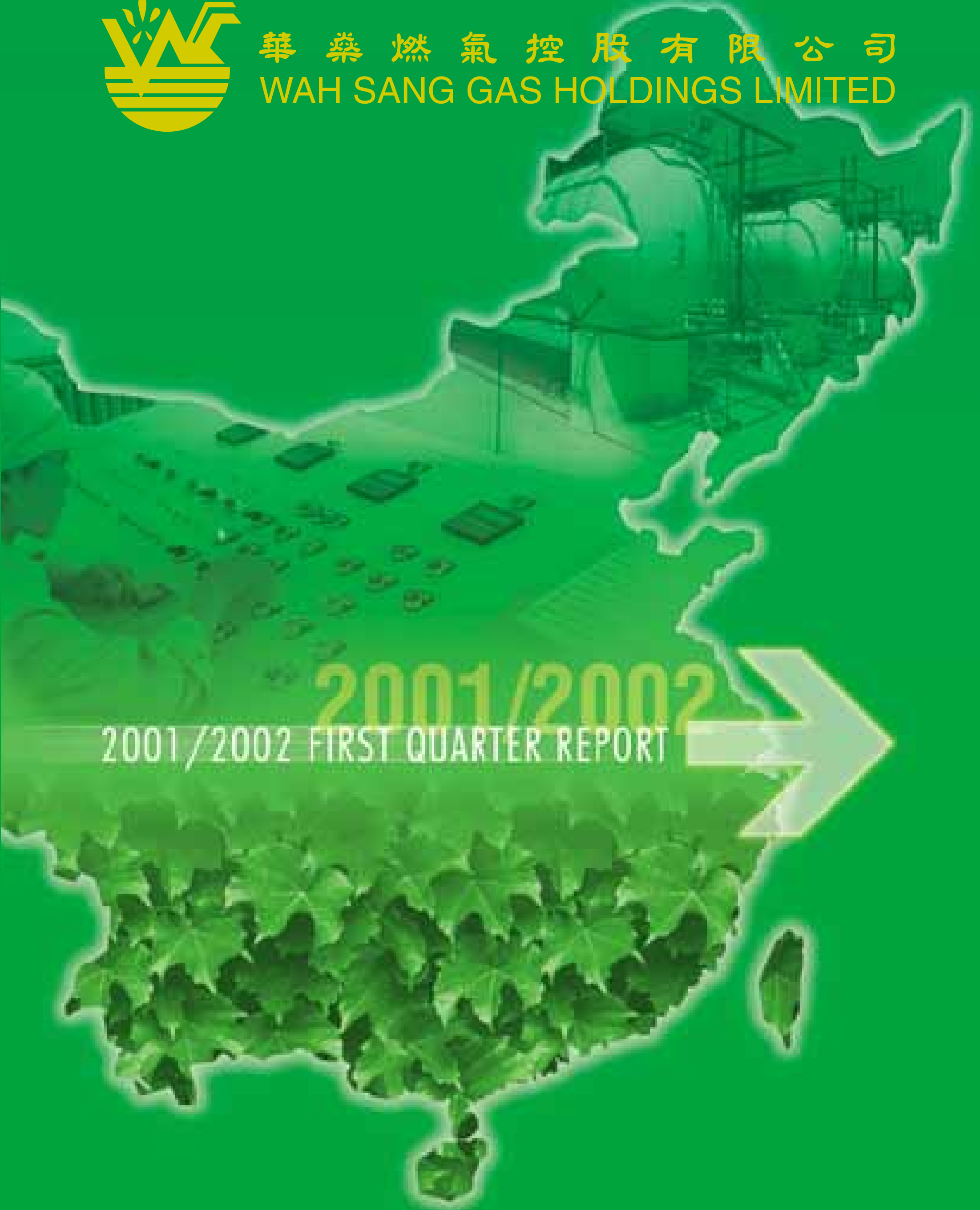
華燊燃氣控股有限公司

WAH SANG GAS HOLDINGS LIMITED



# 2001/2002 FIRST QUARTER REPORT

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

## HIGHLIGHTS

- The unaudited consolidated turnover and profit attributable to shareholders of the Group for the three months ended 30 June 2001 (the "Relevant Period") were HK$71,435,000 and HK$23,264,000, respectively, representing a growth of 60% and 57% respectively over the corresponding period of previous year.

- During the Relevant Period, the Group has completed connection for approximately 24,000 households, representing a growth of 102% over the corresponding period of previous year.

- Sales volume of piped gas for the Relevant Period amounted to 181.79 x $10^6$ mega-joules, representing a growth of 2.5 times over the corresponding period of previous year.

- Sales volume of retailing and wholesaling of liquefied petroleum gas ("LPG") for the Relevant Period reached 254.48 x $10^6$ mega-joules, increasing by approximately 5% over the corresponding period of previous year.

- Basic earnings per share for the Relevant Period amounted to HK11.83 cents, increasing by 54% over the corresponding period of previous year.

- The directors do not declare any interim dividend for the Relevant Period.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

The directors of Wah Sang Gas Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2001 (the "Relevant Period") together with the comparative unaudited figures for the corresponding period in 2000, prepared in accordance with the accounting principles generally accepted in Hong Kong, are set out below:

| | | **For the three months ended 30 June** | |
|---|---|---|---|
| | | **2001** | 2000 |
| | *Notes* | *HK$'000* | *HK$'000* |
| TURNOVER | *2* | **71,435** | 44,748 |
| Cost of sales | | **(35,371)** | (23,527) |
| Gross profit | | **36,064** | 21,221 |
| Selling and distribution costs | | **(425)** | (182) |
| Administrative expenses | | **(8,239)** | (4,636) |
| PROFIT FROM OPERATING ACTIVITIES | | **27,400** | 16,403 |
| Finance costs | | **(1,025)** | (413) |
| PROFIT BEFORE TAX | | **26,375** | 15,990 |
| Tax | *3* | **(971)** | (507) |
| PROFIT BEFORE MINORITY INTERESTS | | **25,404** | 15,483 |
| Minority interests | | **(2,140)** | (665) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **23,264** | 14,818 |
| Dividends | | **–** | – |
| Earnings per share | *4* | | |
| Basic | | **11.83 cents** | 7.69 cents |
| Diluted | | **11.77 cents** | 7.66 cents |

*Notes:*

1. **Basis of consolidation and presentation**

The consolidated results include the results of the Company and its subsidiaries for the Relevant Period. The results of the subsidiaries acquired or disposed of during the Relevant Period are consolidated from or up to their effective dates of acquisition or disposal, respectively.

All significant intra-group transactions have been eliminated in the preparation of the consolidated results.

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 and 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 30 June | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Gas pipeline construction | **47,728** | 28,337 |
| Sale of piped gas, wholesale and retail of LPG | **22,979** | 16,363 |
| Sale of gas appliances and others | **728** | 48 |
| | **71,435** | 44,748 |

3. **Tax**

| | For the three months ended 30 June | |
|---|---|---|
| | **2001** | 2000 |
| | ***HK$'000*** | *HK$'000* |
| Provision for tax in respect of profits for the period: | | |
| Hong Kong | **–** | – |
| Mainland China | **971** | 507 |
| Tax charge for the period | **971** | 507 |

The Group did not have assessable profits arising in Hong Kong during the Relevant Period. 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.

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 profit attributable to shareholders for the Relevant Period of approximately HK$23,264,000 (2000: HK$14,818,000), and the weighted average of 196,600,000 (2000: 192,792,000) ordinary shares in issue during the Relevant Period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the Relevant Period of HK$23,264,000 (2000: HK$14,818,000). The weighted average number of ordinary shares used in the calculation is 196,600,000 (2000:192,792,000 ) ordinary shares, as used in the basic earnings per share calculation; and the weighted average of 1,125,000 (2000: 575,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the Relevant Period.

## 5. Reserves

| *Group* | Share premium *HK$'000* | Contributed surplus *HK$'000* *(note)* | Fixed asset 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* |
|---|---|---|---|---|---|---|---|---|
| 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) |
| Exchange realignments | – | – | – | (11) | – | – | – | (11) |
| Net profit for the period | – | – | – | – | – | – | 14,818 | 14,818 |
| At 30 June 2000 | 26,679 | 28,800 | 3,852 | 441 | 783 | 885 | 28,822 | 90,262 |
| At 1 April 2001 | 45,274 | 28,800 | 3,852 | 631 | 2,659 | 885 | 79,374 | 161,475 |
| Exchange realignments | – | – | – | 95 | – | – | – | 95 |
| Net profit for the period | – | – | – | – | – | – | 23,264 | 23,264 |
| At 30 June 2001 | 45,274 | 28,800 | 3,852 | 726 | 2,659 | 885 | 102,638 | 184,834 |

*Note:* The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 26 February 2000 and the nominal value of the Company's shares issued in exchange therefor.

## DIVIDENDS

The board of directors has resolved not to declare any interim dividend for the Relevant Period (2000: Nil).

## BUSINESS REVIEW

During the Relevant Period, the Group continued to focus on the development of the fast-growing piped gas market in China's small- and medium-sized cities. Given the tremendous effort of the management to maximise value to the shareholders, the Group has attained encouraging results during the Relevant Period.

At present, China remains heavily reliant on coal for energy. More environmentally friendly natural gas and LPG have proliferated in its biggest urban centers but smaller cities and suburbs have yet to be connected. Due to the geographical limitation in the supply of natural gas, natural gas is even less widely used.

China is planning a tectonic shift in its energy mix towards natural gas. It is estimated that natural gas should comprise 10% of China's total energy mix by 2010, increasing from 3% in 2000. The shift will primarily rely on the completion of the West-to-East gas transmission pipeline project. Until the long-distance gas pipelines are completed, the supply of natural gas in the Northern part of China is still very limited. In order to solve the problem, the Group continues to supply a mixture of LPG and air, which is called substitute natural gas ("SNG"), in areas where the supply of natural gas has yet to be available. Since SNG currently supplied by the Group has a Wobbe index equivalent to that of natural gas, the existing SNG supply infrastructures, including the pipelines, of the Group are compatible with natural gas. Upon completion of the long-distance gas pipelines, the application of SNG will be switched to natural gas if the latter is more economic.

In order to further protect our self-developed technology, we are in the process of obtaining five patents, including two innovation patents, from relevant PRC authorities.

During the Relevant Period, the Group continued to extend geographical coverage of its piped gas business in the PRC. In addition, the Group has also attained remarkable performance in its business with industrial gas customers. The following summarises major developments of the Group's business during the Relevant Period:

**Construction of gas pipeline networks**

The Group receives connection fees from property developers or property management companies for the construction of gas pipelines which connect each household to the Group's main gas pipeline networks. At the beginning of the Relevant Period, there were 31 piped gas stations situated in Tianjin City, Hebei Province and Shandong Province. During the Relevant Period, an addition of 3 piped gas stations have been constructed in certain counties in Hebei Province and Shandong Province. Recently, the Group has extended geographical coverage of its business to Jiangsu Province.

For the Relevant Period, the Group recorded a growth of 68.4% in revenue of connection fees for the completion of connection for approximately 24,000 households, representing an increase of 102% over the corresponding period of previous year. As at 30 June 2001, the accumulated number of households connected reached approximately 126,000 units, which creates a solid customer base for the Group's piped gas business in the future.

Since April 2001, the Group has successfully secured monopoly-right agreements with local governments to operate piped gas business in following areas:

- Yizheng of Jiangsu Province, and Shouguang and Jiaozhou of Shandong Province where gas stations are under construction as at 30 June 2001; and

- Beijing Tianzhu Airport Industrial Zone and Beijing Tianzhu Export Processing Zone of Beijing City, Haiyang of Shandong Province, and Suqian and Jurong of Jiangsu Province where gas stations have yet to be built.

Three of the above projects will employ natural gas to serve the customers.

The designed capacity of the gas stations to be built in the above locations is estimated to have a coverage of approximately 190,000 households in aggregate.

As of the date of this report, the Group has secured monopoly-right agreements, including the aforementioned new projects, to provide gas for approximately 850,000 households in aggregate, representing an increase by approximately 95% over the corresponding period of previous year.

**Provision of piped gas**

The reputation of the Group is well-recognised by local governments and residents, resulting in tremendous growth in the number of piped gas customers in Tianjin City, Hebei Province and Shandong Province. The Group's quality service has also attracted a large number of industrial customers in the same areas.

The Group's total length of main pipeline networks increased from approximately 90 kilometers as at 30 June 2000 to approximately 196 kilometers as at 30 June 2001, representing an increase of 1.2 times. During the Relevant Period, consumption of piped gas by residential and industrial customers increased to approximately 147.47 x $10^6$ mega-joules and 34.32 x $10^6$ mega-joules, representing a growth of 2.4 times and 2.8 times respectively over the corresponding period of previous year. During the Relevant Period, our gas stations in Yanjiao and Hepingli have switched from using SNG to using natural gas to supply piped gas to the local customers. The sale of natural gas accounted for approximately 8% of the total consumption of piped gas during the Relevant Period.

**Wholesale and retail of LPG**

As supported by our strong sales network in the Northern part of the PRC and the long-established business relationship with the major LPG suppliers, the Group also provides wholesaling and retailing services to customers via the following:

(i) Sale of LPG via gas cylinders to residential customers where the supply of piped gas has not yet been extended;

(ii) Delivery of LPG via tank trucks to storage facilities of local gas distributors, industrial and commercial customers; and

(iii) Refueling of gas cylinders brought from customers at the gas stations and storage depots operated by the Group.

During the Relevant Period, the sales volume of wholesale and retail of LPG reached 254.48 x $10^6$ mega-joules in aggregate, representing a growth of 5% over the corresponding period of previous year.

## RECENT BUSINESS OPPORTUNITIES

The 2008 Beijing Olympic Games, billed as the"green Olympics", is set to be a winner with the Group. In prospect, it is believed that the Games will expedite the replacement of coal with cleaner fuels such as natural gas and LPG in the PRC.

Ahead of Beijing's successful bid to host the 2008 Olympics, the Group won monopoly-right to build pipelines network and supply SNG and natural gas to industrial and residential users in Jiaozhou and Jiaonan of Shandong Province, and Qinhuangdao, Yanjiao and Zhuozhou of Hebei Province which are adjacent to the relevant prospective locations of the Olympic stadiums and sub-stadiums. Recently, we have obtained the monopoly-right in Beijing Tianzhu Airport Industrial Zone and Beijing Tianzhu Export Processing Zone, two major industrial development zones close to the Beijing airport, to supply piped gas. The development of the Zones have been expanding rapidly since 1999 when the entire operation of the expanded Beijing airport became effective. Given the Olympics Games in Beijing, both foreign and domestic investments in the Zones are expected to grow tremendously in the next few years.

According to the municipal government of Beijing, over 80% of the city's energy will come from environmentally friendly resources by 2008. In this respect, we expect that the demand for clean fuel will increase significantly in the abovementioned seven locations where monopoly-right for piped gas supply has already been solidly secured by the Group. As of the date of this report, less than 10% of the households and industrial users in the aforementioned seven locations have been connected and the level is expected to exceed 80% in four to six years. The Beijing Olympics will certainly expedite the process.

In view of the world-wide focus on environmental protection, certain important international forums are planned to be held in Beijing to focus on clean energy. These events fully reflect the PRC government's commitment to reversing the city's and country's environmental degradation.

The country-wide focus on environmental protection in the PRC as further strengthened by the aforementioned major recent events will definitely create great market potentials and business opportunities to the Group.

## FUTURE PROSPECTS

With our competitive advantages of having exclusive monopoly-right for 50 years in small and medium sized cities, coupled with seven years of experience in providing piped gas and owning unique technological competence, the Group strives to be a high growth utility company with expansion capability, stable future income and low risk. With the support of our shareholders, the Group is committed to posting strong growth in the future and offering the best returns to our shareholders.

## DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors in the share capital of the Company or its associated corporation 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:

| | Number of shares held and nature of interest | | | |
|---|---|---|---|---|
| **Name of director** | **Personal** | **Family** | **Corporate** | **Other** |
| Mr. Shum Ka Sang *(Note)* | 4,365,000 | – | 82,935,000 | – |

*Note:* At 30 June 2001, 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 42.18% interest in the Company.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

| Name of director | Number of share options granted | | | Number of share options outstanding at 30 June 2001 |
|---|---|---|---|---|
| | *Note 1* | *Note 2* | *Note 3* | |
| Shum Ka Sang | 2,550,000 | – | 1,000,000 | 3,550,000 |
| Wang Guanghao | 1,200,000 | – | – | 1,200,000 |
| Kong Siu Keung | – | 500,000 | 200,000 | 700,000 |
| Choi Yat Choy | 2,200,000 | – | 200,000 | 2,400,000 |
| Shen Yi | 2,200,000 | – | 300,000 | 2,500,000 |
| Chen Cuiwan | 1,200,000 | – | – | 1,200,000 |
| | 9,350,000 | 500,000 | 1,700,000 | 11,550,000 |

No share option was exercised by the directors to subscribe for a share in the Company during the Relevant Period.

*Notes:*

1. The share options were granted on 5 May 2000 at an exercise price of HK$6.10 each. The option can be exercised at any time for a period of five years commencing on 6 November 2000.

2. The share options were granted on 8 July 2000 at an exercise price of HK$6.60 each. The option can be exercised at any time for a period of five years commencing on 9 January 2001.

3. The share options were granted on 11 April 2001 at an exercise price of HK$5.68 each. The option can be exercised at any time for a period of five years commencing on 12 October 2001.

Save as disclosed above, at no time during the Relevant Period 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 arrangements to enable the directors to acquire such rights in any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Relevant Period.

## COMPETING BUSINESS

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

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, 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 *(note 1)* | 82,935,000<br>(corporate interest) | 42.18% |
| | 4,365,000<br>(personal interest) | 2.22% |
| Santa Resources Limited *(note 2)* | 58,200,000 | 29.60% |
| Wah Sang Gas Development | 82,935,000 | 42.18% |

*Notes:* (1) At 30 June 2001, 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 in the Section "Directors' interests in shares" in this report, had registered an interest in the share capital of the Company that was required to be recorded pursuant Section 16(1) of the SDI Ordinance.

## SPONSOR'S INTERESTS

Oriental Patron Asia Limited ("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 3,150,000 shares of the Company as at 30 June 2001.

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 23 July 2001, the Company issued 5,000,000 new shares to Santa Resources Limited at a price of HK$7.85 per share. The proceeds will be mainly used for the establishment of new gas stations in Hebei Province and Shandong Province.

## SUBDIVISION OF SHARE CAPITAL

An ordinary resolution approving the subdivision of existing issued and unissued shares of HK$0.10 each into ten shares of HK$0.01 each (the "Share Subdivision") in the share capital of the Company was duly passed at the Annual General Meeting of the Company on 23 July 2001. Accordingly, the Share Subdivision became effective on 24 July 2001.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group.

The audit committee comprises three members, namely Mr. Ng Eng Leong and Mr. Cui Shuming, both being independent non-executive directors, and Ms. Chen Cuiwan, an executive director. Six meetings have been held by the committee members since the establishment of the committee in March 2000.

ON BEHALF OF THE BOARD
**Shum Ka Sang**
*Chairman*

Hong Kong
9 August 2001