



華森燃氣控股有限公司

WAH SANG GAS HOLDINGS LIMITED



二零零零至二零零一年第三季度報告
2000-2001 Third Quarter Report

SUMMARY

- For the nine months ended 31 December 2000, the unaudited consolidated turnover and profits attributable to shareholders of the Group were approximately HK\$175,539,000 and HK\$65,889,000 respectively, increasing by 97.1% and 1.6 times respectively over the corresponding period of previous financial year.
- For the nine months ended 31 December 2000, the Group has installed meters for approximately 55,000 households, increasing by 100% over the corresponding period of previous year.
- For the nine months ended 31 December 2000, the sales volume of piped gas amounted to 211.74×10^6 mega-joules, increasing by 4.4 times over the corresponding period of previous year.
- For the nine months ended 31 December 2000, the retailing and wholesaling of liquefied petroleum gas (“LPG”) reached 808.55×10^6 mega-joules, increasing by approximately 14.1% over the corresponding period of previous year.
- Earnings per share for the nine months ended 31 December 2000 amounted to HK\$34.14 cents, increasing by 95% over the corresponding period of previous year.
- The directors do not declare any interim dividend for the nine months ended 31 December 2000.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The directors of Wah Sang Gas Holdings Limited (the "Company") are pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 31 December 2000, together with the comparative unaudited figures for the corresponding periods in 1999, prepared in accordance with the accounting principles generally accepted in Hong Kong, are set out below:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	2	67,134	51,420	175,539	89,046
Cost of sales		<u>(30,285)</u>	<u>(21,207)</u>	<u>(86,894)</u>	<u>(48,771)</u>
Gross profit		36,849	30,213	88,645	40,275
Other income		—	—	2,179	—
Selling and distribution costs		(327)	(116)	(1,042)	(396)
General and administrative expenses		<u>(5,099)</u>	<u>(1,450)</u>	<u>(16,340)</u>	<u>(5,436)</u>
PROFIT FROM OPERATING ACTIVITIES		31,423	28,647	73,442	34,443
Finance costs		<u>(728)</u>	<u>(706)</u>	<u>(1,710)</u>	<u>(1,635)</u>
PROFIT BEFORE TAX		30,695	27,941	71,732	32,808
Tax	3	<u>(1,397)</u>	<u>(2,082)</u>	<u>(1,962)</u>	<u>(2,828)</u>
PROFIT BEFORE MINORITY INTERESTS		29,298	25,859	69,770	29,980
Minority interests		<u>(1,858)</u>	<u>(3,702)</u>	<u>(3,881)</u>	<u>(4,559)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>27,440</u>	<u>22,157</u>	<u>65,889</u>	<u>25,421</u>
EARNINGS PER SHARE	4	<u>14.21 cents</u>	<u>15.23 cents</u>	<u>34.14 cents</u>	<u>17.47 cents</u>

Notes:

1. Group reorganization and basis of preparation

The Company was incorporated as an exempted company with limited liability in Bermuda on 25 October 1999 under the Companies Act 1981 of Bermuda. On 26 February 2000, pursuant to a reorganization to rationalize the Group structure in preparation for the listing of the Company's shares (the "Reorganization") on GEM, the Company acquired the entire issued share capital of Winstar Venture Limited, the then holding company of the subsidiaries included in the Reorganization, and thereby became the holding company of the Group. The shares of the Company were listed on GEM with effect from 16 March 2000.

The consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganization for both periods presented, rather than from the date of their acquisition through the Reorganization on 26 February 2000. Accordingly, the consolidated results of the Group for the three months and nine months ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 April 1999 or since their respective dates of incorporation, where this is a shorter period.

The Company is an investment holding company. Its subsidiaries are principally engaged in the construction of gas pipelines, production and sale of gas, and sale of equipment and domestic appliances.

2. Turnover

The Group's turnover represents the invoiced value of construction services performed, and gas and equipment sold, net of value-added tax, business tax, government surcharges, and after allowance for goods returned and trade discounts.

Revenue from the following activities has been included in the Group's turnover.

	For the three months ended 31 December		For the nine months ended 31 December	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of LPG and piped gas	17,081	9,776	53,503	31,232
Construction of gas pipelines	43,616	41,157	115,507	55,834
Sale of equipment and others	<u>6,437</u>	<u>487</u>	<u>6,529</u>	<u>1,980</u>
	<u><u>67,134</u></u>	<u><u>51,420</u></u>	<u><u>175,539</u></u>	<u><u>89,046</u></u>

3. Tax

	For the three months ended		For the nine months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	—	—	—	—
Mainland China	<u>1,397</u>	<u>2,082</u>	<u>1,962</u>	<u>2,828</u>
Tax charge for the period	<u><u>1,397</u></u>	<u><u>2,082</u></u>	<u><u>1,962</u></u>	<u><u>2,828</u></u>

The Group did not have assessable profits arising in Hong Kong during the three months and nine months ended 31 December 2000. Taxes on profits assessable elsewhere in the People's Republic of China (the "PRC") have been calculated based on existing legislation, interpretations and practices at the prevailing rates of tax. For the three months and nine months ended 31 December 2000 and 1999, most of the Group's PRC joint ventures were exempted from income tax or were taxable at concessionary tax rates ranging from 15% to 18%.

The Group did not have any significant unprovided deferred tax liabilities for the periods.

4. Earnings per share

The calculation of basic earnings per share is based on the net unaudited profit attributable to shareholders for the three months and nine months ended 31 December 2000 of approximately HK\$27,440,000 and HK\$65,889,000 respectively (1999: HK\$22,157,000 and HK\$25,421,000) and on the weighted average of 193,100,000 and 192,998,000 shares respectively (1999: 145,500,000 shares and 145,500,000 shares) in issue during the aforementioned two periods ended 31 December 2000.

The number of shares used to calculate the 1999 basic earnings per share represents the pro forma issued share capital of the Company on the basis that the Reorganization had been completed on 1 April 1999.

5. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000 <i>(note)</i>	Fixed assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserve HK\$'000	Enterprise development fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	—	4,800	—	341	783	885	(10,854)	(4,045)
Translation								
Difference on Consolidation	—	—	—	46	—	—	—	46
Conversion of Shareholders' Loans	—	24,000	—	—	—	—	—	24,000
Goodwill Eliminated	—	—	—	—	—	—	(175)	(175)
Net profit for the Period	—	—	—	—	—	—	3,264	3,264
At 30 September 1999 and at 1 October 1999	—	28,800	—	387	783	885	(7,765)	23,090
Translation								
Difference on Consolidation	—	—	—	10	—	—	—	10
Net profit for the Period	—	—	—	—	—	—	22,157	22,157
At 30 December 1999	—	28,800	—	397	783	885	14,392	45,257
At 1 April 2000	20,215	28,800	3,852	452	783	885	14,004	68,991
Issue of shares	6,720	—	—	—	—	—	—	6,720
Share Issue Expenses	(256)	—	—	—	—	—	—	(256)
Translation								
Difference on Consolidation	—	—	—	440	—	—	—	440
Net profit for the Period	—	—	—	—	—	—	38,449	38,449
At 30 September 2000 and at 1 October 2000	26,679	28,800	3,852	892	783	885	52,453	114,344
Translation								
Difference on Consolidation	—	—	—	(92)	—	—	—	(92)
Net profit for the Period	—	—	—	—	—	—	27,440	27,440
At 31 December 2000	26,679	28,800	3,852	800	783	885	79,893	141,692

Note: The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganization over the nominal value of the Company's shares issued in exchange therefor.

DIVIDEND

The board of directors has resolved not to declare any interim dividend for the nine months ended 31 December 2000 (1999: nil).

BUSINESS REVIEW

Based on the estimation and analysis of the prospects for the gas industry in the PRC, the business performed well and expanded continuously in line with the Group's business development milestones.

The performance of the Group for the nine months ended 31 December 2000 under review is summarized below:

- Turnover for the nine months ended 31 December 2000 increased to approximately HK\$175.5 million, representing a growth of 97.1% over the corresponding period of previous year;
- Profit from operating activities increased to approximately HK\$73.4 million, representing a growth of 1.1 times over the corresponding period of previous year; and
- Net profit attributable to shareholders for the nine months ended 31 December 2000 increased to approximately HK\$65.9 million, representing a growth of 1.6 times over the corresponding period of previous year.

Certain major developments of the Group's business for the period ended 31 December 2000 are listed hereunder.

Construction of gas pipeline networks

The Group receives one-off fee (the "connection fee") from property developers or property management companies for the construction of gas pipelines which connect the users to the Group's main gas pipeline networks. The networks are mainly laid in towns, small cities and suburban areas of larger cities, where there is potential for significant growth in the demand for pipeline network fuel.

For the nine months ended 31 December 2000, the Group recorded a sustainable growth in revenue through connection fee from Tianjin City, Hebei Province and Shandong Province. The Group has installed meters for approximately 55,000 households, representing an increase of 100% in comparison with same period of previous year.

During the three months ended 31 December 2000, the Group has built new gas stations in Qinhuangdao of Hebei Province, and Guangrao, Changle and Jiaonan of Shandong Province. The designed capacity of the gas station in each of these locations is approximately 20,000 households.

Since October 2000, the Group has successfully entered into master agreements with local governments to secure exclusive rights to run gas fuel business in Jiexiang, Boxing, Shouguang, Anqiu and Weishan of Shandong Province. The designed capacity of the gas stations to be built in those areas amounted to approximately 120,000 households in aggregate.

As of the date of this report, the Group has secured master agreements, including the aforementioned new projects, to provide gas for approximately 700,000 households in aggregate. In addition, we have secured letters of intent with the local governments of 11 cities and counties in the Northern PRC, the North-eastern PRC and Bohai to explore the opportunity of operating gas fuel business in those areas. The designed capacity of the gas stations to be built in those areas amounted to approximately 400,000 households in aggregate.

Provision of piped gas

The brand name of Wah Sang Gas is well recognized by regional governments and residents, resulting in a tremendous growth in the number of piped gas customers in Tianjin City, Hebei Province and Shandong Province. The Group's total length of main pipelines increased from approximately 55 kilometers as at the end of December 1999 to approximately 150 kilometers as at the end of December 2000, representing an increase of 1.8 times in the Group's main pipeline network. Consumption of piped gas increased from approximately 38.95×10^6 mega-joules for the nine months ended 31 December 1999 to approximately 211.74×10^6 mega-joules for the corresponding period in 2000, representing an increase of 4.4 times.

LPG retailing and wholesaling

In addition to gas supply via pipeline networks to customers, the Group also provides retailing services to domestic, industrial and commercial customers where the supply of piped gas has not yet been reached. The Group also wholesales LPG to other local gas distributors and industrial customers.

It was encouraging that the volume of the Group's LPG supply under retailing and wholesaling arrangements increased from 708.87×10^6 mega joules for the nine months ended 31 December 1999 to 808.55×10^6 mega-joules for the nine months ended 31 December 2000, representing an increase of approximately 14.1%.

Minimizing the impact of the worldwide rise in crude oil price

While the directors of the Group expect that oil price at current level is unsustainable in the long run, the Group has implemented several measures to minimize the impact of the worldwide rise in crude oil price on the Group.

The current selling prices of piped gas offered by the Group in various counties and cities have yet to reach the price ceiling as established by the respective local commodity price bureau. In this respect, the Group is entitled to adjust the current price in various locations so as to shift the cost of the aforesaid impact to the Group's piped gas customers.

Compared with the market price of LPG, the price of natural gas in the PRC is less sensitive to the international crude oil price. In this respect, the Group has started to substitute LPG by natural gas and compressed natural gas in various locations if this is justified on the grounds of lower cost.

In conjunction with the continuing effort of the management on the control of production and operating costs, such as the negotiation of bulk purchase contracts with major LPG and natural gas production plants in the PRC and the continuing modification of the efficiency of machinery, the directors are confident that the impact of the worldwide rise in crude oil price is minimized at a manageable level.

In the long run, the Group is also conducting researches to study the possibility of using other energy sources of lower cost to substitute LPG and natural gas in the PRC.

FUTURE PROSPECTS

Expansion of geographical coverage

As the State Government is carrying on a grand plan of transmitting gas from the west to the east, the country-wide availability of natural gas supply will soon be increased. Given this golden opportunity, the Group will concentrate its efforts and resources on the market development in those cities and counties, covering the Eastern PRC and the Central PRC, along the down stream pipeline network of the aforementioned gas transmission plan. The Group is currently conducting researches to identify potential markets of fast-growing demand for gas fuels in these areas.

Commercial/Industrial customers

With the proven equipment design and favorable market environment, the Group has successfully provided piped gas to its commercial/industrial customers. The directors of the Group is confident that the prosperous exploitation of the provision of piped gas to commercial/industrial customers in PRC would have a considerable contribution to the future revenue of the Group. Accordingly, the Group would expedite the progress on the development of this business.

Gas vehicles

The development of gas vehicles has become a market trend, especially following the implementation of supplemental fuel duty. As a result, use of gas vehicles is expected to rise significantly. In view of using gas vehicles as a solution to improve air pollution problems and make cities more environmental friendly, the Group will actively conduct studies to explore the feasibility of operating refueling stations for gas vehicles in the PRC.

Outlook

Given the prosperous market environment in the PRC and our years of experience and unique expertise in operating gas fuel business in the PRC, the Group is aiming at becoming a leading gas fuel provider in the small and medium cities in the PRC through the achievement of the following objectives:

- To provide a safe, reliable supply of gas, and excellent services to customers.
- To improve the environmental conditions and upgrade the standards of living in the PRC.

Commitment

All members of the board of directors and staff are fully committed to achieving the above objectives. We are confident that the Group would yield satisfactory returns for the Company's shareholders.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of the Company's share option scheme adopted by the Company on 26 February 2000, the board of directors of the Company may, at their discretion, invite any employee of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on GEM on 16 March 2000.

Pursuant to the aforementioned share option scheme, the Company has granted options to certain directors to subscribe for shares of the Company. Details of which are as follows:

Name	Number of shares subject to options outstanding at the date of this report
Shum Ka Sang	2,550,000
Wang Guanghao	1,200,000
Choi Yat Choy	2,200,000
Shen Yi	2,200,000
Chen Cuiwan	1,200,000

The above options were granted on 5 May 2000, at an exercise price of HK\$6.10. The option can be exercised at any time in the next five years commencing on 6 November 2000. As of the date of this report, none of the above options has been exercised. Save as disclosed above and other than in connection with the Reorganization in preparation for the Company's initial public offering, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or

debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN SECURITIES

As at 31 December 2000, the beneficial interests of the directors and their associated corporations in the share capital of the Company and shares of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Number of issued ordinary shares of HK\$0.10 each in the Company			Other
	Personal	Family	Corporate	
Mr. Shum Ka Sang	4,365,000	—	82,935,000 (Note)	—

Note: As at 31 December 2000, Mr. Shum Ka Sang was a substantial shareholder of Wah Sang Gas Development Group (Cayman Islands) Limited ("Wah Sang Gas Development"), which beneficially held 82,935,000 shares representing a 42.95% interest in the Company.

Save as disclosed above and as disclosed under the heading "Directors' rights to acquire shares" in this report, as at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage
Mr. Shum Ka Sang (<i>note 1</i>)	82,935,000 (corporate interest)	42.95%
	4,365,000 (personal interest)	2.26%
Santa Resources Limited (<i>note 2</i>)	58,200,000	30.14%
Wah Sang Gas Development	82,935,000	42.95%

Notes:

- (1) As at 31 December 2000, Wah Sang Gas Development was owned as to 90% by Mr. Shum Ka Sang. The Corporate interest disclosed under Mr. Shum Ka Sang represents his deemed interests in the shares of the Company by virtue of its interest in Wah Sang Gas Development.
- (2) Santa Resources Limited is a wholly owned subsidiary of Tianjin Development Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board operated by the Stock Exchange of Hong Kong.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out under the heading "Directors' interests in securities" in this report, had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 31 December 2000.

SPONSOR'S INTERESTS

As at 31 December 2000, Pacific Top Holding Limited ("Pacific Top"), a fellow subsidiary of the Company's sponsor Oriental Patron Asia Limited ("Oriental Patron") were interested in 3,900,000 shares which represented 2.02% of the issued shares of the Company. Save as disclosed herein, Oriental Patron, its directors, employees or associates as referred to in Note 3 to rule 6.35 of the GEM Listing Rules were interested in 70,000 shares which represented 0.05% of the issued shares of the Company as at 31 December 2000.

On 1 February 2001, 3,500,000 shares owned by Pacific Top were placed to independent investors at a price of HK\$6.00 per share. On 12 February 2001, Pacific Top subscribed 3,500,000 new shares from the Company at a price of HK\$6.00 per share. As at 12 February 2001, Pacific Top were interested in 3,500,000 shares which represented 1.78% of the issued shares of the Company.

Pursuant to the agreement dated 1 November 1999 entered into between the Company and Oriental Patron, Oriental Patron has received and will receive fees for acting as the Company's retained sponsor for the period from 16 March 2000 to 31 March 2002.

Issuance of New Shares

On 12 February 2001, the Company issued 3,500,000 new shares to Pacific Top at a price of HK\$6.00 per share.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. Four meetings have been held by the members of the audit committee since its formation.

YEAR 2000 COMPLIANCE

The Group is not threatened by the year 2000 problem as the LPG equipment and other gas supply equipment of the Group is machinery equipment instead of computerized equipment. The Group's internal computer systems are mainly used for office automation and contain no important databases of supply business. The Group has confirmed that its internal computers are year 2000 compliant. Up to the date of this report, the Group has not encountered any material year 2000 problem.

On behalf of the board
Shum Ka Sang
Chairman

Hong Kong, 12 February 2001