

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of China Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2003 annual report.

For the year ended March 31, 2003, loss attributable to shareholders was HK\$69,673,000 compared to a loss of HK\$7,294,000 for the year ended March 31, 2002.

The Group has been engaging in the natural gas projects in certain cities and provinces in the PRC since the beginning of this financial year. In order to reflect truly the current business nature and future business direction of the Group, the Company changed its name into China Gas Holdings Limited in July 2002.

During the financial year, the Group has been actively participating into gas investment projects in cities of various provinces in China. Details of the Group's investment projects would be present in the Management Discussion and Analysis.

## PROSPECTS

The outlook of natural gas sector in China is promising. China is the second largest energy consumer and one of the largest energy reserve countries in the world. Most of the reserves, including coal, natural gas and crude oil, are mainly located in the western part of China. In the past, coal is heavily consumed in China and such extensive usage of coal has led to serious pollution problems. In order to minimize the environmental pollution problems, policy on using cleaner energy is highly recommended by Chinese government. Among the various available new energy resources, natural gas was identified as the primary substitute for coal because it is a saver and cleaner energy to be heavily consumed than coal. As mentioned, since much of natural gas reserves are located in the western part of China whereas the users are located in the coastal regions, the establishment of West-East Pipeline and the Zhongwu line are the main channels to connect the gas sources from suppliers to consumers. Projects along these two lines are the main focus in the coming years.

It is our Group's policy to maximize our shareholders' value of investment. During the financial year, the Group has secured investment projects with six cities of three provinces along the West-East Pipeline and the Zhongwu line. In the coming year, we will further expand our investment in downstream natural gas projects in cities along these two lines. Despite investment opportunities are enormous, we will continue to adopt cautious strategy in screening investment projects such that the maximum rate of return could be generated for our shareholder.

In view of the determination by the Chinese government to use natural gas to replace coal as the primary energy consumption, together with the establishment of favourable policies to encourage investment in the natural gas business, we believe that the development of natural gas business in China is moving towards a new era. We are confident that the future of our Group would be encouraging.

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## APPRECIATION

I would like to take this opportunity to thank all of our dedicate staff for their efforts and support from our shareholders in the past year.

**Li Xiaoyun**

*Chairman*

July 25, 2003