



2003



First Quarter Report 第一季度報告

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

創業板乃為帶有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於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通量之市場。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。

HIGHLIGHTS

- The unaudited consolidated turnover and profit attributable to shareholders of the Group for the three months ended 30 June 2002 (the "Relevant Period") recorded an outstanding growth of approximately 1.4 times and 1.7 times respectively over the same period last year and reached HK\$173,058,000 and HK\$63,205,000 respectively.
- Basic earnings per share for the Relevant Period amounted to HK2.97 cents, an increase of approximately 1.5 times over the same period last year.
- 51,000 households were connected during the Relevant Period, representing a remarkable growth of 1.1 times over the same period last year. Total accumulative number of connected households reached 295,000 units.
- Average connection fee for the Relevant Period reached RMB2,332 per household, an increase by 10.6% over the same period last year.
- Sales volume of piped gas amounted to 462.8×10^6 mega-joules, representing a substantial increase of 1.5 times over the same period last year.
- Sales volume of wholesale and retail of liquefied petroleum gas ("LPG") for the Relevant Period amounted to 692.1×10^6 mega-joules, a growth of 1.7 times over the same period last year.
- Exclusive contracts on hand cover 56 cities and districts, approximately 2,070,000 connectable households.
- Average collection period for accounts receivable reduced by 36.4% to 70 days.

The unaudited consolidated results for the three months ended 30 June 2002 and comparisons with the results for the same period last year are set out in the accompanying table.

BUSINESS REVIEW

Turnover

The Group is principally engaged in the business of gas fuel supply in the PRC, with 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.

Turnover of the Group for the Relevant Period is analysed as follows:

	For the three months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Gas pipeline construction	112,458	47,728
Sale of piped gas, wholesale and retail of LPG	57,974	22,979
Sale of gas appliances and others	<u>2,626</u>	<u>728</u>
	<u><u>173,058</u></u>	<u><u>71,435</u></u>

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. During the Relevant Period, the Group recorded an outstanding revenue growth of 1.4 times in connection fees for completing connection for approximately 51,000 households, which recorded a tremendous increase of approximately 1.1 times from the corresponding period of the previous year. As at 30 June 2002, the accumulated number of connected households reached approximately 295,000 units. This provided a solid customer base for the Group's on-going piped gas revenue.

As at 1 April 2002, the Group was operating gas processing stations in 32 small and medium sized cities and districts covering Tianjin City, Hebei Province, Jiangsu Province, Hunan Province, Zhejiang Province and Shandong Province. Meanwhile, there were 1 exclusive contract under construction and 2 exclusive contracts awaiting commencement of construction. As at 30 June 2002, the gas processing station of that city has completed construction and was in operation and the remaining 2 exclusive contracts were expected to be put into operation in the coming months.

Since April 2002, the Group has successfully secured 21 exclusive contracts with local governments to operate piped gas business in the following areas:

- Qingyuan of Hebei Province, Ningyang, Yishui and Qixia of Shandong Province where the gas processing stations have been put into operation;
- Laixi and Juxian of Shandong Province, Zhangjiagang Port, Pizhou, Jingjiang, Fengxian, Jinhu and Xinyi of Jiangsu Province, Jiangshan of Zhejiang Province and Chenzhou and Ningxiang of Hunan Province, where gas processing stations were already under construction as of 30 June 2002; and
- Jizhou and Yixian of Hebei Province, Nanxun of Zhejiang Province, Xuzhou Economic Development Zone in Jiangsu Province and Nanchang and Gaoan of Jiangxi Province, where gas processing stations are expected to commence construction in the second quarter.

As of the date of this report, the Group has 56 exclusive contracts on hand, including the aforementioned new contracts. The total coverage of these contracts reached approximately 7,210,000 urban population, representing approximately 2,070,000 connectable households in aggregate.

As the Group expanded its business to certain high-growth cities with relatively higher average income, the average connection fee per household increased by 10.6%, reaching HK\$2,197 (RMB2,332) in the Relevant Period from HK\$1,987 (RMB2,109) in the same period last year .

Provision of piped gas

The Group supplies piped gas to customers through its pipeline networks and gas processing stations in each location. Due to the continuous geographical expansion of the Group's business and the increasing number of customers, the total length of the main pipeline networks of the Group was extended from approximately 639 kilometers at the beginning of the period to approximately 776 kilometers as at 30 June 2002, representing an increase of 21.4%.

During the Relevant Period, consumption of piped gas by residential and industrial customers recorded notable increases to approximately 328.4×10^6 mega-joules and 134.4×10^6 mega-joules respectively, representing a growth of 1.2 times and 2.9 times over the same period last year. The significant increase in the usage of piped gas is attributable to the substantial growth of 1.3 times in the number of connected households as compared to the same period last year.

As the Group expanded its business to areas with relatively higher average income, the average price of piped gas for the Relevant Period is higher than the average price in the same period last year by 3.5%. On the other hand, raw material costs for piped gas dropped by 15%, as compared with the same period last year.

It is the strategy of the Group to continue to conduct a series of activities to promote the advantages of using piped gas and upgrade the quality of its services, including its 24-hour service hotline and safety management. This strategy has been proved to be successful and resulted in a promising growth in the penetration rate and piped gas usage in each location.

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 residential customers where the supply of piped gas has yet to be extended;
- (ii) Delivery of LPG via tank trucks to storage facilities of local gas distributors, industrial and commercial customers; and
- (iii) Refuel of gas cylinders brought from customers at gas processing stations and storage depots operated by the Group.

In line with the Group's geographical and customer base expansions in the PRC, the wholesale and retail of LPG reached 692.1×10^6 mega-joules in aggregate, representing a remarkable growth of 1.7 times over the same period last year. The large volume of wholesale and retail of LPG helped to increase the Group's market share in each location and secured amicable business relationships with LPG suppliers. At the same time, such business generated 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. During the period under review, revenue from the sales of gas appliances grew impressively by 2.7 times to HK\$2.6 million. The Group believes that sales 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 synergetic to the Group's business of providing piped and LPG gas.

Gross and Net Margin

As driven by the increase in average selling prices and strict control over operating costs, the gross profit margin and net profit margin of the Group for the Relevant Period reached a new height of 50.5% and 36.5% respectively. Profit attributable to shareholders for the Relevant Period increased to HK\$63,205,000, a 171.7% growth from the same period last year.

Accounts Receivable

During the Relevant Period, the Group continued to tighten its credit policy to customers and adopt effective incentive schemes to encourage employees to speed up the collection of connection fees. As a result, the average collection period of accounts receivable was tremendously reduced to 70 days from 110 days in the same period last year, a marked 36.4% improvement.

The Group will continue to maintain strict control over its outstanding receivables and strengthen its credit policy so as to minimize the possibility of bad debts and working capital tied up in accounts receivable.

Liquidity and Financial Resources

Having tightened its credit policy to customers, the Group reported a strong cash inflow of HK\$79.6 million from operating activities for the Relevant Period, representing a 2.3 times increase from HK\$24.0 million in the same period last year.

In view of the decreasing market borrowing costs, a major banker of the Group in Hong Kong is in the process of arranging a syndicated long-term loan facility of HK\$150 million for the Group. In accordance with the existing expansion plan of the Group, the effective combination between existing cash on hand and the strong source of fund to be generated from its operating activities and bank borrowings will be strong enough to support the capital expenditure required in this fiscal year.

FUTURE PROSPECTS

Looking ahead, the Group will continue to explore new markets by signing exclusive contracts with local governments and focusing on small-and medium-sized cities in the PRC with high GDP per capita. The Group fully understands that the rapid urbanization process in small-and medium-sized cities will continue to create enormous market potentials for the Group. The urban population will increase by 50% in 10 years and approximately 500 million farmers will relocate from rural to urban within the next 30 years. Piped gas, as one of the most basic utilities of daily life, will be greatly demanded by such enormous population.

Currently, the Group has signed exclusive contracts with 56 cities and districts. The total urban population and urban area of these areas reached approximately 7.2 million and 872 km² respectively. According to the forecasts by local governments, the population and area will reach approximately 13.0 million and 1,784 km² respectively by year 2010, representing respective increases of 80.6% and 104.6%. It is undeniable that there is a huge growth potential for Wah Sang Gas in these areas. By offering flexible gas supply to suit the different market needs, the Group is well positioned to serve those areas already covered by Wah Sang Gas and to extend its market coverage to other parts of the PRC.

Possessing unique patented technology, over 8 years of solid experience in the industry and strong management team, the Group strives to become a high growth utility company with healthy expansion capability, stable future income and low risk. With such commitment to realize its endeavors, Wah Sang Gas is committed to posting strong growth in the future and bringing the best returns to its shareholders.

SHUM Ka Sang
Chairman

Hong Kong, 12 August 2002

UNAUDITED CONSOLIDATED RESULTS*For the three months ended 30 June 2002*

	Notes	Three months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
TURNOVER	3	173,058	71,435
Cost of sales		<u>(85,607)</u>	<u>(35,371)</u>
Gross profit		87,451	36,064
Selling and distribution costs		(1,788)	(425)
Administrative expenses		<u>(11,168)</u>	<u>(8,239)</u>
PROFIT FROM OPERATING ACTIVITIES		74,495	27,400
Finance costs		<u>(2,382)</u>	<u>(1,025)</u>
PROFIT BEFORE TAX		72,113	26,375
Tax	4	<u>(3,697)</u>	<u>(971)</u>
PROFIT BEFORE MINORITY INTERESTS		68,416	25,404
Minority interests		<u>(5,211)</u>	<u>(2,140)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>63,205</u>	<u>23,264</u>
DIVIDENDS		<u>—</u>	<u>—</u>
EARNINGS PER SHARE	5		
Basic		<u>2.97 cents</u>	<u>1.18 cents</u>
Diluted		<u>2.87 cents</u>	<u>1.18 cents</u>

Notes:

1. Basis of consolidation and presentation

The consolidated results include the results of the Company and its subsidiaries for the three months ended 30 June 2002 (the "Relevant Period"). The results of the subsidiaries acquired or disposed of during the Relevant Period are consolidated from or up to their effective dates of acquisition or disposal, respectively. All significant intra-group transactions have been eliminated in the preparation of the consolidated results.

2. Change in significant accounting policies

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

3. Turnover

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

Turnover of the Group is analysed as follows:

	For the three months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Gas pipeline construction	112,458	47,728
Sales of LPG and piped gas	57,974	22,979
Sale of gas appliances and others	2,626	728
	<u>173,058</u>	<u>71,435</u>

4. Tax

	For the three months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Provision for tax in respect of profits for the period:		
Hong Kong	-	-
Mainland China	3,697	971
	<u>3,697</u>	<u>971</u>
Tax charge for the period	<u>3,697</u>	<u>971</u>

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

5. 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 effective 24 July 2001 (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 Relevant Period of approximately HK\$63,205,000 (first quarter for 2002: HK\$23,264,000), and the weighted average of 2,130,925,000 (first quarter for 2002: 1,966,000,000) ordinary shares in issue during the Relevant Period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the Relevant Period of HK\$63,205,000 (first quarter for 2002: HK\$23,264,000). The weighted average number of ordinary shares used in the calculation is 2,130,925,000 (first quarter for 2002: 1,966,000,000) ordinary shares in issue during the Relevant Period, as used in the basic earnings per share calculation; and the weighted average of 73,606,000 (first quarter for 2002: 11,250,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the Relevant Period.

6. Dividend

No dividend had been paid or declared by the Company during the Relevant Period (first quarter for 2002: Nil).

7. Reserves

	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 b)	Enterprise development fund HK\$'000 (Note b)	Retained profits HK\$'000	Total HK\$'000
At 1 April 2001	45,274	28,800	3,852	631	2,659	885	79,374	161,475
Exchange realignments	-	-	-	95	-	-	-	95
Net profit for the period	-	-	-	-	-	-	23,264	23,264
At 30 June 2001	<u>45,274</u>	<u>28,800</u>	<u>3,852</u>	<u>726</u>	<u>2,659</u>	<u>885</u>	<u>102,638</u>	<u>184,834</u>
At 1 April 2002	161,139	28,800	6,096	191	4,469	885	197,669	399,249
Issue of shares	6,537	-	-	-	-	-	-	6,537
Exchange realignments	-	-	-	297	-	-	-	297
Net profit for the period	-	-	-	-	-	-	63,205	63,205
At 30 June 2002	<u>167,676</u>	<u>28,800</u>	<u>6,096</u>	<u>488</u>	<u>4,469</u>	<u>885</u>	<u>260,874</u>	<u>469,288</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) 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.

DIRECTORS' INTERESTS IN SHARES

At 30 June 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	<u>43,650,000</u>	<u>–</u>	<u>819,350,000</u>	<u>–</u>

At 30 June 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 819,350,000 shares representing a 38.32% interest in the Company. Therefore, Mr. Shum was deemed to be interested in these shares.

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

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

Name of director	Number of share options granted					Number of share options outstanding at 30 June 2002
	Note 1	Note 2	Note 3	Note 4	Note 5	
Shum Ka Sang	25,500,000	–	10,000,000	12,000,000	–	47,500,000
Wang Guanghao	12,000,000	–	–	–	–	12,000,000
Kong Siu Keung	–	5,000,000	2,000,000	3,000,000	–	10,000,000
Shen Yi	22,000,000	–	3,000,000	2,500,000	10,000,000	37,500,000
Qian Mingjin	–	–	–	6,000,000	–	6,000,000
Zhang Fan	–	–	–	3,000,000	–	3,000,000
	<u>59,500,000</u>	<u>5,000,000</u>	<u>15,000,000</u>	<u>26,500,000</u>	<u>10,000,000</u>	<u>116,000,000</u>

No share option was exercised by the above directors to subscribe for shares of the Company during the Relevant Period. Mr. Choi Yat Choy, an executive director who resigned on 28 June 2002, had exercised 2.5 million options at exercise price of HK\$0.596 each and 3.5 million options at exercise price of HK\$0.61 each during the Relevant Period.

Notes:

1. The share options were granted on 7 April 2000 at an exercise price of HK\$0.61 each. The options can be exercised at any time for a period of five years commencing on 6 November 2000.
2. The share options were granted on 7 July 2000 at an exercise price of HK\$0.66 each. The options can be exercised at any time for a period of five years commencing on 9 January 2001.
3. The share options were granted on 22 March 2001 at an exercise price of HK\$0.568 each. The options can be exercised at any time for a period of five years commencing on 12 October 2001.
4. The share options were granted on 27 September 2001 at an exercise price of HK\$0.596 each. The options can be exercised at any time for a period of five years commencing on 11 April 2002.
5. The share options were granted on 9 May 2002 at an exercise price of HK\$1.08 each. The options can be exercised at any time for a period of five years commencing on 10 November 2002.

The number and unit exercise price of the share options granted prior to 24 July 2001 as presented above have been adjusted pursuant to the Share Subdivision.

Save as disclosed above, at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

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 30 June 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)	819,350,000	38.32%
	(corporate interest) 43,650,000	2.04%
	(personal interest)	
Santa Resources Limited (Note 2)	492,000,000	23.01%
Wah Sang Gas Development	819,350,000	38.32%

Notes:

- At 30 June 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.
- 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" in this report, 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.

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 Relevant Period.

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 period 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 resigned on 24 April 2002. One meeting has been held by the committee members during the Relevant Period.

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