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

FIRST QUARTERLY REPORT 2008

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 ended 30 June 2008, together with the comparative figures for the corresponding period in 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 33% increase in connection fee as compared to the same period last year.

As at 30 June 2008, the accumulated number of connected households reached approximately 340,088 representing an increase of approximately 15,088 from the accumulated number as at 31 March 2008 (Increase in the same period last year: 16,700 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 June 2008, the accumulated length of pipeline network of the Group amounted to approximately 870 Kilometers, an increase of approximately 36 Kilometers from the length as recorded as at 31 March 2008.

During the three months ended 30 June 2008, consumption of piped gas by residential and industrial customers amounted to approximately 161 x 10^6 and 499 x 10^6 mega-joules respectively, a growth of 24% and 13% over the same period last year. Such increases were attributable to the growing numbers of connected households, industrial customers and expanding geographical coverage.

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 73 x 10^6 mega-joules; while wholesale of LPG amounted to approximately 762 x 10^6 mega-joules during the three months ended 30 June 2008.

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months ended 30 June 2008

	Note	Three months ended 30 June 2008 HK$'000	2007 HK$'000
Turnover	2	**210,350**	114,772
Cost of sales		**(185,005)**	(95,829)
Gross profit		**25,345**	18,942
Other income — net		**615**	492
Selling and marketing expenses		**(514)**	(385)
Administrative expenses		**(30,888)**	(15,151)
Operating profit/(loss)		**(5,442)**	3,899
Finance costs, net		**(13,986)**	(13,008)
Loss before taxation		**(19,428)**	(9,109)
Income tax		**(1,907)**	(2,622)
Loss for the period		**(21,335)**	(11,730)
Loss attributable to:			
Equity holders of the Company		**(21,427)**	(11,730)
Minority interest		**92**	—
		(21,335)	(11,730)
Loss per share attributable to the equity Holders of the Company during the Period (expressed in Hong Kong cents per share) — basic and diluted		**0.9 cents**	0.5 cents

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2008

	Attributable to equity holders of the Company			
	Share capital	Reserves	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2007	21,770	(718,715)	11,596	(685,349)
Loss for the period	—	(11,730)	—	(11,730)
Balance at 30 June 2007	21,770	(730,445)	11,596	(697,079)
Balance at 1 April 2008	21,770	(857,593)	7,145	(828,678)
(Loss)/profit for the period	—	(21,427)	92	(21,335)
Exchange differences	—	(17,785)	186	(17,599)
Balance at 30 June 2008	21,770	(896,805)	7,423	(867,612)

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 2008. Moreover, HK(IFRIC) – Int 12 being effective from 1 January 2008 does not have any significant impact on the Group's financial statements.

2. TURNOVER

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

	unaudited	
	Three months ended 30 June 2008	Three months ended 30 June 2007
	HK$'000	*HK$'000*
On-site gas sales *(Note)*	**103,896**	33,309
Piped gas sales	**49,604**	35,650
Bottled gas sales	**14,754**	10,074
Total of Gas sales	**168,254**	79,033
Connection services	**42,096**	35,739
	210,350	114,772

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 three months ended 30 June 2008

	On-site gas sales HK$'000	Bottled gas sales HK$'000	Piped gas sales HK$'000	Connection services HK$'000	Total HK$'000
Turnover	103,896	14,754	49,604	42,096	210,350
Segment results	330	4,379	(1,193)	21,829	25,345
Unallocated costs					(30,787)
Operating loss					(5,442)
Finance costs					(13,986)
Loss before taxation					(19,428)
Taxation					(1,907)
Loss for the period					(21,335)

Income statement for the three months ended 30 June 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	33,309	10,074	35,650	35,739	114,772
Segment results	182	80	(4,986)	23,666	18,942
Unallocated costs					(15,043)
Operating profit					3,899
Finance costs					(13,008)
Loss before taxation					(9,109)
Taxation					(2,622)
Loss for the period					(11,730)

4. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit Margin

During the three months ended 30 June 2008, 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 12% for the three months ended 30 June 2008 (Gross profit margin for the three months ended 30 June 2007: 16.5%). The decrease was mainly attributable to the increase in the proportion of turnover derived from the on-site gas sales, which was a relatively low gross margin contributor.

Selling and marketing costs

Selling and marketing costs increased by 33.5% to approximately HK$514,000 for the three months ended 30 June 2008 from approximately HK$385,000 in the corresponding period in 2007. 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 103.8% to approximately HK$30,888,000 for the three months ended 30 June 2008 from approximately HK$15,151,000 in the corresponding period in 2007. The increase was mainly attributable to the professional fees incurred and accrued for the preparation of Resumption of Trading exercise.

Finance costs

Accrued finance costs increased by 7.5% to approximately HK$13,985,000 for the three months ended 30 June 2008 from approximately HK$13,008,000 in the corresponding period in 2007. 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. The actual settlements of the respective finance costs are part of the proposed Restructuring in accordance with the settlement/debt restructuring agreements.

Income Tax

No Hong Kong profits tax was provided for the three months ended 30 June 2008 as the Group had no assessable profits arising in or derived from Hong Kong. (2007: 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 three months ended 30 June 2008 have to make provision EIT for approximately HK$1,907,000, comparing to approximately HK$2,622,000 in the corresponding period in 2007.

Loss attributable to equity holders

As a result of the above, the loss attributable to equity holders of the Group was approximately HK$21,427,000 for the three months ended 30 June 2008, comparing to a loss attributable to equity holders of approximately HK$11,730,000 in the corresponding period in 2007.

Basic loss per share for the three months ended 30 June 2008 was HK0.9 cents, as compared to a loss per share of HK0.5 cents for the same period last year.

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial Resources

During the three months ended 30 June 2008, the Group generally financed its operations with internally generated resources. As at 30 June 2008, 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 significantly 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 2008. The restructuring 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 2008.

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.

PROPOSED RESTRUCTURING

Announcement has been made on 29 May 2008 by the Company in relation to the Restructuring comprising of Debt Restructuring, the Subscription, the Open Offer, the General Offer, the Disposal and the Continuing Connected Transactions, of which:

(a) Reached debt restructuring agreements in principle

Agreements have been reached in principle with various banks and financial institutions which made a syndicated loan to the Company, banks in the PRC, the potential strategic investor, TEDA Finance Bureau, and China Merchants Bank (Hong Kong Branch) to restructure the Company's debts. These arrangements are conditional upon various items and conditions tied to the successful completion of the Group's Restructuring and resumption of trading of shares. The Company has also entered into the Settlement Agreement with the Syndicated Banks (as part of its debt restructuring) under which the Company will issue 40,000,000 Convertible Preference Shares to the Syndicated Banks. These Convertible Preference Shares are to be purchased by Tsinlien BVI/TEDA HK at the end of the 5 year period. Tsinlien BVI is a wholly-owned subsidiary of Tsinlien Group Company Limited which is the controlling shareholder of Tianjin Development Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of The Hong Kong Stock Exchange.

(b) Disposal of certain subsidiaries

In order to streamline the Group's operations and focus the application of the funds raised to more profitable and prospectus cities, the Group had entered into the Disposal Agreement on 28 May 2008 with Tsinlien BVI under which Tsinlien BVI agreed to acquire the entire issued share capital in a subsidiary of the Company which will indirectly hold equity interest in its 33 subsidiaries in the PRC for a consideration of approximately HK$91 million.

(c) Issue of new ordinary shares, redeemable preference shares and convertible preference shares

As an integral part of the Restructuring Proposal, the Company and Tsinlien BVI, entered into the Subscription Agreement on 28 May 2008, pursuant to which Tsinlien BVI agreed to subscribe for and the Company has agreed to issue and allot the new ordinary shares, the new convertible preference shares and new redeemable preference shares.

The directors look forward to an early completion of the Restructuring and resumption of trading of the Company's shares on GEM after satisfactory fulfilment of regulatory requirements and approval from the shareholders of the Company at a special general meeting to be convened.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the three months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the three months ended 30 June 2008.

SHARE OPTIONS GRANTED AND EXPIRED

During the period from 1 April 2008 to 30 June 2008, 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 three 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 three months ended 30 June 2008 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 three months ended 30 June 2008.

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, 11 August 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.