



Annual Report 2003 二零零三年年報

## **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。

# Corporate Mission

Commitment to be the **Best**,  
Most **Reliable** and **Cost Effective**  
**Gas Supplier** in China

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Reliable

"Quality and safety are the two most important attributes for a service industry. We allow no room for imperfections. A clean and healthy environment, especially the availability of safe and reliable gas, is pivotal to ensure that we can deliver our best all the times."

**Mr. Allen Tong**, Head chef of a Chinese restaurant

Powerful



“Energy is the source and heart of every heavy industry. Dedicated to provide a safe working environment for our team and high product quality for our customers, we demand an extendable and reliable energy supply. Wah Sang Gas is our best working partner, delivering consistent and quality gas supply to facilitate our daily operation.”

**Mr. Chen Wen Guang**, Operation officer of a car manufacturing plant



Clean and...



"Every parent wants to provide the best for their loved ones. A healthy and quality lifestyle begins with our environment, which is critical to nurturing growth and development. This is why we trust Wah Sang Gas in providing us with safe, reliable and environmental friendly gas, so that we can ensure a bright and healthy future for our next generation."

**Mrs. Lin**, Mother of Lin Bao Hua

A woman with dark hair in a ponytail, wearing a white button-down shirt and a striped apron, is smiling as she cooks. She is using a white spatula to stir vegetables in a stainless steel pan on a gas stove. The kitchen background is slightly blurred, showing shelves with various items.

...Convenient

“Home sweet home – our sanctuary after a long hard day of work. Watching a movie, cooking a nice meal for our beloved ones and enjoying a hot shower are essence of a quality lifestyle, and that is why convenient and reliable gas supply is vital for us. Now, with Wah Sang Gas’ stable gas supply to us anytime at home – life is healthier, easier and more convenient.”

**Mrs. Daisy Chen**, Young executive and modern housewife

A woman with short dark hair, smiling, wearing a white top and a dark jacket with a light green scarf. She has a name tag on her chest that reads "華桑燃氣 Wah Sang Gas" and "客戶服務中心" (Customer Service Center).

We are committed

"Being members of Wah Sang Gas, we are dedicated to provide safe and reliable gas sources for people of China, with the view of enhancing the standard of living and to ensure a clean and healthy environment for the country. Wah Sang Gas has grown to become what it is today, because we have confidence in the leadership of the management and we believe in the philosophies of the Group."

**Ms. Wang Hai Na**, Staff member of Wah Sang Gas

# Corporate Information

## Executive Directors

Shum Ka Sang, *Chairman*

Wang Guanghao, *Honourary Chairman*

Shen Yi

Kong Siu Keung

Qian Mingjin

Zhang Fan

Fan Bao Qi

## 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*

## Authorised Representatives

Shum Ka Sang

Kong Siu Keung

## 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

Suite 2002, 20th Floor

One Pacific Place

88 Queensway

Hong Kong

## Website

[www.wahsanggas.com](http://www.wahsanggas.com)

## 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

## 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

China Construction Bank

No.19 one plus Nanjing Road

Hexi District

Tianjin

The PRC

China Merchants Bank

Hong Kong Branch

21st Floor, Bank of America Tower

12 Harcourt Road

Central

Hong Kong

## Financial Highlights

### Two-year Comparison of Key Financial Figures

Financial Year		2003	2002	Change (%)
Turnover	HK\$'million	<b>685.4</b>	443.1	+ 54.7
Gross Profit	HK\$'million	<b>351.6</b>	215.8	+ 62.9
Gross Margin	%	<b>51.3</b>	48.7	+ 5.3
Net Profit	HK\$'million	<b>220.9</b>	141.0	+ 56.7
Net Margin	%	<b>32.2</b>	31.8	+ 1.3
Basic EPS	HK Cents	<b>10.28</b>	6.93	+ 48.3
Cash Generated from Operations	HK\$'million	<b>191.1</b>	184.8	+ 3.4
Trade Receivables Turnover	Days	<b>79.6</b>	75.0	+ 6.1

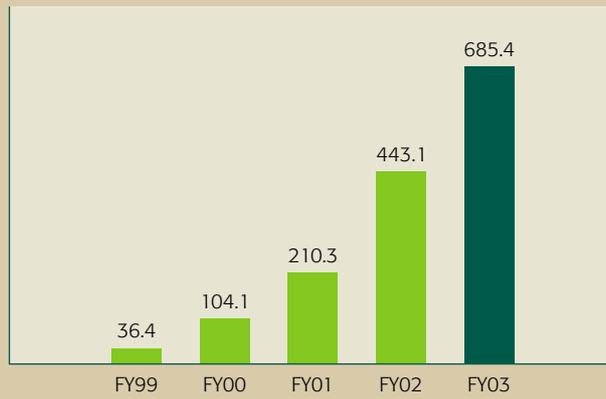
### Five-year Summary of Financial Performance

Financial Year		2003	2002	2001	2000	1999
Turnover	HK\$'million	<b>685.4</b>	443.1	210.3	104.1	36.4
Gross Profit	HK\$'million	<b>351.6</b>	215.8	99.5	44.8	9.6
Gross Margin	%	<b>51.3</b>	48.7	47.3	43.0	26.4
Net Profit	HK\$'million	<b>220.9</b>	141.0	67.2	25.0	1.9
Net Margin	%	<b>32.2</b>	31.8	32.0	24.0	5.2
Basic EPS	HK Cents	<b>10.28</b>	6.93	3.48	1.70	0.13

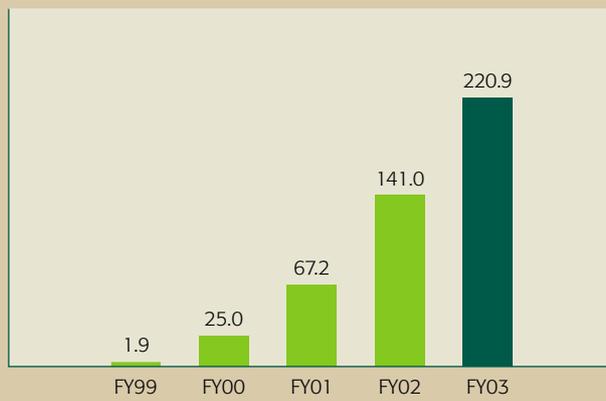
### Five-year Summary of Financial Position

As at 31 March		2003	2002	2001	2000	1999
Total assets	HK\$'million	<b>1,171.6</b>	698.3	300.8	161.5	61.2
Total liabilities	HK\$'million	<b>483.1</b>	235.1	107.9	64.9	60.4
Shareholders' equity/ (Deficiency in Assets)	HK\$'million	<b>661.2</b>	441.8	181.1	87.7	(3.8)

**Turnover**  
HK\$'million



**Net Profit**  
HK\$'million



**Basic Earnings Per Share**  
HK Cents



# Operational Highlights

**Connection Fee  
(%) of Turnover**



Due to our rapid market expansion, the ratio of connection fee increased steadily from 40.8% in FY1999 to 65.5% in FY2003.

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



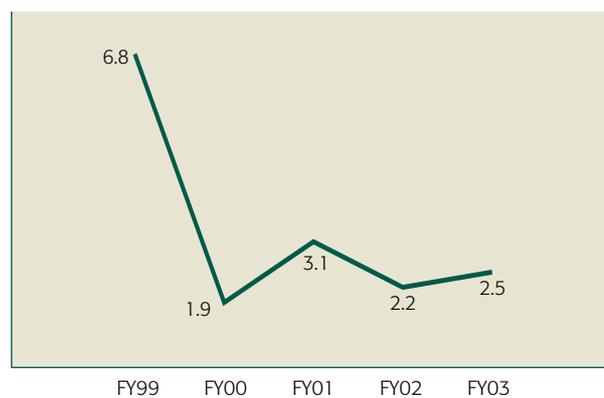
With more and more end users connecting to our piped gas network, the ratio of income from the provision of piped gas surged from 3.3% in FY1999 to 15.3% in FY2003.

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



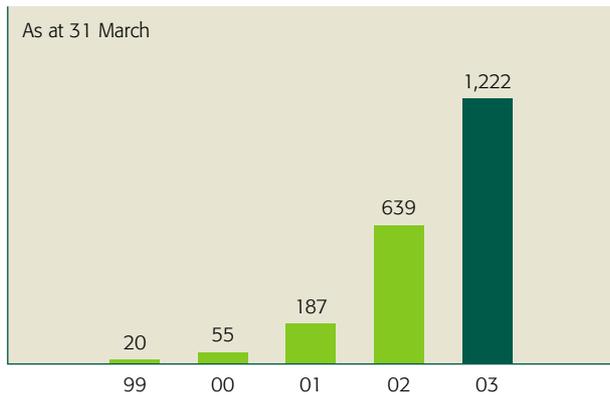
The ratio of income from wholesale and retail of LPG decreased from 49.1% in FY1999 to 16.7% in FY2003.

**Others  
(%) of Turnover**



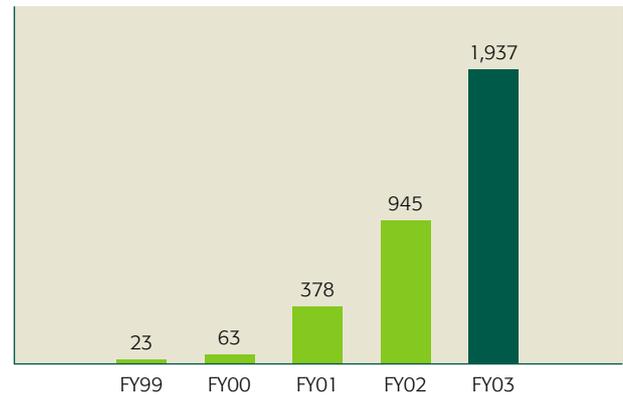
Others mainly include income from sale of gas appliances.

**Pipeline Network  
Kilometers**



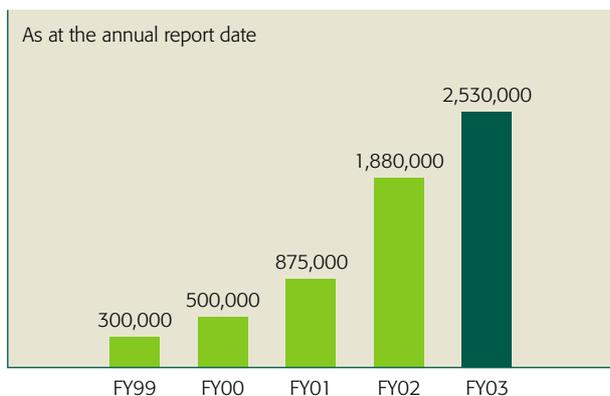
The Group's pipeline network has reached 1,222 km. Within FY2003, the pipeline network increased by 583 km and represented an increase of 91.2% as compared to the total length completed from the past years.

**Piped Gas Usage and Consumption  
1 x 10<sup>6</sup> Mega-Joules**



For the year ended 31 March 2003, the provision of gas recorded 1,937 x 10<sup>6</sup> mega-joules, representing an increase of 105% as compared with last year.

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



As at the date of this annual report, Wah Sang Gas covered 2,530,000 connectable households by exclusive contracts.

**No. of Households Connected**



As at 31 March 2003, Wah Sang Gas has already connected over 452,000 households to its pipeline networks.



## July, 02

- Launched new logo and corporate identity

## August, 02

- Successfully extended gas provision business into Jiangxi Province

## September, 02

- Secured a comprehensive loan facility of RMB300 million from China Construction Bank

## October, 02

- Selected again as one of the “Best Under a Billion” for 2002 by Forbes Global
- One of the 500 International Chinese Enterprises in the World for 2002 by Yazhou Zhoukan
- Accredited by the Ministry of Construction of the PRC government as one of the overseas gas fuel supply companies which successfully raised fund in the international market and actively participated in the utility industry in China



# 2003

## Corporate Milestones

### November, 02

- Entered into a HK\$220 million syndicated loan agreement with eight banking institutions
- Placed second in both categories of “Best Investor Relations from a Growth Market Company” and “Best Overall Investor Relations by a Small and Medium-sized Company” in the Investor Relations Magazine Awards 2002
- Successfully extended gas provision business into Anhui Province

### December, 02

- Successfully secured the contract of “Tianjin Airport Industrial Park”
- One of the “Best in Corporate Governance” in a survey conducted by The Asset in the December 2002 issue
- Received one of the Honourable Mentions in “The Awards of the 2002 HKMA Best Annual Reports Awards” by Hong Kong Management Association (HKMA)

### January, 03

- Chairman and CEO Mr. Shum Ka Sang has been awarded Honourable Citizen of Tianjin City, the PRC

### March, 03

- Held celebration party in Tianjin for its 3rd anniversary after listing

### April, 03

- Rated with the highest rating on the issue of Corporate Governance (CG) on the CG Survey conducted by CLSA published in April 2003

## Chairman's Statement



**Shum Ka Sang**, Chairman

### Dear fellow shareholders,

2003, the fourth year after the GEM listing of Wah Sang Gas Holdings Limited (the "Company" or "Wah Sang Gas") and its subsidiaries (collectively the "Group"), not only continued to be promising and fulfilling, with turnover grew by 54.7% to approximately HK\$685,403,000 and profit attributable to shareholders by 56.7% to approximately HK\$220,884,000 respectively, but also demonstrated another important breakthrough for the Group.

When the majority is talking about bringing the world to China and China to the world, and the global financial community is scanning through all the potential China-concept corporations for their performance and profitability, Wah Sang Gas is pleased to demonstrate its proven success as being one of the first few China enterprises as well as a healthy and fast-growing utility company being recognized as a prime choice in the international financial regime.

Starting from its listing on GEM market in 2000, Wah Sang Gas takes pride of not only becoming the first gas supply company listed on GEM board, but also remaining as one of the best performing stocks in Hong Kong since. The numerous accreditations awarded by various international institutions in the past year proved that both our all-round competence and investment value were widely and well received. In addition, the changes of corporate identity and visual identity last year further enhanced our corporate image as well. With the brand new fresh, green, young and energetic image, we are suggesting a new definition for a modern PRC gas supplier in the new era.

Such a success, indeed, does not come at a glance, but contributes as a mirror of our prudent and aggressive development throughout the past years. What we believe that constitute a first-class international gas supply company continue to be the core values we are striving for: product excellence, customer service, network coverage, cost control, management experience, market insight and corporate governance. During the year under review, we once again delivered significant progress in these areas respectively.

During the year under review, the Group continued to provide a comprehensive range of gas supply, including piped gas (Natural Gas "NG", Compressed Natural Gas "CNG" and Substitute Natural Gas "SNG") as well as bottled liquefied petroleum gas ("LPG"), according to respective needs of various regions in the PRC. An addition of 33 contracts of Wah Sang Gas have been concluded. At the same time, the Group has further expanded its market foothold in other provinces such as Anhui Province, Jiangxi Province and Liaoning Province. 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 2,530,000 units.

Our gas provision business has been in a twin-pillar direction of the Group, stressing both residential as well as industrial and commercial usages. In line with the direction, the Group has made progress and successfully secured contract to provide piped gas in Tianjin Airport Industrial Park in December 2002.

During the year, our financial situation has also been further consolidated. In November 2002, Wah Sang Gas entered into a HK\$220 million long term syndicated loan facility. It also received a comprehensive loan facility of RMB300 million from China Construction Bank.

Not to mention, our investor relations and corporate governance have also received global recognition. In 2002, Wah Sang Gas has been honorably selected as one of the "Best in Corporate Governance" in a survey conducted by "The Asset" and received one of the Honourable Mentions in "The Awards of the 2002 HKMA Best Annual Reports Awards". Wah Sang Gas was also placed second in both categories of "Best Investor Relations from a Growth Market Company" and "Best Overall Investor Relations by a Small and Medium-Sized Company" in the Investor Relations Magazine Awards 2002. These achievements once again echoed with our corporate mission of stretching towards the global financial market.

With over 9 years of experience and proven track record in the PRC gas supply industry, Wah Sang Gas dedicates to become the reliable partner for satisfying the needs of gas provision in the PRC. Looking ahead, we will continue our strategy to work with local governments, with special focus on small and medium-sized cities and industrial development zones with high GDP per capita by offering flexible gas supply to suit different needs of the market.

Under the guidance of experienced management team with expertise in various aspects, we will continuously improve the quality, safety, flexibility, efficiency and customer service of our product, with one single goal in mind: perfection, the key that grasps the hearts of our clients, with the aim to create value and profit to our investors and shareholders.

Welcoming the rapid urbanization of the PRC, its accession into the WTO and the economy's favourable structural trends for productivity and standards of living, the demand for both residential, commercial and industrial gas usages are expected to boost up quickly in the coming future. By securing more exclusive contracts from existing geographical coverage, obtaining more commercial and industrial users in various commercial and industrial zones as well as strengthening management and communications, Wah Sang Gas is well-positioned to capture the ever-growing market, and to become one of the best, most reliable and widely covered gas suppliers 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 to grow throughout the years. Thanks also our dedicated staff for their immense contribution to the success of Wah Sang Gas.

**Shum Ka Sang**

*Chairman*

Hong Kong  
23 June 2003





# The Group is Aiming to Provide a Comprehensive Range of Gas Supply

Including piped gas (NG, CNG and SNG) as well as bottled LPG, catering for different needs of various regions in the PRC.

# Management Discussion and Analysis



## Industry Review

### Entering into a New Era of Energy – Changing Energy Consumption Pattern with Encouraging Governmental Policies

Despite of its rapid economic growth of the PRC, coal still represents the primary source of energy in both industrial and domestic regimes, contributing to approximately 67% of its total energy consumption in 2001.

Moving along with its fast speed of development and the path towards modernization, the PRC government has adopted aggressive measures to play down the reliance on coal and encourage the use of liquefied petroleum gas (“LPG”) and natural gas, the energy sources which ensure higher standard of quality, safety, stability, flexibility and environmental friendliness. It is its goal that by 2030, the consumption rate of coal will be reduced from 67% to 60%, while that of natural gas will be increased from current rate of 2.5% to 7%.

The progress is obvious and encouraging. After years of efforts, consumption rate of LPG and natural gas substantially increased by 513.8% and 63.8% from 1990 to 2001 respectively, while that of coal declined by 10.5%. With series of governmental policies, usage of both LPG and natural gas are expected to increase vigorously, growing into necessity of every citizen in the PRC.

**China’s rapid economic growth, the increase in disposable income and the awareness to improve living standards undoubtedly boost demand for gas consumption.**

### Bottled LPG and Piped Gas Supplies in the PRC – Different Market Segments with Equal Growing Potentials

Bottled LPG becomes essential as it takes a transitional role in the process of the energy evolution. In 2001, among the 11% population using LPG, over 90% of them used bottled LPG. This marks a huge market with considerable significance in the LPG supply industry.

Of equal, if not higher, importance is the growing consumption for piped gas supply. Currently, together with the 2.5% of total population using natural gas, less than 10% of the PRC population adopts the provision of piped gas.

Looking forward, the growth potential of piped gas is infinite. Not only is it regarded as the basic utility of a modern family in China, but also it is a powerful energy source especially for industrial usage that requires steady and large volume consumption. On the one hand, China's rapid economic growth, the increase in disposable income, and the awareness to improve living standards undoubtedly boost demand for the domestic piped gas consumption. On the other hand, the growing importance of the PRC as an international industrial hub after its accession into WTO also creates huge demand for industrial piped gas. All these will undoubtedly further drive the demand of piped gas.

### Rapid Urbanization Creates Market Opportunities for Gas Supply

Themed as "to build a well-off society in every aspect" in the 16th National Congress of the Communist Party of China, the PRC government demonstrated its full support and determination to accelerate urbanization and modernization in the PRC.

And the rate has never slackened. While between 2000 and 2001, the urban population in the PRC increased by 4.7% to reach 481 million, translating into approximately 137 million households in 2001. It is expected that the population will be increased by 55% in the next 20 years.

After the relaxation on movement from the countryside to the cities, those small and medium-sized cities nearby are the first priority of relocation for rural citizens. This also states the reason for Wah Sang Gas focus on developing the market for small and medium-sized cities, as it is undeniably an enormous market for piped gas.

The improving quality of living and home ownership privatization both significantly benefit and boost the home buying trend in the PRC. Ultimately, the increasing popularity of home buying will drive up the demand of piped gas and offer unlimited opportunities for Wah Sang Gas.

### "West to East Pipeline" Project Boost Usage of Various Kinds 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 gas supply needs.



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 substitute natural gas ("SNG", a kind of piped gas made from LPG) 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 for allowing customers to switch the gas supply from SNG to natural gas with ease. By offering various gas sources to satisfy the different types of needs, Wah Sang Gas is well positioned in the industry to capture unlimited opportunities for the vast PRC market.



## Operational 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 (including SNG and natural 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 financial year is as follows:

	For the year ended 31 March	
	<b>2003</b> <b>HK\$'000</b>	<b>2002</b> <b>HK\$'000</b>
Gas pipeline construction	448,699	278,835
Sale of piped gas, wholesale and retail of LPG	219,792	154,428
Sale of gas appliances and others	16,912	9,807
	<b>685,403</b>	<b>443,070</b>



### **Construction of Gas Pipeline Networks**

The Group receives connection fee 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 year, the Group recorded a 60.9% growth in connection fee income for completing connection for approximately 209,000 households (FY2002: 141,000 households). As at 31 March 2003, the accumulated number of connected households reached approximately 452,000 units, generating a solid customer base for the Group's future piped gas revenue.

Since April 2002, the Group has successfully secured 33 new exclusive contracts from local governments to operate piped gas business. These exclusive contracts are distributed in the following areas:

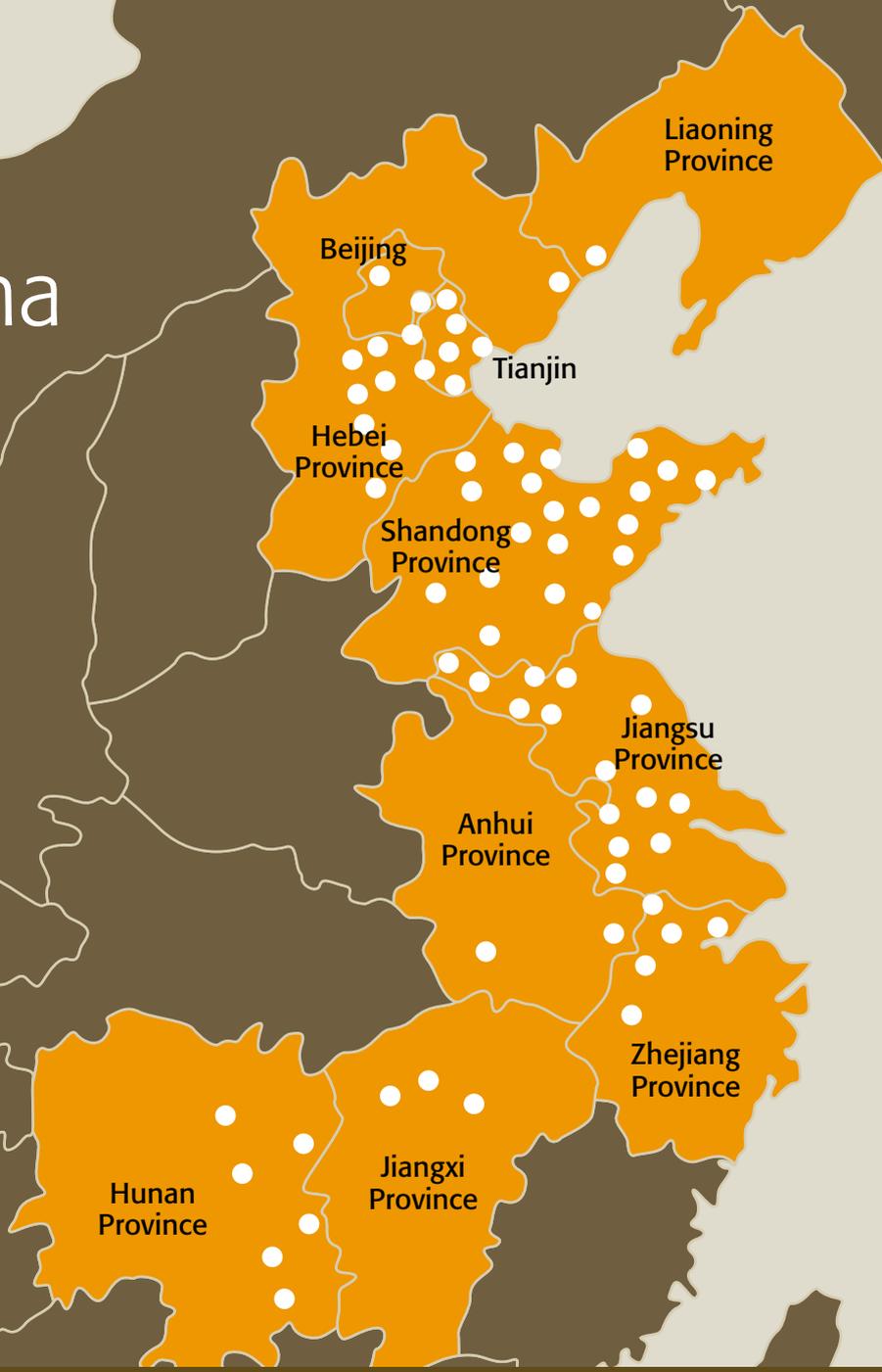
- Haiyan of Zhejiang Province, Huaining of Anhui Province, Youxian of Hunan Province and Tianjin Airport Industrial Park in Tianjin Port Free Zone, where the gas processing stations were under construction as of 31 March 2003; and
- Xuzhou Economic Development Zone in Jiangsu Province, Linzi of Shandong Province, Suizhong of Liaoning Province, Leiyang of Hunan Province and Yingtan of Jiangxi Province, where the construction of gas processing stations are expected to commence in fiscal year 2004.

As of the date of this annual report, the exclusive contracts on hand, together with the aforementioned new contracts, have reached a total coverage of 68 cities and districts, accumulating approximately 8,840,000 urban population or 2,530,000 connectable households in total.

The geographical coverage of these exclusive contracts includes Tianjin City, Beijing City, Hebei Province, Shandong Province, Jiangsu Province, Zhejiang Province, Hunan Province, Jiangxi Province, Anhui Province and Liaoning Province.

Whereas it is the Group comes to a strategic move to expand to certain high-growth cities with relatively higher average income, the average connection fee per household increased by 8.9%, reaching approximately HK\$2,150 (RMB2,282) from approximately HK\$1,974 (RMB2,095) in last year.

China





# Geographical Coverage

As of the date of this annual report, approximately 8,840,000 urban population or 2,530,000 connectable households are covered by the 68 exclusive contracts secured by the Group.



Pursuant to the "Notice regarding business tax policy issued by the State Tax Bureau and the Ministry of Finance of the PRC" (the "Notice") issued on 15 January 2003, it mentions, inter alia, certain companies, including gas companies, are subject to value-added tax ("VAT") on the connection fee of gas pipes instead of 3% business tax. However, it does not clearly mention about the applicable rate of the VAT on the connection fee. Based on the existing information, the Company is not able to make a definitive assessment of the impact of the Notice to the Group's future operations. The Company is in the process of clarifying this matter with the relevant tax bureau in the PRC. For the sake of prudence, an appropriate amount of VAT payable had been deducted from the connection fees income recognised in the last quarter of fiscal year 2003.

### ***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 639 kilometers as at the beginning of the year to approximately 1,222 kilometers as at 31 March 2003, representing an increase of 91.2%.

During the year, consumption of piped gas by residential and industrial customers notably increased to approximately  $1,416.9 \times 10^6$  mega-joules and  $520.1 \times 10^6$  mega-joules, both representing a growth of 1.0 time and 1.2 times respectively over the previous year. This significant increase

**Due to significant increase in the number of connected households and expansion in geographical coverage, consumption of piped gas by residential and industrial customers increased by 1.0 time and 1.2 times during the year.**

can be attributed to the substantial growth in the number of connected households and expansion in geographical coverage during the 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.

During the year, the Group continued to establish a 24-hour service hotline in each location. The hotline is linked to the central management in Tianjin so that the management of the Group 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 residential customers where the supply of piped gas has not yet been extended;
- (ii) Delivery of LPG via tank trucks to the storage facilities of local gas distributors, industrial and commercial customers; and
- (iii) Refueling of gas cylinders brought from customers at the gas processing stations and storage depots operated by the Group.

During the year, the wholesale and retail of LPG reached  $2,183.7 \times 10^6$  mega-joules, a slight increase of 0.2% over the previous year. Due to the sharp increase in LPG cost driven by the Middle East political instability, the Group concentrated its resources on piped gas and market development instead of LPG distribution which contributed only a thin profit margin. The Group believes that the LPG cost will drop to a reasonable level after FY2003. Given our strong geographical market coverage in China, the Group will effectively reallocate its existing resources and expand its business of LPG distribution in the forthcoming year.

The large volume of wholesale and retail of LPG enables the Group to increase its market share in each location, secure amicable business relationships with LPG suppliers and at the same time, generate a stable cash flow to the Group and provide a huge base of potential customers for piped gas penetration in future.

### **Sale of Domestic Gas Appliances**

In order to provide a comprehensive range of gas-related services for customers, the Group also sells domestic gas appliances, including stoves and water heaters, to local residents. During the year under review, revenue from the sales of gas appliances grew impressively by 72.4% to HK\$16.9 million. The sale of domestic gas appliances is

highly synergetic to the Group's business of providing piped gas and LPG.

### **Gross and Net Margin**

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

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 year reached 51.3% and 32.2% respectively. Profit attributable to shareholders for the year increased to approximately HK\$220,884,000, a 56.7% growth from the previous year.

Basic earnings per share for the year reached HK10.28 cents, an encouraging growth by 48.3% from HK6.93 cents in the previous year.



# Management Discussion and Analysis

## Capital Expenditure

The Group continued to expand its geographical coverage in the PRC with 24 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\$410 million in capital 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 borrowings.

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.

## Trade Receivables

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

The Group maintains stringent credit policy to customers and adopts effective incentive schemes to encourage employees speeding up the collection of connection fee. During the year, the Group actively expanded its geographical coverage in the PRC. In order to attract more customers to connect to our pipeline network, more favourable credit terms were offered to new customers during the year. Accordingly, the average collection period calculated based on average trade receivables balance for the year reached approximately 80 days, an increase by 6.1% compared with last year. Although longer credit period was offered to new customers, the Group always maintains strict control over its outstanding receivables and overdue balances are reviewed regularly by management. For the sake of prudence, sufficient amount of general provision for doubtful debts calculated based on ageing of trade receivables was recorded in the financial statements.

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 being tied up in accounts receivable.





## Liquidity and Financial Resources

During the year under review, the Group financed its investments and operating activities principally through self-generated working capital and bank borrowings.

During the year, due to more favourable credit terms offered to new customers as mentioned above, the balance of trade receivables increased to approximately HK\$206.5 million as at 31 March 2003. As a result, the total amount of cash generated from operations for the year is approximately HK\$191 million, a slight increase by 3.4% compared with the previous year. Once the penetration and reputation of the Group is solidified in the new areas, the Group will apply effective measures to tighten its credit policy to customers and expect to generate stronger cashflow from operations.

Given the strong performance of the Group, the Company has successfully secured a syndicated long-term loan facility of HK\$220 million in early November 2002. In addition, a comprehensive loan facility of RMB300 million had been successfully secured from China Construction Bank during the year.

In accordance with the existing expansion plan of the Group, the effective combination of internal resources and bank borrowings will be strong enough to facilitate its future capital expenditure requirements.

## Corporate Governance

Wah Sang Gas understands that the financial community is increasingly concerned about the governance of listed companies. Therefore, the Group is committed to enhancing corporate governance and continues to promote ethical and sound business practices. At the same time, it also strives to improve its internal and legal regulatory compliance, so as to enhance the investor and public confidence towards the Group.

In FY2003, the Group enhanced its corporate governance by applying proper accountability of management to the Board, enhancing the transparency level of the Group, sustaining good communications with the investment community and improving its management structure. The Group's efforts were highly recognized, as it was voted one of the "Best in Corporate Governance" in a survey conducted by "The Asset" in the December 2002 issue.





# Comprehensive Training Programs for Employees

Have been established to provide regular education and update on managerial, technical and servicing skills.

# Management Discussion and Analysis



## Board of Directors

The Board plays a supervisory role rather than executive role. The Board of directors delegates the day-to-day management to senior management and focuses on major matters affecting the values to the Company's shareholders, including financial statements, dividend policy, significant accounting policies, annual operating budget, material contracts, financing arrangements, major investments, risk management and pricing strategy.

To demonstrate the independency of the Board, Wah Sang Gas has two Independent Non-Executive Directors on the Board who are totally independent from the Company. The Board also holds board meetings and audit committee meetings to review the Group's management accounts and to supervise its accounting procedures and internal control systems every quarter in the FY2003.

## Independence

Audit committee is made up by Independent Non-executive Directors and chaired by a member who has extensive experience in finance and management of companies listed in Hong Kong. External auditors were unrelated to the Company and no non-audit fee has been paid to external auditors since its listing in 2000. There were no bank representatives or other large creditors on the Board of Directors of the Company.

**The Group is committed to enhancing corporate governance and continues to promote ethical and sound business practices.**

## Transparency

In order to raise the transparency of Wah Sang Gas, the Group delivers business and financial results to media, investors, shareholders and the public every quarter. In terms of quality, the Group aims to disclose each results performance as clear and informative as possible. Such transparency was recognized by the industry, as it was accredited as one of the Honourable Mentions in "The Awards of the 2002 HKMA Best Annual Reports Awards". Regarding market-sensitive information, the Group endeavored to promptly disclose news that may raise concerns from the public and the financial community and may possibly affect share price, e.g. the signing of HK\$220 million syndicated loan facility in November 2002.

Wah Sang Gas was also aware of the importance of media relations. The Group has maintained good communications with both local and regional media since its listing in 2000 to maintain its corporate profile and publicity in the mass level, as well as to constantly update the public with its latest business developments.

To enhance the accessibility of investors to senior management, Wah Sang Gas has set up an Investor Relations Department to maintain an intimate relationship with numerous institutional investors by arranging frequent meetings with analysts and post-results roadshows. The Investor Relations Department is also responsible for disclosing accurate and timely information about the Group's operation and financial issues, which has earned tremendous recognition by the investment community and gained numerous investor relations awards for the Group.

### 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 2003, the Group had approximately 930 full-time employees, representing a 57.6% increase from approximately 590 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 approximately HK\$17.6 million, representing an increase of 81.4% 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.

**To maintain a leading position in the industry in the PRC, the Group strongly believes that qualified personnel are crucial for continuous success.**

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 provide regular education and to 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 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's 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 "Dedication to Innovation and Improvement", with a view to developing a culture of lifelong learning among employees.





# Professional Team

Under the guidance of experienced management team with expertise in various aspects, the Group will continuously improve the quality, safety, flexibility, efficiency and customer service of our product, with the aim to create value and profit to our investors and shareholders.

# Management Discussion and Analysis

## Investor Relations Activities

Month/Year	Organizer	Conference	Location
March 2002	HSBC	"Hong Kong in Singapore" Conference	Singapore
May 2002	HSBC	China Strategic Forum 2002	Shanghai
May 2002	CLSA	China Forum 2002	Beijing
June 2002	HSBC	China Gas Distribution Companies	Singapore
June 2002	Wah Sang Gas	Annual Results Announcement FY2002 – Investor Presentation	Hong Kong
August 2002	JP Morgan	JP Morgan China Conference 2002	Beijing
August 2002	Wah Sang Gas	First Quarterly Results Announcement FY2003 – Investor Presentation	Hong Kong
September 2002	CSFB	Asia Energy Conference	Hong Kong
October 2002	Deutsche Bank	Deutsche Bank Corporate Day	Hong Kong
October 2002	Morgan Stanley	Morgan Stanley Asia Pacific Summit	Singapore
October 2002	CLSA	China Corporate Day	San Francisco, Chicago, New York and Boston
November 2002	Wah Sang Gas	Analyst Site Visit	Yanjiao Gas Station, Hebei
November 2002	Wah Sang Gas	Interim Results Announcement FY2003 – Investor Presentation	Hong Kong
January 2003	UBS Warburg	Greater China Conference	Shanghai
January 2003	CLSA	Fund Manager Meetings	Singapore
February 2003	Wah Sang Gas	Third Quarterly Results Announcement FY2003 – Investor Presentation	Hong Kong
March 2003	CLSA	Fund Manager Site Visit	Yanjiao Gas Station, Hebei
March 2003	CSFB	Asia Investment Conference	Hong Kong



## Awards

After receiving numerous awards during the FY2002, Wah Sang Gas was again recognized by investment community of its outstanding management and performance. In October 2002, Wah Sang Gas was honourably selected by Forbes Global as one of the "Best Under a Billion" and by Yazhou Zhoukan as one of the "500 International Chinese Enterprises in the World" for 2002. In November 2002, the Group placed second amongst various industry leaders and giants in both categories of "Best Investor Relations from a Growth Market Company" and "Best Overall Investor Relations by a Small and Medium-Sized Company" from the Investor Relations Magazine Awards 2002. In addition, Wah Sang Gas also received one of the Honourable Mentions in "The Awards of the 2002 HKMA Best Annual Reports Awards" and was selected as one of the "Best in Corporate Governance" in a survey conducted by "The Asset" in the December 2002 issue. The categories of awards span from investor relations, annual report production to corporate governance. It clearly demonstrated that Wah Sang Gas was well recognized by the investment community in various aspects.

## Future Prospects

Looking ahead, the Group will continue to focus on small and medium-sized cities in the PRC with high GDP per capita and to explore new markets by securing exclusive contracts from local governments. With the general favourable market environment set forth where the

## The rapid urbanization process in small and medium-sized cities will continue to create enormous market potentials for the Group.

government releases a series of beneficial policies to the public, the demand for piped gas is expected to increase tremendously.

The rapid urbanization process in small and medium-sized cities will continue to create enormous market potentials for the Group. Whereas the urban population will increase by 50% in 10 years, about 500 million farmers will also be relocated from rural to urban within the next 30 years. These would all create demand for piped gas, as the basic utility of daily life.

Currently, the exclusive contracts secured by the Group cover 68 cities and districts, with total urban population of these areas reaching approximately 8,840,000. By offering flexible gas supply to suit the different market needs, the Group is well positioned to extend its market coverage to other parts of the PRC.

With unique patented technology, solid industry experience and a visionary management team, the Group is well equipped to become a strong utility company with healthy expansion capability and stable future income, so as to bring the highest yields to its shareholders.



華燊燃氣  
Wah Sang

三河燃氣發展有限公司客



華燊燃氣  
Wah Sang Gas



## Customer-Oriented Services

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.

## Directors and Senior Management



Left to right: Shen Yi, Shum Ka Sang, Kong Siu Keung, Qian Mingjin, Zhang Fan, Fan Bao Qi

### Executive Directors

#### Shum Ka Sang

aged 54, 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 Honourable Citizen of Tianjin City, standing member of the Tianjin Committee of the Chinese People's Political Consultative Conference and member of the Chinese Overseas.

#### Wang Guanghao

aged 64, is the Honourary 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, the Deputy Director of Tianjin Foreign Economic Trade Commission and the Director of the Foreign Investment Office of the Tianjin Municipal People's Government.

### Shen Yi

aged 36, 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, Mr. Shen worked with Tianjin LPG Group and has over 10 years of experience in the gas fuel industry, particularly operation management, in the PRC.

### Kong Siu Keung

aged 34, is an Executive Director and the Chief Financial Officer of the Company. Mr. Kong holds a Master's degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in July 2000, Mr. Kong had over 8 years of experience working in an international firm of accountants.

### Qian Mingjin

aged 50, is an Executive Director and the Assistant to CEO of the Company. Ms. Qian obtained a Master's degree from Tufts University (U.S.A.) and a Master's 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. Ms. Qian has over 8 years of experience in the finance and investment management industry.

### Zhang Fan

aged 40, is an Executive Director of the Company. 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. Mr. Zhang 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.

### Fan Bao Qi

aged 56, is an Executive Director of the Company. Mr. Fan and is responsible for the Group's technical research and development. Prior to joining the Company in March 1994, Mr. Fan had 21 years of experience in the gas fuel industry in the PRC.

## Independent Non-Executive Directors

### Ng Eng Leong

aged 52, 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 66, 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.

## Directors and Senior Management

### Senior Management

#### Li Li

aged 48, is the Deputy Chief Operating Officer of the Group. Mr. Li is a graduate student of enterprise management. Prior to joining the Group in September 2002, Mr. Li served in a national trading company as well as several international firms. Mr. Li has extensive experience in human resources, marketing and logistics management.

#### Li Shu Wang

aged 37, is the Chief Engineer of the Group and responsible for the technological research and development. Mr. Li was graduated from the chemistry faculty of an institute with major in chemical engineering in 1988. Prior joining the Group in April 2002, Mr. Li worked for a petro-chem engineering corporation in the PRC and has accumulated over 14 years experiences in energy industry.

#### Xiao Yudong

aged 44, is the Director of Project Investment Department of the Group. Mr. Xiao obtained his Masters' of Business Administration Degree from the US California University in 2001. Prior to joining the Group in October 2001, Mr. Xiao had over 20 years of experience in operation management in the PRC.

#### Sun Yan

aged 36, is the Director of Customer Service Department of the Group. Mr. Sun graduated from the Tianjin Finance and Economics Institute. Prior to joining the Group in 2000, Mr. Sun had over 10 years of experience in administration management in Sino-foreign enterprises.

#### Li Fu Sen

aged 46, is the Director of Gas Sales Department of the Group. Mr. Li graduated from Tianjin University with major in gas studies. Prior to joining the Group in 2001, Mr. Li has worked for a coal gas plant for over 18 years, and accumulated profound experience in management and operation for gas industry.

#### Shi Dun Hong

aged 39, is the Director of Operating Management Department of the Group. Mr. Shi graduated from an institute in 1985, with major in energy engineering. Prior joining the Group in 2002, Mr. Shi worked for a power plant as chief engineer and gained over 16 years of experience in the energy industry.

#### Wong Siu Lung

aged 27, is the Assistant Financial Controller of the Group. Mr. Wong obtained his Bachelor's of Commerce Degree from University of Melbourne in 1997 and is a Certified Practising Accountant of CPA Australia. Prior to joining the Group in 2003, Mr. Wong was a senior accounting manager of a listed company and had over 4 years of experience in the field of auditing.

# 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 2003.

## Principal Activities

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

## Results and Dividends

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 90.

The directors recommend the payment of a final dividend of HK1.2 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 July 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

### Results

	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Turnover</b>	<b>685,403</b>	443,070	210,301	104,091	36,401
Cost of sales	<b>(333,766)</b>	(227,313)	(110,818)	(59,280)	(26,850)
Gross profit	<b>351,637</b>	215,757	99,483	44,811	9,551
Other revenue	<b>1,257</b>	2,029	2,761	542	409
Selling and distribution costs	<b>(21,489)</b>	(13,087)	(2,787)	(747)	(556)
Administrative expenses	<b>(76,379)</b>	(41,920)	(24,277)	(8,457)	(5,075)
Other operating expenses	<b>(6,544)</b>	(3,728)	(1,116)	(1,071)	(157)
<b>Profit from operating activities</b>	<b>248,482</b>	159,051	74,064	35,078	4,172
Finance costs	<b>(12,650)</b>	(7,625)	(3,291)	(2,372)	(1,161)
<b>Profit before tax</b>	<b>235,832</b>	151,426	70,773	32,706	3,011
Tax	<b>(10,807)</b>	(3,586)	(231)	(3,128)	(188)
<b>Profit before minority interests</b>	<b>225,025</b>	147,840	70,542	29,578	2,823
Minority interests	<b>(4,141)</b>	(6,852)	(3,296)	(4,545)	(875)
<b>Net profit from ordinary activities attributable to shareholders</b>	<b>220,884</b>	140,988	67,246	25,033	1,948

# Report of the Directors

## Summary Financial Information (Continued)

### Assets, liabilities and minority interests

	2003	2002	31 March		
	HK\$'000	HK\$'000	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Total assets</b>	<b>1,171,631</b>	698,264	300,829	161,515	61,177
<b>Total liabilities</b>	<b>(483,063)</b>	(235,117)	(107,883)	(64,895)	(60,417)
<b>Minority interests</b>	<b>(27,414)</b>	(21,354)	(11,811)	(8,879)	(4,605)
	<b>661,154</b>	441,793	181,135	87,741	(3,845)

### 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

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 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

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 28 to the financial statements and in the consolidated summary statement of changes in equity.

### Distributable Reserves

At 31 March 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$73,648,000, of which HK\$25,934,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of approximately HK\$181,502,000, may be distributed in the form of fully paid bonus shares.

### Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$1,534,000.

## Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 13% (2002: 15%) of the total sales for the year and sales to the largest customer included therein amounted to 3% (2002: 4%).

Purchases from the Group's five largest suppliers accounted for 83% (2002: 57%) of the total purchases of fuel gas for the year and purchases from the largest supplier of fuel gas included therein amounted to 53% (2002: 23%).

Subcontracting fees paid to the Group's five largest pipeline subcontractors accounted for 42% (2002: 61%) of the total subcontracting fees incurred for the year and subcontracting fees paid to the largest pipeline subcontractor included therein amounted to 9% (2002: 22%).

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:

### Executive directors:

Shum Ka Sang (Chairman)

Wang Guanghao (Honourary Chairman)

Shen Yi

Kong Siu Keung

Qian Mingjin

Zhang Fan

Fan Bao Qi (appointed on 30 August 2002)

Chen Cuiwan (resigned on 24 April 2002)

Choi Yat Choy (resigned on 28 June 2002)

### Independent non-executive directors:

Ng Eng Leong

Cui Shuming

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

In accordance with clauses 87(1) and (2) of the Company's bye-laws, Mr. Shen Yi and Mr. Cui Shuming 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 38 to 40 of the Annual Report.

# Report of the Directors

## Directors' Service Contracts

Mr. Shum Ka Sang 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 annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' Interests in Contracts

Save as disclosed below under the heading "Connected Transactions", no director had a material 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 Shares

At 31 March 2003, 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 (Note)	45,650,000	–	819,350,000	–
Mr. Shen Yi	100,000	–	–	–
Mr. Kong Siu Keung	100,000	–	–	–

Note: At 31 March 2003, 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 37.91% interest in the Company. Therefore, Mr. Shum was deemed to be interested in these shares.

The interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Save as disclosed above and as disclosed below under the heading "Directors' Rights to Acquire Shares", 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 in the share option scheme disclosure in note 27 to the financial statements, 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

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 27 to the financial statements.

Concerning the share options granted during the year to the Company's executive directors and employees of the Group, as detailed in note 27, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation are subjective and uncertain. In addition, a readily available 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.

## Directors' Interests in Contract

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 (the "GEM Listing Rules")) had any interests in a business which competes or may compete with the businesses of the Group.

## Substantial Shareholders

At 31 March 2003, 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 issued share capital
Mr. Shum Ka Sang (Note 1)	819,350,000 (corporate interest)	37.91%
	45,650,000 (personal interest)	2.11%
Santa Resources Limited (Note 2)	493,600,000	22.84%
Wah Sang Gas Development (Note 1)	819,350,000	37.91%

Notes: (1) At 31 March 2003, 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.

# Report of the Directors

## Connected Transactions

Upon termination of the licence agreement with Wah Sang Trading Company Limited on 16 December 2002, the Company entered into a new licence agreement with Wah Sang Development (Group) Limited ("Wah Sang Development") whereby Wah Sang Development agreed to grant to the Group a licence to use the trademark (which has been registered under the name of Wah Sang Development) for an initial term of 20 years at a total fee of HK\$1 payable by the Company.

## Post Balance Sheet Event

Details of the significant post balance sheet event of the Group are set out in note 34 to the financial statements.

## 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 two members, Mr. Ng Eng Leong and Mr. Cui Shuming, both being independent non-executive directors of the Company. 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 board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 March 2003.

## 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  
23 June 2003

# Report of the Auditors



## To the members

### Wah Sang Gas Holdings Limited

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 48 to 90 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 2003 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

23 June 2003

# Consolidated Profit and Loss Account

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	5	<b>685,403</b>	443,070
Cost of sales		<b>(333,766)</b>	(227,313)
Gross profit		<b>351,637</b>	215,757
Other revenue	5	<b>1,257</b>	2,029
Selling and distribution costs		<b>(21,489)</b>	(13,087)
Administrative expenses		<b>(76,379)</b>	(41,920)
Other operating expenses		<b>(6,544)</b>	(3,728)
<b>Profit from operating activities</b>	6	<b>248,482</b>	159,051
Finance costs	7	<b>(12,650)</b>	(7,625)
<b>Profit before tax</b>		<b>235,832</b>	151,426
Tax	10	<b>(10,807)</b>	(3,586)
<b>Profit before minority interests</b>		<b>225,025</b>	147,840
Minority interests		<b>(4,141)</b>	(6,852)
<b>Net profit from ordinary activities attributable to shareholders</b>	11	<b>220,884</b>	140,988
<b>Dividends</b>	12		
Underaccrual of 2001/2002 final dividend		<b>135</b>	–
Proposed final		<b>25,934</b>	21,272
		<b>26,069</b>	21,272
<b>Earnings per share</b>	13		
Basic		<b>10.28 cents</b>	6.93 cents
Diluted		<b>10.04 cents</b>	6.83 cents

# Consolidated Balance Sheet

31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Fixed assets	14	<b>843,413</b>	454,247
<b>Current assets</b>			
Inventories	17	<b>2,779</b>	1,848
Trade receivables	18	<b>206,525</b>	92,589
Prepayments and other receivables	19	<b>34,810</b>	33,913
Pledged deposits	22	<b>2,105</b>	2,020
Cash and cash equivalents	22	<b>81,999</b>	113,647
		<b>328,218</b>	244,017
<b>Current liabilities</b>			
Trade and bills payables	23	<b>58,014</b>	27,357
Tax payable		<b>5,660</b>	2,100
Other payables and accruals		<b>46,394</b>	30,402
Interest-bearing bank loans	24	<b>158,211</b>	80,868
Finance lease payables	25	<b>62</b>	62
Due to joint venture partners	21	<b>19,672</b>	7,310
		<b>288,013</b>	148,099
<b>Net current assets</b>		<b>40,205</b>	95,918
<b>Total assets less current liabilities</b>		<b>883,618</b>	550,165
<b>Non-current liabilities</b>			
Interest-bearing bank loans	24	<b>194,912</b>	86,820
Finance lease payables	25	<b>138</b>	198
		<b>195,050</b>	87,018
<b>Minority interests</b>		<b>27,414</b>	21,354
		<b>661,154</b>	441,793
<b>Capital and reserves</b>			
Issued capital	26	<b>21,612</b>	21,272
Reserves	28	<b>613,608</b>	399,249
Proposed final dividend	12	<b>25,934</b>	21,272
		<b>661,154</b>	441,793

**Shum Ka Sang**  
Director

**Kong Siu Keung**  
Director

## Consolidated Summary Statement of Changes in Equity

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Total equity at beginning of year		<b>441,793</b>	181,135
(Deficit)/Surplus on revaluation of land and buildings	28	<b>(393)</b>	2,633
Exchange differences on translation of the financial statements of foreign entities	28	<b>(426)</b>	(440)
Net (losses)/gains not recognised in the profit and loss account		<b>(819)</b>	2,193
Net profit for the year attributable to shareholders	28	<b>220,884</b>	140,988
Dividends	12, 28	<b>(21,407)</b>	–
Issue of shares, including share premium	26	<b>20,703</b>	126,351
Share issue expenses	28	–	(8,874)
Total equity at end of year		<b>661,154</b>	441,793

# Consolidated Cash Flow Statement

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
<b>Cash flows from operating activities</b>			
Profit before tax		<b>235,832</b>	151,426
Adjustments for:			
Finance costs	7	<b>12,650</b>	7,625
Interest income	5	<b>(392)</b>	(749)
(Gain)/loss on disposal of fixed assets	6	<b>(317)</b>	2,893
Depreciation	6	<b>18,443</b>	7,973
Deficit on revaluation of land and buildings with ownership certificates	6	<b>279</b>	271
Reversal of deficit on revaluation of land and buildings with ownership certificates	6	<b>–</b>	(542)
Impairment of fixed assets	6	<b>4,565</b>	–
Provision for bad and doubtful debts	6	<b>1,700</b>	835
Operating profit before working capital changes		<b>272,760</b>	169,732
Increase in amounts due from related companies		<b>(97)</b>	(397)
Increase in amounts due from joint venture partners		<b>(2,500)</b>	–
Increase in trade receivables		<b>(115,636)</b>	(3,960)
Decrease/(increase) in prepayments, deposits and other debtors		<b>1,700</b>	(20,183)
(Increase)/decrease in inventories		<b>(931)</b>	258
Increase in trade and bills payables		<b>30,657</b>	15,616
Decrease in an amount due to a related company		<b>–</b>	(655)
Increase in amounts due to joint venture partners		<b>12,362</b>	6,091
(Decrease)/increase in other payables and accruals		<b>(6,654)</b>	18,505
Effect of changes in foreign exchange rates		<b>(500)</b>	(206)
Cash generated from operations		<b>191,161</b>	184,801
Interest received	5	<b>392</b>	749
Interest paid	7	<b>(12,634)</b>	(7,617)
Interest element on finance lease rental payments	7	<b>(16)</b>	(8)
Mainland China income tax paid		<b>(7,247)</b>	(3,199)
Net cash inflow from operating activities		<b>171,656</b>	174,726

# Consolidated Cash Flow Statement

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Net cash inflow from operating activities		<b>171,656</b>	174,726
<b>Cash flows from investing activities</b>			
Purchases of fixed assets		<b>(391,061)</b>	(299,408)
Proceeds from disposal of fixed assets		<b>1,178</b>	1,732
Increase in pledged time deposits		<b>(85)</b>	(2,020)
Net cash outflow from investing activities		<b>(389,968)</b>	(299,696)
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	26	<b>20,703</b>	126,351
Share issue expenses	28	–	(8,874)
New bank loans		<b>283,764</b>	187,350
Repayment of bank loans		<b>(98,329)</b>	(100,320)
Capital element of finance lease rental payments		<b>(60)</b>	(48)
Dividends paid		<b>(21,407)</b>	–
Dividends paid to minority shareholders		–	(962)
Contributions from minority shareholders		<b>1,993</b>	3,419
Net cash inflow from financing activities		<b>186,664</b>	206,916
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(31,648)</b>	81,946
Cash and cash equivalents at beginning of year		<b>113,647</b>	31,701
<b>Cash and cash equivalents at end of year</b>		<b>81,999</b>	113,647
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	22	<b>71,999</b>	113,647
Non-pledged time deposits with original maturity of less than three months when acquired	22	<b>10,000</b>	–
		<b>81,999</b>	113,647

# Balance Sheet

31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Interests in subsidiaries	16	<b>333,705</b>	214,340
<b>Current assets</b>			
Other receivables	19	<b>695</b>	149
Cash and cash equivalents	22	<b>22,386</b>	37,240
		<b>23,081</b>	37,389
<b>Current liabilities</b>			
Other payables and accruals		<b>24</b>	224
<b>Net current assets</b>			
		<b>23,057</b>	37,165
<b>Total assets less current liabilities</b>			
		<b>356,762</b>	251,505
<b>Non-current liabilities</b>			
Interest-bearing bank loans	24	<b>80,000</b>	–
		<b>276,762</b>	251,505
<b>Capital and reserves</b>			
Issued capital	26	<b>21,612</b>	21,272
Reserves	28	<b>229,216</b>	208,961
Proposed final dividend	12	<b>25,934</b>	21,272
		<b>276,762</b>	251,505

**Shum Ka Sang**

*Director*

**Kong Siu Keung**

*Director*

# Notes to Financial Statements

31 March 2003

## 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 new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

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 which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 50 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flows statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes that have resulted from them are included in the accounting policy for "Foreign Currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities (the "Listing Rules") on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

### **3. Summary of Significant Accounting Policies**

#### **Basis of Preparation**

These 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 the periodic remeasurement of certain fixed assets as further explained below.

#### **Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivables. 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 Mainland of the People's Republic of China ("Mainland China" or 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 dissolutions. The profits and losses from joint venture companies' 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, directly or indirectly, 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 consolidated 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.

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves.

Goodwill on acquisitions subsequent to 1 April 2001 is treated according to SSAP 30 goodwill accounting policy above.

# Notes to Financial Statements

31 March 2003

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

### Goodwill (Continued)

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.

### Fixed Assets and Depreciation

Fixed assets, are stated at cost or valuation 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 valuation. Professional valuations are performed annually 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.

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

#### Fixed Assets and Depreciation (Continued)

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 profits 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.

Construction in progress represents gas station structures, machinery and pipelines and other fixed assets under construction/installation and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for 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. When the Group is the lessee, 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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

# Notes to Financial Statements

31 March 2003

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

### 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.

### 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 exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

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

#### **Employee Benefits**

##### *Pension Schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong who are eligible to participate in the MPF Scheme. 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 vested fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions made are based on a percentage of the participating employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension 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.

##### *Share Options Scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

# Notes to Financial Statements

31 March 2003

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

### 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:

- (a) from sales of LPG, piped gas and gas appliances, 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;
- (b) from 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;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) government subsidy, on cash receipt basis; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

### Cash and Cash Equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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 grant 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**

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 the 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, revenue is 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 geographical segment information is presented as all of the Group's turnover and assets were derived from customers and operations, respectively, in Mainland China during the year.

No intersegment sales and transfers were transacted during the year (2002: Nil).

# Notes to Financial Statements

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## 4. Segment Information (Continued)

### Business Segments

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

#### Group

	Gas pipeline construction		Sale of LPG and piped gas		Sale of gas appliances and others		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	<b>448,699</b>	278,835	<b>219,792</b>	154,428	<b>16,912</b>	9,807	-	-	<b>685,403</b>	443,070
Segment results	<b>344,631</b>	211,973	<b>(5,500)</b>	(1,626)	<b>9,415</b>	4,575	-	-	<b>348,546</b>	214,922
Interest income and unallocated gains									<b>1,257</b>	2,029
Unallocated corporate expenses									<b>(101,321)</b>	(57,900)
Profit from operating activities									<b>248,482</b>	159,051
Finance costs									<b>(12,650)</b>	(7,625)
Profit before tax									<b>235,832</b>	151,426
Tax									<b>(10,807)</b>	(3,586)
Profit before minority interests									<b>225,025</b>	147,840
Minority interests									<b>(4,141)</b>	(6,852)
Net profit from ordinary activities attributable to shareholders									<b>220,884</b>	140,988

#### 4. Segment Information (Continued)

##### Business Segments (Continued)

##### Group

	Gas pipeline construction		Sale of LPG and piped gas		Sale of gas appliances and others		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<b>195,442</b>	87,654	<b>860,762</b>	482,824	<b>1,156</b>	891	-	-	<b>1,057,360</b>	571,369
Unallocated assets	-	-	-	-	-	-	-	-	<b>114,271</b>	126,895
Total assets									<b>1,171,631</b>	698,264
Segment liabilities	<b>84,718</b>	20,437	<b>29,842</b>	37,981	-	-	-	-	<b>114,560</b>	58,418
Unallocated liabilities	-	-	-	-	-	-	-	-	<b>368,503</b>	176,699
Total liabilities									<b>483,063</b>	235,117
Other segment information:										
Depreciation	-	-	<b>10,548</b>	6,926	-	-	-	-	<b>10,548</b>	6,926
Unallocated amounts	-	-	-	-	-	-	-	-	<b>7,895</b>	1,047
									<b>18,443</b>	7,973
Capital expenditure	-	-	<b>407,361</b>	294,551	-	-	-	-	<b>407,361</b>	294,551
Unallocated amounts	-	-	-	-	-	-	-	-	<b>6,346</b>	5,165
									<b>413,707</b>	299,716
Other non-cash expenses	<b>1,700</b>	835	-	-	-	-	-	-	<b>1,700</b>	835

# Notes to Financial Statements

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## 5. Turnover and Other Revenue

Turnover represents the invoiced value of construction services performed, and gas and gas appliances sold, net of business tax, value-added tax and government surcharges, and after allowances for goods returned and trade discounts.

An analysis of the Group's turnover and other revenue is as follows:

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>		
Gas pipeline construction	<b>448,699</b>	278,835
Sale of LPG and piped gas	<b>219,792</b>	154,428
Sale of gas appliances and others	<b>16,912</b>	9,807
	<b>685,403</b>	443,070
<b>Other revenue</b>		
Interest income	<b>392</b>	749
Gain on disposal of fixed assets	<b>317</b>	–
Government subsidy (Note)	<b>–</b>	1,149
Others	<b>548</b>	131
	<b>1,257</b>	2,029

Note: Government subsidy represented 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.

## 6. Profit from Operating Activities

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

	Notes	2003 HK\$'000	2002 HK\$'000
Depreciation	14	18,443	7,973
Minimum lease payments under operating leases in respect of land and buildings		2,093	1,290
Auditors' remuneration		900	750
Exchange (gains)/losses, net		(332)	11
Staff costs (including directors' remuneration in note 8):			
Wages and salaries		27,363	15,970
Pension scheme contributions		1,017	724
Total staff costs		28,380	16,694
Deficit on revaluation of land and buildings with ownership certificates		279	271
Impairment of fixed assets	14	4,565	–
Provision for bad and doubtful debts		1,700	835
(Gain)/loss on disposal of fixed assets		(317)	2,893
Interest income		(392)	(749)
Government subsidy		–	(1,149)
Reversal of deficit on revaluation of land and buildings with ownership certificates		–	(542)

## 7. Finance Costs

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans wholly repayable within five years	12,634	7,617
Interest on a finance lease	16	8
	12,650	7,625

# Notes to Financial Statements

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## 8. Directors' Remuneration

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	360	280
	<b>360</b>	280
Other emoluments for executive directors:		
Salaries, allowances, bonus and benefits in kind	10,412	6,643
Pension scheme contributions	39	44
	<b>10,451</b>	6,687
	<b>10,811</b>	6,967

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 March 2003 analysed on an individual basis was as follows: HK\$6,852,000 (2002: HK\$2,987,000), HK\$600,000 (2002: HK\$1,283,000), HK\$1,212,000 (2002: HK\$1,073,000), HK\$1,026,000 (2002: HK\$574,000), HK\$177,000 (2002: HK\$119,000), HK\$143,000 (2002: Nil) and HK\$441,000 (2002: HK\$651,000). The remaining two executive directors did not receive any remuneration during the year (2002: Nil).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 March 2003 analysed on an individual basis was as follows: HK\$180,000 (2002: HK\$140,000) and HK\$180,000 (2002: HK\$140,000).

No emoluments were paid by the Group to those executive directors 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.

During the year, 10,000,000 share options were granted to a director in respect of his service to the Group, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account or is otherwise included in above director's remuneration disclosures.

## 9. Five Highest Paid Employees

The five highest paid employees during the year included five (2002: five) directors, details of whose remuneration are set out in note 8 above.

## 10. Tax

	2003 HK\$'000	2002 HK\$'000
Group:		
Hong Kong	–	–
Mainland China	10,807	3,586
Tax charge for the year	10,807	3,586

The Group did not have assessable profits arising in Hong Kong during the year ended 31 March 2003. Taxes on profits assessable in Mainland China 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 in respect of the year (2002: Nil).

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.

## 11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is approximately HK\$25,961,000 (2002: approximately HK\$21,782,000).

# Notes to Financial Statements

31 March 2003

## 12. Dividends

	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Underaccrual of 2001/2002 final dividend	<b>135</b>	–
Proposed final - HK1.2 cents (2002: HK1 cent) per ordinary share	<b>25,934</b>	21,272
	<b>26,069</b>	21,272

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

For dividend purposes, the amount which the Group's subsidiaries in Mainland China can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory audited 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

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of approximately HK\$220,884,000 (2002: HK\$140,988,000), and the weighted average of approximately 2,148,715,000 (2002: 2,035,878,000) 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 approximately HK\$220,884,000 (2002: HK\$140,988,000). The weighted average number of ordinary shares used in the calculation is approximately 2,148,715,000 (2002: 2,035,878,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of approximately 52,355,000 (2002: 27,992,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

## 14. Fixed Assets

### Group

	Land and buildings (with ownership certificates) HK\$'000	Land and buildings (others) HK\$'000	Leasehold improvements 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	67,794	45,485	2,239	55,291	217,716	2,550	13,930	62,155	467,160
Additions	14,480	3,960	1,486	3,834	246	2,057	5,540	382,104	413,707
Disposals	–	–	–	(87)	–	(429)	(1,255)	–	(1,771)
Transfers	22,602	(22,602)	–	–	–	–	–	–	–
Transfer from construction in progress	43,113	35,043	–	47,172	249,234	–	–	(374,562)	–
Deficit on revaluation	(3,706)	–	–	–	–	–	–	–	(3,706)
At 31 March 2003	144,283	61,886	3,725	106,210	467,196	4,178	18,215	69,697	875,390
Analysis of cost or valuation:									
At cost	–	61,886	3,725	106,210	467,196	4,178	18,215	69,697	731,107
At 31 March 2003 valuation	144,283	–	–	–	–	–	–	–	144,283
	144,283	61,886	3,725	106,210	467,196	4,178	18,215	69,697	875,390
Accumulated depreciation and impairment:									
At beginning of year	–	588	728	4,745	3,844	636	2,372	–	12,913
Provided during the year	2,694	870	551	2,842	8,381	640	2,465	–	18,443
Impairment during the year recognised in the profit and loss account	109	774	–	3,352	330	–	–	–	4,565
Disposals	–	–	–	(4)	–	(114)	(792)	–	(910)
Transfers	231	(231)	–	–	–	–	–	–	–
Written back on revaluation	(3,034)	–	–	–	–	–	–	–	(3,034)
At 31 March 2003	–	2,001	1,279	10,935	12,555	1,162	4,045	–	31,977
Net book value:									
At 31 March 2003	144,283	59,885	2,446	95,275	454,641	3,016	14,170	69,697	843,413
At 31 March 2002	67,794	44,897	1,511	50,546	213,872	1,914	11,558	62,155	454,247

# Notes to Financial Statements

31 March 2003

## 14. Fixed Assets (Continued)

The net book value of the Group's fixed assets held under finance leases included in the total amount of transportation vehicles and equipment at 31 March 2003 amounted to approximately HK\$215,000 (2002: HK\$277,000).

Certain buildings with a net book value of approximately HK\$38,971,000 (2002: HK\$12,586,000) 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\$2,927,000 (2002: HK\$3,822,000) 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 revalued at 31 March 2003 by an independent valuer, Chesterton Petty Limited, a Chartered Estate Surveyor (the "Valuer"), at an aggregate value of approximately HK\$144,283,000 using a depreciated replacement cost approach. The depreciated replacement cost approach considers the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including fee and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The Valuer assumed that the assets would be used for the purposes for which they are presently used and did not consider alternative uses. As a result of the above revaluation, revaluation deficits of approximately HK\$393,000 and HK\$279,000 have been charged to the fixed asset revaluation reserve and the profit and loss account for the year ended 31 March 2003, respectively.

Had the revalued land and buildings been carried at historical cost less accumulated depreciation, their carrying values as at 31 March 2003 would have been approximately HK\$138,970,000 (2002: HK\$61,699,000).

At 31 March 2003, certain land and buildings of the Group with an aggregate net book value of approximately HK\$68,774,000 (2002: HK\$40,849,000) were pledged to secure general banking facilities granted to the Group (note 24).

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

## 15. Goodwill

The amount of goodwill remaining in consolidated retained profits as at 31 March 2003, arising from the acquisition of a subsidiary prior to the financial year commenced on 1 April 2001, is as follows:

	<b>Group Goodwill eliminated against consolidated retained profits HK\$'000</b>
Cost:	
At beginning and end of the year	175
Accumulated impairment:	
At beginning and end of the year	–
	175

## 16. Interests in Subsidiaries

	<b>Company</b>	
	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
Unlisted shares, at cost	<b>47,747</b>	47,747
Due from subsidiaries	<b>285,958</b>	166,593
	<b>333,705</b>	214,340

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

<b>Name</b>	<b>Place of incorporation/ registration and operations</b>	<b>Nominal value of issued and paid-up capital/registered share capital</b>	<b>Percentage of equity attributable to the Company</b>		<b>Principal activities</b>
			<b>Direct</b>	<b>Indirect</b>	
Winstar Venture Limited	British Virgin Islands ("BVI")	US\$200 Ordinary	100%	–	Investment holding
Wah Sang Gas Investment Group Limited	Hong Kong	HK\$2 Ordinary HK\$29 million Non-voting deferred (Note a)	–	100%	Investment holding and trading of equipment

# Notes to Financial Statements

31 March 2003

## 16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wah Sang Gas (China) Investments Co., Ltd. *#	Mainland China	US\$45 million	–	100%	Investment holding, construction of gas pipelines, production and sale of gas, and sale of gas appliances
Tianjin Wahsang Gas Enterprise Co., Ltd. *###	Mainland China	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")	Mainland China	HK\$25 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Xintai Wah Sang Gas Co., Ltd. *### (Note c) ("Xintai Wah Sang")	Mainland China	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 d)	Mainland China	RMB22.5 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Suqian Wah Sang Gas Co., Ltd. *### (Note d)	Mainland China	RMB20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Yiyang Wah Sang Gas Co., Ltd. *### (Note d) ("Yiyang Wah Sang")	Mainland China	RMB20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

## 16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Deqing Wah Sang Gas Development Co., Ltd. *## ("Deqing Wah Sang")	Mainland China	HK\$20 million	–	90%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Xinyi Wah Sang Gas Co., Ltd. *### (Note e)	Mainland China	HK\$15 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Taizhou Wah Sang Gas Co., Ltd. *### (Note f) ("Taizhou Wah Sang")	Mainland China	US\$2 million	–	99%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Zhaoyuan Wahsang Gas Co., Ltd. *### (Note g) ("Zhaoyuan Wahsang")	Mainland China	HK\$20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Huzhou Nanxun Wahsang Gas Co., Ltd. *#	Mainland China	HK\$20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Qingdao Laixi Wah Sang Gas Co., Ltd. *### (Note d)	Mainland China	HK\$39 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Haiyan Wah Sang Gas Development Co., Ltd. *#	Mainland China	HK\$25 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Gao An Wah Sang Gas Co., Ltd. *### (Note d)	Mainland China	HK\$16.3 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

# Notes to Financial Statements

31 March 2003

## 16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pizhou Wah Sang Gas Co., Ltd. *### (Note e) ("Pizhou Wah Sang")	Mainland China	HK\$15 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Liuyang Wah Sang Gas Co., Ltd. *### (Note d) ("Liuyang Wah Sang")	Mainland China	RMB15 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Jingjiang Wah Sang Gas Co., Ltd. *### (Note h) ("Jingjiang Wah Sang")	Mainland China	US\$2 million	–	99%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Jiangshan Wah Sang Gas Co., Ltd. *### (Note e)	Mainland China	HK\$25 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Chen Zhou Wah Sang Company Limited *### (Note e) ("Chen Zhou Wah Sang")	Mainland China	RMB20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Ningxiang Wahsang Gas Co., Ltd. *### (Note e) ("Ningxiang Wahsang")	Mainland China	HK\$15 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
JiangXi Nanchang Wah Sang Gas Co., Ltd. *### (Note e)	Mainland China	HK\$20 million	–	100%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
TongLu Wah Sang Gas Co., Ltd. *### (Note i) ("TongLu Wah Sang")	Mainland China	HK\$20 million	–	98%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances

## 16. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhangjiagang Wahsang Gas Co., Ltd. *### (Note h)	Mainland China	US\$2.8 million	–	98%	Construction of gas pipelines, production and sale of gas, and sale of gas appliances
Ningguo Wah Sang Gas Co., Ltd. *### (Note h)	Mainland China	HK\$20 million	–	99%	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.

# The subsidiary is a wholly-owned foreign investment enterprise.

## The subsidiary is a Sino-foreign equity joint venture.

### The subsidiary is a Sino-foreign co-operative joint venture.

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) 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.
- (d) 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.

# Notes to Financial Statements

31 March 2003

## 16. Interests in Subsidiaries (Continued)

Notes: (Continued)

- (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. The PRC joint venture partners would provide office premises to the companies. Pursuant to the joint venture agreements, the PRC joint venture partners of these companies are entitled to receive certain payments from the 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) Taizhou Wah Sang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. According to the relevant joint venture agreement, the Group would be responsible for capital contribution and the PRC joint venture partner be responsible for the remaining registered capital and would provide office premises to Taizhou Wah Sang. 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, if any.
- (g) Zhaoyuan Wahsang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. According to the relevant joint venture agreement, the Group would be responsible for the full capital contribution of the registered capital of the company, and no capital contribution would be conferred by the respective PRC joint venture partner. Pursuant to the joint venture agreement, the Group and the PRC joint venture partner would share the profits of Zhaoyuan Wahsang in a ratio of 90 to 10. On dissolution of the joint venture, the Group would be solely entitled to the remaining net assets, if any.
- (h) 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 capital contributions and the PRC joint venture partners would be responsible for the remaining registered capital which was contributed in the form of providing office premises and technologies. Pursuant to the joint venture agreements, the PRC joint venture partners are 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 these companies. On dissolution of these companies, the Group and PRC joint venture partners will share the remaining net assets based on their capital contribution ratio.
- (i) TongLu Wah Sang is a Sino-foreign co-operative joint venture with an operating tenure of 50 years. According to the relevant joint venture agreement, the Group would be responsible for a capital contribution of HK\$19.6 million and the PRC joint venture partner would be responsible for the remaining registered capital. Pursuant to the joint venture agreement, the Group and the PRC joint venture partner will share the profits and losses of TongLu Wah Sang in a ratio of 98 to 2. On dissolution of the joint venture, the Group and the PRC joint venture partner will share the remaining net assets based on their capital contribution ratio.

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	
	2003 HK\$'000	2002 HK\$'000
Raw materials	1,623	957
Gas appliances held for sale and others	1,156	891
	<b>2,779</b>	1,848

The carrying amount of inventories carried at net realisable value included in the above balances was nil (2002: Nil) as at the balance sheet date.

## 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	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	95,291	53,886
4 to 6 months	89,979	35,401
7 to 12 months	20,507	3,261
Over 1 year	748	41
	<b>206,525</b>	92,589

## 19. Prepayments and Other Receivables

	Notes	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Prepayments		23,492	28,940	–	–
Deposits and other debtors		8,040	4,292	695	149
Due from related companies	20	778	681	–	–
Due from joint venture partners	21	2,500	–	–	–
		<b>34,810</b>	33,913	<b>695</b>	149

## Notes to Financial Statements

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### 20. Due from Related Companies

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

#### Group

	31 March 2003 HK\$'000	Maximum amount outstanding during the year HK\$'000	1 April 2002 HK\$'000
Wah Sang International Trading Company Limited (formerly known as Wah Sang Holdings Ltd.)	97	97	–
Wah Sang Trading Company Limited	463	479	463
Tianjin Wahsang International Trading Limited	218	218	218
	<b>778</b>		681

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

### 21. Due from/to Joint Venture Partners

	Group	
	2003 HK\$'000	2002 HK\$'000
Due from joint venture partners	2,500	–
Due to joint venture partners	19,672	7,310

The amounts due from/to joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

### 22. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	71,999	113,647	12,386	37,240
Time deposits	12,105	2,020	10,000	–
	<b>84,104</b>	115,667	<b>22,386</b>	37,240
Less: Pledged time deposits for general banking facilities	<b>(2,105)</b>	(2,020)	–	–
Cash and cash equivalents	<b>81,999</b>	113,647	<b>22,386</b>	37,240

## 23. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on construction contract completion date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	18,558	10,476
4 to 6 months	25,508	11,765
7 to 12 months	8,606	2,719
Over 1 year	5,342	2,397
	<b>58,014</b>	27,357

## 24. Interest-Bearing Bank Loans

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans:				
Secured	51,819	40,000	–	–
Unsecured	301,304	127,688	80,000	–
	<b>353,123</b>	167,688	<b>80,000</b>	–
Bank loans repayable:				
Within one year	158,211	80,868	–	–
In the second year	62,088	86,820	40,000	–
In the third to fifth years, inclusive	132,824	–	40,000	–
	<b>353,123</b>	167,688	<b>80,000</b>	–
Portion classified as current liabilities	<b>(158,211)</b>	(80,868)	–	–
Long term portion	<b>194,912</b>	86,820	<b>80,000</b>	–

- (a) Certain of the Group's bank loans are secured by:
- (i) certain land and buildings of the Group with and without ownership certificates with an aggregate net book value of approximately HK\$45,315,000 (2002: HK\$35,881,000) and approximately HK\$23,459,000 (2002: HK\$4,968,000), respectively.
  - (ii) charges over the Group's equity interests in nine joint ventures, Chen Zhou Wah Sang, Deqing Wah Sang, Jingjiang Wah Sang, Liuyang Wah Sang, Ningxiang Wahsang, Pizhou Wah Sang, Yiyang Wah Sang, Hengshui Wah Sang Gas Development Co., Ltd. and Yizheng Wah Sang Gas Co., Ltd..
- (b) The Group's unsecured bank loans bears interest at rates ranging from 5.3% to 7% per annum and repayable within three years except for an amount of HK\$80,000,000 which bear interest at HIBOR rate plus 1.5% per annum.

# Notes to Financial Statements

31 March 2003

## 25. 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 four years from the balance sheet date.

At balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

### Group

	<b>Minimum lease payments 2003 HK\$'000</b>	<b>Minimum lease payments 2002 HK\$'000</b>	<b>Present value of minimum lease payments 2003 HK\$'000</b>	<b>Present value of minimum lease payments 2002 HK\$'000</b>
Amounts payable:				
Within one year	75	75	62	62
In the second year	75	75	62	62
In the third to fifth years, inclusive	95	171	76	136
Total minimum finance lease payments	<b>245</b>	321	<b>200</b>	260
Future finance charges	<b>(45)</b>	(61)		
Total net finance lease payables	<b>200</b>	260		
Portion classified as current liabilities	<b>(62)</b>	(62)		
Long term portion	<b>138</b>	198		

## 26. Share Capital

### Shares

	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.01 each	<b>50,000</b>	50,000
<i>Issued and fully paid:</i>		
2,161,200,000 (2002: 2,127,200,000) ordinary shares of HK\$0.01 each	<b>21,612</b>	21,272

During the year, the subscription rights attaching to 34,000,000 share options were exercised at the subscription prices ranging from HK\$0.568 to HK\$0.66 per share (note 27), resulting in the issue of 34,000,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$20,703,000.

## 26. Share Capital (Continued)

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

	<b>Number of shares in issue</b>	<b>Issued share capital HK\$'000</b>	<b>Share premium account HK\$'000</b>	<b>Total HK\$'000</b>
At 1 April 2001	196,600,000	19,660	45,274	64,934
Share placement	5,000,000	500	38,750	39,250
	201,600,000	20,160	84,024	104,184
Share subdivision	2,016,000,000	20,160	84,024	104,184
Share placement	100,000,000	1,000	79,500	80,500
Share options exercised	11,200,000	112	6,489	6,601
	2,127,200,000	21,272	170,013	191,285
Share issue expenses	–	–	(8,874)	(8,874)
At 31 March and 1 April 2002	2,127,200,000	21,272	161,139	182,411
Share options exercised	34,000,000	340	20,363	20,703
At 31 March 2003	2,161,200,000	21,612	181,502	203,114

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

# Notes to Financial Statements

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## 27. Share Option Scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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.

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 issuable under the Scheme. At 31 March 2003, the number of shares issuable under share options granted under the Scheme was 134,800,000, which represented approximately 6.2% 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 ten-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 not be less than the higher of (i) the closing price of the shares as stated in the daily quotation sheets of 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 the Company's share.

The Stock Exchange has amended the requirements for share option schemes under the GEM Listing Rules. The new requirements came into effect from 1 September 2001. The Company is required to comply with the new requirements of new share options under the Scheme from the said date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 27. Share Option Scheme (Continued)

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

Name or category of participant	At 1 April 2002	Number of share options			At 31 March 2003	Date of grant of share options (i)	Exercise period of share options	Exercise price of share options (ii) HK\$	Price of Company's shares (iii)	
		Granted during the year	Exercised during the year	Lapsed during the year					At grant date of options HK\$	At exercise date of options HK\$
<b>Directors, chief executive and substantial shareholders</b>										
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	–
	47,500,000	–	–	–	47,500,000					
Mr. Wang Guanghao	12,000,000	–	–	–	12,000,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	–
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	–
	–	10,000,000	–	–	10,000,000	9.5.2002	10.11.2002 to 9.11.2007	1.08	1.08	–
	27,500,000	10,000,000	–	–	37,500,000					
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	–
	10,000,000	–	–	–	10,000,000					
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	–
Mr. Fan Bao Qi (iv)	3,000,000	–	(3,000,000)	–	–	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	1.05
	1,000,000	–	–	–	1,000,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	–
	500,000	–	–	–	500,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	–
	4,500,000	–	(3,000,000)	–	1,500,000					
Ms. Chen Cuiwan (v)	12,000,000	–	–	(12,000,000)	–	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	–
Mr. Choi Yat Choy (vi)	22,000,000	–	(22,000,000)	–	–	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	1.10-1.21
	2,500,000	–	(2,500,000)	–	–	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	1.14
	24,500,000	–	(24,500,000)	–	–					
Sub-total	147,000,000	10,000,000	(27,500,000)	(12,000,000)	117,500,000					

# Notes to Financial Statements

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## 27. Share Option Scheme (Continued)

Name or category of participant	At 1 April 2002	Number of share options			At 31 March 2003	Date of grant of share options (i)	Exercise period of share options	Exercise price of share options (ii) HK\$	Price of Company's shares (iii)	
		Granted during the year	Exercised during the year	Lapsed during the year					At grant date of options HK\$	At exercise date of options HK\$
<b>Other employees</b>										
In aggregate	3,300,000	–	(500,000)	–	2,800,000	7.4.2000	6.11.2000 to 5.11.2005	0.61	0.61	0.86
	2,500,000	–	(1,500,000)	–	1,000,000	7.7.2000	9.1.2001 to 8.1.2006	0.66	0.66	0.9
	4,000,000	–	(500,000)	–	3,500,000	22.3.2001	12.10.2001 to 11.10.2006	0.568	0.565	0.9
	9,000,000	–	(4,000,000)	–	5,000,000	27.9.2001	11.4.2002 to 10.4.2007	0.596	0.59	0.86-0.92
	1,500,000	–	–	–	1,500,000	14.12.2001	4.7.2002 to 3.7.2007	0.732	0.69	–
	–	1,000,000	–	–	1,000,000	25.6.2002	10.1.2003 to 9.1.2008	1.21	1.21	–
	–	2,500,000	–	–	2,500,000	13.2.2003	15.8.2003 to 14.8.2008	1.02	0.98	–
Sub-total	20,300,000	3,500,000	(6,500,000)	–	17,300,000					
	167,300,000	13,500,000	(34,000,000)	(12,000,000)	134,800,000					

## 27. Share Option Scheme (Continued)

Notes:

- (i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (ii) 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.
- (iii) 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.
- (iv) Mr. Fan Bao Qi was appointed as director of the Company on 30 August 2002. Before his appointment as director of the Company, Mr. Fan had exercised a total of 3,000,000 share options at an exercise price of HK\$0.61 each on 9 May 2002.
- (v) Ms. Chen Cuiwan resigned as director of the Company on 24 April 2002 and her share options were lapsed on 23 May 2002.
- (vi) Mr. Choi Yat Choy resigned as director of the Company on 28 June 2002. Mr. Choi had exercised 2,500,000 share options at an exercise price of HK\$0.596 each and 3,500,000 share options at an exercise price of HK\$0.61 each during the period from 1 April 2002 to 28 June 2002. Subsequent to 28 June 2002, Mr. Choi had exercised a total of 18,500,000 share options at an exercise price of HK\$0.61 each.

The 34,000,000 share options exercised during the year resulted in the issue of 34,000,000 ordinary shares of the Company and new share capital of HK\$340,000 and share premium of HK\$20,363,000.

At the balance sheet date, the Company had 134,800,000 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 134,800,000 additional ordinary shares of the Company and additional share capital of HK\$1,348,000 and share premium of HK\$86,421,000.

# Notes to Financial Statements

31 March 2003

## 28. Reserves

### Group

		Share premium account	Contributed surplus	Fixed asset revaluation reserve	Exchange fluctuation reserve	Statutory reserve	Enterprise development fund	Retained profits	Total
	Notes	HK\$'000	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000 (Note b)	HK\$'000	HK\$'000
At 1 April 2001		45,274	28,800	3,852	631	2,659	885	79,374	161,475
Issue of shares	26	124,739	-	-	-	-	-	-	124,739
Share issue expenses	26	(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	12	-	-	-	-	-	-	(21,272)	(21,272)
Transfer from retained profits		-	-	-	-	1,810	-	(1,810)	-
At 31 March and 1 April 2002		161,139	28,800	6,096	191	4,469	885	197,669	399,249
Issue of shares	26	20,363	-	-	-	-	-	-	20,363
Deficit on revaluation		-	-	(393)	-	-	-	-	(393)
Exchange realignment		-	-	-	(426)	-	-	-	(426)
Net profit for the year		-	-	-	-	-	-	220,884	220,884
Underaccrual of 2001/2002 final dividend	12	-	-	-	-	-	-	(135)	(135)
Proposed final dividend	12	-	-	-	-	-	-	(25,934)	(25,934)
Transfer from retained profits		-	-	-	-	11,121	-	(11,121)	-
At 31 March 2003		181,502	28,800	5,703	(235)	15,590	885	381,363	613,608

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 Mainland China 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 subsidiaries in Mainland China are dissolved.
- (c) Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated retained profits as explained in note 15 to the financial statements.

## 28. Reserves (Continued)

### Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000 (Note)	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001		45,274	47,547	(235)	92,586
Issue of shares	26	124,739	–	–	124,739
Share issue expenses	26	(8,874)	–	–	(8,874)
Net profit for the year		–	–	21,782	21,782
Proposed final dividend	12	–	–	(21,272)	(21,272)
At 31 March and 1 April 2002		161,139	47,547	275	208,961
Issue of shares	26	20,363	–	–	20,363
Net profit for the year		–	–	25,961	25,961
Underaccrual of 2001/2002 final dividend	12	–	–	(135)	(135)
Proposed final dividend	12	–	–	(25,934)	(25,934)
At 31 March 2003		181,502	47,547	167	229,216

Note: 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.

# Notes to Financial Statements

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## 29. Notes to the Consolidated Cash Flow Statement

### (a) Adoption of SSAP 15

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid, interest received, interest paid, are now included in cash flows from operating activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign Currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchanges rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchanges rates ruling at the balance sheet date. This changes has had no material impact on the comparative consolidated cash flow statement.

### (b) Major non-cash transactions

For the year ended 31 March 2002, the Group entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK\$308,000.

### (c) Restricted cash and cash equivalents

Certain of the Group's time deposits are pledged to a bank to secure general banking facilities granted to the Group, as disclosed in note 22 to the financial statements.

## 30. Contingent Liabilities

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

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	489,414	194,917

As at 31 March 2003, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to extent of approximately HK\$279,820,000 (2002: HK\$159,917,000) in the form of loans and bills payable.

### 31. 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 from one to fifty years. At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,233	1,624
In the second to fifth years, inclusive	3,061	1,047
After five years	1,247	1,243
	<b>6,541</b>	3,914

### 32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003 HK\$'000	2002 HK\$'000
Capital commitments in respect of land and buildings, gas pipelines and machinery and equipment contracted, but not provided for	17,055	9,011
Commitments in respect of capital contributions to joint ventures established in Mainland China contracted, but not provided for	566,439	285,883

### 33. Related Party Transactions

In addition to the related companies' balances as disclosed in note 20 above, the Group also had the following transactions with related companies during the year:

Name of related party	Nature of transaction	Group	
		2003 HK\$'000	2002 HK\$'000
Tsinlien Group Company Limited (Note)	Dividend payable/paid by the Company's indirectly held subsidiary	375	912

Note: Tsinlien Group Company Limited is the ultimate holding company of Santa Resources Limited, a substantial shareholder of the Company.

The above dividend had been approved by the board of directors of the Company's indirectly held subsidiary.

# Notes to Financial Statements

31 March 2003

## **34. Post Balance Sheet Event**

On 20 June 2003, the board of directors of the Company announced that the Group had entered into a Letter of Intent with Tsinlien Group Company Limited (the "Tsinlien Group"), pursuant to which, the Group intends to acquire from the Tsinlien Group an approximate 89.92% equity interest in Tianjin TEDA Tsinlien Gas Co., Ltd., a company principally engaged in the provision of gas and liquefied gas, gas engineering works, installation of gas equipment, transportation of liquefied gas, and the provision of technical consultation services in relation thereto in the Tianjin Economic and Technological Development Area in the municipality of Tianjin in the PRC. The Tsinlien Group is the holding company of Tianjin Development Holdings Limited, a listed company in Hong Kong, which wholly owns Santa Resources Limited, a substantial shareholder of the Company. The proposed consideration for the intended acquisition is HK\$70 million in the form of cash, which is still subject to further negotiation as at the date of approval of these financial statements. Based on the proposed consideration, the intended acquisition, if it materialises, would potentially become a discloseable and connected transaction under the GEM Listing Rules of the Stock Exchange. In the opinion of the directors, the amount of goodwill, if any, arising from the intended acquisition can only be reliably estimated upon finalisation of the consideration and completion of the acquisition.

## **35. 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 comparative amounts have been reclassified to conform with the current year's presentation.

## **36. Approval of the Financial Statements**

The financial statements were approved and authorised for issue by the board of directors on 23 June 2003.

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