



鄭州燃氣股份有限公司
Zhengzhou Gas Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)



Third Quarterly Report 2002

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This report, for which the directors (the “Directors”) of Zhengzhou Gas Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement in this report misleading; and 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.



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Financial Highlights

- For the nine months ended 30 September 2002 (the “Relevant Period”), the unaudited consolidated turnover and profit attributable to shareholders of the Group were approximately RMB201,517,000 and RMB29,683,000, respectively, representing a substantial growth of approximately 29% and 92% over the corresponding period of the previous year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB89,731,000 representing a growth of approximately 15% over the same period of the previous year, which was mainly due to the increase in the number of residential users, commercial and industrial users.
- As at 30 September 2002, the Group had approximately 400,000 residential natural gas users as compared to approximately 380,000 as at 31 December 2001.
- Turnover derived from connection fee amounted to approximately RMB62,296,000 for the Relevant Period which represented a remarkable growth of approximately 114% over the corresponding period last year which was mainly due to the increase in the connection fee by RMB1,800 per residential unit since June 2001.
- Sales of liquefied petroleum gas (“LPG”) for the Relevant Period reached approximately RMB22,394,000 which had no significant change as compared to the corresponding period of the previous year.



Financial Highlights

- Basic earnings per share for the Relevant Period amounted to RMB3.95 cents, representing a substantial increase of approximately 92% as compared to the corresponding period of previous year.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.

Results (Unaudited)

The board of Directors (the “Board”) of Zhengzhou Gas Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiary (collectively, the “Group”) for the three months and nine months ended 30 September 2002 together with the comparative unaudited figures for the corresponding periods in 2001, prepared in accordance with International Accounting Standards and Interpretation of the Standing Interpretation Committee (collectively, “IAS”), as follows:

	Notes	Three months ended		Nine months ended	
		30 September 2002	2001	30 September 2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	60,397	47,464	201,517	155,900
Cost of sales		(42,061)	(33,097)	(127,585)	(110,589)
Gross profit		18,336	14,367	73,932	45,311
Other revenue		197	121	482	2,798
Selling and distribution costs		(3,978)	(3,378)	(10,784)	(10,386)
Administrative costs		(6,698)	(4,104)	(18,275)	(12,806)
Other operating costs		(46)	(13)	(430)	(13)
Profit from operating activities		7,811	6,993	44,925	24,904
Finance costs		—	—	(567)	(1,863)
Profit before income tax		7,811	6,993	44,358	23,041
Income tax expense	4	(2,575)	(2,306)	(14,636)	(7,603)
Profit before minority interests		5,236	4,687	29,722	15,438
Minority interests		(39)	0	(39)	—

Results (Unaudited)

	Notes	Three months ended		Nine months ended	
		30 September 2002	2001	30 September 2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Net profit attributable to shareholders		5,197	4,687	29,683	15,438
		RMB' cents	RMB' cents	RMB' cents	RMB' cents
Earnings per share	5	0.69	0.62	3.95	2.06

Notes:

1. Basis of consolidation and presentation

The Company was incorporated in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company and the overseas listed shares in its registered share capital with a nominal value of RMB0.10 each (the "H Shares") were listed on GEM on 29 October 2002, details of which are set out in the prospectus of the Company dated 22 October 2002 (the "Prospectus"). The consolidated results included the results of the Company and its subsidiaries for the three months and nine months ended 30 September 2001 and 30 September 2002. The results of the subsidiaries for the three months and nine months ended 30 September 2001 and 30 September 2002 were consolidated from the date the Company obtained control until such time as control ceased.

The Group is principally engaged in the sale of piped natural gas, LPG and gas appliances and provision of gas pipeline construction services.

2. Change in significant accounting policies

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

Results (Unaudited)

3. Turnover

An analysis of the Group's turnover for the three months and nine months ended 30 September 2002 together with the comparative figures for the corresponding periods in 2001 are as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Natural gas	24,858	20,621	89,731	77,841
LPG	8,608	7,691	22,394	22,578
Gas appliances	3,830	3,385	10,632	10,153
Gas pipeline construction services				
— Connection fee	18,142	9,165	62,296	29,098
— Gas pipeline repairs and maintenance services	4,576	6,937	16,865	16,712
Others	1,235	240	2,759	1,406
	61,249	48,039	204,677	157,788
Less: Business tax and government surcharges (Note)	(852)	(575)	(3,160)	(1,888)
	60,397	47,464	201,517	155,900

Note: Business tax is calculated at 3% of the revenue generated from the provision of gas pipeline construction services. Government surcharges, comprising City Maintenance and Construction Tax and Education Surtax, are calculated at 7% and 3% of business tax and net value added tax ("VAT") payable, respectively.

4. Tax

No provision for Hong Kong tax has been made as the Group's income neither arises in nor derived from Hong Kong.

Results (Unaudited)

The PRC income tax of the Company has been provided at the applicable income tax rate of 33% on the assessable profit in accordance with the relevant tax law and regulations.

	Three months ended		Nine months ended	
	30 September		30 September	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:				
— Current	3,299	2,690	16,788	9,069
— Deferred	(724)	(384)	(2,152)	(1,466)
Tax charged for the period	2,575	2,306	14,636	7,603

5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the three months and nine months ended 30 September 2002 of approximately RMB5,197,000 and RMB29,683,000 (2001: RMB4,687,000 and RMB15,438,000) respectively, and 750,900,000 ordinary shares of RMB0.10 each in the registered share capital of the Company (the "Domestic Shares") in issue, as if the sub-division of the Company's shares from one ordinary shares of nominal value of RMB1.00 each into 10 Domestic Shares of RMB0.10 each, as set out in note 6 below, had taken place since 1 January 2001.

Diluted earnings per share for the three months and nine months ended 30 September 2001 and 30 September 2002 have not been calculated as no diluting events existed during those periods.

6. Subdivision of Share Capital

Upon the establishment of the Company, its registered share capital was RMB75,090,000 divided into 75,090,000 Domestic Shares of RMB1.00 each. At the annual general meeting of the Company held on 25 April 2002, it was resolved to sub-divide its shares from one ordinary share of nominal value of RMB1.00 each into 10 Domestic Shares of RMB0.10 each. As a result, the number of the shares comprising the registered share capital of the Company was increased to 750,900,000 shares of nominal value of RMB0.10 each (the "Shares").

Results (Unaudited)

Immediately following the completion of the placing of the H Shares on 28 October 2002, the registered capital of the Company was increased from RMB75,090,000 to RMB125,150,000 and the number of Shares was increased to 1,251,500,000 accordingly.

7. Reserves

Movements in reserves during the three months and nine months ended 30 September 2002 together with the comparative figures for the corresponding periods in 2001 are as follows:

	Share premium	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2001	32,189	—	—	—	—	32,189
Profit for the period	—	—	—	—	10,751	10,751
At 30 June 2001	32,189	—	—	—	10,751	42,940
Profit for the period	—	—	—	—	4,687	4,687
At 30 September 2001	32,189	—	—	—	15,438	47,627
At 1 January 2002	32,189	2,124	2,124	—	19,688	56,125
Dividends paid for year 2001	—	—	—	—	(10,407)	(10,407)
Transferred from retained earning	—	—	—	2,124	(2,124)	—
Profit for the period	—	—	—	—	24,486	24,486
At 30 June 2002	32,189	2,124	2,124	2,124	31,643	70,204
Profit for the period	—	—	—	—	5,197	5,197
At 30 September 2001	32,189	2,124	2,124	2,124	36,840	75,401

8. Subsequent events

On 28 October 2002, the placing of the H Shares as set out in the Prospectus was completed. Dealings in the H Shares on GEM commenced on 29 October 2002.

Dividends

On 15 May 2002, a dividend of RMB0.1386 per ordinary share of the Company (total RMB10,407,474) pertaining to the profit for the year ended 31 December 2001 was declared and paid to the then shareholders of the Company.

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: Nil).



Management Discussion and Analysis

FINANCIAL PERFORMANCE

For the Relevant Period, the Group recorded a total turnover of approximately RMB201,517,000 and a gross profit of approximately RMB73,932,000, representing a gross profit margin of approximately 36.69%. Compared to the corresponding period of the previous year, turnover had a 29.26% growth on the whole, which was primarily due to the increase in the number of residential users, commercial and industrial users for natural gas, and the increase in the connection fee by RMB1,800 per residential unit since June 2001. The overall gross profit margin for the Relevant period increased to 36.69% from 29.06% for the corresponding period of the previous year, which was also mainly due to the increase in connection fees. For the sales for natural gas, LPG and gas appliance, the gross profit margins had no material changes during the Relevant Period.

Administrative costs increased by 42% to approximately RMB18,275,000 for the Relevant Period as compared to approximately RMB12,860,000 for the corresponding period of the previous year. This mainly resulted from the followings: (1) Increase in salaries and related benefits to staff which associated with the increase in headcounts and increase in bonus in light of the good performance for the Relevant Period. (2) Increase of administrative expenses to cope with the expanding business scale of the Group. (3) Increase of other administrative expenses for the listing on the GEM board.

Income tax expense for the Relevant Period was approximately RMB14,636,000 as compared to approximately RMB7,603,000 for the corresponding period of the previous year, representing an effective tax rate of approximately 33% which was in accordance with the relevant tax law and regulations.

Net profit attributable to shareholders for the Relevant Period was approximately RMB29,683,000, which represented a remarkable growth of 92% over the corresponding period of the previous year, which was primarily due to the reasons stated above.

BUSINESS REVIEW

The Group is principally engaged in the sale of piped natural gas and LPG to residential, commercial and industrial customers and the provision of gas pipeline construction services.



Management Discussion and Analysis

During the Relevant Period, the Group was able to maintain its monopolistic position in the provision of piped natural gas within the urban area of Zhengzhou which provided a stable revenue base for the Group. Besides, the Group adopted effective marketing strategies to develop potential market and expand the existing business scale in order to capture future opportunities.

Sale of Piped Natural Gas

During the Relevant Period, sales of piped natural gas amounted to approximately RMB89,731,000 which represented a significant increase of 15% compared to the corresponding period in 2001.

The Group adopted different marketing strategies for different types of customers. Residential users are the most important customers for the sale of natural gas. During the Relevant Period, the Group provided “one stop solution” services to residential customers in order to simplify procedures and improve efficiency. The number of residential users reached approximately 400,000, as at 30 September 2002 as compared to approximately 380,000 as at 31 December 2001. During the Relevant Period, the Group also focused on expanding and developing the markets in the industrial and commercial sectors since their gas consumption are relatively higher and more stable. Unit prices of natural gas sold to industrial and commercial customers were also higher than that to residential customers. During the Relevant Period, the gas supply volume to residential customers, industrial and commercial customers increased by approximately 5.61% and 54.80% respectively as compared to the corresponding period of the previous year.

The Group developed vehicular gas business during the Relevant Period to capture the emerging market which has great potential. As at 30 September 2002, the Group had constructed two vehicular gas refueling stations to serve approximately 460 gas-fuelled vehicles in Zhengzhou.

The total length of the Group’s pipeline networks increased from approximately 1,418 kilometers as at 31 December 2001 to approximately 1530 kilometers as at 30 September 2002.

Gas pipeline construction services

The Group collects a connection fee from property developers or property management companies for the construction of gas pipelines that connect each household to the Group’s main gas pipeline networks. During the Relevant



Management Discussion and Analysis

Period, the Group connected approximately 24,000 residential customers. Turnover of connection fee recorded a substantial growth of 114% over the corresponding period of the previous year. This was mainly attributable to the increase in the connection fee by RMB1,800 per residential unit since June 2001. The Group also receives maintenance fee from natural gas users for the repair and maintenance work performed.

Sale of LPG

The Group's LPG retail and wholesale business is primarily conducted through sales outlets established in Zhengzhou. In spite of the keen competition in the LPG market, the Group was able to gain its market share and expand its sales network through providing value-added services to customers. The sales of LPG during the Relevant Period recorded approximately RMB22,394,000 which was in line with the corresponding period in the previous year.

FUTURE PROSPECT

Being an urban utilities provider, the Group will be able to benefit from the urbanization process of Zhengzhou which will create a stable and growing market for the Group. It is estimated that natural gas users in Zhengzhou will reach approximately 450,000 by 2005.

The main pipeline of West to East Pipelines project will pass through Zhengzhou and a sub-transmission station will be constructed in Zhengzhou. This will provide the Group with an adequate and stable gas source which will significantly benefit the Group's expansion of natural gas business.

Furthermore, to solve the urban air pollution problem, a gas-fuelled vehicle conversion program has been implemented in Zhengzhou, since natural gas has the advantages of being safe, clean and economical. The Group foresees that this emerging new market will bring promising opportunities to its existing gas businesses.

With its solid foundation in Zhengzhou, quality services provided and experienced management personnel, together with the support from its shareholders, the Group believe it will be able to capture emerging market opportunities and become a solid utility company with stable growth.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 29 October 2002, the date of listing of the H Shares on GEM, the interests of the directors, chief executives and supervisors of the Company in the shares of the Company and in the share capital of any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which will be required pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules, were as follows:

Director/ Supervisor	Nature of interests	Number of Domestic Shares Held	Approximate percentage of beneficial interests in the Domestic Shares	Approximate percentage in the total registered share capital of the Company
Gao Mingshun	Corporate (Note 1)	15,400,000	2.20%	1.23%
Li Keqing	Corporate (Note 2)	115,500,000	16.48%	9.23%

Notes:

- (1) As at 29 October 2002, Gao Mingshun was taken to be interested in 15,400,000 Domestic Shares as a result of him being interested in 95.71% of the registered capital of Zhengzhou Sifang Construction and Decoration Company Limited* (鄭州四方建築裝飾工程有限公司) which holds approximately 1.23% (out of the total registered share capital) and 2.20% (out of Domestic Shares) of the registered share capital of the Company.
- (2) As at 29 October 2002, Li Keqing was taken to be interested in 115,500,000 Domestic Shares as a result of him and Guo Wenjun, his spouse, being in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Company Limited* (鄭州啟元投資諮詢有限公司) which holds approximately 9.23% (out of the total registered share capital) and 16.48% (out of Domestic Shares) of the registered share capital of the Company.



Other Information

Except as disclosed above, as at 29 October 2002, the date of listing of the H Shares on GEM, none of the Directors, chief executives and supervisors of the Company holds any interests in the business of the Company and its associated corporations. None of the Directors, chief executives or supervisors of the Company or their spouses or children under the age of 18 has been offered or exercised any rights to subscribe for the shares of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 29 October 2002, the date of listing of the H Shares on GEM, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows the Company had been notified of the following substantial shareholders' interests other than a director, a chief executive or a supervisor of the Company, being interested in 10% or more in the respective class of the registered share capital of the Company, were as follows:

Name of shareholders	Number of Domestic Shares Held	Approximate percentage of beneficial interests in the Domestic Shares	Approximate Percentage in the total registered share capital of the Company
Zhengzhou Gas Group Company Limited* (鄭州燃氣集團有限公司)	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Company Limited* (鄭州啟元投資諮詢有限公司) (Note)	115,500,000	16.48%	9.23%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more in the respective class of registered share capital of the Company.

Note: Zhengzhou Qiyuan Investment Consultancy Company Limited* does not constitute a substantial shareholder of the Company under the definition of the GEM Listing Rules.

SPONSOR'S INTERESTS

As at 29 October 2002, neither South China Capital Limited (the "Sponsor") nor its directors or employees or associates, had any interests in the securities of the Company or any member to the Group or any rights to subscribe for or to nominated persons to subscribe for the securities of the Company or any member to the Group.

Pursuant to the sponsor agreement dated 21 October 2002 (the "Sponsor Agreement"), entered into between the Company and the Sponsor, the Sponsor has agreed to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in the H Shares on GEM commenced (i.e. 29 October 2002) to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

PURCHASE, DISPOSAL OR REDEMPTION OF SECURITIES

The Company did not purchase, dispose of or redeem any of its listed securities since 29 October 2002, the date of listing of the H Shares on GEM.

AUDIT COMMITTEE

The Company has established an audit committee on 30 September 2002 with terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control systems of the Group.

The audit committee comprises three members, namely, Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive Directors, and Mr. Zhang Chaoyi, a non-executive Director. Ms. Yu Shulian is the chairperson.

The audit committee has reviewed the unaudited consolidated quarterly results for the nine months ended 30 September 2002.



Other Information

COMPETING INTERESTS

Each of the directors and the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had no interests in a business which compete or is likely to compete, either directly or indirectly, with the business of the Group.

By order of the Board
Zhengzhou Gas Company Limited*
Yan Guoqi
Chairman

Zhengzhou, PRC, 13 November 2002.

* *For identification purpose only*