

# CHAIRMAN'S STATEMENT

## Business Review

The Group recorded a turnover of HK\$4,827,000 for the year ended March 31, 2002 representing an increase of 15.8% from HK\$4,169,000 for the previous year. The loss attributable to shareholders for the year ended March 31, 2002 was HK\$7,294,000 as compared with HK\$5,172,000 in 2001. The Group's profit attributable to shareholders, excluding the provision of HK\$7,930,000 from the revaluation and impairment loss recognised on the Group's properties portfolio, recorded a profit of HK\$636,000 as compared to a loss of HK\$5,172,000 in 2001. The results support the fact that 2002 was a growth and development year for the Company.

## Market and Business

The slowdown in the US economy, coupled with the effects of the events of September 11, 2001, seriously affected the Hong Kong market. The unemployment rate has reached a record high of approximately 7.7%, accompanied by a surge in personal bankruptcy to over 10,000 cases for the first six months of 2002. These severe economic conditions have weakened the consumers' propensity to spend; as such the Group has reduced its exposure to the non-profitable operations in the retailing of fashion apparel and accessories during the year.

During the year under review, the financial market was highly volatile. The Group is cautious in investment and fund management, with the aim to optimise return, safeguard assets and satisfy liquidity requirements. A professional treasury team is dedicated to managing the investment of the funds.

Despite a series of interest rates cuts, the property market continues its downward trend. Operation income from property investment declined due to weakened market conditions but the situation was moderated by effective cost reduction. Due to the uncertainty in the property market, the development of the sites will be deferred. Further cost cutting measures on operating overhead will be implemented.

To take advantage of the recent changes in the energy sector in the PRC the Group has diversified its business. The natural gas sector proves attractive as the Central Government has a plan to boost economic efficiency and curb environmental damage with the use of natural gas. Under this government initiative, the country's natural gas consumption rate will surge sharply from its current penetration rate of 3%. An increase in economic activity in Greater China will further stimulate its demand. The Board believes that this investment in the energy sector will broaden the earnings stream of the Group. To reflect this business strategy, the Group has changed its name to China Gas Holdings Limited.

## CHAIRMAN'S STATEMENT

### ACQUISITION OF INTEREST IN A NATURAL GAS PIPELINE NETWORK AND RELATED OPERATIONS

#### Gas Projects in outer Beijing

In early May 2002, the Group entered into agreements to acquire a 60% interest in Beijing Xiangke Jiahua Oil & Gas Technology Co., Ltd ("Xiangke"). Xiangke is a limited company incorporated in the PRC in 2001 and has a 30 year business license which was granted on April 28, 2001. Xiangke is principally engaged in the sale of oil, gas products and related chemical products, providing technical services for exploration of oil and gas fields, and the installation of related facilities, equipment and instruments. Xiangke is one of the first companies in the PRC to use compressed natural gas for applications in private enterprises. It has obtained patents granted by the PRC government on the techniques related to compressed natural gas.

The natural gas network operated by Xiangke covers more than 180,000 households and 20 industrial users in the outer Beijing area, of which approximately 30,000 households and 8 industrial users have registered to use natural gas. According to a feasibility study conducted by Xiangke, the number of registered users is expected to increase to approximately 90,000 households by the end of year 2002.

#### Gas Projects in the Provinces of Hunan and Hubei

In May 2002, the Group entered into agreements to inject \$57.6 million cash to acquire a 48% shareholding interest in a joint venture in the PRC which will contract with appropriate PRC strategic partners to invest in natural gas projects in cities of Changsha, Zhuzhou and Xiangtan which are situated in the province of Hunan in the PRC. The PRC joint venture includes a wholly-owned subsidiary of Shenzhen Nanshan Power Station Co. Ltd, a Shenzhen listed company, as a shareholder. By leveraging off the partners' expertise in the energy industry, the Group would be able to take advantage of opportunities in the PRC energy sector.

In June 2002, the Group entered into an agreement with Hai Xia Finance Holdings Limited to invest HK\$4.9 million to acquire a 49% equity interest in China Gas Development Group Limited which has entered into three agreements with the People's Government of Suizhou City, Development Plan Commission of Shiyan City and Yichang City Natural Gas Company Limited. These three agreements support the formation of three joint ventures in the PRC to principally engage in the design, construction and operation of a natural gas pipeline network and ancillary facilities as well as the provisioning of piped natural gas in the cities of Suizhou, Shiyan and Yichang which are situated in the province of Hubei in the PRC. These projects will serve as the focal points for expansion of the Group's end user distribution network for sale and distribution of domestic and industrial use natural gas in northern China. Through the joint ventures in the PRC, the Group's natural gas business is expected to expand into various markets in other provinces in the PRC.

## CHAIRMAN'S STATEMENT

### ACQUISITION OF INTEREST IN A NATURAL GAS PIPELINE NETWORK AND RELATED OPERATIONS – *continued*

#### Prospects

According to the Energy Information Administration of US Department of Energy, natural gas usage in the PRC in 1999 only accounted for 2.8% of total energy consumption, which is especially low when compared to an average of 22% in developed countries. Coupled with favourable government environmental policies and wider consumer acceptance, it is expected that the usage of natural gas will increase substantially. The construction of West to East Pipelines project and gas transmission networks are progressing. As the PRC's energy sector continues to evolve with the heightened use of natural gas, we believe the Group is well placed to capitalise on the opportunities. The Group will expand its natural gas business by leveraging off the strengths and the networks of its strategic partners in the PRC.

We are realistically optimistic about our future. Our business foundation is strong and our strategic partnerships are solid. By effective utilisation of our capital, we will expand and extend our natural gas business in the years to come.

#### Appreciation

I would like to thank the members of the Board for their guidance and to extend my appreciation to the management and staff for their continued dedication and hard work.

On behalf of the Board

**CHAN HENG FAI**

*Executive Chairman*

Hong Kong, 19th July, 2002