



華 燊 燃 氣 控 股 有 限 公 司
WAH SANG GAS HOLDINGS LIMITED

2001/2002 THIRD QUARTER REPORT



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This report, for which the directors of Wah Sang Gas Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Wah Sang Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The unaudited consolidated turnover and profit attributable to shareholders of the Group for the nine months ended 31 December 2001 (the "Relevant Period") were HK\$345,588,000 and HK\$116,516,000, respectively, representing a growth of 96.9% and 76.8% respectively over the corresponding period of previous year.
- Results were remarkable and encouraging. The unaudited consolidated turnover and profit attributable to shareholders for the Relevant Period exceed those achieved for the year ended 31 March 2001 by 64.3% and 73.2% respectively.
- During the Relevant Period, the Group has completed connection for approximately 119,000 households, representing a growth of approximately 1.2 times over the corresponding period of previous year.
- Sales volume of piped gas for the Relevant Period amounted to 658.71×10^6 mega-joules, representing a growth of 2.1 times over the corresponding period of previous year.
- Wholesaling and retail of liquefied petroleum gas ("LPG") for the Relevant Period reached $1,486.74 \times 10^6$ mega-joules, increasing by approximately 83.9% over the corresponding period of previous year.
- Basic earnings per share for the Relevant Period amounted to HK5.80 cents, increasing by approximately 70.1% 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 and nine months ended 31 December 2001 together with the comparative unaudited figures for the corresponding periods in 2000, 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	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	3	154,250	67,134	345,588	175,539
Cost of sales		<u>(76,626)</u>	<u>(30,285)</u>	<u>(165,987)</u>	<u>(86,894)</u>
Gross profit		77,624	36,849	179,601	88,645
Other revenue		-	-	-	2,179
Selling and distribution costs		<u>(267)</u>	<u>(327)</u>	<u>(1,562)</u>	<u>(1,042)</u>
Administrative expenses		<u>(22,619)</u>	<u>(5,099)</u>	<u>(43,459)</u>	<u>(16,340)</u>
PROFIT FROM OPERATING ACTIVITIES		54,738	31,423	134,580	73,442
Finance costs		<u>(1,262)</u>	<u>(728)</u>	<u>(4,458)</u>	<u>(1,710)</u>
PROFIT BEFORE TAX		53,476	30,695	130,122	71,732
Tax	4	<u>(837)</u>	<u>(1,397)</u>	<u>(1,870)</u>	<u>(1,962)</u>
PROFIT BEFORE MINORITY INTERESTS		52,639	29,298	128,252	69,770
Minority interests		<u>(4,422)</u>	<u>(1,858)</u>	<u>(11,736)</u>	<u>(3,881)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>48,217</u>	<u>27,440</u>	<u>116,516</u>	<u>65,889</u>
Dividends		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings per share	5				
Basic		<u>2.34 cents</u>	<u>1.42 cents</u>	<u>5.80 cents</u>	<u>3.41 cents</u>
Diluted		<u>2.31 cents</u>	<u>N/A</u>	<u>5.74 cents</u>	<u>N/A</u>

Notes:

1. Basis of consolidation and presentation

The consolidated results include the results of the Group for the three months and nine months ended 31 December 2001. The results of the subsidiaries acquired or disposed of during the nine months ended 31 December 2001 (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. Change in significant accounting policies

There was no change in significant accounting policies during the Relevant Period.

3. 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 31 December		For the nine months ended 31 December	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Gas pipeline construction	96,943	43,616	229,918	115,507
Sale of piped gas, wholesale and retail of LPG	50,406	17,081	107,408	53,503
Sale of gas appliances and others	6,901	6,437	8,262	6,529
	<u>154,250</u>	<u>67,134</u>	<u>345,588</u>	<u>175,539</u>

4. Tax

	For the three months ended 31 December		For the nine months ended 31 December	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for tax in respect of profits for the period:				
Hong Kong	-	-	-	-
Mainland China	837	1,397	1,870	1,962
Tax charge for the period	<u>837</u>	<u>1,397</u>	<u>1,870</u>	<u>1,962</u>

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 period.

5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the three months and nine months ended 31 December 2001 of approximately HK\$48,217,000 and HK\$116,516,000 (2000: HK\$27,440,000 and HK\$65,889,000) respectively, and the weighted average number of 2,056,217,000 and 2,008,727,000 (2000: 1,931,000,000 and 1,929,982,000) ordinary shares respectively in issue during the three months and nine months ended 31 December 2001. The number of shares have been adjusted for the Company's share subdivision on 24 July 2001 as detailed under the heading "Subdivision of share capital" in this report.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the three months and nine months ended 31 December 2001 of HK\$48,217,000 and HK\$116,516,000 respectively. The weighted average number of ordinary shares used in the calculation is 2,056,217,000 and 2,008,727,000 ordinary shares in issue during the three months and nine months ended 31 December 2001 respectively, as used in the basic earnings per share calculation; and the weighted average number of 35,075,000 and 21,852,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the three months and nine months ended 31 December 2001 respectively. The number of shares has been adjusted for the Company's share subdivision on 24 July 2001 as detailed under the heading "Subdivision of share capital" in this report.

Diluted earnings per share for the three months and nine months ended 31 December 2000 have not been calculated as no material diluting events existed during that periods.

6. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	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 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	-	-	-	440	-	-	-	440
Net profit for the period	-	-	-	-	-	-	38,449	38,449
At 30 September 2000 and 1 October 2000	26,679	28,800	3,852	892	783	885	52,453	114,344
Exchange realignments	-	-	-	(92)	-	-	-	(92)
Net profit for the period	-	-	-	-	-	-	27,440	27,440
At 31 December 2000	<u>26,679</u>	<u>28,800</u>	<u>3,852</u>	<u>800</u>	<u>783</u>	<u>885</u>	<u>79,893</u>	<u>141,692</u>
At 1 April 2001	45,274	28,800	3,852	631	2,659	885	79,374	161,475
Issue of shares	38,750	-	-	-	-	-	-	38,750
Shares issue expenses	(3,952)	-	-	-	-	-	-	(3,952)
Exchange realignments	-	-	-	(24)	-	-	-	(24)
Net profit for the period	-	-	-	-	-	-	68,299	68,299
Transfer from retained profits	-	-	-	-	1,106	-	(1,106)	-
At 30 September 2001 and at 1 October 2001	80,072	28,800	3,852	607	3,765	885	146,567	264,548
Issue of shares	79,500	-	-	-	-	-	-	79,500
Share issue expenses	(4,923)	-	-	-	-	-	-	(4,923)
Exchange realignments	-	-	-	(7)	-	-	-	(7)
Net profit for the period	-	-	-	-	-	-	48,217	48,217
Transfer from retained profits	-	-	-	-	704	-	(704)	-
At 31 December 2001	<u>154,649</u>	<u>28,800</u>	<u>3,852</u>	<u>600</u>	<u>4,469</u>	<u>885</u>	<u>194,080</u>	<u>387,335</u>

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 reorganization 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 was able to maintain its leading position in providing piped gas for small and medium sized cities in the PRC. The usage of gas rather than coal is one of the major processes of urbanization for small and medium sized cities in China. Leveraging on its expertise in the gas industry, the Group was able to secure several new contracts and recorded remarkable results during the Relevant Period.

The Group's capability in providing gas in a low cost, safe and highly efficient manner paves the ground for the Group to conclude new contracts in providing piped gas with different local governments during the Relevant Period.

During the Relevant Period, the Group exerted great efforts to consolidate its market penetration rate in its existing markets throughout China. Owing to the continuous expansion of piped gas networks, gas consumption by both residential and industrial users increased substantially. The following summarizes major business developments of the Group during the Relevant Period.

Construction of gas pipeline networks

The Group receives a connection fee from property developers or property management companies for the construction of gas pipelines that connect each household to the Group's main gas pipeline networks. At the beginning of the Relevant Period, there were 31 operating gas processing stations in Tianjin City, Hebei Province and Shandong Province. During the Relevant Period, there were 15 new gas processing stations built in Hebei Province, Shandong Province, Jiangsu Province and Zhejiang Province.

During the Relevant Period, the Group recorded a growth of 99.1% in revenue of connection fee for completing the connection for approximately 119,000 households, representing an increase of approximately 1.2 times over the corresponding period of previous year. As at 31 December 2001, the accumulated number of households connected to the gas pipeline networks reached approximately 221,000 units, forming a well-established customer base for the Group's on-going piped gas revenue.

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

- Shouguang, Boxing, Weishan, Haiyang and Jiaozhou of Shandong Province, Yizheng, Jurong, Suqian, Lishui and Funing of Jiangsu Province, and Deqing of Zhejiang Province where the construction of gas processing stations has been completed during the Relevant Period;
- Gaogang of Jiangsu Province, Liuyang and Yiyang of Hunan Province where the gas processing stations are under construction as of the date of this report; and
- Beijing Tianzhu Airport Industrial Zone and Beijing Tianzhu Export Processing Zone of Beijing City, Baoding of Hebei Province and Zhaoyuan of Shandong Province where the gas processing stations have yet to be built.

The exclusive-right agreements for the above locations have a coverage of approximately 2.3 million urban population, representing approximately 510,000 connectable households in aggregate.

As of the date of this report, the exclusive-right agreements, including the aforementioned new agreements, have reached a total coverage of approximately 5.1 million urban population, representing approximately 1,130,000 connectable households in aggregate. As compared with the same period last year, there is a substantial increase by approximately 61.4%.

Provision of piped gas

The Group supplies piped gas to its customers via the pipeline networks and the gas processing station in each city or district. The total length of the Group's main pipeline networks increased from approximately 150 kilometers as at 31 December 2000 to approximately 378 kilometers as at 31 December 2001, representing an increase of 152.0%. During the Relevant Period, consumption of piped gas by residential and industrial customers increased to approximately 518.64×10^6 mega-joules and 140.07×10^6 mega-joules, representing a growth of 2.4 times and 1.4 times respectively over the corresponding period of previous year.

Wholesale and retail of LPG

The Group provides wholesale and retail services of LPG to its customers via the following:

- (i) Sale of LPG via gas cylinders to the residential customers where the supply of piped gas has not yet been extended;
- (ii) Delivery of LPG via tank trucks to the storage facilities of local gas distributors, industrial and commercial customers; and
- (iii) Refueling of gas cylinders brought from customers at the gas processing stations and storage depots operated by the Group.

During the Relevant Period, the wholesale and retail of LPG reached $1,486.74 \times 10^6$ mega-joules in aggregate, representing a growth of 83.9% over the corresponding period of previous year.

FUTURE PROSPECTS

The urbanization process in small and medium sized cities will continue to create enormous market potentials for the Group. It is estimated that the urban population will increase by 50% in 10 years and approximately 500 million farmers will relocate from rural to urban within the next 30 years. Undoubtedly, piped gas supply is one of the most basic utilities of every urban family, and there will be an urgent need to provide piped gas for such enormous population.

Furthermore, environmental protection is a major issue for Chinese government. The Government strongly encourages the usage of environmentally friendly natural gas (“NG”) instead of coal. Government officials will strive to increase the usage of natural gas from 2% currently to 6% of China’s total energy mix by 2010. However, the provision of NG will rely on the completion of the West-to-East gas transmission pipeline project. However, the successful of West-to-East gas transmission relies greatly on the scale of downstream gas market.

The Group is capable of creating a scalable downstream gas market by providing substitute natural gas (“SNG”), which is a mixture of LPG and air, in areas where the supply of NG is yet to be available. This strategy provides the Group with a golden opportunity to capture and provide service in various small and medium sized cities prior to its competitors. Once the main natural gas pipeline is connected, the provision of SNG will be switched to NG if the latter is more economical. With its unique technologies and infrastructures, the Group is able to switch the supply of SNG to NG without creating any interruption on the continuing gas supply.

Given China’s favorable market conditions with boundless potential, the Group is poised to benefit enormously from the tremendous business opportunities ahead.

We are proud to be recognized as one of the overall best managed companies of 2001 in Hong Kong by the reputable regional financial publication “Asia Money”. Competing against industry giants and multinational corporations to mark its place on the poll, the Group’s commitment to quality and dedication to continuous improvements under the guidance of the experienced and expert management team proves to be successful and unique amongst the industry.

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

DIRECTORS’ INTERESTS IN SHARES

At 31 December 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:

Name of director	Number of shares held and nature of interest			
	Personal	Family	Corporate	Other
Mr. Shum Ka Sang (<i>note</i>)	43,650,000	–	779,350,000	–

Note: At 31 December 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 779,350,000 shares, representing a 36.83% 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 shares options outstanding at the date of this report
	Note 1	Note 2	Note 3	Note 4	
Shum Ka Sang	25,500,000	–	10,000,000	12,000,000	47,500,000
Wang Guanghao	12,000,000	–	–	–	12,000,000
Kong Siu Keung	–	5,000,000	2,000,000	3,000,000	10,000,000
Choi Yat Choy	22,000,000	–	2,000,000	2,500,000	26,500,000
Shen Yi	22,000,000	–	3,000,000	2,500,000	27,500,000
Qian Mingjin	–	–	–	6,000,000	6,000,000
Chen Cuiwan	12,000,000	–	–	–	12,000,000
	<u>93,500,000</u>	<u>5,000,000</u>	<u>17,000,000</u>	<u>26,000,000</u>	<u>141,500,000</u>

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\$0.61 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\$0.66 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\$0.568 each. The option can be exercised at any time for a period of five years commencing on 12 October 2001.
4. The share options were granted on 10 October 2001 at an exercise price of HK\$0.596 each. The option can be exercised at any time for a period of five years commencing on 11 April 2002.

The number and unit exercise price of the share options granted prior to 24 July 2001 as presented above have been adjusted pursuant to the Share Subdivision as set out under the heading “Subdivision of share capital” in this report.

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 INTEREST

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 31 December 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 (<i>note 1</i>)	779,350,000	36.83%
	(corporate interest)	
	43,650,000	2.06%
	(personal interest)	
Santa Resources Limited (<i>note 2</i>)	532,000,000	25.14%
Wah Sang Gas Development	779,350,000	36.83%

Notes:

- (1) At 31 December 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 and the shares of which are listed on the Main Board operated by The Stock Exchange of Hong Kong Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the heading "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 24,440,000 shares of the Company as at 31 December 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

On 23 July 2001 and 14 November 2001, the Company issued 50,000,000 (adjusted pursuant to the "Share Subdivision" mentioned below) and 100,000,000 new shares to Santa Resources Limited at a price of HK\$0.785 and HK\$0.805 per share respectively. The proceeds were used for the establishment of new gas processing stations in Hebei Province, Shandong Province, Jiangsu Province and Hunan Province.

Save as disclosed above, neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Relevant Period.

SUBDIVISION OF SHARE CAPITAL

An ordinary resolution approving the subdivision of the existing issued and unissued shares of the Company of HK\$0.10 each into ten shares of HK\$0.01 each (the "Share Subdivision") was duly passed at the Annual General Meeting of the Company on 23 July 2001. On 18 July 2001, the Listing Committee of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited has granted the listing of and permission to deal in the subdivided shares and any new subdivided shares which may fall to be issued pursuant to the exercise of options granted under the Company's share option scheme. 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 process 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. Eight 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
6 February 2002

* *For identification only*