

On behalf of the board of directors ("Board") of China City Natural Gas Holdings Limited ("Company"), I would like to present to our shareholders the report and the annual results of the Company and its subsidiaries (collectively "Group") for the year ended 31 July 2003.

### RESULTS

The Group's turnover for the year ended 31 July 2003 amounted to HK\$278,223,000, compared with the turnover of HK\$410,191,000 for the year ended 31 July 2002. For the year ended 31 July 2003, loss attributable to shareholders was HK\$334,777,000, compared with a loss of HK\$451,836,000 for the year ended 31 July 2002. The loss per share for the year under review was HK3.9 cents (2002: loss of HK8.1 cents). The loss was mainly attributable to the discontinuance of our business in manufacture and trading of batteries amounting to HK\$105,067,000, the provision for impairment of long-term investments transferred from the investment revaluation reserve amounting to HK\$129,832,000, the provision for unrealised loss on short-term investments amounting to HK\$38,074,000 and the provision for amortisation and impairment of goodwill in relation to the natural gas investment amounting to approximately HK\$24,265,000.

The Board does not recommend the payment of any dividends for the year (2002: nil).

### BUSINESS REVIEW

The Group consists of three main businesses, namely, Investment Business, Natural Gas Business and Manufacturing Business.

#### Investment Business

The financial year under review was an unfavourable period for the Investment Business, owing to the volatile and unpredictable global economic and political outlook. An unprecedented tough time for Hong Kong, China and other countries inflicted by SARS in the second and third quarters had a significant adverse impact on the operations and performance of the investee companies. In view of the above factors, we have remained our prudent investment approach.

Carried forward from last year, an investment portfolio of approximately HK\$113 million and a negative investment revaluation reserve of approximately HK\$15 million, we utilised a total amount of HK\$106 million on the acquisition of long-term investments this year (2002: approximately HK\$112 million) while cashing in five long-term investments at a total consideration of approximately HK\$3 million. During the year, the Group carefully reviewed the operating environments as well as the performance of the investee companies, and decided to charge an impairment loss of approximately HK\$130 million to the profit and loss account (2002: approximately HK\$243 million). The negative investment revaluation reserve was also reduced to less than HK\$1 million compared with HK\$15 million in the previous financial year.

The Group held marketable securities worth approximately HK\$88 million as at 31 July 2003. Total amount of acquisition on marketable securities during the year was approximately HK\$132 million whereas total amount of disposal of marketable securities during the financial year was approximately HK\$84 million. Uncertainty in global economic recovery coupled with tension of US-Iraq war suppressed the performance of the Hong Kong stock market throughout the period of financial year. As a result, the Group recorded the realised loss on disposal of and unrealised losses on short-term investment of approximately HK\$7 million and HK\$38 million respectively. In spite of the recent commencement of the interest rate hike cycle, the Group is still optimistic on the Hong Kong stock market in the long-run.

#### Natural Gas Business

The Group, through its jointly-controlled entity, China City Natural Gas Co., Ltd. ("CCNGL"), holds joint-venture natural gas companies in the cities and/or areas in China, namely, Xining, Tianjin (Bin Hai District), Liling, Binzhou, Huimin and Qingyun to operate piped natural gas business.

Natural gas companies in Xining, Tianjin (Bin Hai District), Binzhou, Huimin and Qingyun had commenced business of natural gas supply, and the 2003 financial year marked the first full financial year of operations of the Natural Gas Business. For the year under review, turnover and net profit of CCNGL were HK\$117 million (2002: nil) and HK\$780,000 (2002: loss of HK\$1,602,000) respectively.

### Manufacturing Business

In May 2003, the United States International Trade Commission commenced its investigation pursuant to section 337 of the Tariff Act of 1930, as amended, against a number of PRC based battery manufacturers, which included a former indirect subsidiary of the Group in respect of their potential patent infringement of alkaline battery in the United States ("Investigation"). Although the Board has no concrete information as to the outcome of the Investigation, the worst of which may be an exclusion order for the products of our former subsidiary to the United States.

In light of the business prospects of the Battery Business of the Group as well as the uncertainty as to the outcome of the Investigation, in July 2003, the Group disposed of the Battery Business for a consideration of HK\$37 million. The Board considered that the disposal allowed the Group to reduce its risk exposure on the Battery Business where it had been suffering losses in the past three financial years/period as well as the uncertain outcome of the Investigation in which the Group had not provided any warranty or indemnity or undertaking to the buyer of the Battery Business. In addition, the disposal allowed the Group to release from its corporate guarantees of approximately HK\$48 million to the Battery Business. The disposal of the Battery Business resulted in a loss of approximately HK\$105 million.

During the year, sales for Silicone Rubber Products Business decreased by 18.4% to HK\$19 million and the net profit decreased by 66% to HK\$1 million and the decrease in sales turnover was due to loss of certain customers which demanded advanced coating technology for their silicone rubber products, while the decrease in net profit was due to the increase in both the manufacturing cost and the scrap rate of the products.

### PROSPECTS

The Group is optimistic towards the economic development of China which is gaining escalating global recognition following its successful accession to World Trade Organisation. China is not only an engine of global growth, but also one of the largest domestic consumption markets in the world. GDP growth in China remains high and is widely expected to maintain a steady growth momentum in the coming years.

The Group believes that the Natural Gas Business is promising in view of the low penetration rate, supply growth lag coupled with positive government policy on environmental friendly energy sources. The Group is keen on identifying good investment projects on natural gas in order to enhance the market share of natural gas business in China.

The Group has turned cautiously neutral on the investment policy due to apparent recovery in the global economy. The Group will continue to trim non-performing investments while seeking good quality investments to enhance the value of shareholders.

As for the Manufacturing Business, the Group will continue to implement a series of measures to improve product quality and production efficiency of silicone rubber products and to reduce manufacturing cost so as to compete with its rivals in the industry.

### APPRECIATION

I would like to take this opportunity to express my sincere appreciation for the valuable efforts of our fellow Directors, management and employees for their contributions to the Group. I also thank our business associates, investors, shareholders for their continued support over the years.

**Wong King Shiu, Daniel**  
*Chairman*

Hong Kong, 24 November 2003