建設，按照「西部油氣東輸，東北油氣南送、海上油氣登陸」的格局，加強骨幹油氣管線建設，增加必要的複綫和重點聯絡綫，加快中轉樞紐和戰略儲備設施建設，逐步形成全國油氣骨幹管網和重點區域網路。2020年前中國將共鋪設約5萬公里的天然氣管線，同時將建成沿海10個液化天然氣（「LNG」）接收站，第一期工程將達到接收3,300-3,500萬噸LNG的能力。

據專家預測，2010年中國天然氣的消費在非再生能源消費中的比重將增加至約6.0%，達1,100-1,200億立方米；2020年進一步增加至約10.0%，需求量達2,100-2,300億立方米，天然氣消費的三分之一將用於城市燃氣供應，增長速度明顯快於煤和石油。消費需求的快速增長，使中國天然氣供需缺口不斷拉大，2010年將達200多億立方米，缺口主要依靠進口天然氣填補。天然氣氣源的多元化，將使中國天然氣價格逐步與國際接軌，國內天然氣價格明顯偏低狀況將得到改善，天然氣價格形成機制將不斷完善。

It is expected that the Chinese economy will grow continuously, steadily and rapidly, while the accelerated pace of industrialisation and urbanisation will promote the rapid development of the city gas business. Being the best clean energy in the 21st century, natural gas is rising as a major energy used by urban dwellers as well as industrial and commercial enterprises. With more effort made in the development of petroleum and natural gas, the continuous perfection of transmission pipelines facilities as well as strong support from the government policy, the use of natural gas will become more popular and the prospect of the city gas business will be brighter.

APPRECIATION

On behalf of the board of directors of the Company, I sincerely thank all shareholders, customers and business partners for their support to the Group over the year.

Liu Jing
Chairman

Beijing, 27 July 2007

預計未來中國經濟將持續、平穩、快速增長，工業化和城市化進程的加快將推動城市燃氣行業快速發展。天然氣作為二十一世紀最佳清潔能源，正日益成為中國城市居民、工商業企業使用的主要能源。隨著石油天然氣開發力度進一步加強、輸送管線設施不斷完善及政策導向的大力扶持，天然氣的使用將更加普及，城市燃氣行業的前景將更加廣闊。

致謝

本人謹代表本公司董事會對全體股東、客戶及業務伙伴一年來對本集團的支持表示衷心感謝。

劉京
主席

北京，2007年7月27日

