



華燊燃氣
Wah Sang Gas

華燊燃氣控股有限公司
Wah Sang Gas Holdings Limited

(Incorporated in the Bermuda with limited liability)

Stock Code : 8035



INTERIM REPORT **2007**

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This report, for which the directors of Wah Sang Gas Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Wah Sang Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



The board of directors of Wah Sang Gas Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 September 2007.

BUSINESS REVIEW

The Group is principally engaged in the provision of connection services through the Group’s network of pipelines (“connection services”) and sale of gases in the PRC. There is no sale or other transaction between the business segments.

Connection Services

The Group receives connection service fees from industrial and commercial customers, property developers and property management agents for the construction of gas pipelines that connect the Group’s main gas pipeline networks to the industrial, commercial customers and as well as individual households. During the relevant period, the Group recorded a 43% increase in connection fee as compared to the same period last year.

As at 30 September 2007, the accumulated number of connected households reached approximately 287,000, representing an increase of approximately 26,000 from the accumulated number as at 31 March 2007. (Increase in the same period last year: 21,000 households)

Provision of Piped Gas and Gas Sales

The Group supplies piped gas to its customers via pipeline networks and gas processing stations in each operating location. As at 30 September 2007, the accumulated length of pipeline network of the Group amounted to approximately 810 Kilometers, an increase of approximately 39 Kilometers from the length as recorded as at 31 March 2007.

During the six months ended 30 September 2007, consumption of piped gas by residential and industrial customers amounted to approximately 235×10^6 and 782×10^6 mega-joules respectively, a growth of 29% and 60% over the same period last year. Such increases were attributable to the growing numbers of connected households, industrial customers and expanding geographical coverage in the last fiscal year.

The Group also provides retail services on bottled LPG to its customers not covered in the pipeline networks. Sales of bottled LPG amounted to approximately 198×10^6 mega-joules; while wholesale of LPG amounted to approximately 627×10^6 mega-joules during the six months ended 30 September 2007.

The unaudited condensed consolidated financial statements of the Group are as follows:

CONDENSED FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

For the six months ended 30 September 2007

	Notes	Three months ended 30 September		Six months ended 30 September	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	134,460	99,319	249,232	185,708
Cost of sales		(102,871)	(87,707)	(198,701)	(163,552)
Gross profit		31,588	11,612	50,531	22,156
Other loss — net		(602)	(1,504)	(110)	(1,002)
Selling and marketing expenses		(266)	463	(651)	(448)
Administrative expenses		(21,264)	(11,942)	(36,414)	(25,555)
Operating profit/(loss)		9,456	(1,371)	13,355	(4,849)
Finance costs, net		(16,347)	(10,729)	(29,355)	(21,501)
Loss before taxation		(6,891)	(12,100)	(16,000)	(26,350)
Income tax		(4,595)	(1,292)	(7,217)	(2,610)
Loss for the year		(11,486)	(13,392)	(23,217)	(28,960)
Loss attributable to:					
Equity holders of the Company		(11,486)	(13,392)	(23,217)	(28,960)
Minority interest		—	—	—	—
		(11,486)	(13,392)	(23,217)	(28,960)

Condensed Consolidated Balance Sheet

As at 30 September 2007

	Notes	30 September 2007 HK\$'000	31 March 2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		250,973	231,306
Land use rights		50,630	49,726
		301,603	281,032
Current assets			
Inventories		33,469	31,777
Trade and other receivables	5	126,880	77,388
Bank balances and cash		47,371	27,994
		207,720	137,159
Total assets		509,323	418,191
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		21,770	21,770
Other reserves		(741,932)	(718,715)
Equity holders' deficit		(720,162)	(696,945)
Minority interest		11,596	11,596
Total equity		(708,566)	(685,349)
LIABILITIES			
Current liabilities			
Trade and other payables	6	558,096	444,491
Current income tax liabilities		5,678	4,934
Borrowings		654,115	654,115
		1,217,889	1,103,540
Total liabilities		1,217,889	1,103,540
Total equity and liabilities		509,323	418,191

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	Attributable to equity holders of the Company			Total HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	Minority interest HK\$'000	
Balance at 1 April 2006	21,770	(604,965)	10,818	(572,377)
(Loss)/profit for the period	—	(28,960)	—	(28,960)
Exchange differences	—	12,371	—	12,371
Balance at 30 September 2006	21,770	(621,554)	10,818	(588,966)
Balance at 1 April, 2007	21,770	(718,715)	11,596	(685,349)
(Loss)/profit for the period	—	(23,217)	—	(23,217)
Balance at 30 September 2007	21,770	(741,932)	11,596	(708,566)

Condensed Consolidated Cash Flow Statement*For the six months ended 30 September 2007*

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net Cash (Outflow)/Inflow from Operating Activities	(3,717)	(16,067)
Net Cash (Outflow)/Inflow from Investing Activities	(27,453)	(12,692)
Net Cash Inflow/(Outflow) from Financing Activities	50,510	41,418
Net Increase/(Decrease) in Cash and Cash Equivalents	19,340	12,659
Cash and Cash Equivalents at beginning of the period	27,994	15,139
Effect of Exchange Differences	37	534
Cash and Cash Equivalents at end of the period	47,371	28,332

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principle policies adopted are the same as those adopted in the audited consolidated financial statements of the company for the year ended 31 March 2007.

2. TURNOVER

Turnover of the Group for the relevant periods is analyzed as follows:

	unaudited		unaudited	
	Three months ended 30 September 2007 HK\$'000	Three months ended 30 September 2006 HK\$'000	Six months ended 30 September 2007 HK\$'000	6 months ended 30 September 2006 HK\$'000
On-site gas sales (Note)	36,336	37,504	69,645	68,571
Piped gas sales	35,218	23,304	70,868	45,404
Bottled gas sales	11,179	10,671	21,252	21,329
Total of Gas sales	82,733	71,479	161,765	135,304
Connection services	51,727	27,840	87,466	50,404
	134,460	99,319	249,232	185,708

Note: On-site gas sales represent the wholesale of liquefied petroleum gas ("LPG") to individual agents directly from the suppliers' depots.

3. BUSINESS SEGMENT

Income statement for the six months ended 30 September 2007

	On-site gas sales HK\$'000	Bottled gas sales HK\$'000	Piped gas sales HK\$'000	Connection services HK\$'000	Total HK\$'000
Turnover	69,645	21,252	70,868	87,466	249,232
Segment results	413	(739)	(10,601)	61,458	50,531
Unallocated costs					(37,175)
Operating profit					13,355
Finance costs					(29,355)
Loss before taxation					(16,000)
Taxation					(7,217)
Loss for the period					(23,217)

Income statement for the six months ended 30 September 2006

	On-site gas sales HK\$'000	Bottled gas sales HK\$'000	Piped gas sales HK\$'000	Connection services HK\$'000	Total HK\$'000
Turnover	68,571	21,329	45,404	50,404	185,708
Segment results	241	(3,242)	(12,278)	37,435	22,156
Unallocated costs					(27,005)
Operating loss					(4,849)
Finance costs					(21,501)
Loss before taxation					(26,350)
Taxation					(2,610)
Loss for the period					(28,960)

4. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2007 (2006: Nil).

5. TRADE AND OTHER RECEIVABLE

		Group	
		30 September 2007	31 March 2007
		HK\$'000	HK\$'000
Trade receivables		97,339	79,738
Less: Provision for impairment		(53,335)	(49,472)
	(a)	44,005	30,266
Advance to suppliers		103,417	91,280
Other receivables		56,112	32,204
Less: Provision for impairment		(83,654)	(83,362)
		75,875	40,122
Deposit paid to a related party	(b)	7,000	7,000
		126,880	77,388

The carrying amounts of the Group's and Company's trade and other receivables are denominated in the following currencies:

		Group	
		30 September 2007	31 March 2007
		HK\$'000	HK\$'000
Renminbi		118,626	69,073
Hong Kong Dollars		8,254	8,315
		126,880	77,388

- (a) Other than sale of gas on cash basis, the majority of the Group's credit sales are generally on a credit term of three months to a year. Ageing analysis of the trade receivable is as follows:

	Group	
	30 September 2007 HK\$'000	31 March 2007 HK\$'000
0 – 90 days	39,822	26,761
91 – 180 days	14,041	11,439
181 – 360 days	14,140	8,374
Over 360 days	29,336	33,164
	97,339	79,738
Less: Provision for impairment of trade receivables	(53,335)	(49,472)
	44,005	30,266

- (b) The balance of HK\$7 million is a deposit intended for the acquisition of a subsidiary of Tsinlien Group Company Limited which is recoverable should the acquisition be aborted.
- (c) The carrying amount of trade and other receivables approximates their fair values due to their short-term maturity.

6. TRADE PAYABLES

	Group	
	30 September 2007 HK\$'000	31 March 2007 HK\$'000
	<i>Note</i>	
Trade payables	117,185	101,358
Amounts due to related parties		
– TEDA	75,765	75,765
– Others	37,103	37,103
Accrued expenses		
– Interest for borrowings	146,328	111,155
– Others	33,974	27,316
Advance from customers	50,443	58,615
Other payables	97,298	33,179
	558,096	444,491

(a) Ageing analysis of the trade payables is as follows:

	Group	
	30 September 2007 HK\$'000	31 March 2007 HK\$'000
0 – 90 days	26,375	34,132
91 – 180 days	12,577	12,523
181 – 360 days	28,169	15,799
Over 360 days	50,064	38,904
	117,185	101,358

(b) Of the unsecured amount due to TEDA, about HK\$58 million bears annual interest of 7%, whilst the remaining HK\$18 million is interest free.

- (c) Amount due to other related parties

	Group	
	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Tsinlien (<i>Note</i>)	32,175	32,175
Minority shareholder of a subsidiary	4,928	4,928
	37,103	37,103

Note:

The balance payable to Tsinlien is unsecured with no fixed repayment terms. Of the balance due, RMB24 million bears an average annual interest of 6% (2006: 6%) whilst the remaining balance of RMB8 million is interest free.

Tsinlien is the ultimate holding company of Santa Resources limited, a substantial shareholder of the Company.

- (d) The carrying amount of trade and other payables approximate their fair values due to their short-term maturity.

7. CAPITAL COMMITMENT

As at 30 September 2007, the Group did not have any significant change in capital commitment, save as those disclosed in the annual accounts for the year ended 31 March 2007.

8. CONTINGENT LIABILITIES

As at 30 September 2007, the Group had the following contingent liabilities:

	Company	
	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Guarantee for bank loans of the Group's subsidiaries	346,408	346,408

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit Margin

During the six months ended 30 September 2007, the Group continued to face with keen competitions and substitute fuels owing to lack of capital expenditure in completing the strategically important pipeline networks. Despite of that, the Group maintained a gross profit margin of approximately 20.3% for the six months ended 30 September 2007 (6 months to 30 Sept 2006: 11.9%). The increase was mainly attributable to the increase in the proportion of turnover derived from the connection services, which was a relatively high gross margin contributor. However, sales of piped gas and other gases have a relatively lower gross profit margin.

Selling and marketing costs

Selling and marketing costs increased by 45% to approximately HK\$651,000 for the six months ended 30 September 2007 from approximately HK\$448,000 in the corresponding period in 2006. The increase in sales and marketing costs was mainly attributable in the increase in salaries, overheads and transportation expenses in the distribution of gases.

Administrative expenses

Administrative expenses increased by 42% to approximately HK\$36,414,000 for the six months ended 30 September 2007 from approximately HK\$25,555,000 in the corresponding period in 2006. The increase was mainly attributable to the professional fees incurred for the preparation of Resumption of Trading exercise.

Finance costs

Finance costs increased by 36% to approximately HK\$29,355,000 for the six months ended 30 September 2007 from approximately HK\$21,501,000 in the corresponding period in 2006. The increase was mainly attributable to (i) the exchange conversion of Renminbi to Hong Kong Dollars as the PRC loans amounted to approximately 68% of the total borrowings and (ii) increase in interest rates for the PRC loans.

Income Tax

No Hong Kong profits tax was provided for the six months ended 30 September 2007 as the Group had no assessable profits arising in or derived from Hong Kong. (2006 same period: Nil).

The subsidiaries established and operating in PRC are subject to the PRC enterprise income tax ("EIT") at rates ranging from 15% to 33%. As all the subsidiaries are either wholly foreign owned enterprise or sino-foreign equity joint venture or sino-foreign co-operative joint venture, the subsidiaries having assessable profits for the six months ended 30 September 2007 have to make provision EIT for approximately HK\$7,217,000, comparing to approximately HK\$2,610,000 in the corresponding period in 2006.

Loss attributable to equity holders

As a result of the above, the loss attributable to equity holders of the Group was approximately HK\$23,217,000 for the six months ended 30 September 2007, comparing to a loss attributable to equity holders of approximately HK\$28,960,000 in the corresponding period in 2006.

Basic loss per share for the six months ended 30 September 2007 was HK1.1 cents, as compared to a loss per share of HK1.3 cents for the same period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30 September 2007, the Group had consolidated current assets of approximately HK\$207,720,000 and its current ratio was approximately 0.17. As at 30 September 2007, the Group had a gearing ratio of approximately 128%, measured as total consolidated borrowings of approximately HK\$654,115,000 to consolidated total assets of approximately HK\$509,323,000.

Financial Resources

During the six months ended 30 September 2007, the Group generally financed its operations with internally generated resources. As at 30 September 2007, all the bank borrowings were unsecured and on normal commercial basis.

Directors' opinion on sufficiency of working capital

The directors are of the opinion that the Group's financial resources will be significant by improved assuming the successful outcome of the proposed Reorganisation as set out in Note 1(b) to the financial statements for the year ended 31 March 2007. The reorganization involves debt restructuring and the injection of significant new capital into the Group by a potential shareholder, Tianjin TEDA Investment Holdings Co., Ltd ("TEDA"). TEDA has been providing financial support to the Group and it has confirmed that it will continue to do so for the next twelve months from the date of approval of the consolidated financial statements for the year ended 31 March 2007.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

Save for the fact that the majority part of the bank borrowings were in Renminbi but the reporting currency is Hong Kong Dollars, the directors consider that the Group did not have any exposure to foreign exchange fluctuation as all transactions and borrowings were denominated in Renminbi and Hong Kong Dollars.

EMPLOYEE INFORMATION

As at 30 September 2007, the Group had 1,112 employees (2006: 1,164) in Hong Kong and PRC, the total remuneration for the period under review was approximately HK\$10,979,000 (2006: HK\$10,443,000).

The Group's remuneration and bonus policies are basically determined by the performance of individual employees and results of the Group.

The Group has adopted a share option scheme whereby certain employees of the group may be granted options to acquire shares of the Company.

PROPOSED REORGANISATION

The Group is undergoing a major reorganisation ("Reorganisation") which will involve debt restructuring following negotiations with the banks, disposal of certain subsidiaries and injection of significant amount of new capital by a potential shareholder, TEDA.

The Reorganisation is subject to approval by the Company's independent shareholders that will be sought at an upcoming special general meeting. Through the Reorganisation, the Group aims to streamline its operations and improve its financial position. Upon completion of the Reorganisation, the Directors expect that the Group's equity holders' deficit will become positive and that there will be sufficient working capital for its normal operations and execution of its future business plans.

As at date of the approval of this report, the Group had entered into several significant debt restructuring arrangements. These arrangements are conditional to various items tied to the successful completion of the Group's Reorganisation. The key terms of these arrangements affecting the Group's cash flow are summarised below:

(1) Loan due to Hong Kong syndicated banks:

In January 2008, in respect of approximately HK\$210 million syndicated loan due to the syndicated banks, it was agreed that:

- HK\$10 million will be repaid;
- there will be a haircut of HK\$160 million; and
- the remaining balance of HK\$40 million is to be exchanged for equivalent worth of convertible preference shares to be issued by the Company to these banks. In addition, TEDA is obliged to buy back these shares from the banks for a cash consideration of HK\$225 million on the fifth anniversary from the date of issue in full settlement of the syndicated loan.

In addition, all loan interest accrued up to the date of the resumption of trading of the Company's shares on the SEHK will be waived.

(2) Amount due to TEDA

The amount of approximately RMB75 million overdue to TEDA need not be repaid until resumption of trading of the Company's shares on the SEHK. In addition, all the interest accrued for the amount due to TEDA up to the date of resumption of trading of the Company's shares will be waived.

ACQUISITION

On 11 August 2003, the Group has entered into a conditional Acquisition Agreement with Tsinlien Group Company limited (Tsinlien Group") to acquire approximately 89.9% of the equity interest held by Tsinlien Group in Tianjin TEDA Tsinlien Gas Co., Ltd. ("TEDA Tsinlien Gas"). TEDA Tsinlien Gas is a sino-foreign equity joint venture established in the PRC and is principally engaged in the provision of gas and liquefied gas, gas engineering works, installation of gas equipment in relation thereto in the Tianjin Economic and Technological Development Area, a strategically important industrial development zone in the Municipality of Tianjin of PRC. Tsinlien Group is the ultimate controlling shareholder of Santa Resources Limited, a substantial shareholder of the Company. The Acquisition Agreement further stipulated that completion of the acquisition is conditional on a number of conditions precedent. Some of the conditions precedent have never been met or waived and the Acquisition has not yet been completed.

The Board intended to complete the Acquisition of TEDA Tsinlien Gas on the assumption that TEDA Tsinlien Gas would manage to obtain additional subsidies from TEDA Finance Bureau on the basis of 10% on net assets effective from 2007 to 2011. In view that such subsidies would not be confirmed within a short period of time, the Group would not complete the Acquisition at this stage.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30 September 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30 September 2007.

SHARE OPTIONS GRANTED AND EXPIRED

During the period from 1 April 2007 to 30 September 2007, no share options have been granted nor expired under the share option scheme adopted on 26 February 2000. As at the date of this report, all the outstanding share options have lapsed or have been cancelled.

AUDIT COMMITTEE

During the six months under review, there was no audit committee member. The Company was unable to strictly comply with Rule 5.28 of the GEM Listing Rules requiring the Company to retain at all times a minimum of three members in its audit committee. The unaudited financial statements for the six months ended 30 September 2007 had not been reviewed by the audit committee due to its non-existence at the date of the board meeting approving the unaudited financial statements.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry on all the Directors, was not aware of any non-compliance with required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 September 2007.

COMPETING INTERESTS

The Directors believe that as at 30 September 2007, none of the Directors or the management shareholders of the Company and their respective associate (as defined in the GEM Listing Rules) has any interest in a business which competed or might compete with the business of the Group.

CODE PROVISIONS ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in Code on Corporate Governance Practices under Appendix 15 of the GEM Listing Rules of the Stock Exchange throughout the six months period ended 30 September 2007, except that:

1. Code Provision A.5.1 stipulates that every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary to ensure he is fully aware of his responsibilities under statute and common law, the GEM Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer. Although the directors of the Board have not yet received a formal training and induction regarding his responsibilities under the GEM Listing Rules and application laws and regulatory requirements after their appointments, that arrangement for such training and induction is underway to ensure every director appointed is fully aware of all statutory, legal, regulatory and compliance requirements and the business and governance policies of the issuer before the resumption of trading of the shares of the Company on GEM.

2. Code B.1.1 stipulates that issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties, and a majority of which should be independent non-executive directors. The Company did not have a remuneration committee for the six months ended 30 September 2007, and the Code Provisions B.1.1 to B.1.5 could not be applied. The Board anticipates that the remuneration committee will be formed after the resumption of trading of shares of the Company on GEM, and will include the independent non-executive directors who will be appointed from the members of the Independent Committee. The Company will then take appropriate measures to comply with Code Provisions B.1.1 to B.1.5.
3. The Company did not have an audit committee throughout the period ended 30 September 2007 (as mentioned in the above section headed "AUDIT COMMITTEE") and the Code Provisions C.3.1 to C.3.6 could not be applied. As the existing members of the Independent Committee will be invited to join the Board as independent non-executive directors upon the resumption of trading of shares of the Company on GEM, the Board anticipates that the audit committee will then be able to be formed and the Company will then take appropriate measures to comply with Code Provisions C.3.1 to C.3.6.

ISSUANCE OF QUARTERLY AND INTERIM REPORTS

The Board is fully aware of the compliance requirement to issue the overdue annual, quarterly and interim reports for the periods ended 30 September 2007. As at the date of this report, the Board has made final results announcements for the years ended 31 March 2005, 2006 and 2007.

Trading in the shares of the Company will remain suspended pursuant to the direction of the Securities and Futures Commission until further notice.

On behalf of the Board of
Wah Sang Gas Holdings Limited
Lam Man Lim
Executive Director

Hong Kong, 5 March 2008

As at the date of this report, the board of directors of the Company comprises four (4) executive directors: Mr. Wang Gang, Mr. Dai Yan, Mr. Lam Man Lim and Mr. Guan Xue Bin. There is no independent non-executive director.