



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

2002

ANNUAL REPORT 年報



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 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.

香港聯合交易所有限公司（「聯交所」） 創業板市場（「創業板」）的特色

創業板乃為帶高投資風險之公司提供一個上市之市場。尤其在創業板上市之公司毋須有過往溢利記錄，亦毋須預測未來溢利。此外，在創業板上市之公司可因其新興性質及該等公司經營業務之行業或國家而帶有風險。有意投資之人士應了解投資該等公司之潛在風險，並應經過審慎周詳之考慮後方作出投資決定。創業板之較高風險及其他特色表示創業板較適合專業及其他資深的投資者。

由於創業板上市之公司屬新興性質，在創業板買賣之證券可能會較在聯交所主板買賣之證券承受較大之市場波動風險，同時無法保證在創業板買賣之證券會有高流量之市場。

創業板發佈資料之主要方法為在聯交所為創業板而設之互聯網網頁上刊登。上市公司毋須在憲報指定報章刊登付款公佈披露資料。因此，有意投資之人士應注意，彼等須閱覽創業板網頁，方可取得創業板上市發行人之最新資料。

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Corporate Mission

To become a utility company with world-class quality services, focusing on gas fuel supply in cost effective ways to small and medium cities amidst the national energy reformation in the PRC.



Executive Directors

Shum Ka Sang, *Chairman*
 Wang Guanghao, *Honorary Chairman*
 Kong Siu Keung
 Shen Yi
 Choi Yat Choy
 Qian Mingjin
 Zhang Fan

Independent Non-Executive Directors

Ng Eng Leong
 Cui Shuming

Compliance Officer

Kong Siu Keung, *FCCA*

Qualified Accountant

Kong Siu Keung, *FCCA*

Company Secretary

Kong Siu Keung, *FCCA*

Authorized Representatives

Shum Ka Sang
 Choi Yat Choy

Members of the Audit Committee

Ng Eng Leong
 Cui Shuming

Registered Office

Clarendon House
 2 Church Street
 Hamilton HM11
 Bermuda

Head Office and Principal Place of Business

Unit 3409-11, 34th Floor
 NatWest Tower, Times Square
 1 Matheson Street
 Causeway Bay
 Hong Kong

Website

www.wahsanggas.com.hk

Bermuda Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
 Rosebank Centre
 11 Bermudiana Road
 Pembroke, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited
 Room 1901-05, 19th Floor
 Hopewell Centre
 183 Queen's Road East
 Wanchai
 Hong Kong

Stock Exchange Listing

The Growth Enterprise Market of
 The Stock Exchange of Hong Kong Limited

Stock Code

8035

Sponsor

Oriental Patron Asia Limited
 GEM - Registered Sponsor
 42nd Floor, COSCO Tower
 183 Queen's Road Central
 Hong Kong

Auditors

Ernst & Young
 Certified Public Accountants
 15th Floor, Hutchison House
 10 Harcourt Road
 Central
 Hong Kong

Solicitors

Woo, Kwan, Lee & Lo
 27th Floor, Jardine House
 1 Connaught Place
 Central
 Hong Kong

Principal Bankers

CITIC Ka Wah Bank Limited
 40th Floor, COSCO Tower
 183 Queen's Road Central
 Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
 ICBC Tower,
 122-126 Queen's Road Central,
 Hong Kong

China Construction Bank
 No.19 one plus Nanjing Bank
 Hexi District
 Tianjin
 The PRC

FINANCIAL HIGHLIGHTS

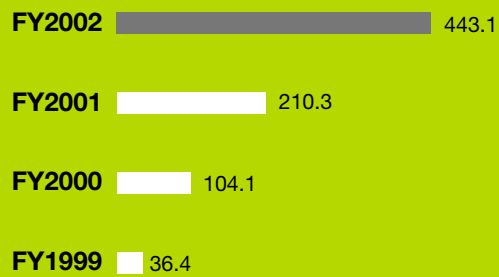
Two-year Comparison of Key Financial Figures		FY2002	FY2001	Change (%)
Turnover	HK\$'million	443.1	210.3	+110.7
Gross Profit	HK\$'million	215.8	99.5	+116.9
Gross Margin	%	48.7	47.3	+ 3.0
Net Profit	HK\$'million	141.0	67.2	+109.8
EPS	HK Cents	6.93	3.48	+ 99.1
Operating Cashflow	HK\$'million	184.8	26.9	+587.0
A/R Turnover Days	Days	75.0	118.6	- 36.8
Net Gearing	%	12.2	27.0	- 54.8

Four-year Summary of Financial Performance		FY2002	FY2001	FY2000	FY1999
Turnover	HK\$'million	443.1	210.3	104.1	36.4
Gross Profit	HK\$'million	215.8	99.5	44.8	9.6
Gross Margin	%	48.7	47.3	43.0	26.4
Net Profit	HK\$'million	141.0	67.2	25.0	1.9
EPS	HK Cents	6.93	3.48	1.70	0.13

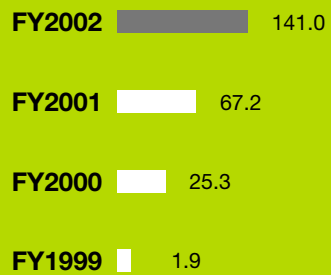
Four-year Summary of Financial Position		2002	2001	2000	1999
As at 31 March					
Total assets	HK\$'million	698.3	300.8	161.5	61.2
Total liabilities	HK\$'million	235.1	107.9	64.9	60.4
Shareholders' equity/ (Deficiency in Assets)	HK\$'million	441.8	181.1	87.7	(3.8)

FINANCIAL HIGHLIGHTS

Turnover HK\$'million



Net Profit HK\$'million





Dedicated to Innovation and Improvement

Wah Sang Gas served as an ideal example to demonstrate the enormous potential of high growth utility companies in the PRC and thus, provided global investors with yet another investment opportunity.

It seemed not too long ago that I was writing the Chairman's Statement for the 2001 Annual Report. Time flew by like a blink of an eye, as this is already the third annual report after our GEM listing that brought us to the global financial market.

Wah Sang Gas Holdings Limited (the "Company" or "Wah Sang Gas") and its subsidiaries (collectively the "Group") takes pride of the fact that

it is the first gas supply company being listed on GEM board, and not to mention, the Company has successfully become one of the best performing stocks. Wah Sang Gas served as an ideal example to demonstrate the enormous potential of high growth utility companies in the PRC and thus, provided global investors with yet another investment opportunity. Thanks to our strenuous efforts in investor relations to increase the transparency of Wah Sang Gas, the Group was able to attract investors' interest from prominent international asset management companies. By looking at our impressive results for the period under review, the desirable effect has been achieved and success is highly conspicuous.

Achievements

The Group again recorded excellent results and impressive business growth for financial year 2002, both in financial and operational. For the year ended 31 March 2002, the Group recorded an enormous 110.7% and 109.7% growth in turnover and profit attributable to shareholders respectively as compared to last year. The proposed dividend payout amounted to HK1 cent. On the other hand, an addition of 19 gas stations have also been completed during the year. At the same time, Wah Sang Gas also dedicated much effort into establishing a strong foothold in Eastern and Southern China, namely potential and prominent provinces such as Jiangsu, Zhejiang and Hunan. As at the date of this annual report, the total number of connectable households covered by the exclusive contracts secured by the Group has already achieved 1,880,000 units.

On 14 November 2001, Wah Sang Gas successfully placed 100 million

shares at HK\$0.805 per share to raise funding for the Group's business development and to enlarge the shareholder base. In order to strengthen the management of the Group, an investment company, Wah Sang Gas (China) Investments Company Limited, was established in January 2002 in the PRC. Needless to say, the hard work, commitment and dedication of every Wah Sang Gas' employee have been fruitful: Wah Sang Gas has been named as one of the Best 200 Small Companies in 2001 by Forbes and also one of the Hong Kong Overall Best Managed Company in 2001 by Asia Money. Such distinctive global recognition did not come easily; it required a clear focus, a continuous endeavor for improvement and development, solid business model, visionary management as well as strong customer support and the public's vote of confidence to accomplish what Wah Sang Gas did within such a short period of time after listing.

Winning Strategies

Wah Sang Gas will not rest on its laurels. Looking ahead, the Group will continue to explore new markets by signing exclusive contract with local governments, especially in the small and medium-sized cities in the PRC, with high GDP per capita. Offering flexible gas supply to suit different needs of the market, the Group is well positioned to be the first mover to extend market coverage to serve other parts of the PRC. Capitalizing on our unique patented technology and over 8 years of solid experience in the market, we are able to offer flexible and safe gas supply to our customers. We guarantee low operating costs and hence, an overall efficiency can be achieved. Under the guidance of a strongly experienced management team,

it is Wah Sang Gas' unmatched expertise in various fields that granted the Group its market leadership. Yet, most important of all, it is the Group's focus on its corporate culture of "Dedicated to Innovation and Improvement" that helps motivate staff and maximize results and performance.

The Next Step

Wah Sang Gas is the ideal example to represent what it means to be at the right timing, in the right market, with the right people. Coupled with winning strategies that are geared towards success, the Group will continue to explore and grasp investment opportunities to sustain its enviable growth. For the years to come, Wah Sang Gas will only reach forward to become the leading gas supplier in small and medium cities in the PRC.

On behalf of the board of directors, I would like to express my gratitude to our supportive shareholders who have helped us grow throughout the years. Today, Wah Sang Gas has built a solid foundation and has gone from strength to strength to become one of the most renowned corporations in Hong Kong. The directors believe it is time to pay out dividends so as to share its successes and happiness with all of our shareholders.

Thanks also our dedicated staff for their immense contribution to the success of Wah Sang Gas in financial year 2002. Without each and every one of you, Wah Sang Gas could have not come this far in such a short period of time!

Shum Ka Sang
Chairman




Hong Kong
18 June 2002

Broad geographical coverage spanning across Tianjin, Beijing, Hebei, Shandong, Jiangsu, Zhejiang and Hunan provinces. Exclusive contracts cover 50 cities and districts.



Projects in Operation

1. Zibo
2. Dezhou
3. Xintai
4. Jiyang
5. Binzhou
6. Jiaonan
7. Dongying
8. Changle
9. Sanhe
10. Xianghe
11. Zhuozhou
12. Qinhuangdao
13. Wuqing
14. Tianjin City
15. Baodi
16. Ninghe
17. Tianjin Port Free Trade Zone
18. Hengshui
19. Yizheng
20. Weishan
21. Boxing
22. Shouguang
23. Jiaozhou
24. Haiyang
25. Jurong
26. Suqian
27. Yiyang
28. Lishui

-  Projects in Operation
-  Projects under Construction
-  Projects to be Constructed

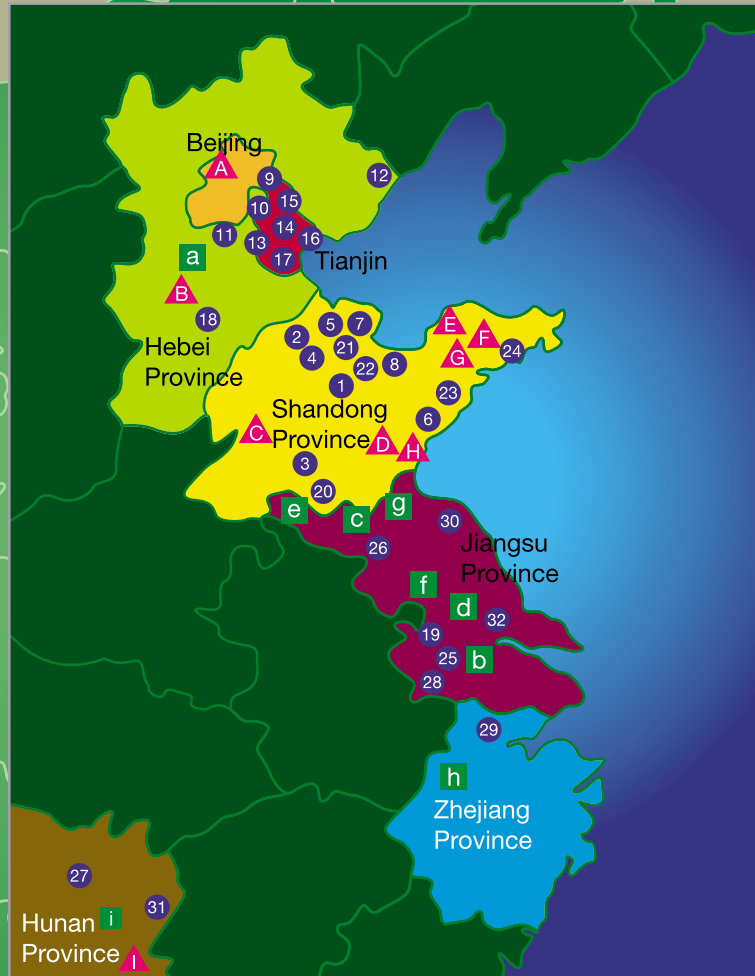
- 29. Deqing
- 30. Funing
- 31. Liuyang
- 32. Gaogang


Projects under Construction

- A. Beijing Tianzhu Airport Industrial Zone
- B. Qingyuan
- C. Ningyang
- D. Yishui
- E. Zhaoyuan
- F. Qixia
- G. Laixi
- H. Juxian
- I. Chenzhou

Projects to be Constructed

- a. Baoding National New and High-Tech Industrial Development Zone
- b. Zhangjiagang Port
- c. Pizhou
- d. Jingjiang
- e. Fengxian
- f. Jinhu
- g. Xinyi
- h. Jiangshan
- i. Ningxiang





The Group's Pipeline Networks are Compatible with Supplying natural gas, CNG and SNG

Flexible Strategy to Capture Market Share

Wah Sang Gas utilizes the most appropriate type of gas and flexibly suits the needs of different areas. We provide compressed natural gas ("CNG") and substitute natural gas ("SNG") for users in remote areas where pipelines to provide natural gas are yet to be connected. Since the existing pipeline networks are compatible for all gases, including natural gas, CNG and SNG, we will speed up the conversion of the gas provision once the main national pipeline extends to the nearby cities.



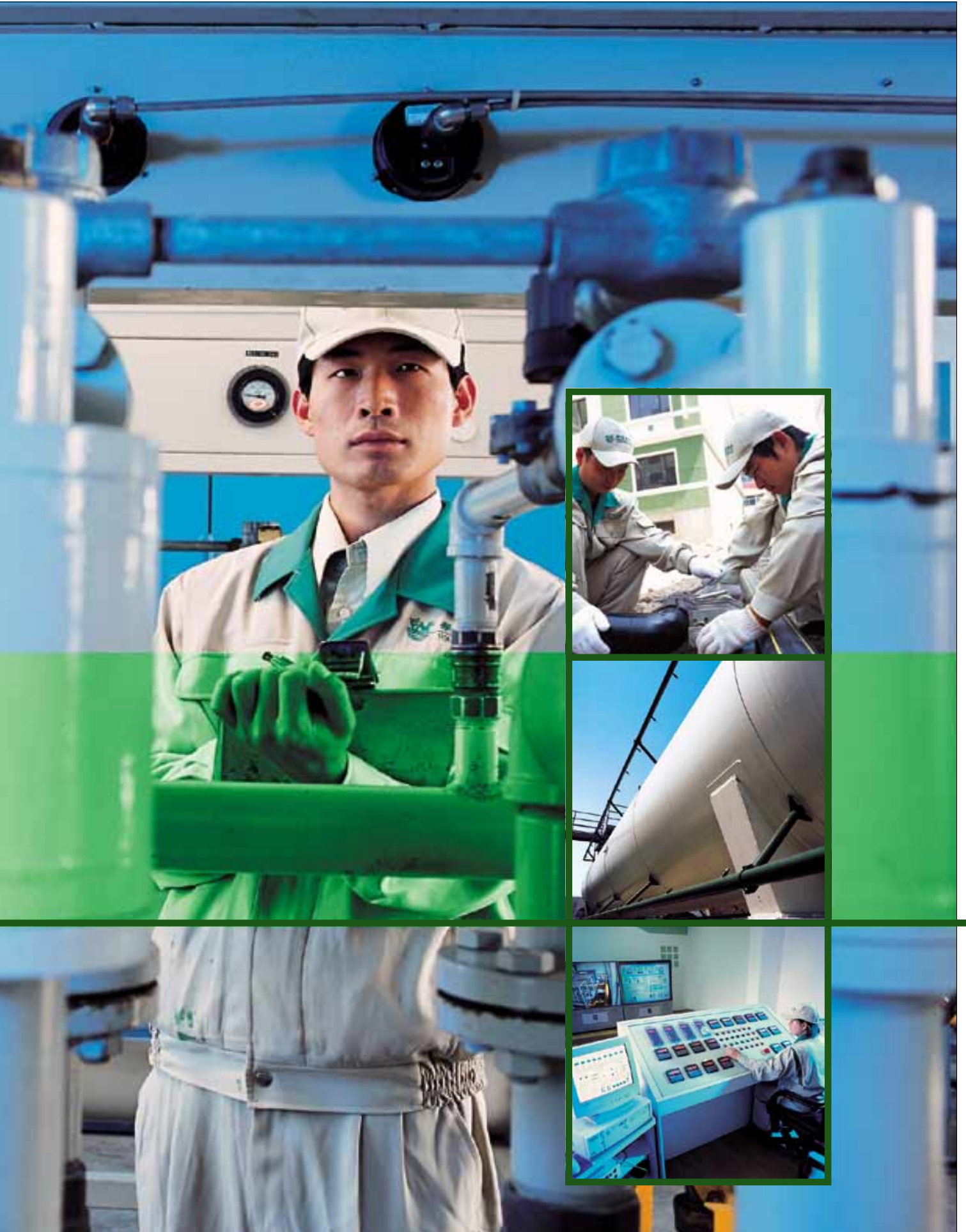




50-year Exclusive Contract with Local Government

Monopolization Eliminates Competition and Secures a Solid Customer Base

All of Wah Sang Gas' contracts are 50-year exclusive contracts, indicating that the Group will be a natural monopoly in these respective business areas and eliminate intense competition.

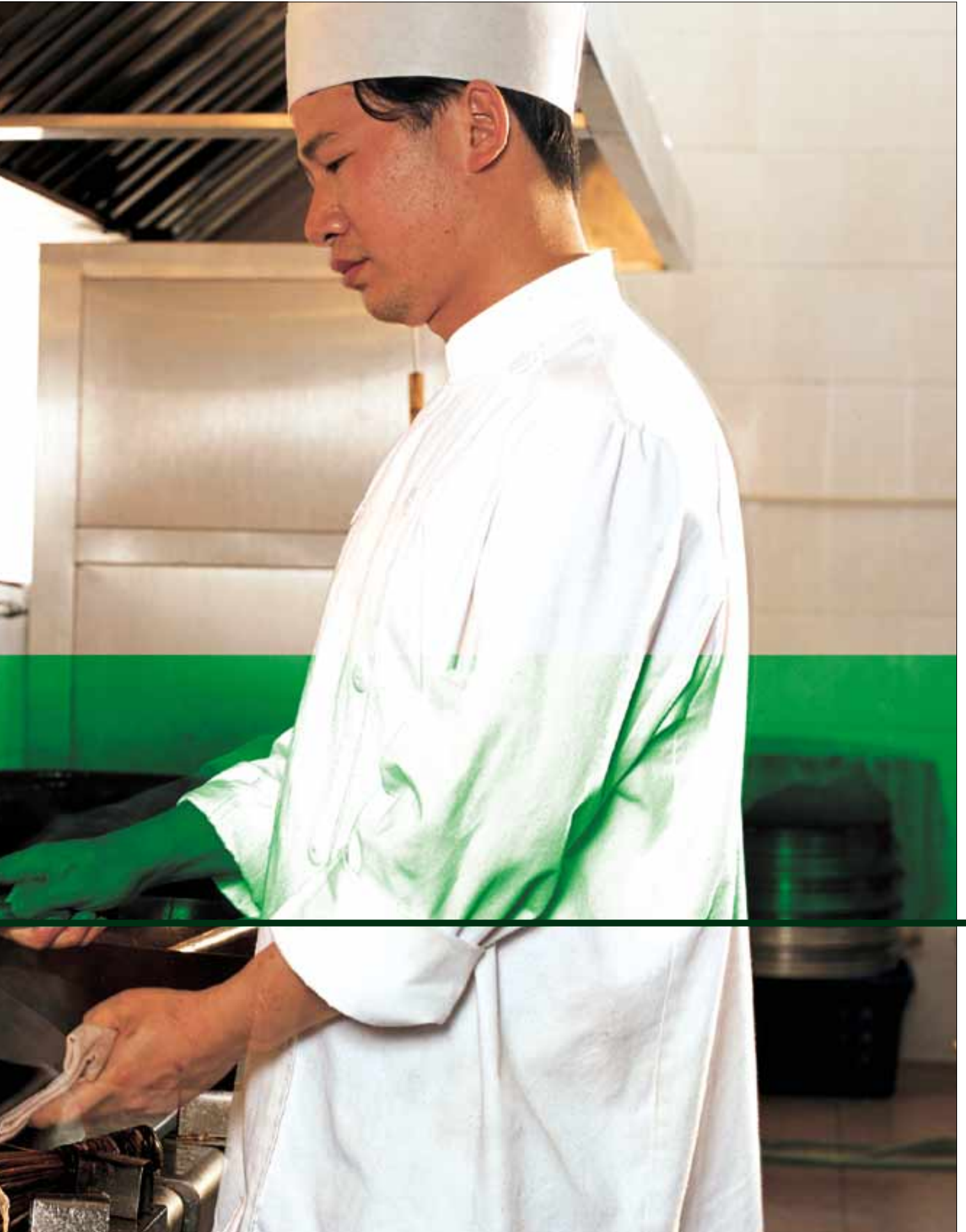


Focus on Both Residential and Industrial Users



With rapid urbanization in the PRC, the demand for gas fuel has grown immensely in recent years. The resulting increase in the number of households and industrial users helps significantly with the business development of Wah Sang Gas. We will focus on both residential and industrial users so as to maximize our market share.







The rapid urbanization and increasing popularity of home buying will drive up the demand of piped gas.

Industry Review

Energy Consumption Structure in the PRC

Today, coal remains as the PRC's primary energy source and supplies approximately 70% of its total energy demand. Such is the reason why the PRC government is determined to promote the usage of cleaner energy sources to protect the environment, with the goal of gradually replacing coal with liquefied petroleum gas ("LPG") and natural gas. During the past decade, growth in usage of LPG and natural gas in cities increased substantially by 437% and 33% respectively, while consumption of coal gas declined by 5% in accordance during the corresponding period.

Clean Energy – Gas Supply In the PRC

With less than 10% of the population using environmentally friendly piped gas, the penetration rate of clean energy in the PRC is undeniably low.

Given such opportunity, Wah Sang Gas provides clean energy sources, including natural gas, compressed natural gas ("CNG") and substitute natural gas ("SNG", which is piped gas made from LPG). Coupled with over 8 years of operational experience in numerous locations and challenging environments, Wah Sang Gas is well positioned to capture the enormous clean energy market and to enjoy the promising future ahead.

Market Opportunities

The PRC government plays a pivotal role of promoting environmental protection by implementing series of policies that are committed to reduce coal consumption and to expand the geographical coverage of LPG and natural gas as an effort to improve the country's energy structure. The government aims to reduce the level of coal usage from 70% of the total energy consumption to 60%, and to increase the proportion of natural gas to 7% by year 2015. Based on the ongoing trend, the demand for LPG is bound to witness a long period of high growth and hence, create numerous market opportunities for Wah Sang Gas.

Rapid Urbanization Creates Tremendous Market for Gas Supply

The PRC government fully supports and has determined to accelerate urbanization and modernization in the PRC. Between 1999 to 2000, the urban population in the PRC increased by 17.9% to reach 458 million, or approximately 130 million households. The improving quality of living and home ownership privatization is benefiting and boosting the home buying trend in the PRC, with numerous small and medium-sized cities witnessing old city refurbishment and many new and modern residential properties being developed. Ultimately, the increasing popularity of home buying will drive up the demand of piped gas and offer unlimited opportunities for Wah Sang Gas.

Another phenomenon that contributed to the tremendous gas supply market is the PRC government's relaxation of regulations on rural urban migration. According to PRC economists, they forecast that urban population will increase by an overwhelming 50% after 10 years and 500 million farmers will migrate to the cities within the next 30 years. All in all, these figures are translated to represent an additional 150 million urban households in the PRC. The Group believes that the nearby small and medium-sized cities are first choices of relocation for farmers. There are 663 cities in the PRC currently, including over 500 small and medium-sized cities. Also, there are over 1,600 counties and 20,000 towns. That is why Wah Sang Gas has always focused on developing the market for small and medium-sized cities, as it is undeniably an enormous market for piped gas.

“West to East Pipeline” Project Speeds Up Usage of Gas

The PRC government implemented the “West to East Pipeline” project as another measure to promote usage of natural gas. Unfortunately, according to the plan, only 121 out of 663 cities will be connected to the pipeline by 2005, and other cities will require an even longer period of time for connection. In other words, LPG, natural gas and coal gas will co-exist in the PRC for a long period of time to serve the different needs of gas supply.

There are 663 cities in the PRC currently, including over 500 small and medium-sized cities, over 1,600 counties and 20,000 towns. It is undeniably an enormous market for piped gas for small and medium-sized cities.

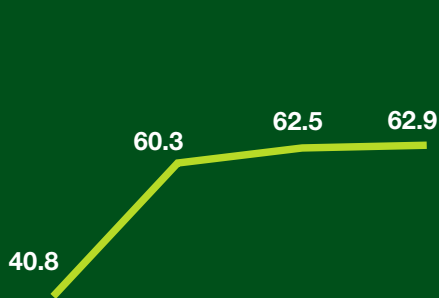
The PRC government implemented the “West to East Pipeline” project as another measure to promote usage of natural gas.



Although the “West to East Pipeline” project is well underway, there will still be plenty of areas without access to natural gas. As a result, the Group is confident that both LPG and SNG are still in their stages of high growth with much more room for further development.

As evidenced by the industry development, Wah Sang Gas’ unique and flexible gas supply system serves as a competitive advantage as it allows customers to switch the gas supply from SNG to natural gas with ease. By offering various gas sources to satisfy the different needs, Wah Sang Gas is well positioned in the industry to capture unlimited opportunities for the vast PRC market.

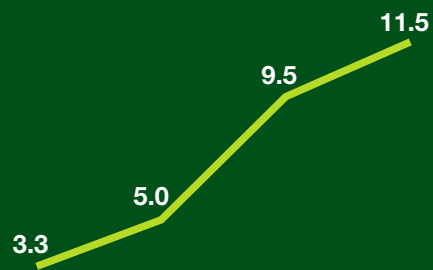
**Connection Fee
(%) of Turnover**



FY1999 FY2000 FY2001 FY2002

Due to our rapid market expansion, the ratio of connection fee has been increasing steadily every year, from 40.8% in FY1999 to 62.9% in FY2002.

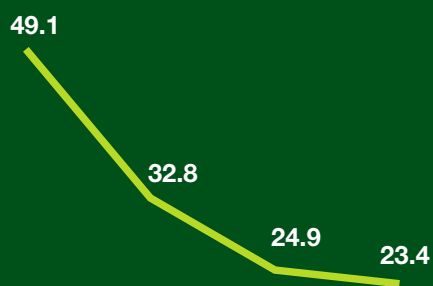
**Provision of Piped Gas
(%) of Turnover**



FY1999 FY2000 FY2001 FY2002

With more and more end users connecting to our piped gas network, the ratio of income from the provision of piped gas also surged from 3.3% in FY1999 to 11.5% in FY2002.

**Wholesale and Retail of LPG
(%) of Turnover**



FY1999 FY2000 FY2001 FY2002

The ratio of income from the wholesale and retail of LPG has decreased from 49.1% in FY1999 to 23.4% in FY2002.

**Others
(%) of Turnover**

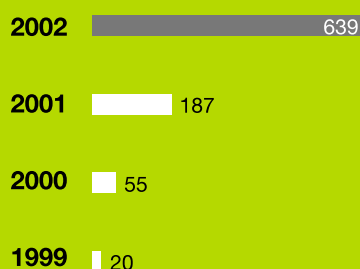


FY1999 FY2000 FY2001 FY2002

Others mainly include income from sale of gas appliances.

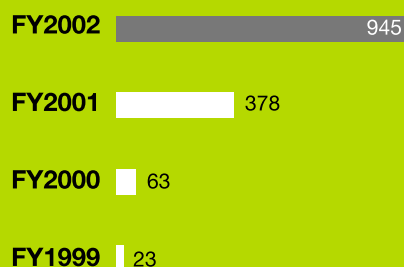
**Pipeline Network
Kilometers**

As at 31 March



The Group's pipeline network has reached 639 km. Within FY2002 alone, the pipeline network increased by 452 km and represented an increase of 2.4 times as compared to the total length completed from the past years.

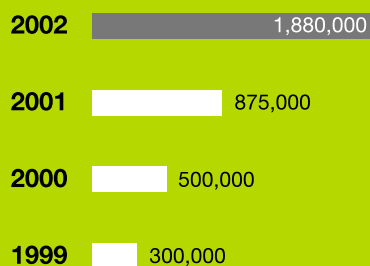
**Piped Gas Usage and Consumption
1x10⁶ Mega-Joules**



For the year ended 31 March 2002, the provision of gas recorded 945 x 10⁶ mega-joules, representing an increase by 2.5 times as compared with last year. The Group recorded a CAGR of 247% in the past four years.

**No. of Connectable Households
Covered by Exclusive Contracts**

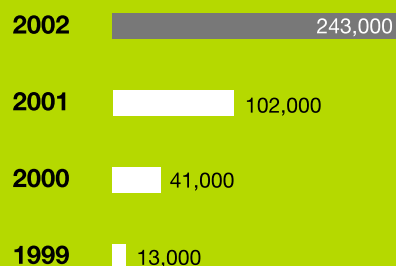
As at the annual report date



As at the date of this annual report, Wah Sang Gas covered 1,880,000 connectable households by exclusive contracts.

No. of Households Connected

As at 31 March



For the year ended 31 March 2002, Wah Sang Gas has already connected over 243,000 households to its pipeline networks.



The Group constructs gas pipelines that connect each household to the Group's main gas pipeline networks.

Operations and Financial Review

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the Audited Financial Statements and the related Notes in this annual report.

Turnover

The Group is principally engaged in the business of gas fuel supply in the PRC, with its main activities including the following:

- construction of gas pipeline networks;
- provision of piped gas for domestic, industrial and commercial customers;
- wholesale and retail of LPG for domestic, industrial and commercial customers; and
- sale of domestic gas appliances.

Construction of Gas Pipeline Networks

The Group receives connection fees from property developers and 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 year, there were 31 operating gas processing stations situated in Tianjin City, Hebei Province and Shandong

Province. During the year under review, 19 new gas processing stations were built in Hebei Province, Shandong Province, Jiangsu Province, Hunan Province and Zhejiang Province.

The Group recorded an outstanding revenue growth of 1.1 times in connection fees for completing connection for approximately 141,300 households, representing a tremendous increase of approximately 1.3 times from the previous year. As at 31 March 2002, the accumulated number of connected households reached approximately 243,000 units. This provides a well-established customer base for the Group's on-going piped gas revenue.

As the Group has expanded its business to certain high-growth cities where GDP is relatively higher, the average connection fee per household increased by 13.5% to HK\$2,193 (RMB2,328) in the last quarter from HK\$1,933 (RMB2,052) in the first nine months of the year.

Turnover of the Group for the year is as follows:

	For the year ended 31 March	
	2002 HK\$'000	2001 HK\$'000
Gas pipeline construction	278,835	131,366
Sale of piped gas, wholesale and retail of LPG	154,428	72,341
Sale of gas appliances and others	9,807	6,594
	<u>443,070</u>	<u>210,301</u>

During the year, the Group has successfully secured exclusive contracts with local governments to operate piped gas business in the following areas:

- Shouguang, Boxing, Weishan, Haiyang and Jiaozhou of Shandong Province, Yizheng, Jurong, Suqian, Lishui, Funing and Gaogang of Jiangsu Province, Deqing of Zhejiang Province and Liuyang and Yiyang of Hunan Province where the gas processing stations have been put into operation during the year;
- Zhaoyuan of Shandong Province where the gas processing station was under construction as at 31 March 2002; and

As of the date of this annual report, the exclusive contracts have reached a total coverage of approximately 6,580,000 urban population, representing approximately 1,880,000 connectable households in aggregate.

- Beijing Tianzhu Airport Industrial Zone of Beijing City and Baoding National New and High-Tech Industrial Development Zone of Hebei Province, where the gas processing stations are planned to be built by the year ending 31 March 2003.

Since 1 April 2002, the Group has continued to achieve outstanding performance in its geographical expansion by signing up 50-year exclusive contracts in 15 cities and counties in Shandong Province, Jiangsu Province, Hebei Province, Zhejiang Province and Hunan Province. The relevant locations are summarized below:

Shandong Province	Jiangsu Province	Other Provinces
* Ningyang	Zhangjiagang Port	* Qingyuan
* Yishui	Pizhou	* Chenzhou
* Qixia	Jingjiang	Jiangshan
* Laixi	Fengxian	Ningxiang
* Juxian	Jinhu	
	Xinyi	

* gas processing station under construction as at the date of this annual report.

It is the strategy of the Group to solidify its market foothold in the Northern part of the PRC and at the same time explore its business opportunities in the Eastern and Southern part of the PRC.

As of the date of this annual report, the exclusive contracts, including the aforementioned new contracts, have reached a total coverage of approximately 6,580,000 urban population, representing approximately 1,880,000 connectable households in aggregate. As compared with last year, it recorded an impressively substantial increase of approximately 1.1 times.



In order to encourage local customers to use piped gas, the Group has conducted a series of activities to promote the advantages of using piped gas.

Provision of Piped Gas

The Group supplies piped gas to its customers via pipeline networks and gas processing station in each location. Due to continued expansion in the geographical coverage of the Group's business and increasing number of the Group's customers, total length of the main pipeline networks of the Group extended from approximately 187 kilometers at the beginning of the year to approximately 639 kilometers as at 31 March 2002, representing an increase of 2.4 times.

During the year, consumption of piped gas by residential and industrial customers notably increased to approximately 707.10×10^6 mega-joules and 238.22×10^6 mega-joules, both representing a growth of 1.5 times over the previous year. This significant increase can be attributed to the substantial growth in the number of connected households by 1.4 times during the year.

During the year, the Group made adjustments in selling prices in certain locations and expanded its business to certain areas where residents with a higher average income. The average selling price of piped gas therefore increased by 5.5% from the previous year. On the other hand, raw material costs for piped gas dropped by 16.0%, as compared to the purchasing costs in the previous year.

In order to encourage local customers to use piped gas, the Group has conducted a series of activities to promote the advantages of using piped gas, such as safety, convenience and environmental-friendliness. Many important officials from local governments have been involved in these activities. Feedback from local residents and results arising from these events have been found to be highly satisfactory.

In addition, the Group has introduced 24-hour service hotline in each location. The hotline is linked to the central management in Tianjin

so that the management is able to keep updated on important feedback from local customers. Together with the regular inspection of gas appliances and pipeline networks, the Group strongly believes that the value-added quality services provided to customers will boost up the gas penetration rate in each location and result in promising growth in piped gas revenue.

Wholesale and Retail of LPG

The Group provides wholesale and retail services 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.

In line with the Group's expansion of geographical coverage and customer base in the PRC, the wholesale and retail of LPG reached $2,179.31 \times 10^6$ mega-joules in aggregate, representing a tremendous growth of 1.2 times over the previous year. The large volume of wholesale and retail of LPG in each location helps to

increase the Group's market share in each location and secure good business relationships with LPG suppliers. At the same time, such business can generate a stable cash flow to the Group.

Sale of Domestic Gas Appliances

In order to provide a wide range of gas-related services for customers, the Group also sells domestic gas appliances, including stoves and water heaters, to local residents. The manufacturing of appliances is subcontracted to local manufacturers which strictly follow the specifications and quality requirements of the Group.

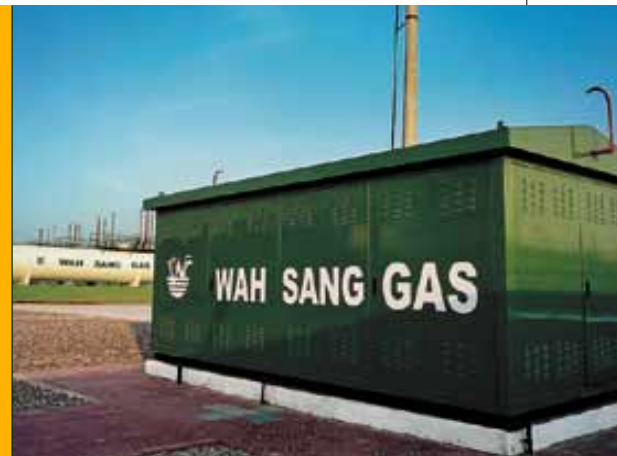
During the year, the revenue from sale of gas appliances grew impressively by 48.7% to HK\$9.8 million. The Group believes that the sale of gas appliances will not only enhance the reputation of the Group in the industry, but also strongly encourage the use of piped gas by local residents. The sale of domestic gas appliances is highly synergistic to the Group's business of providing piped and LPG gas.

Gross and Net Margin

During the year, the Group continued to exercise stringent control over subcontracting, raw material, operating and financial costs in order to maximize returns to the Company's shareholders. Administration costs have been well managed to match the future expansion plan of the Group's business.

Driven by the increase in selling price and tight control on costs, the gross profit margin of the Group for the year reached a new height of 48.7% while net profit margin maintained at 31.8%.

The management strictly follows the policy that a comprehensive feasibility study and a satisfactory return to shareholder is required for each and every investment.



Driven by the increase in selling price and tight control on costs, the gross profit margin of the Group for the year reached a new height of 48.7% while net profit margin maintained at 31.8%. Profit attributable to shareholders for the year increased to HK\$140,988,000, a 109.7% growth from the previous year.

Earnings per share for the year reached HK6.93 cents, a tremendous growth by 99.1% from HK3.48 cents in the previous year. During the year under review, returns on average equity of the Group reached 49.0%.

Capital Expenditure

The Group continued to expand its geographical coverage in the PRC with 19 additional gas processing stations built during the year. Together with the extension of the pipeline networks required for continuous penetration in the existing markets, the Group invested a total amount of approximately HK\$299.7 million in expenditure during the year. In accordance with the existing expansion plan, the required capital expenditure for the forthcoming fiscal year will be primarily financed by the Group's self-generated working capital and bank loans.



The Group strongly believes that the value-added quality services provided to customers will boost up the gas penetration rate in each location.

Having been supported by the expertise and unique technology employed by the Group, the management continues to strictly follow the policy that a comprehensive feasibility study and most importantly, a satisfactory return to shareholders, is required for each and every investment.

Accounts Receivables

Generally, the Group offers credits to customers for a period ranging between one to six months.

The accounts receivable of the Group mainly relate to connection fees and the wholesale of LPG. In order to strengthen the Group's working capital position, the Group has tightened its credit policy for connection fees from the range between six to nine months to a range between three to six months. In addition, the Group introduced certain effective incentive schemes to relevant employees in order to directly link their rewards to the proceeds collected from customers. As a result, the average collection period of accounts receivable was noticeably reduced to 75 days in the year from 119 days in the previous year, a marked 37.0% improvement. As at 31 March 2002, 96.4% of the balance of accounts receivable lay in the range of ageing between one to six months. The Group always seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. Therefore, the amount of bad debts experienced during the year has been minimal.

The Group will continue to strengthen its existing credit and debt collection policies in order to further minimize the possibility of bad debts and the working capital tied up in accounts receivable.

Liquidity and Financial Resources

The Group financed its investments and operating activities principally through self-generated working capital, bank loans and proceeds from Initial Public Offering and share placements.

During the year, the cash flow generated from operating activities amounted to HK\$184.8 million, representing a sevenfold increase from HK\$26.9 million in the previous year.

In view of the decreasing market borrowing costs, the Group borrowed additional bank loans totaling HK\$87.0 million from major bankers in Hong Kong and the PRC to partly finance the new projects during the year. As at 31 March 2002, the total bank loans of the Group amounted to HK\$167.7 million and their annual interest rates ranged between 4.35% to 7.35%. Net gearing ratio of the Group was reduced to 12.2% as at 31 March 2002 from 27.0% as at the beginning of the year.

The net proceeds generated from the successful share placements in the year amounted to HK\$117.5 million. The proceeds were used for the construction of gas processing stations and the working capital required for new projects. Having obtained the proceeds from supporting shareholders, the Group continues to explore business opportunities and its promising development is further secured.

Human Resources

To maintain a leading position in the industry in the PRC, the Group strongly believes that qualified personnel are crucial for continuous success. In this respect, recruitment procedures were designed to be as comprehensive as possible to attract capable people with solid experience and appropriate educational backgrounds. As at 31 March 2002, the Group had approximately 586 full-time employees, representing a 64.1% increase from 357 full-time employees at the beginning of the year. The growth in the number of employees converges with the planned expansion, in both scale and geographical coverage, of the Group's business in the forthcoming year. Employee costs, excluding directors' remunerations, for the year amounted to HK\$10.0 million, representing an increase of 70.4% from the previous year. Employees of the Group, particularly the front-line staff, are rewarded on a performance related basis. A wide range of benefits, including medical coverage, provident funds, retirement plans and long service rewards are provided to each full-time employee. The performance of each employee is reviewed on a half yearly basis with a view to ensure regular communication and timely feedback.

Safety and quality service are essential elements for each of the Group's operational staff, thus a series of comprehensive training programs have been established to

Safety and quality service are essential elements for each of the Group's operational staff, thus a series of comprehensive training programs have been established.

Unique and patented technology enables the Group to provide various kinds of gases to cope with client's needs.



provide regular education and update on managerial, technical and servicing skills. To strengthen our supportive management and administration team, certain senior and high-achieving staff are sent to local and overseas universities for pursuing relevant managerial studies. In-house training programs are also regularly held so that the valuable experience and the knowledge learnt from universities can be shared with other employees. In order to further strengthen our operation and management team, most of the newly employed staff were recruited from major energy universities in the PRC and many of them also hold a master degree in business administration.

With the view to retaining certain important employees who will continue to make valuable contribution to the Group, share options to subscribe for shares of the Company in accordance with the Share Option Scheme adopted on 16 March 2000 may be granted.

During the year, sporting and recreational activities were arranged with a view to encouraging the morale and team spirit of employees.

In line with the corporate culture of the Group, the human resources policies follow the principle of "Dedicated to Innovation and Improvement", with a view to developing a culture of lifelong learning among employees.

Executive Directors

Shum Ka Sang

aged 53, is the Founder, Chairman, Chief Executive Officer and an Executive Director of the Company. Mr. Shum is responsible for the formulation of corporate culture, corporate strategies and major decisions of the Group. Mr. Shum has actively participated in community services and has been awarded many social responsibilities, such as standing member of the Hebei Committee of the Chinese People's Political Consultative Conference and, member of the Chinese Overseas and the Deputy President of the Tianjin Association of Enterprises with Foreign Investments.

Wang Guanghao

aged 63, is the Honorary Chairman and an Executive Director of the Company. Joining the Group in November 1998, Mr Wang, together with Mr. Shum, are responsible for the strategic planning of the Group's business and its future development. Mr. Wang is also the Chairman, General Manager and Executive Director of Tianjin Development Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong. Mr. Wang graduated from the Tianjin Mechanical Engineering Institute in 1962. Prior to May 1996, he was the Deputy Commissioner and Commissioner of the Tianjin Mechanic Bureau and Tianjin Technology Supervision Bureau, the Deputy Director of Tianjin Foreign Economic Trade Commission and the Director of the Foreign Investment Office of the Tianjin Municipal People's Government.

Kong Siu Keung

aged 33, is an Executive Director and the Chief Financial Officer of the Company. Mr. Kong obtained his Bachelor of Business Administration degree from the Hong Kong Baptist College (now known as Hong Kong Baptist University) in 1992 and is a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Company in July 2000, Mr. Kong had over 8 years of experience in an international firm of accountants.

Shen Yi

aged 35, is an Executive Director and the Chief Operating Officer of the Company. Mr. Shen is responsible for the management and implementation of the Group's investments in the PRC, the safety supervision of the Group's projects, securing LPG supply and monitoring the operation of the Group's business in the PRC. Prior to joining the Group in June 1994, he worked with Tianjin LPG Group and has over 10 years of experience in the gas fuel industry, particularly operation management, in the PRC.

Choi Yat Choy

aged 34, is an Executive Director and the Assistant to CEO of the Company. After joining the Company in April 1998, Mr. Choi was responsible for exploring business opportunities and developing the Group's business in the PRC. After graduation from the Department of Business Administration of Hong Kong Shue Yan College in 1992, Mr. Choi spent 8 years in trading and project investment in the PRC.

Qian Mingjin

aged 49, is an Executive Director and the Assistant to CEO of the Company. Ms. Qian obtained a master degree from Tufts University (U.S.A.) and a master degree in Economics from Renmin University of China. Prior to joining the Group in August 2001, Ms. Qian was a fund manager in an international asset management company. She has over eight years experience in the finance and investment management industry.

Zhang Fan

aged 39, is an Executive Director appointed by the Company in March 2002. Mr. Zhang obtained a bachelor's degree in Physical Chemistry in 1985 from Jiangxi University. Before joining the Group in September 2001, Mr. Zhang was the Managing Director of Shenzhen Baoshen Yuan Investment Company Limited where he obtained extensive experience in executive administration in the PRC. He was also appointed as secretary to the office bureau of Jiangxi Province and as vice section chief and secretary for the vice-Governor of Jiangxi Province before April 1994.



Qian Mingjin
Executive Director

Kong Siu Keung
Executive Director

Shum Ka Sang
Chairman

Shen Yi
Executive Director

Choi Yat Choy
Executive Director

Independent Non-Executive Directors

Ng Eng Leong

aged 51, is an Independent Non-Executive Director appointed by the Company in October 2000. Mr. Ng is a fellow of The Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Society of Accountants. Mr. Ng is an Executive Director of COFCO International Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong.

Cui Shuming

aged 65, is an Independent Non-Executive Director appointed by the Company in November 1999. Mr. Cui graduated from Renmin University of China in 1965 and is now an Independent Non-Executive Director of Wellnet Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong. Prior to assuming his current office, Mr. Cui was the Deputy Branch Manager of the Jiangsu branch of the Bank of China, an Executive Director of the National Commercial Bank Limited and the General Manager of the Hong Kong branch of The National Commercial Bank Limited, and a Director and Executive Vice President of CITIC Ka Wah Bank Limited.

Senior Management

Fan Bao Qi

aged 55, is the Chief Engineer of the Company and is responsible for the Group's technical research and development. Prior to joining the Company in March 1994, Mr. Fan had 20 years of experience in the gas fuel industry in the PRC.

Kwong Sze Tu, Paul

aged 28, is the Assistant Financial Controller of the Company. Mr. Kwong obtained his Bachelor of Arts in Accountancy from City University of Hong Kong in 1995. Mr. Kwong is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants as well as an affiliate member of the Hong Kong Securities Institute. Prior to joining the Company in December 1999, Mr. Kwong had over 4 years of experience in an international firm of accountants.

Xiao Yudong

aged 43, is the Assistant Chief Operating Officer of the Company. Mr. Xiao obtained his Master Degree in Business Administration from the California University in 2001. Prior to joining the Company in October 2001, Mr. Xiao had over 20 years of experience in operation management in the PRC.

Sun Yan

aged 35, is the Director of Personnel and Administration Department of the Company. Mr. Sun graduated from the Tianjin Finance and Economics Institute. Prior to joining the Company in 2000, Mr. Sun had over 10 years of experience in personnel and administration management in Sino-foreign enterprises.

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

Given the favorable market opportunity and the contributions made by each employee, the Group has achieved outstanding performance during the year which notably exceeds the business objectives as stated in the Group's prospectus dated 7 March 2000 (the "Prospectus").

Set out below is a summary of the actual business progress of the Group as measured against the business objectives up to 31 March 2002 as set out in the Prospectus:

	As at 31 March 2002	
	Business objectives as set out in the Prospectus	Actual business progress
Sales		
Piped Gas Sales for the Year		
• Gas consumption (mega-joules)		
– Domestic	602.33 x 10 ⁶	707.10 x 10 ⁶
– Commercial/Industrial	22.04 x 10 ⁶	238.22 x 10 ⁶
• Total number of households connected (unit) (measured by no. of meters installed)		
– Domestic	61,300	141,300
LPG Refueling for the Year		
• Retail (mega-joules)	211.50 x 10 ⁶	272.32 x 10 ⁶
• Wholesale (mega-joules)	901.00 x 10 ⁶	1,906.99 x 10 ⁶
Pipeline Network Construction		
• Total length of main pipelines to be constructed (meters)	67,500	160,000
• Total length of main pipelines in operation (meters)	310,400	639,000
Others		
• Geographical coverage for sales of gas fuel	Tianjin City Hebei Province Shandong Province	Tianjin City Hebei Province Shandong Province Jiangsu Province Zhejiang Province Hunan Province

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

As at 31 March 2002

	Business objectives as set out in the Prospectus	Actual business progress
Operation Facilities		
No. of Gas Processing Stations		
<ul style="list-style-type: none"> • in operation 	<ul style="list-style-type: none"> • Tianjin City – 15 • Hebei Province – 7 • Shandong Province – 4 	<ul style="list-style-type: none"> • Tianjin City – 17 • Hebei Province – 10 • Shandong Province – 13 • Jiangsu Province – 6 • Zhejiang Province – 1 • Hunan Province – 3
<ul style="list-style-type: none"> • under construction 	0	1
No. of Storage Depots		
<ul style="list-style-type: none"> • in operation 	4	3
Purchases & Supplies		
	<ul style="list-style-type: none"> • Engage additional LPG suppliers in Shandong Province 	<ul style="list-style-type: none"> • Engaged additional LPG suppliers in Shandong and Hebei Provinces
No. of Suppliers		
<ul style="list-style-type: none"> • LPG/propane/butane 	10	18
<ul style="list-style-type: none"> • Heavy oil 	3-5	0
LPG Equipment and Domestic Gas Appliance		
<ul style="list-style-type: none"> • No. of suppliers 	8	9
Subcontracting		
<ul style="list-style-type: none"> • No. of contractual arrangements made for construction of branch pipeline networks 	6	28

COMPARISON BETWEEN BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

As at 31 March 2002

	Business objectives as set out in the Prospectus	Actual business progress
Sales & Marketing		
Market Development	<ul style="list-style-type: none"> • Concentrate marketing effort on development of piped gas fuel in Shandong Province and Hebei Province • Sign exclusive contracts for the development of piped gas fuel in Jindong Peninsula, Qingdao and Yantai in Shandong Province 	<ul style="list-style-type: none"> • Marketing effort has been concentrated in Shandong Province, Hunan Province, Jiangsu Province and Zhejiang Province • Exclusive contracts have been signed for the development of piped gas fuel in certain districts in Hebei Province, Shandong Province, Jiangsu Province, Hunan Province and Zhejiang Province
Market Research	<ul style="list-style-type: none"> • Conduct a market research for Shandong Province, Hebei Province and Guangxi Autonomous Region 	<ul style="list-style-type: none"> • Market researches have been conducted for several major cities and districts in Hebei Province, Shandong Province, Jiangsu Province, Zhejiang Province, Hunan Province and Hubei Province
Plant & Machinery		
• Gas mixing machines	39	56
• Tanks	48	81
• Compressors	16	40
Human Resources		
• Management	20	66
• Sales and marketing	22	62
• Engineering	21	43
• Gas processing station operation	247	288
• Purchases and supplies	31	47
• Finance	23	49
• Administration	25	31
	389	586
Total	389	586

Proceeds from Initial Public Offering

On 15 March 2000 and 5 April 2000, the Group issued 37,500,000 shares and 5,600,000 shares respectively at HK\$1.30 per share for a total cash consideration of HK\$56,030,000 in aggregate. During the year, the Group has utilized approximately HK\$4,800,000 in accordance with the Group's development plan for the following gas processing stations as set out in the Prospectus:

	For the year ended 31 March 2002	
	Planned use of proceeds as set in the Prospectus (HK\$'million)	Actual use of proceeds (HK\$'million)
Qihe Gas Processing Station	0.3	0.5
Huantai Gas Processing Station	1.7	2.0
Jiyang Gas Processing Station	0.2	0.1
Xintai Gas Processing Station	2.0	2.2
	4.2	4.8

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's activities during the year.

Segment Information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 86.

The directors recommend the payment of a final dividend of HK1 cent per ordinary share in respect of the year, to shareholders on the register of members on 23 July 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group prepared on the bases set out in the note below is as follows:

RESULTS

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
TURNOVER	443,070	210,301	104,091	36,401	21,291
Cost of sales	<u>(227,313)</u>	<u>(110,818)</u>	<u>(59,280)</u>	<u>(26,850)</u>	<u>(14,303)</u>
Gross profit	215,757	99,483	44,811	9,551	6,988
Other revenue	2,029	2,761	542	409	–
Selling and distribution costs	(13,087)	(2,787)	(747)	(556)	(274)
Administrative expenses	(41,920)	(24,277)	(8,457)	(5,075)	(3,609)
Other operating expenses	<u>(3,728)</u>	<u>(1,116)</u>	<u>(1,071)</u>	<u>(157)</u>	<u>–</u>
PROFIT FROM OPERATING ACTIVITIES	159,051	74,064	35,078	4,172	3,105
Finance costs	<u>(7,625)</u>	<u>(3,291)</u>	<u>(2,372)</u>	<u>(1,161)</u>	<u>(1,571)</u>
PROFIT BEFORE TAX	151,426	70,773	32,706	3,011	1,534
Tax	<u>(3,586)</u>	<u>(231)</u>	<u>(3,128)</u>	<u>(188)</u>	<u>(32)</u>
PROFIT BEFORE MINORITY INTERESTS	147,840	70,542	29,578	2,823	1,502
Minority interests	<u>(6,852)</u>	<u>(3,296)</u>	<u>(4,545)</u>	<u>(875)</u>	<u>(710)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>140,988</u></u>	<u><u>67,246</u></u>	<u><u>25,033</u></u>	<u><u>1,948</u></u>	<u><u>792</u></u>

Summary Financial Information *(Continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 March			
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	698,264	300,829	161,515	61,177
TOTAL LIABILITIES	(235,117)	(107,883)	(64,895)	(60,417)
MINORITY INTERESTS	(21,354)	(11,811)	(8,879)	(4,605)
	<u>441,793</u>	<u>181,135</u>	<u>87,741</u>	<u>(3,845)</u>

Note: The summary financial information for each of the four years ended 31 March 2002 has been extracted from the audited financial statements of the Group. The pro forma combined results of the Group for the year ended 31 March 1998 have been extracted from the Company's prospectus dated 7 March 2000 and include pro forma adjustments relating to the eliminations of certain profit and loss items in respect of transactions unrelated to the businesses of the Group.

Fixed Assets

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share Capital and Share Options

With effect from 24 July 2001, each of the existing issued and unissued shares of the Company have been subdivided from HK\$0.10 each into ten shares of HK\$0.01 each (the "Share Subdivision").

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 23 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

On 23 July 2001 and 14 November 2001, the Company issued 50,000,000 (adjusted pursuant to the Share Subdivision mentioned above) and 100,000,000 new shares to Santa Resources Limited at a price of HK\$0.785 (adjusted pursuant to the Share Subdivision) and HK\$0.805 per share, respectively.

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

Distributable Reserves

At 31 March 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$69,094,000. In addition, the Company's share premium account, in the amount of approximately HK\$161,139,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 15% (2001: 25%) of the total sales for the year and sales to the largest customer included therein amounted to 4% (2001: 7%).

Purchases from the Group's five largest suppliers of LPG accounted for 57% (2001: 87%) of the total purchases of LPG for the year and purchases from the largest supplier of LPG included therein amounted to 23% (2001: 34%).

Subcontracting fees paid to the Group's five largest pipeline subcontractors accounted for 61% (2001: 56%) of the total subcontracting fees incurred for the year and subcontracting fees paid to the largest pipeline subcontractor included therein amounted to 22% (2001: 16%).

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers, suppliers and subcontractors.

Directors

The directors of the Company during the year were as follows:

Executive directors:

Shum Ka Sang (Chairman)

Wang Guanghao (Honorary Chairman)

Kong Siu Keung

Shen Yi

Choi Yat Choy

Qian Mingjin

(appointed on 24 September 2001)

Zhang Fan

(appointed on 15 March 2002)

Chen Cuiwan

(resigned on 24 April 2002)

Independent non-executive directors:

Ng Eng Leong

Cui Shuming

In accordance with clause 86(2) of the Company's bye-laws, Ms. Qian Mingjin and Mr. Zhang Fan will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with clauses 87(1) and (2) of the Company's bye-laws, Mr. Wang Guanghao and Mr. Choi Yat Choy will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 26 to 28 of the Annual Report.

Directors' Service Contracts

Mr. Shum Ka Sang, Mr. Choi Yat Choy and Mr. Shen Yi have entered into service contracts with the Company for a term of three years commencing on 1 January 2000. The contracts shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice. Such notice is not to be given by the abovementioned directors at any time before the six months prior to the expiry of the initial term of three years.

The independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

Apart from the foregoing, no director proposed for re-election at the forthcoming general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' Interests in Shares

At 31 March 2002, 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	43,650,000	–	779,350,000	–

At 31 March 2002, Mr. Shum Ka Sang was a sole shareholder of Wah Sang Gas Development Group (Cayman Islands) Limited ("Wah Sang Gas Development"), which beneficially held 779,350,000 shares representing a 36.64% interest in the Company.

Save as disclosed above and disclosed under the heading "Directors' rights to acquire shares" below, 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

Apart from as disclosed under the heading "Share option scheme" below, 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 or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and employees of the Group. The Scheme became effective on 16 March 2000 and, unless otherwise cancelled or amended, will remain in force for the period from 16 March 2000 to 25 February 2010.

On 24 July 2001, each share of the Company of HK\$0.1 each has been subdivided into ten shares of HK\$0.01 each. Immediately upon completion of the Share Subdivision, the number and exercise price of the share options granted prior to 24 July 2001 have been adjusted for the effect of the Share Subdivision accordingly.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option shall be granted to any executive director or employee which if exercised in full would result in such person's maximum entitlement to exceed 25% of the aggregate number of shares for the time being issued and is issuable under the Scheme. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 167,300,000, which represented approximately 7.9% of the Company's shares in issue as at that date.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to each grantee and in any event such period of time should not be less than three years and not more than nine years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such nine-year period or 25 February 2010 whichever is earlier.

The exercise price of the share options under the Scheme is determinable by the board of directors and will be the highest of (i) the closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the outstanding share options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors and employees because a number of factors crucial for the valuation are subjective and uncertain. In addition, a readily market value of the share options on the shares of the Company is not available. Accordingly, any valuation of the share options based on various speculative assumptions would not be meaningful and would be misleading.

REPORT OF THE DIRECTORS

Share Option Scheme (Continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***	
	At 1 April 2001	Granted during the year	Exercised during the year	At 31 March 2002				At grant date of options	At exercise date of options
	(Note)	(Note)				HK\$ (Note)	HK\$ (Note)	HK\$	
Directors, chief executive and substantial shareholders									
Mr. Shum Ka Sang	25,500,000	-	-	25,500,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	-
	10,000,000	-	-	10,000,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	-
	-	12,000,000	-	12,000,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
	<u>35,500,000</u>	<u>12,000,000</u>	<u>-</u>	<u>47,500,000</u>					
Mr. Wang Guanghao	<u>12,000,000</u>	-	-	<u>12,000,000</u>	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	-
Mr. Kong Siu Keung	5,000,000	-	-	5,000,000	7.7.2000	9.1.2001 to 8.1.2006	0.66	0.66	-
	2,000,000	-	-	2,000,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	-
	-	3,000,000	-	3,000,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
	<u>7,000,000</u>	<u>3,000,000</u>	<u>-</u>	<u>10,000,000</u>					
Mr. Choi Yat Choy	22,000,000	-	-	22,000,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	-
	2,000,000	-	(2,000,000)	-	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	0.92
	-	2,500,000	-	2,500,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
	<u>24,000,000</u>	<u>2,500,000</u>	<u>(2,000,000)</u>	<u>24,500,000</u>					
Mr. Shen Yi	22,000,000	-	-	22,000,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	-
	3,000,000	-	-	3,000,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	-
	-	2,500,000	-	2,500,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
	<u>25,000,000</u>	<u>2,500,000</u>	<u>-</u>	<u>27,500,000</u>					
Ms. Chen Cuiwan	<u>12,000,000</u>	-	-	<u>12,000,000</u>	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	-

Share Option Scheme (Continued)

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***	
	At 1 April 2001	Granted during the year	Exercised during the year	At 31 March 2002				At grant date	At exercise date
	(Note)	(Note)						HK\$	HK\$
Directors, chief executive and substantial shareholders									
Ms. Qian Mingjin	-	6,000,000	-	6,000,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
Mr. Zhang Fan	-	3,000,000	-	3,000,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
Other employees									
In aggregate	12,000,000	-	(5,700,000)	6,300,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	0.85 - 0.92
	2,500,000	-	-	2,500,000	7.7.2000	9.1.2001 to 8.1.2006	0.66	0.66	-
	8,500,000	-	(3,500,000)	5,000,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	0.92
	-	9,500,000	-	9,500,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	-
	-	1,500,000	-	1,500,000	14.12.2001	4.7.2002 to 3.7.2007	0.732	0.69	-
	<u>23,000,000</u>	<u>11,000,000</u>	<u>(9,200,000)</u>	<u>24,800,000</u>					
	<u>138,500,000</u>	<u>40,000,000</u>	<u>(11,200,000)</u>	<u>167,300,000</u>					

Note: The number of share options and their exercise prices which were granted prior to 24 July 2001 as mentioned above have been adjusted for the effect of the Share Subdivision, and the price of the Company's share at the date (prior to 24 July 2001) of the grant has been adjusted accordingly.

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading date of the grant of the options. The price of the Company's shares disclosed at the exercise date of options is the Stock Exchange closing price on that exercise date.

Directors' Interests in Contracts

Save as disclosed under the heading "Connected transactions" in this report, 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 year.

Directors' Interests in a Competing Business

None of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM")) had any interests in a business which competes or may compete with the businesses of the Group.

Substantial Shareholders

At 31 March 2002, 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 of the Company's share capital
Mr. Shum Ka Sang (Note 1)	779,350,000	36.64%
	(corporate interest) 43,650,000	2.05%
	(personal interest)	
Santa Resources Limited (Note 2)	532,000,000	25.01%
Wah Sang Gas Development	779,350,000	36.64%

Notes: (1) At 31 March 2002, Wah Sang Gas Development was owned as to 100% 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 his interests 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 Limited.

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" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Connected Transactions

On 1 November 1999, the Company entered into a licence agreement with Wah Sang Trading Company Limited ("Wah Sang Trading") whereby Wah Sang Trading agreed to grant to the Group a licence to use the trademark (which has been registered under the name of Wah Sang Trading) for an initial term of 20 years at a total fee of HK\$1 payable by the Company.

During the year, corporate guarantees from Tsinlien Group Company Limited in connection with banking facilities granted to a subsidiary have been released. Tsinlien Group Company Limited is the ultimate holding company of Santa Resources Limited, a substantial shareholder of the Company.

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 12,800,000 shares of the Company as at 31 March 2002.

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

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 processes and internal control systems of the Group.

The audit committee during the year comprises three members, Mr. Ng Eng Leong and Mr. Cui Shuming, both being independent non-executive directors of the Company, and Ms. Chen Cuiwan, an executive director who has resigned on 24 April 2002. Four meetings have been held by the audit committee during the year.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

In the opinions of the directors, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 March 2002.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Shum Ka Sang

Chairman

Hong Kong
18 June 2002



To the members

Wah Sang Gas Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 44 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

18 June 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	5	443,070	210,301
Cost of sales		<u>(227,313)</u>	<u>(110,818)</u>
Gross profit		215,757	99,483
Other revenue	5	2,029	2,761
Selling and distribution costs		(13,087)	(2,787)
Administrative expenses		(41,920)	(24,277)
Other operating expenses		<u>(3,728)</u>	<u>(1,116)</u>
PROFIT FROM OPERATING ACTIVITIES	6	159,051	74,064
Finance costs	7	<u>(7,625)</u>	<u>(3,291)</u>
PROFIT BEFORE TAX		151,426	70,773
Tax	10	<u>(3,586)</u>	<u>(231)</u>
PROFIT BEFORE MINORITY INTERESTS		147,840	70,542
Minority interests		<u>(6,852)</u>	<u>(3,296)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>140,988</u>	<u>67,246</u>
DIVIDEND – Proposed final	12	<u>21,272</u>	<u>–</u>
EARNINGS PER SHARE	13		
Basic		<u>6.93 cents</u>	<u>3.48 cents</u>
Diluted		<u>6.83 cents</u>	<u>3.47 cents</u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Surplus on revaluation of land and buildings	24	2,633	–
Exchange differences on translation of the financial statements of foreign entities	24	<u>(440)</u>	<u>179</u>
Net gains not recognised in the profit and loss account		2,193	179
Net profit for the year attributable to shareholders		<u>140,988</u>	<u>67,246</u>
Total recognised gains and losses		<u>143,181</u>	<u>67,425</u>

CONSOLIDATED BALANCE SHEET

31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	<u>454,247</u>	<u>164,225</u>
CURRENT ASSETS			
Inventories	17	1,848	2,106
Trade receivables	18	92,589	89,464
Prepayments and other receivables		33,232	13,049
Amounts due from related companies	19	681	284
Pledged deposits	27	2,020	–
Cash and bank balances		<u>113,647</u>	<u>31,701</u>
		<u>244,017</u>	<u>136,604</u>
CURRENT LIABILITIES			
Trade and notes payables	20	27,357	11,741
Tax payable		2,100	1,713
Other payables and accruals		37,712	13,116
Interest-bearing bank loans	21	80,868	80,658
Finance lease payables	22	62	–
Amount due to a related company	19	–	655
		<u>148,099</u>	<u>107,883</u>
NET CURRENT ASSETS			
		<u>95,918</u>	<u>28,721</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>550,165</u>	<u>192,946</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	21	86,820	–
Finance lease payables	22	198	–
		<u>87,018</u>	<u>–</u>
MINORITY INTERESTS			
		<u>21,354</u>	<u>11,811</u>
		<u>441,793</u>	<u>181,135</u>
CAPITAL AND RESERVES			
Issued capital	23	21,272	19,660
Reserves	24	399,249	161,475
Proposed final dividend	12	21,272	–
		<u>441,793</u>	<u>181,135</u>

Shum Ka Sang
Director

Kong Siu Keung
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25(a)	184,801	26,942
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		749	472
Interest paid		(7,617)	(3,291)
Interest element on finance lease rental payments		(8)	-
Net cash outflow from returns on investments and servicing of finance		<u>(6,876)</u>	<u>(2,819)</u>
TAX			
Profit taxes paid:			
Hong Kong		-	-
Mainland China		(3,199)	(1,114)
Total profit taxes paid		<u>(3,199)</u>	<u>(1,114)</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		(299,408)	(93,979)
Proceeds from disposal of fixed assets		1,732	526
Acquisition of minority interests		-	(471)
Increase in pledged deposits		(2,020)	-
Net cash outflow from investing activities		<u>(299,696)</u>	<u>(93,924)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<u>(124,970)</u>	<u>(70,915)</u>
FINANCING ACTIVITIES	25(b)		
Proceeds from issue of share capital		126,351	28,280
Share issue expenses		(8,874)	(2,311)
New bank loans		187,350	57,296
Repayment of bank loans		(100,320)	(13,114)
Capital element of finance lease rental payments		(48)	-
Contributions from minority shareholders		2,457	-
Net cash inflow from financing activities		<u>206,916</u>	<u>70,151</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		81,946	(764)
Cash and cash equivalents at beginning of year		31,701	32,403
Effect of foreign exchange rate changes, net		-	62
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>113,647</u>	<u>31,701</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>113,647</u>	<u>31,701</u>

BALANCE SHEET

31 March 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>214,340</u>	<u>112,321</u>
CURRENT ASSETS			
Cash and bank balances		37,240	–
Other receivables		<u>149</u>	<u>149</u>
		<u>37,389</u>	<u>149</u>
CURRENT LIABILITIES			
Other payables and accruals		<u>224</u>	<u>224</u>
NET CURRENT ASSETS/(LIABILITIES)			
		<u>37,165</u>	<u>(75)</u>
		<u>251,505</u>	<u>112,246</u>
CAPITAL AND RESERVES			
Issued capital	23	21,272	19,660
Reserves	24	208,961	92,586
Proposed final dividend	12	<u>21,272</u>	<u>–</u>
		<u>251,505</u>	<u>112,246</u>

Shum Ka Sang
Director

Kong Siu Keung
Director

31 March 2002

1. Corporate Information

The registered office of Wah Sang Gas Holdings Limited is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activities of the Group are the construction of gas pipelines, the production and sale of liquefied petroleum gas ("LPG") and piped gas, and the sale of gas appliances.

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

31 March 2002

2. Impact of New and Revised Statements of Standard Accounting Practice (“SSAPs”)

(Continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 28 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 15 to the financial statements. The required new additional disclosure is included in note 15 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

31 March 2002

3. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong (“HK GAAP”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain fixed assets as further explained below.

Basis of Consolidation and Presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or up to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Joint Venture Companies

Joint venture companies are independent business entities established and operating in the People’s Republic of China (the “PRC”). The joint venture agreements and related constitutions stipulate the capital contributions of the joint venture parties, the duration of the joint ventures and the basis on which assets are to be realised upon their dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture partners either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreements.

The Group’s joint venture companies are accounted for as subsidiaries because the Group has effective unilateral control over the joint venture companies.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group’s share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the balance sheet as an asset and amortised on the straight-line basis over its estimated useful life which will not exceed 20 years from initial recognition.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to the financial year commencing on 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Fixed Assets and Depreciation

Fixed assets, other than land and buildings with ownership certificates, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Land and buildings with ownership certificates are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year when the fair value of the asset differs materially from its carrying amount. Where, in the opinion of the directors, the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date, no professional valuations are performed at that financial year end.

Changes in the values of leasehold land and buildings are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The estimated useful lives of the different categories of fixed assets are as follows:

Land use rights	Over the terms of the leases
Buildings	30 years
Leasehold improvements	3 years or over the terms of the leases, whichever is shorter
Machinery and equipment	20 years
Gas pipelines	30 years
Office equipment	5 years
Transportation vehicles and equipment	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Construction in Progress

Construction in progress represents gas station structures, machinery and pipelines and other fixed assets under construction/installation and is stated at cost. Cost comprises direct costs of construction, installation and testing. Construction in progress is transferred to the appropriate category of fixed assets when it is completed and ready for its intended use.

Leased Assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction Contract Work in Progress and Profit Recognition

Construction contract work in progress is stated at cost plus estimated attributable profits less foreseeable losses and progress payments received and receivable. Cost mainly comprises charges from subcontractors.

Where progress payments received and receivable on contracts exceed the costs incurred to date plus recognised profits less foreseeable losses, the surplus is shown in the balance sheet as an amount due to contract customers.

The estimated attributable profit from construction contracts is recognised under the percentage of completion method when the outcome of contracts can be ascertained with reasonable certainty and the stage of contract completion at the balance sheet date can be measured reliably. In the absence of these conditions, profits on construction contracts are recognised when the contracts are completed.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Deferred Tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign Currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement Benefits Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for certain of its employees in Hong Kong who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions accumulated in previous retirement scheme before 1 December 2000, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. With effect from 1 December 2000, the Prior Scheme was terminated with all the underlying assets of the Prior Scheme transferred to the MPF Scheme.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Retirement Benefits Scheme *(Continued)*

The Group has joined a mandatory central pension scheme organised by the PRC government for certain of its employees in the PRC, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions are vested fully once they are made.

For those employees who have not joined any of the Company's retirement benefits schemes, the Group has accrued for future pension costs based on a percentage of their basic salaries.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) LPG sales, piped gas sales and gas appliances sales – when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) Gas pipelines construction – when the outcome of contracts can be ascertained with reasonable certainty and the stage of completion at the balance sheet date can be measured reliably, on the percentage of completion method which is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. In the absence of these conditions, the revenue of the relevant contracts will be recognised when the contracts are completed;
- (iii) Interest income – on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iv) Government subsidy – on cash receipt basis; and
- (v) Dividends – when the shareholders' right to receive payment has been established.

Cash Equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

31 March 2002

3. Summary of Significant Accounting Policies *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association granted the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. Segment Information

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Gas pipeline construction;
- (b) Sale of LPG and piped gas; and
- (c) Sale of gas appliances and others.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

No intersegment sales and transfers were transacted during the year (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2002

4. Segment Information *(Continued)*

(a) Business Segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

	Gas pipeline construction		Sale of LPG and piped gas		Sale of gas appliances and others		Eliminations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>278,835</u>	<u>131,366</u>	<u>154,428</u>	<u>72,341</u>	<u>9,807</u>	<u>6,594</u>	<u>-</u>	<u>-</u>	<u>443,070</u>	<u>210,301</u>
Segment results	<u>211,973</u>	<u>99,431</u>	<u>(1,626)</u>	<u>(4,201)</u>	<u>4,575</u>	<u>3,137</u>	<u>-</u>	<u>-</u>	<u>214,922</u>	<u>98,367</u>
Interest income and unallocated gains									<u>2,029</u>	<u>2,761</u>
Unallocated corporate expenses									<u>(57,900)</u>	<u>(27,064)</u>
Profit from operating activities									<u>159,051</u>	<u>74,064</u>
Finance costs									<u>(7,625)</u>	<u>(3,291)</u>
Profit before tax									<u>151,426</u>	<u>70,773</u>
Tax									<u>(3,586)</u>	<u>(231)</u>
Profit before minority interests									<u>147,840</u>	<u>70,542</u>
Minority interests									<u>(6,852)</u>	<u>(3,296)</u>
Net profit from ordinary activities attributable to shareholders									<u>140,988</u>	<u>67,246</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

4. Segment Information *(Continued)*

(a) Business Segments *(Continued)*

	Gas pipeline construction		Sale of LPG and piped gas		Sale of gas appliances and others		Eliminations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	87,654	83,182	482,824	180,685	891	860	-	-	571,369	264,727
Unallocated assets	-	-	-	-	-	-	-	-	126,895	36,102
Total assets									698,264	300,829
Segment liabilities	20,437	10,972	37,981	9,996	-	245	-	-	58,418	21,213
Unallocated liabilities	-	-	-	-	-	-	-	-	176,699	86,670
Total liabilities									235,117	107,883
Other segment information extracted from the profit and loss account and the balance sheet										
Depreciation	-	-	6,926	2,787	-	-	-	-	6,926	2,787
Unallocated amounts	-	-	-	-	-	-	-	-	1,047	869
									7,973	3,656
Capital expenditure	-	-	294,551	94,620	-	-	-	-	294,551	94,620
Unallocated amounts	-	-	-	-	-	-	-	-	5,165	3,063
									299,716	97,683

(b) By geographical segments

The Group's turnover was all derived from its operations in the PRC and all segment assets are located in the PRC. Accordingly, no analysis for geographical segments has been disclosed.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

5. Turnover and Revenue

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

An analysis of turnover and other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Gas pipeline construction	278,835	131,366
Sale of LPG and piped gas	154,428	72,341
Sale of gas appliances and others	9,807	6,594
	<u>443,070</u>	<u>210,301</u>
Other revenue		
Interest income	749	472
Government subsidy	1,149	2,052
Others	131	237
	<u>2,029</u>	<u>2,761</u>

Government subsidy represents a refund of corporate income tax from the Finance Bureau in Tianjin Port Free Trade Zone. The refund was made in accordance with a government investment incentive scheme.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

6. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Depreciation	7,973	3,656
Minimum lease payments under operating leases:		
Land and buildings	1,290	912
Motor vehicles	–	120
Auditors' remuneration	750	600
Exchange losses, net	11	41
Staff costs (including directors' remuneration in note 8):		
Wages and salaries	15,970	8,308
Pension contributions	724	438
 Total staff costs	 <u>16,694</u>	 <u>8,746</u>
 Deficit on revaluation of land and buildings with ownership certificates	 271	 –
Provision for bad and doubtful debts	835	1,116
Loss/(gain) on disposal of fixed assets	2,893	(216)
Reversal of deficit on revaluation of land and buildings with ownership certificates	(542)	–
Interest income	(749)	(472)
Government subsidy	(1,149)	(2,052)
	<u>(1,149)</u>	<u>(2,052)</u>

7. Finance Costs

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable within five years	7,617	3,291
Interest on finance leases	8	–
	<u>7,625</u>	<u>3,291</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

8. Directors' Remuneration

Directors' remuneration disclosed pursuant to Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	280	240
	<u>280</u>	<u>240</u>
Other emoluments for executive directors:		
Salaries	6,643	2,847
Pension scheme contributions	44	30
	<u>6,687</u>	<u>2,877</u>
	<u><u>6,967</u></u>	<u><u>3,117</u></u>

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 March 2002 analysed on an individual basis was as follows: HK\$2,987,000 (2001: HK\$1,279,000), HK\$1,283,000 (2001: HK\$503,000), HK\$1,073,000 (2001: HK\$626,000), HK\$651,000 (2001: HK\$469,000), HK\$574,000 (2001: Nil) and HK\$119,000 (2001: Nil). The remaining two executive directors did not receive any remuneration during the year (2001: Nil).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 March 2002 analysed on an individual basis was as follows: HK\$140,000 (2001: HK\$120,000) and HK\$140,000 (2001: HK\$60,000). The remuneration paid by the Group for the year ended 31 March 2001 included remuneration of HK\$60,000 to an independent non-executive director who resigned in 2000.

No emoluments were paid by the Group to those executive directors as a bonus, as an inducement to join the Group, or as compensation for loss of office.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value in respect of the share options granted during the year has been charged to the profit and loss account or is included in above disclosures.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

9. Five Highest Paid Employees

The five highest paid employees during the year are directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of one non-director, highest paid employee for 2001, are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries and allowances	-	360
Pension scheme contributions	-	16
	<u>-</u>	<u>376</u>

The remuneration of the non-director, highest paid employee fell within the following band:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	<u>-</u>	<u>1</u>

10. Tax

	Group	
	2002	2001
	HK\$'000	HK\$'000
Provision for tax in respect of profits for the year:		
Hong Kong	-	-
Mainland China	3,586	1,951
Overprovision in prior years	-	(1,720)
	<u>3,586</u>	<u>231</u>
Tax charge for the year	<u>3,586</u>	<u>231</u>

The Group did not have assessable profits arising in Hong Kong during the year ended 31 March 2002. Taxes on profits assessable elsewhere in 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 year.

The revaluation of the Group's land and buildings does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

31 March 2002

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with the financial statements of the Company is HK\$21,782,000 (2001: net loss of HK\$20,000).

12. Dividend

	2002 HK\$'000	2001 HK\$'000
Proposed final – 1 cent (2001: Nil) per ordinary share	<u>21,272</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date" as detailed in note 2 to the financial statements. The effect of this change in accounting policy as at 31 March 2002, is that the current year's proposed final dividend of HK\$21,272,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date.

For dividend purposes, the amount which the Group's PRC subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with accounting principles and financial regulations applicable to PRC joint ventures ("PRC GAAP"). These profits differ from those that are reflected in this report which are prepared in accordance with HK GAAP.

13. Earnings Per Share

Pursuant to an ordinary resolution passed on 23 July 2001, the issued and unissued share of the Company of HK\$0.1 each was subdivided into ten shares of HK\$0.01 each (the "Share Subdivision"). Accordingly, the calculation of earnings per share below has taken into account of the effect of the Share Subdivision.

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of approximately HK\$140,988,000 (2001: HK\$67,246,000), and the weighted average of 2,035,878,000 (2001: 1,934,840,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$140,988,000 (2001: HK\$67,246,000). The weighted average number of ordinary shares used in the calculation is 2,035,878,000 (2001: 1,934,840,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 27,992,000 (2001: 4,180,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

NOTES TO FINANCIAL STATEMENTS

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14. Fixed Assets

Group

	Land and buildings (with ownership certificates) HK\$'000	Land and buildings (others) HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Gas pipelines HK\$'000	Office equipment HK\$'000	Transportation vehicles and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	31,101	15,014	617	35,370	51,758	1,435	4,752	31,459	171,506
Transfers	10,156	(10,156)	-	-	-	-	-	-	-
Additions	10,144	6,675	1,622	1,972	-	1,130	8,565	269,608	299,716
Disposals	(2,433)	(95)	-	(1,884)	-	(15)	(732)	-	(5,159)
Transfers from construction in progress	17,729	34,047	-	19,833	165,958	-	1,345	(238,912)	-
Surplus on revaluation, net	1,097	-	-	-	-	-	-	-	1,097
At 31 March 2002	<u>67,794</u>	<u>45,485</u>	<u>2,239</u>	<u>55,291</u>	<u>217,716</u>	<u>2,550</u>	<u>13,930</u>	<u>62,155</u>	<u>467,160</u>
Analysis of cost or valuation:									
At cost	-	45,485	2,239	55,291	217,716	2,550	13,930	62,155	399,366
At 31 March 2002 valuation	<u>67,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,794</u>
	<u>67,794</u>	<u>45,485</u>	<u>2,239</u>	<u>55,291</u>	<u>217,716</u>	<u>2,550</u>	<u>13,930</u>	<u>62,155</u>	<u>467,160</u>
Accumulated depreciation:									
At beginning of year	583	222	103	3,261	1,279	365	1,468	-	7,281
Transfers	139	(139)	-	-	-	-	-	-	-
Provided during the year	1,175	505	625	1,713	2,565	276	1,114	-	7,973
Disposals	(90)	-	-	(229)	-	(5)	(210)	-	(534)
Surplus on revaluation, net	(1,807)	-	-	-	-	-	-	-	(1,807)
At 31 March 2002	<u>-</u>	<u>588</u>	<u>728</u>	<u>4,745</u>	<u>3,844</u>	<u>636</u>	<u>2,372</u>	<u>-</u>	<u>12,913</u>
Net book value:									
At 31 March 2002	<u>67,794</u>	<u>44,897</u>	<u>1,511</u>	<u>50,546</u>	<u>213,872</u>	<u>1,914</u>	<u>11,558</u>	<u>62,155</u>	<u>454,247</u>
At 31 March 2001	<u>30,518</u>	<u>14,792</u>	<u>514</u>	<u>32,109</u>	<u>50,479</u>	<u>1,070</u>	<u>3,284</u>	<u>31,459</u>	<u>164,225</u>

31 March 2002

14. Fixed Assets *(Continued)*

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2002 amounted to HK\$277,000 (2001: Nil).

The Group's land and buildings are held under medium term leases and are all situated in the PRC.

Certain buildings with a net book value of approximately HK\$12,586,000 (2001: HK\$386,000) are built on land which the Group is in the process of obtaining the land use right certificates.

Certain buildings with a net book value of approximately HK\$3,822,000 (2001: HK\$2,327,000) are built on land in the Tianjin City and Hebei Province, which the Group is permitted to use for industrial purposes for a period of 50 years pursuant to documents other than land use right certificates, issued by the Tianjin Municipal and Hebei Province Land Administration Bureau.

The Group's land and buildings with ownership certificates were valued at 31 March 2002 by Chesterton Petty Ltd., a Chartered Estate Surveyor, on an open market value based on their existing use. A revaluation surplus of approximately HK\$2,633,000, a revaluation deficit of approximately HK\$271,000 and a reversal of deficit on revaluation of approximately HK\$542,000 resulting from the above valuations have been credited to the fixed asset revaluation reserve, charged and credited to the profit and loss account for the year ended 31 March 2002, respectively.

Had the revalued land and buildings been carried at historical cost less accumulated depreciation, their carrying values as at 31 March 2002 would have been approximately HK\$61,699,000 (2001: HK\$19,631,000).

At 31 March 2002, certain land and buildings of the Group with an aggregate net book value of approximately HK\$40,849,000 (2001: HK\$14,500,000) were pledged to secure general banking facilities granted to the Group (note 21).

NOTES TO FINANCIAL STATEMENTS

31 March 2002

15. Goodwill

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to the financial year commencing on 1 April 2001, to remain eliminated against the retained profits.

The amount of goodwill remaining in retained profits, arising from the acquisition of a subsidiary prior to the financial year commencing on 1 April 2001, is as follows:

	Group HK\$'000
Cost:	
At beginning and end of the year	175
Accumulated impairment:	
At beginning and end of the year	—
	<u>175</u>

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. No impairment loss was recognised as expenses as at 31 March 2001 and 2002, respectively.

16. Interests in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	47,747	47,747
Due from subsidiaries	<u>166,593</u>	<u>64,574</u>
	<u>214,340</u>	<u>112,321</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Winstar Venture Limited	British Virgin Islands ("BVI")	US\$200 Ordinary	100%	–	Investment holding
Wah Sang Gas Investment Group Limited ("Wah Sang Gas")	Hong Kong	HK\$2 Ordinary HK\$29 million Non-voting deferred (Note a)	–	100%	Investment holding and trading of equipment
Wah Sang Gas (China) Investments Co., Ltd.* ("Wah Sang (China)")	PRC	US\$30 million	–	100%	Investment holding, construction of gas pipelines, production and sale of gas, and sale of gas appliances
Tianjin Wahsang Gas Enterprise Co., Ltd.* ("Tianjin Wahsang")	PRC	US\$3 million	–	90%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Zibo Wah Sang Gas Co., Ltd.* (Note b) ("Zibo Wah Sang")	PRC	HK\$25 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Sanhe Yansang Gas Development Co., Ltd.* ("Sanhe Yansang")	PRC	RMB7,602,112	–	75%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dezhou Wah Sang Gas Co., Ltd.* (Note c) ("Dezhou Wah Sang")	PRC	RMB5 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Xintai Wah Sang Gas Co., Ltd.* (Note d) ("Xintai Wah Sang")	PRC	RMB17.5 million	–	95%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Binzhou Wah Sang Gas Co., Ltd.* (Note e) ("Binzhou Wah Sang")	PRC	RMB22.5 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Qinhuangdao Wah Sang Gas Co., Ltd.* (Note e) ("Qinhuangdao Wah Sang")	PRC	RMB10 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Qingdao Jiaonan Wah Sang Gas Co., Ltd.* (Note f) ("Jiaonan Wah Sang")	PRC	RMB11.2 million	–	80%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Dongying Wah Sang Gas Co., Ltd.* (Note g) ("Dongying Wah Sang")	PRC	HK\$12.6 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jinan Wah Sang Gas Co., Ltd.* (Note g) ("Jinan Wah Sang")	PRC	RMB1.5 million	–	97%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Tianjin Wahsang Energy Development Co., Ltd.* ("Wah Sang Energy")	PRC	US\$1,188,000	–	99%	Construction of gas pipelines and production and sale of gas
ShouGuang Wah Sang Gas Development Co., Ltd.* ("Shouguang Wah Sang")	PRC	US\$2,100,000	–	75%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Weishan Wah Sang Gas Co., Ltd.* (Note e) ("Weishan Wah Sang")	PRC	HK\$10 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Boxing Wah Sang Gas Co., Ltd.* (Note e) ("Boxing Wah Sang")	PRC	US\$843,400	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Qingdao Jiaozhou Wah Sang Gas Co., Ltd.* (Note e) ("Jiaozhou Wah Sang")	PRC	RMB14 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Haiyang Wah Sang Gas Co., Ltd.* (Note e) ("Haiyang Wah Sang")	PRC	HK\$11.9 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Yizheng Wah Sang Gas Co., Ltd.* (Note e) ("Yizheng Wah Sang")	PRC	US\$1,260,000	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Jurong Wah Sang Gas Co., Ltd.* (Note e) ("Jurong Wah Sang")	PRC	US\$1,260,000	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Nanjing Wah Sang Gas Co., Ltd.* (Note e) ("Nanjing Wah Sang")	PRC	US\$1,260,000	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Suqian Wah Sang Gas Co., Ltd.* (Note e) ("Suqian Wah Sang")	PRC	RMB20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Yiyang Wah Sang Gas Co., Ltd.* (Note e) ("Yiyang Wah Sang")	PRC	RMB20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Funing Wah Sang Gas Co., Ltd.* (Note e) ("Funing Wah Sang")	PRC	HK\$14 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Deqing Wah Sang Gas Development Co., Ltd.* ("Deqing Wah Sang")	PRC	HK\$20 million	–	90%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Taizhou Wah Sang Gas Co., Ltd.* (Note h) ("Taizhou Wah Sang")	PRC	US\$2 million	–	99%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Liuyang Wah Sang Gas Co., Ltd.* (Note e) ("Liuyang Wah Sang")	PRC	RMB15 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Hengshui Wah Sang Gas Co., Ltd.* ("Hengshui Wah Sang")	PRC	US\$580,000	–	90%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

* The company's name in English is a direct translation of its name in Chinese.

31 March 2002

16. Interests in Subsidiaries *(Continued)*

Notes:

- (a) The non-voting deferred shares carry no right to dividends, no right to attend or vote at general meetings and no right to receive any surplus assets in a return of capital in winding-up.
- (b) Pursuant to a supplemental agreement entered into between the Group and the PRC joint venture partner in January 2000, Zibo Wah Sang was changed from a Sino-foreign equity joint venture to a co-operative joint venture and the Group's contribution to the registered capital of Zibo Wah Sang was increased from 95% to 100%. According to this supplemental agreement, the PRC joint venture partner is entitled to receive certain payments from Zibo Wah Sang based on its activity level and the Group is entitled to the remaining profits and is responsible for all losses, if any, of Zibo Wah Sang.
- (c) Pursuant to the joint venture agreement, for the period from 28 September 1999 to 31 December 2001, the PRC joint venture partner is entitled to receive certain payments from Dezhou Wah Sang based on its activity level and the Group is entitled to the remaining profits and is responsible for all losses, if any, of Dezhou Wah Sang. Thereafter, the Group and the PRC joint venture partner will share the profits or losses of Dezhou Wah Sang in a ratio of 95 to 5. On dissolution of the joint venture, the Group and the PRC joint venture partner will share the remaining net assets in a ratio of 90 to 10.
- (d) Xintai Wah Sang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. Pursuant to the joint venture agreement, the Group would be responsible for a capital contribution of RMB17.5 million and the PRC joint venture partner would be responsible for providing 800 sq.m. of office premises for the use of Xintai Wah Sang during the joint venture tenure.

Pursuant to the joint venture agreement, the Group and the PRC joint venture partner would share the profits of Xintai Wah Sang in a ratio of 95 to 5. On dissolution of the joint venture, the Group and the PRC joint venture partner would share the remaining net assets in a ratio of 95 to 5.

- (e) These companies are Sino-foreign co-operative joint ventures with an operating tenure of 50 years. According to the relevant joint venture agreements, the Group would be responsible for the full capital contributions of the registered capital of these companies, and no capital contribution would be conferred by the respective PRC joint venture partners. Pursuant to the joint venture agreements, the PRC joint venture partners of these companies are entitled to receive certain payments from these companies based on their activity level and the Group is entitled to the remaining profits and is responsible for all losses, if any, of these companies. On dissolution of these companies, the Group would be solely entitled to the remaining net assets of these companies, if any.
- (f) Jiaonan Wah Sang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. The Group would be responsible for the capital contribution of RMB8.96 million (representing 80% of the company's registered capital) and the PRC joint venture partner would be responsible for the remaining registered capital which was contributed in the form of providing a plot of land of approximately 10 acres.

Pursuant to the joint venture agreement, the PRC joint venture partner is entitled to receive certain payments from the company based on its activity level and the Group is entitled to the remaining profits and is responsible for all losses, if any, of Jiaonan Wah Sang. On dissolution of the joint venture, the PRC joint venture partner would get back the contributed land and the Group would be entitled to the remaining net assets.

- (g) Both Dongying Wah Sang and Jinan Wah Sang are Sino-foreign co-operative joint ventures with operating tenure of 50 years. According to the relevant joint venture agreements, the Group would be responsible for the capital contribution of approximately HK\$12.6 million and RMB1.46 million, respectively, and the PRC joint venture partners of these companies would both provide 200 sq.m. of office premises to the companies. Pursuant to the joint venture agreements, the PRC joint venture partners of these two companies are entitled to receive certain payments from these companies based on their activity level and the Group is entitled to the remaining profits, and is responsible for all losses, if any, of these companies. On dissolution of these companies, the Group would be solely entitled to the remaining net assets of these companies, if any.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

16. Interests in Subsidiaries *(Continued)*

- (h) Taizhou Wah Sang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. The Group would be responsible for the capital contribution of US\$1.98 million (representing 99% of the company's registered capital) and the PRC joint venture partner would be responsible for the remaining registered capital.

Pursuant to the joint venture agreement, the PRC joint venture partner is entitled to receive certain payments from the company based on its activity level and the Group is entitled to the remaining profits and is responsible for all losses, if any, of Taizhou Wah Sang. On dissolution of the joint venture, the Group would be solely entitled to the remaining net assets.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. Inventories

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	957	1,246
Gas appliances held for sale and others	891	860
	<u>1,848</u>	<u>2,106</u>

The carrying amount of inventories carried at net realisable value included in the above balances was Nil (2001: Nil) as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

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18. Trade Receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to six months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date or construction contract completion date, and net of provisions is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 3 months	53,886	21,368
4 to 6 months	35,401	51,386
7 to 12 months	3,261	16,678
Over 1 year	41	32
	92,589	89,464

19. Due from/(to) Related Companies

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group	31 March	Maximum amount outstanding during	1 April
	2002	the year	2001
	HK\$'000	HK\$'000	HK\$'000
Wah Sang Trading Co., Ltd.	463	463	284
Tianjin Wahsang International Trading Limited	218	218	(655)
	681		(371)

The amounts due from/(to) related companies are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

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20. Trade and Notes Payables

An aged analysis of the trade and notes payables as at the balance sheet date is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within 3 months	10,476	3,022
4 to 6 months	11,765	6,295
7 to 12 months	2,719	1,764
Over 1 year	2,397	660
	<u>27,357</u>	<u>11,741</u>

21. Interest-Bearing Bank Loans

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans:		
Secured	40,000	10,174
Unsecured	127,688	70,484
	<u>167,688</u>	<u>80,658</u>
Bank loans repayable:		
Within one year	80,868	80,658
In the second year	86,820	–
In the third to fifth years, inclusive	–	–
	<u>167,688</u>	80,658
Portion classified as current liabilities	<u>(80,868)</u>	<u>(80,658)</u>
Long term portion	<u>86,820</u>	–

NOTES TO FINANCIAL STATEMENTS

31 March 2002

21. Interest-Bearing Bank Loans *(Continued)*

Certain of the Group's bank loans are secured by:

- (i) certain land and buildings of the Group with an aggregate net book value of approximately HK\$40,849,000 (2001: HK\$14,500,000).
- (ii) charges over the Group's equity interests in two joint ventures, Hengshui Wah Sang and Yizheng Wah Sang.

22. Finance Lease Payables

The Group leases a motor vehicle for its business operations in Hong Kong. This lease is classified as a finance lease and has a remaining lease term of fifty-one months from the balance sheet date.

At 31 March 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	75	–	62	–
In the second year	75	–	62	–
In the third to fifth years, inclusive	171	–	136	–
	<u>321</u>	<u>–</u>	<u>260</u>	<u>–</u>
Total minimum finance lease payments	321	–	260	–
Future finance charges	(61)	–		
Total net finance lease payables	260	–		
Portion classified as current liabilities	(62)	–		
Long term portion	<u>198</u>	<u>–</u>		

NOTES TO FINANCIAL STATEMENTS

31 March 2002

23. Share Capital

Shares

	2002 HK\$'000	2001 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.01 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
2,127,200,000 (2001: 1,966,000,000) ordinary shares of HK\$0.01 each	<u>21,272</u>	<u>19,660</u>

During the year, there were the following movements in share capital:

- (a) On 23 July 2001, the Company issued 5,000,000 new shares of HK\$0.1 each at HK\$7.85 per share for a total cash consideration, before expenses, of HK\$39,250,000. Following the share subdivision as mentioned in (b) below, these 5,000,000 new shares of HK\$0.1 each were subdivided into 50,000,000 shares of HK\$0.01 each.
- (b) Pursuant to an ordinary resolution passed on 23 July 2001, the issued and unissued share of the Company of HK\$0.1 each was subdivided into ten shares of HK\$0.01 each (the "Share Subdivision") with effect from 24 July 2001.
- (c) On 14 November 2001, the Company issued 100,000,000 new shares of HK\$0.01 each at HK\$0.805 per share for a total cash consideration, before expenses, of HK\$80,500,000.
- (d) The subscription rights attaching to 5,500,000 and 5,700,000 share options were exercised at the subscription price of HK\$0.568 and HK\$0.61 per share, respectively, resulting in the issue of 11,200,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$6,601,000.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

23. Share Capital *(Continued)*

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of shares in issue	Share capital HK\$'000
At 1 April 2001	196,600,000	19,660
Share placement (a)	5,000,000	500
	201,600,000	20,160
Share subdivision (b)	2,016,000,000	20,160
Share placement (c)	100,000,000	1,000
Share options exercised (d)	11,200,000	112
At 31 March 2002	2,127,200,000	21,272

Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 38 to 40.

At the beginning of the year, there were 138,500,000 share options (as adjusted for the effect of the Share Subdivision) outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during the periods ranging from 6 November 2000 to 11 October 2006. The subscription prices payable upon the exercise of these options ranged from HK\$0.568 to HK\$0.66 per share.

On 27 September 2001, the Company granted a total of 38,500,000 share options for a nominal consideration of HK\$1 by each grantee which entitle the holders to subscribe for shares of the Company at any time for a period of five years commencing on 11 April 2002. The subscription price per share payable upon the exercise of each option is HK\$0.596.

On 14 December 2001, the Company granted a total of 1,500,000 share options for a nominal consideration of HK\$1 by the grantee which entitle the holder to subscribe for shares of the Company at any time for a period of five years commencing on 4 July 2002. The subscription price per share payable upon the exercise of each option is HK\$0.732.

At the balance sheet date, the Company had 167,300,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 167,300,000 additional shares and proceeds of approximately HK\$101.2 million.

NOTES TO FINANCIAL STATEMENTS

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24. Reserves

Group

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note a)	Fixed asset revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserve HK\$'000 (Note c)	Enterprise development fund HK\$'000 (Note c)	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	27,370	-	-	-	-	-	-	27,370
Share issue expenses	(2,311)	-	-	-	-	-	-	(2,311)
Exchange realignment	-	-	-	179	-	-	-	179
Net profit for the year	-	-	-	-	-	-	67,246	67,246
Transfer from retained profits	-	-	-	-	1,876	-	(1,876)	-
At 31 March 2001 and 1 April 2001	45,274	28,800	3,852	631	2,659	885	79,374	161,475
Issue of shares	124,739	-	-	-	-	-	-	124,739
Share issue expenses	(8,874)	-	-	-	-	-	-	(8,874)
Revaluation reserve released on disposal	-	-	(389)	-	-	-	389	-
Surplus on revaluation	-	-	2,633	-	-	-	-	2,633
Exchange realignment	-	-	-	(440)	-	-	-	(440)
Net profit for the year	-	-	-	-	-	-	140,988	140,988
Proposed final dividend	-	-	-	-	-	-	(21,272)	(21,272)
Transfer from retained profits	-	-	-	-	1,810	-	(1,810)	-
At 31 March 2002	<u>161,139</u>	<u>28,800</u>	<u>6,096</u>	<u>191</u>	<u>4,469</u>	<u>885</u>	<u>197,669</u>	<u>399,249</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2002

24. Reserves (Continued)

Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (note b)	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	20,215	47,547	(215)	67,547
Issue of shares	27,370	–	–	27,370
Share issue expenses	(2,311)	–	–	(2,311)
Net loss for the year	–	–	(20)	(20)
At 31 March 2001 and 1 April 2001	45,274	47,547	(235)	92,586
Issue of shares	124,739	–	–	124,739
Share issue expenses	(8,874)	–	–	(8,874)
Net profit for the year	–	–	21,782	21,782
Proposed final dividend	–	–	(21,272)	(21,272)
At 31 March 2002	<u>161,139</u>	<u>47,547</u>	<u>275</u>	<u>208,961</u>

Notes:

- (a) 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.
- (b) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of its contributed surplus under certain circumstances.
- (c) In accordance with the relevant PRC regulations, the subsidiaries of the Company established in the PRC are required to transfer a certain percentage (as determined by the board of directors) of their profits after tax (as determined in accordance with PRC GAAP), if any, to the statutory reserve and the enterprise development fund. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve can be used to offset against accumulated losses. The enterprise development fund can be used for the future development of the subsidiaries. Both the statutory reserve and the enterprise development fund are not distributable unless the aforesaid PRC subsidiaries are dissolved.

NOTES TO FINANCIAL STATEMENTS

31 March 2002

25. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 HK\$'000	2001 HK\$'000
Profit from operating activities	159,051	74,064
Deficit on revaluation of land and buildings with ownership certificates	271	–
Reversal of deficit on revaluation of land and buildings with ownership certificates	(542)	–
Provision for bad and doubtful debts	835	1,116
Interest income	(749)	(472)
Depreciation	7,973	3,656
Loss/(gain) on disposal of fixed assets	2,893	(216)
Increase in amounts due from related companies	(397)	(954)
Increase in trade receivables	(3,960)	(49,066)
Increase in prepayments and other receivables	(20,183)	(1,453)
Decrease/(increase) in inventories	258	(184)
Increase/(decrease) in trade and notes payables	15,616	(1,399)
Increase/(decrease) in an amount due to a related company	(655)	655
Increase in other payables and accruals	24,596	1,103
Effect of changes in foreign exchange rates	(206)	92
	<u> </u>	<u> </u>
Net cash inflow from operating activities	<u>184,801</u>	<u>26,942</u>

NOTES TO FINANCIAL STATEMENTS

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25. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) Analysis of changes in financing activities during the year

	Issued capital (including share premium) HK\$'000	Bank loans HK\$'000	Finance lease obligations HK\$'000	Minority interests HK\$'000
At 1 April 2000	38,965	36,476	–	8,879
Cash inflow from financing activities, net	25,969	44,182	–	–
Acquisition of minority interests	–	–	–	(471)
Share of profit after tax of subsidiaries	–	–	–	3,296
Share of changes in reserves	–	–	–	107
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001 and 1 April 2001	64,934	80,658	–	11,811
Inception of finance lease	–	–	308	–
Cash inflow/(outflow) from financing activities, net	117,477	87,030	(48)	–
Contributions from minority shareholders	–	–	–	2,457
Share of profit after tax of subsidiaries	–	–	–	6,852
Share of changes in reserves	–	–	–	234
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	<u>182,411</u>	<u>167,688</u>	<u>260</u>	<u>21,354</u>

(c) Major Non-cash Transaction

During the year, the Group entered into a finance lease contract arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK\$308,000.

NOTES TO FINANCIAL STATEMENTS

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26. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2002	2001
	HK\$'000	HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	<u>194,917</u>	<u>78,114</u>

At as 31 March 2002, the Company had provided guarantees of HK\$194,917,000 (2001: HK\$78,114,000) in total in respect of banking facilities granted to its subsidiaries, of which approximately HK\$159,917,000 (2001: HK\$70,484,000) were utilised at the balance sheet date.

27. Pledge of Assets

Save as disclosed in note 21 to the financial statements, the Group has also pledged deposits of HK\$2,020,000 against banking facilities granted to the Group.

28. Operating Lease Arrangements

The Group leases certain of its office properties and a plot of land under operating lease arrangements. Leases for the office properties and the land are negotiated for terms ranging between 1 and 50 years. At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000 (Restated)
Within one year	1,624	1,306
In the second to fifth years, inclusive	1,047	1,326
After five years	<u>1,243</u>	<u>—</u>
	<u>3,914</u>	<u>2,632</u>

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee above, have been restated to accord with the current year's presentation.

NOTES TO FINANCIAL STATEMENTS

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29. Commitments

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Capital commitments in respect of land and buildings, gas pipelines and machinery and equipment:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	<u>9,011</u>	<u>5,667</u>
	<u>9,011</u>	<u>5,667</u>
Commitments in respect of capital contributions to joint ventures established in the PRC contracted, but not provided for	<u>285,883</u>	<u>86,915</u>

At the balance sheet date, the Company did not have any significant commitments.

30. Related Party Transactions

In addition to the related companies' balances as disclosed in note 19 above, the Group also had the following transactions with related companies during the year:

Name of Related Party	Nature of Transaction	2002	2001
		HK\$'000	HK\$'000
Wah Sang Properties Investment Limited (Note a)	License fee for office premises and related services	–	68
Wah Sang Development (Group) Limited (Note b)	Rental fee for hiring motor vehicle	–	120
Tsinlien Group Company Limited (Note c)	Dividend paid by the Company's indirectly held subsidiary	<u>912</u>	<u>–</u>

31 March 2002

30. Related Party Transactions *(Continued)*

Notes:

- (a) Mr. Shum Ka Sang, a director and a substantial shareholder of the Company, has beneficial interests in Wah Sang Properties Investment Limited.
- (b) Mr. Shum Ka Sang, a director and a substantial shareholder of the Company, has beneficial interests in Wah Sang Development (Group) Limited.
- (c) Tsinlien Group Company Limited is the ultimate holding company of Santa Resources Limited, a substantial shareholder of the Company.

In the opinion of the directors, the above transactions were conducted at mutually agreed rates in the normal course of the Group's businesses.

31. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

32. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 June 2002.