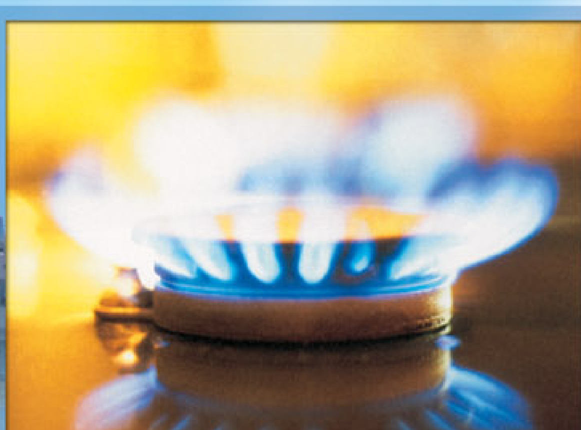
鄭州燃氣股份有限公司
Zhengzhou Gas Company Limited*

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

2002 Annual Report



* for identification purpose only

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.

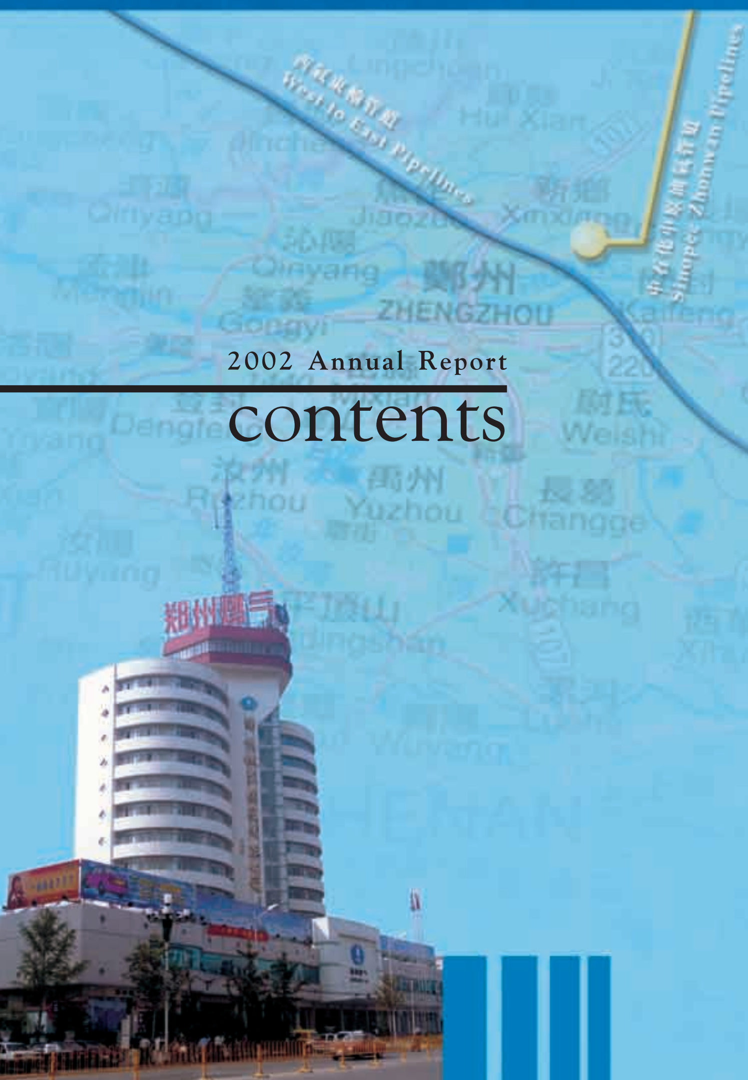
The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which 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 for the purpose of giving information with regard to Zhengzhou Gas Company Limited*. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this annual 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 annual report misleading: and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

以民为本
服务百姓生活
以人为本
振兴燃气事业

在创造社会价值的奉献中
实现企业价值
在实现企业价值的拼搏中
体现人生价值



2002 Annual Report

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* For identification purpose only

Corporate Information

DIRECTORS

Executive Directors
Mr. Yan Guoqi (閆國起), *(Chairman)*
Mr. Song Jinhui (宋金會)
Ms. Niu Minghua (牛鳴華)

Non-executive Directors
Mr. Chang Zongxian (常宗賢)
Mr. Wang Yuheng (王玉珩)
Mr. Zhang Wushan (張武山)
Mr. Li Keqing (李克清)
Mr. Zhang Chaoyi (張超義)
Mr. Li Zhenguo (李振國)

Independent Non-executive Directors
Mr. Zhang Yichun (張亦春)
Mr. Liu Jianwen (劉劍文)
Ms. Yu Shulian (余恕蓮)

SUPERVISORS

Ms. Yang Qing (楊清)
Mr. Ding Ping (丁平)
Ms. Zhou Weihua (周衛華)
Mr. Gao Mingshun (高明順)
Ms. Wang Xiaoxing (王小興)

AUDIT COMMITTEE

Ms. Yu Shulian (余恕蓮)
Mr. Zhang Yichun (張亦春)
Mr. Zhang Chaoyi (張超義)

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳), *AHKSA, CPA Australia*

COMPLIANCE OFFICER

Mr. Yan Guoqi (閆國起)

QUALIFIED ACCOUNTANT

Mr. Wong Cheuk Lam (黃焯琳), *AHKSA, CPA Australia*

AUTHORISED REPRESENTATIVES

Mr. Yan Guoqi (閆國起)
Mr. Wong Cheuk Lam (黃焯琳), *AHKSA, CPA Australia*

REGISTERED OFFICE

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1505, 15th Floor
9 Queen's Road Central
Hong Kong

SPONSOR

South China Capital Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

FINANCIAL ADVISER TO THE COMPANY

Partners Capital International Limited
1305, 13th Floor
9 Queen's Road Central
Hong Kong

Corporate Information

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law:
Stephenson Harwood & Lo
18th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Commerce & Finance Law Offices
714, Huapu International Plaza
19 Chaowai Main Street
Chaoyang District
Beijing
PRC

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Room 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Zhengzhou Commercial Bank,
Commodity Exchange Branch
Weilai Building
69 Weilai Road
Zhengzhou City
Henan Province
PRC

Industrial and Commercial Bank of China,
Funiu Road Branch, Zhengzhou City
26 Funiu Road South
Zhengzhou City
Henan Province
PRC

Notice
of Annual General Meeting

NOTICE IS HEREBY given that the Annual General Meeting of the Company will be held at Shengmao Hotel, Zhengzhou, Henan Province, the PRC on 28 May 2003 at 9:00 a.m. for the following purposes:

1. to consider and approve the audited financial statements of the Company and the report of the board of directors and the auditors of the Company for the year ended 31 December 2002;

2. to consider and approve the report of the supervisors of the Company for the year ended 31 December 2002;

3. to consider and approve a final dividend of RMB0.01453 per share for the year ended 31 December 2002. The proposed dividend will be payable on 18 June 2003 to shareholders whose names appear in the register of shareholders of the Company on 28 May 2003;

4. to consider and approve the authorization of the board of directors to fix the remunerations of independent directors, directors and supervisors of the Company;

5. to consider and approve the reappointment of Ernst & Young as the auditors of the Company for the year 2003 and to authorise the board of directors to fix their remuneration;

6. to consider and approve the annual budget and final accounts of the Company; and

7. to consider and approve the business directions and investment plans of the Company.

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

Zhengzhou, PRC

18 March 2003

Principal place of business in Hong Kong:

Room 1505, 15th Floor
9 Queen's Road Central
Hong Kong

Registered Office in the PRC:

352 Longhai Road West
Zhengzhou City, Henan Province
PRC 450006

* *For identification purpose only*

Notice
of Annual General Meeting

Notes:

(i) Any shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy needs not be a shareholder of the Company. A form of proxy for use at the meeting is hereby enclosed. In the case of joint holders of a share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the meeting either in person or by proxy, the vote of the joint holder whose name appears first in the register of shareholders shall be accepted to the exclusion of the other joint holder(s).

(ii) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1901–1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

(iii) The register of holders of H shares of the Company in Hong Kong will be closed from 25 April 2003 to 28 May 2003 (both days inclusive), during which no transfer of shares will be registered. All properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1901–1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 24 April 2003, for registration.

(iv) Holders of shares whose names appear in the register of holders of shares of the Company on 25 April 2003 are entitled to attend and vote at the meeting.

(v) Holders of shares of the Company who intend to attend the annual general meeting shall complete and deposit or post or fax (fax no.: (852) 3107 0091) the enclosed form of attendance to the Company's share registrar of H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1901–1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong or the Company's legal address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC (fax no.: 86-371-8890488) on or before 8 May 2003.

(vi) Holders of shares of the Company or their proxies shall produce their identity documents when attending the meeting.

Financial Highlights

Financial Statistics

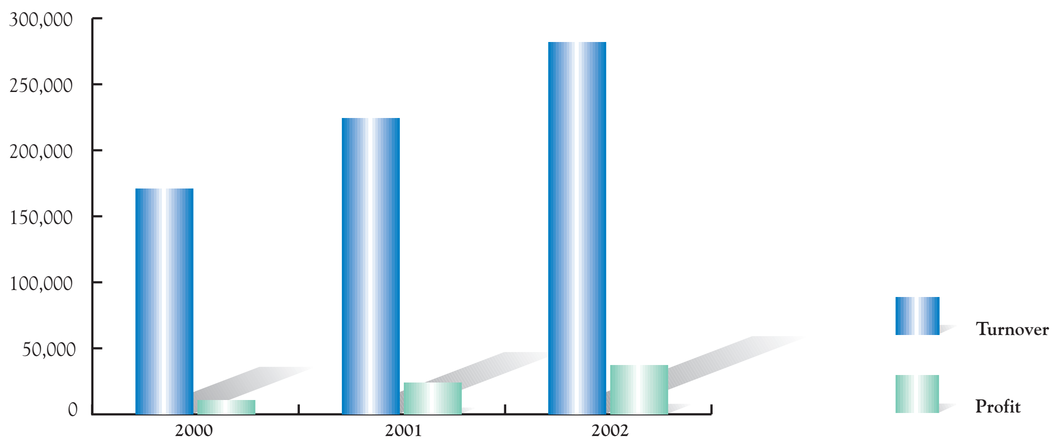
For the year ended 31 December	2002 (RMB'000)	2001 (RMB'000)	Change (%)
Turnover	282,154	224,523	25.67
Profit before taxation	56,238	36,058	55.97
Net profit	37,324	23,936	55.93
Earnings per share (RMB) (Basic)	0.044	0.032	37.5

No. of Customer Breakdown

For the year ended 31 December	2002	2001	Change (%)
No. of residential customers	453,916	413,213	9.8
No. of commercial customers	1,001	859	16.5
No. of industrial customers	26	14	85.7

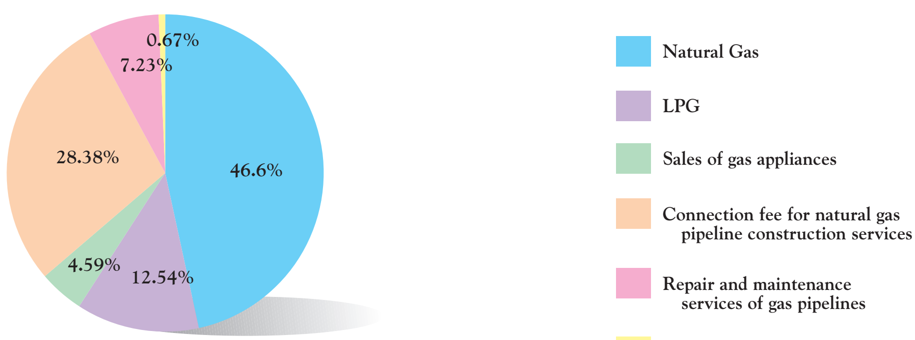
Turnover and Profit

RMB '000



For the year ended 31 December

Turnover Breakdown



For the year ended 31 December 2002

Chairman's
Statement

Chairman's Statement

Mr. Yan Guoqi
Chairman

TO ALL SHAREHOLDERS:

2002 was a memorable year for Zhengzhou Gas Company Limited (the "Company") and myself. The Company comprising its subsidiaries as a group (the "Group") was listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2002 and became the first state-owned gas stock listed overseas. Our corporate objective has been "resident-based to serve people's livelihood and people-oriented to revitalise gas industry". We will consistently apply this objective after our successful listing as our mission to enhance shareholders' returns and use our best endeavours to create wealth for shareholders. I take this opportunity to review the Group's results for the past year and look forward to our ambitious future prospects for the shareholders.

REVIEW

2002 was a year of harvest for the Group. For the financial year ended 31 December 2002, the Group's performance was remarkable with turnover and profit attributable to shareholders at approximately RMB282,154,000 and RMB37,324,000 respectively, representing respective increases of approximately 25.67% and 55.93% over last year. During the year, the Group invested a total of approximately RMB52,040,000 and completed the laying of 84.988 km of nature gas pipeline network under the City Construction Plan. Such network will be beneficial to the expansion in the size of gas supply and market development and will lay a sound foundation for the continual future development of the Group. In addition, Phase I of the Anfei Project (Hang Hai East Road pipeline and temporary gas supply facilities) was completed as scheduled with gas supply to Anfei being made official on 18 October 2002. Land construction of the processing station at the Eastern Development Zone was basically completed with office buildings, work sheds, roads and electrical engineering. The installation of equipment has been carried out and is expected to be completed in April 2003.

Chairman's Statement

It was pleasing to know that Zhengzhou Gas Engineering and Construction Company attained ISO9001QMS certification and the natural gas engineering project of the Zhengzhou Circular Expressway was awarded the honours of "Distinguished City Project of Henan Province" and "Gold Cup City Project of Henan". Such performance does not come lightly.

As the Group has achieved satisfactory results in terms of profit and operation, the board of directors of the Company ("the Board") and myself are pleased to recommend to shareholders of the Company a dividend of RMB0.01453 per share, so that shareholders can share the fruits of the Group's success.

CORPORATE STRATEGY

1. Management upgrade

In upgrading management concepts, the Group has taken innovative measures in sales operation and incentives structure. Firstly, we enhanced the cost management mode by organising the signing of the management target responsibility statements. Secondly, we enhanced the proposal of performance-based remuneration by actively researching for newer modes in remuneration management and employee incentives. Thirdly, the Company introduced the "100-1=0" management and service concept whereby more stringent requirements were proposed for stable supply of gas and customer services. Fourthly, the Group strengthened its bids and tenders management to safeguard over procurements of materials in order to reduce purchasing costs significantly. Fifthly, the Group solidified its management over the difference between incoming and outgoing natural gas pressures at processing stations in order to reduce its distribution costs over natural gas. Lastly, the Group complied with the law in ensuring safety over gas supply. By formulating the "termination of gas supply measures", the Group strengthened actual inspections of the safety management system. Continual implementation of innovative management will lay the foundations for upgrading the Group's efficiency.

2. Innovative marketing strategy

The Group endeavours to develop and expand a new market in vehicular gas by overcoming such difficulties as initial shortage in the number of gas stations, low recognition by community, onerous application and approval procedures for gas station construction. As one of the new economic growth spots, market prospects for the vehicular gas business have broadened as the Group reinforced the construction of gas stations on one hand, and intensified the promotion and marketing of the remodelling business for gas-driven vehicles.

Pitted against such difficulties as high operating costs and ferocious competition of the LPG business, the Group intensified its pressure in actively opening and expanding suburban and rural markets by launching the popular methods of "free insurance coverage for customers". Such actions have maintained the business growth of the already declining urban LPG market.

3. Technology based

Twenty-first century is a technology-based era. Any enterprise wishing to impart performance must capitalise upon advanced technology. The Group has employed such advanced technologies as pipeline network cathode protection technology, distant monitoring and signalling technology, pipeline network geographical information system, IC card gas meter fee collection system and customer service system in order to upgrade management standard and efficiency.

4. Sustainable growth with the "West to East Pipelines" Project

The "West to East Pipelines" (the "Pipelines") is expected be operational in October 2003. When the management considers that the conditions are ripe, the Group will capitalise upon the opportunities by implementing business expansion and asset reorganisation through acquisitions of stronger businesses in cities adjoining the Henan section of the Pipelines in times of suitable opportunities. Leveraging on the plentiful supply of natural gas by the Pipelines and the policies of the municipal government of Zhengzhou in expanding city limits, developing a new district in eastern Zhengzhou and reinforcing environmental protection, and focusing on the development of its vehicular, commercial and industrial customers, the Group will expand the size of gas supply of its pipeline network.

PROSPECTS

I consider that the Group's prospects are broad. The national economy in terms of the Pipelines and its accelerated economic growth, and the regional economy of Zhengzhou in terms of expanding city limits by the municipal government, developing the new district in eastern Zhengzhou and tightening of environmental protection have provided unprecedented opportunities for the Group with excellent growth potentials. I also appreciate that these opportunities do not come easily. With greater relaxation in opening up the market, more and more foreign and domestic gas enterprises will seek investments in the Henan market where the Group will face tougher market competition. Employees of the Group are strenuously trying to upgrade management standards by using flexible marketing strategies and advanced technologies in management as the means to building the Group to become a competitive gas supplier.

On behalf of the Board, I wish to express my heartfelt appreciation to the shareholders for their supports to the Group. The directors of the Company will try their utmost in securing best returns to shareholders. In addition, the Board also wishes to express its deepest gratitude to the Group's more than one thousand employees for their diligence and hard work. The Group's development is the fruit created mutually by all of you. I wish that the development in the next year will be smoother and erect more heroic milestones for the gas industry with shareholders and employees.

Yan Guoqi
Chairman

18 March 2003, Zhengzhou

Management
Discussion
and Analysis

Management Discussion and Analysis

Mr. Song Jinhui
Executive Director and General Manager

ANALYSIS OF PROSPECTS

Natural gas as a component of the energy consumption structure was averaging 24% globally, 8.8% in Asia and only 2% in the People's Republic of China (the "PRC"). The PRC government has been gradually upgrading urban gas penetration rates in large to medium-sized cities nationwide by encouraging residents to use gas fuel instead of coal fuel. It is expected that total demand for natural gas in the PRC will exceed 200 billion m^3 by 2020, which will account for 10% of the energy demand structure.

During the sustained rapid development of the economy in the PRC, it is estimated that in the next decade demands for gas in cities and towns in the PRC will continue to sustain stable growth. Speedy urbanisation process of Zhengzhou, development of the new district in eastern Zhengzhou to enlarge its city area, incessant upgrading of living standards and the continual recovery of the real estate market are beneficial to the re-emergence of a healthy gas industry.

Meanwhile, the PRC government has been actively promoting the use of natural gas to replace the current huge consumption of coal as a fuel in order to reduce pollution and damage to the environment. Retirements or renovations of over 200 coal-driven furnaces in Zhengzhou will provide ample room for development of the Group's principal operations in the next few years.

In addition, completion of the State's "West to East Pipelines" Project will not only substantially improve supply of gas resources, but also procure a gradual expansion of the Group's market share for gas. Economic benefits of gas supply enterprises will continue to grow with broad development prospects.

Management Discussion and Analysis



PERFORMANCE REVIEW

The following analysis should be read jointly with the audited financial statements and related sections in the Annual Report.

The Group is principally engaged in the sale of piped natural gas, bottled LPG and gas appliances to residential, commercial and industrial customers and the provision of gas pipeline construction services. Analysis of the business segments by products and services and the number of customers and the total gas consumption of each product for the two years ended 31 December 2001 and 2002 are set out below:

	Year ended 31 December				
	2002		2001		
(RMB'000)	**Turnover**	**As % of turnover**	Turnover	As % of turnover	Change %
Natural gas	**133,386**	**46.60%**	112,494	49.51%	18.57%
LPG	**35,890**	**12.54%**	31,554	13.89%	13.74%
Gas appliances	**13,133**	**4.59%**	13,338	5.87%	-1.54%
Gas pipeline construction services					
— connection fees	**81,217**	**28.38%**	47,867	21.07%	69.67%
— gas pipeline repairs and maintenance services	**20,688**	**7.23%**	20,355	8.96%	1.64%
Others	**1,909**	**0.67%**	1,599	0.70%	19.39%
	286,223	**100.00%**	227,207	100.00%	
Less: Business tax and government charges	**(4,069)**		(2,684)		
Total	**282,154**		224,523		25.67%

Management
Discussion and Analysis

	Year ended 31 December 2002	2001	Change %
Number of residential customers			
— natural gas	**415,407**	379,145	9.56%
— LPG	**38,509**	34,068	13.04%
Sub-total:	**453,916**	413,213	9.80%
Number of commercial customers			
— natural gas	**647**	561	15.33%
— LPG	**354**	298	18.79%
Sub-total:	**1,001**	859	16.50%
Number of industrial customers			
— natural gas	**14**	5	180.00%
— LPG	**12**	9	33.33%
Sub-total:	**26**	14	85.70%

Management
Discussion and Analysis

	Year ended 31 December				
	2002		2001		
		As % of total consumption		As % of total consumption	Change %
Natural gas					
Total consumption *(in approximate '000 m³)*	**88,840**		75,531		17.62%
of which					
— residential customers	**59,840**	**67.36%**	57,530	76.17%	4.02%
— commercial customers	**25,273**	**28.45%**	17,152	22.71%	47.35%
— industrial customers	**3,727**	**4.20%**	849	1.12%	338.99%
LPG					
Total consumption *(in tonnes)*	**13,431**		11,038		21.68%
of which					
— retail	**9,081**		7,472		21.53%
— wholesale	**4,350**		3,566		21.99%

For the year ended 31 December 2002, overall turnover and gross profit of the Group were approximately RMB282,154,000 and RMB100,619,000 respectively, representing respective increases of approximately 25.67% and 45.93% as compared with the corresponding period of the previous year. Gross margin for the year ended 31 December 2002 of approximately 35.66% was higher than that of approximately 30.71% of last year. The main reasons for the increase in gross margin in 2002 were the increase in the number of natural gas customers and the increase in connection fee by RMB1,800 per residential unit since June 2001.

SALES OF NATURAL GAS

Turnover of the Group's natural gas sales for the year ended 31 December 2002, the principal source of revenue of the Group, was approximately RMB133,386,000, accounting for approximately 46.60% of its turnover, representing an increase of approximately 18.57% as compared with the corresponding period of the previous year.

In order to further promote the use of natural gas, the Group offers a "one-stop" service to residential customers by simplifying procedures to enhance efficiency. A natural gas safety handbook was also published for its customers to understand the properties of natural gas so that they can be self-assuring in using natural gas. As at 31 December 2002, the number of residential customers in natural gas was 415,407, representing an increase of approximately 9.56% as compared with 379,145 customers of the previous year.

In addition, the Group is also committed vigorously to developing industrial and commercial customers. As their gas consumptions are generally higher and more stable than that of residential customers, industrial and commercial customers are targeted for future development. During 2002, the Group has obtained a number of industrial/commercial customers, the effect of which was reflected in changes of its gas supply structure. Proportions of gas consumption by residential, industrial and commercial customers altered from 76:23:1 in 2001 to 67:29:4 in 2002. Residential, industrial and commercial gas consumptions for the year ended 31 December 2002 were 59,840,000 m^3, 3,727,000 m^3 and 25,273,000 m^3 respectively, representing respective approximate increases of 4.02%, 338.99% and 47.35% as compared with the same period of last year's consumptions of 57,530,000 m^3, 849,000 m^3 and 17,152,000 m^3. With continuing development of industrial/commercial customers, the management believes that the gas supply structure will be more balanced and reasonable.

In 2002, the Group developed the vehicular gas business actively in order to capitalise upon this emerging market with huge potentials. During the year, the Group has built four vehicular gas stations to provide services for approximately over 700 gas-driven vehicles within Zhengzhou.

LPG

Turnover of the Group's LPG sales for the year ended 31 December 2002 was approximately RMB35,890,000, accounting for approximately 12.54% of its turnover, representing an approximate increase of 13.74% as compared with the corresponding period of the previous year.

The LPG retailing and wholesaling business of the Company is conducted through its sales outlets located in Zhengzhou. Despite the ferocious competition prevailing in the LPG market during 2002, the Group has secured higher market share and developed its sales network through the provision of value-added services to its customers, resulting in a size expansion of its LPG business. In 2002, LPG purchased and sold by the Group were 13,176.67 tonnes and 13,431 tonnes respectively, representing respective increases of approximately 19.15% and 21.68% as compared with the corresponding period of the previous year. As the LPG market in Zhengzhou has long been under fierce and disorderly competition, gross profit of the Company's LPG business revealed a

Management
Discussion and Analysis

declining trend with price differentials between supplies and sales being slashed by approximately 19% (RMB438/ tonnes in 2002 and RMB540/tonnes in 2001) in the past year. Although there is an increase in turnover of LPG sales over last year, the net profit after costs of sales and all expenses of this segment of business did not increase.

SALES OF GAS APPLIANCES

The Group is also engaged in the business of sale of gas appliances. The principal gas appliances sold included gas cookers, water heaters and fireplaces that were purchased from a number of gas appliance producers and sold through the Group's sales outlets in Zhengzhou.

Turnover of gas appliances sales for the year ended 31 December 2002 was approximately RMB13,133,000, accounting for approximately 4.59% of its turnover, representing an approximate decrease of 1.54% as compared with the previous year due to the ferocious competition prevailing in the gas appliance sales market.

NATURAL GAS PIPELINE CONSTRUCTION SERVICES

The Group collects connection fees from property developers or property management companies for the construction of natural gas pipelines connecting each household to the Group's main gas pipeline networks. For the year ended 31 December 2002, turnover of connection fees was approximately RMB81,217,000, accounting for approximately 28.38% of the Group's turnover, representing an approximate increase of 69.67% as compared with the corresponding period of the previous year. The main reason for the significant increase in connection fees was the increase in connection fee by RMB1,800 per residential unit since June 2001.

Total length of the Group's pipeline network increased from approximately 1,418 km on 31 December 2001 to approximately 1,490 km on 31 December 2002.

Besides, the Group also collects fees from customers for providing repair and maintenance services of gas pipelines. For the year ended 31 December 2002, such fees were approximately RMB20,688,000, accounting for approximately 7.23% of its turnover, representing a slight increase of approximately 1.64% as compared with the corresponding period of the previous year.

Management
Discussion and Analysis

NET PROFIT AND SHAREHOLDERS' RETURN

For the year ended 31 December 2002, profit attributable to shareholders of the Group amounted to approximately RMB37,324,000, representing an approximate increase of 55.93% as compared with the corresponding period of the previous year, while net profit margin of approximately 13.23% was higher than that of approximately 10.66% of last year. Administrative costs and selling and distribution costs of the Group have increased due to business expansion, additional recruitment as well as the preparation for listing in 2002, resulting in an increase of approximately 24.89% on the overall operating costs as compare with that of the previous year. However, the negative effects arising from such increases in costs were offset by a significant growth in gross profit, which has maintained the upward trend of net profit margin. It is expected that increases in costs will slow down gradually as some of the expenses, like preparation costs for listing, were one-off expenditure.

In addition, the average return to shareholders for 2002, based on the average of the profit attributable to shareholders at the beginning and at the end of the year, was approximately 17.96%, which was lower than that of approximately 19.74% of last year. It was mainly due to the dilutive effects arising from an enlarged share capital following the capital raising activities of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

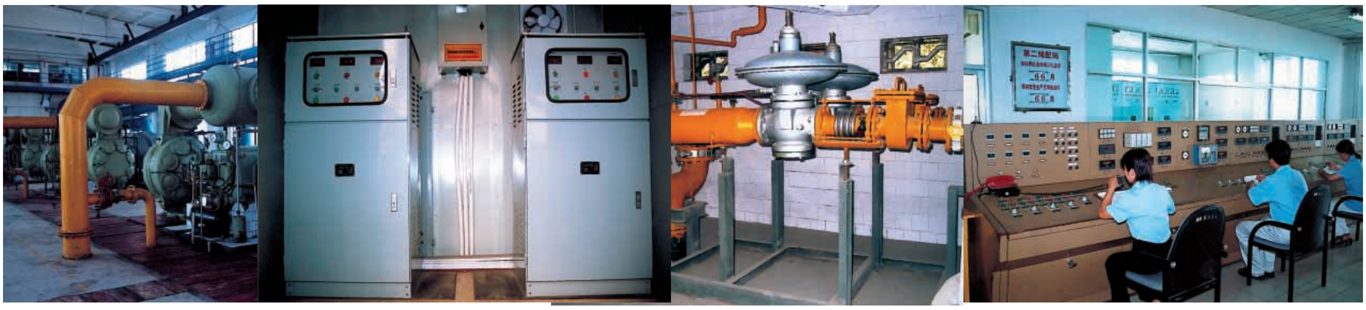
Borrowings and banking facilities

Since its establishment, the Group has relied on cash generated from its operations, shareholders' loans and bank borrowings to meet the requirements of its capital expenditure and operations. Subsequent to its listing, the Group currently finances its capital expenditure and operations mainly by internally generated funds, net proceeds from the placing of its H shares and its bank deposits or cash on hand. The Directors are of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances or bank loans when necessary.

As at 31 December 2002, the Group had no outstanding interest-bearing borrowings.

Prior to 30 September 2002, the Group had amounts due to its holding company of RMB32,680,000 which was unsecured and interest-free. On 30 September 2002, the Company entered into a repayment agreement with its holding company, Zhengzhou Gas Group Co., Ltd. Pursuant to the repayment agreement, the repayment terms of the amount due to its holding company of RMB32,433,000 were revised from repayable on demand to wholly repayable after 1 January 2004 subject to: (1) the Group has positive cash flows and retained earnings and such positive cash flows are sufficient to fund the repayment of the amounts payable and all working capital needs of the Group for the financial year in which such repayment is required to be made; and (2) each of the then independent non-executive directors of the Company confirms that such repayment of any of such amount due to its holding company will not adversely affect the Group's operations or the implementation of its business plans during the period from 1 January 2004 to 31 December 2004.

Management Discussion and Analysis



Net current assets

As at 31 December 2002, the Group had net current assets of approximately RMB86,422,000. Current assets comprised cash and cash equivalents of approximately RMB166,969,000, trade receivables of approximately RMB35,284,000, inventories of approximately RMB1,389,000, prepayments, deposits and other receivables of approximately RMB8,322,000. Current liabilities comprised trade payables of approximately RMB10,735,000, deferred income of approximately RMB80,468,000, accrued liabilities and other payables of approximately RMB26,994,000, taxes payable of approximately RMB6,607,000, amounts due to its holding company of approximately RMB500,000 and amounts due to related companies of approximately RMB238,000. Compared with net current liabilities of approximately RMB16,268,000 in last year, the Group's ability to meet short-term liabilities has improved significantly. The main reason was that the proceeds raised from the listing of its H shares of approximately RMB118,897,000 and cash generated from its operation of approximately RMB82,288,000 led to substantial increases in cash balances. At the same time, the Group and its holding company revised the borrowing agreement in respect of RMB32,433,000 which has been reclassified from short-term liability to long-term liability. This has greatly reduced the amount of its current liabilities.

Working capital

As at 31 December 2002, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB166,969,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Gearing ratio

As at 31 December 2002, the gearing ratio (being share capital, inclusive of minority interests, divided by total liabilities and presented in %) of the Group was approximately 175.93% which was higher than that of approximately 95.92% of last year, indicating that over half of the Group's assets are financed by its shareholders' equity. Increase in gearing ratio reflected the effect of fund raising from listing and that the Group has ample room for external borrowings.

Management
Discussion and Analysis

Foreign currency risk

All of the Group's businesses are operated in the PRC and all its transactions are settled in Renminbi. Therefore, the Group's exposure to foreign currency risk is minimal.

Capital commitments

In order to complement the urbanisation and environmental protection policies of Zhengzhou, the Group is required to further expand its urban natural gas pipeline network and related gas supply equipment. As at 31 December 2002, the Group has capital commitments of approximately RMB157,074,000, of which approximately RMB92,536,000 are for the contracts of pipeline network construction and equipment purchase, and the balance of approximately RMB64,538,000 are for operating lease commitments. The management believes that such capital expenditure can be defrayed by funds generated from operations and proceeds from listing.

Human resources

As at 31 December 2001 and 2002, an analysis of the Group's employees by functions is as follows:

	As at 31 December	
	2002	2001
Management and administration	**167**	160
Finance	**36**	23
Sales and marketing	**290**	260
Safety maintenance and technical upgrading	**57**	7
Purchases and supplies	**16**	2
Engineering and installation	**172**	92
Repairs, maintenance and testing	**240**	187
Others	**99**	186
Total	**1,077**	917

As at 31 December 2002, the Group had 1,077 employees, representing an increase of 160 employees as compared with 917 employees of last year. This is due to the number of new employees recruited to expand its business and reinforce safety of gas supply.

Salaries of the Group's employees are determined by reference to the performance, qualification and experience of the relevant staff. A discretionary incentive bonus based on individual performance during the year was being distributed by the Group to reward their contributions to the Group. Other employee benefits include retirement insurance, medical insurance and housing fund contributions.

Management Discussion and Analysis

The management is of the opinion that employees are the most treasured assets of the Group. Accordingly, the Group has actively created a corporate environment to nurture them to their full potentials. In order to enhance overall quality of employees and cultivate a strong cultural and learning atmosphere, the Company has organised technical trainings for over 120 employees from over 10 different positions within one year. A total of 19 employees passed technician assessments during the year. In addition, the Group has also implemented systems, like talent reserve system and job rotation system, to provide a fair competitive environment for growth of the employees.

Others

For the year ended 31 December 2002 and the corresponding period of the previous year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

As at 31 December 2002, the Group had no material investment, likewise as at 31 December 2001.

As at 31 December 2002, the Group had no pledged asset, likewise as at 31 December 2001.

As at 31 December 2002, the Group had no material contingent liability, likewise as at 31 December 2001.

Profiles
of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Yan Guoqi (閆國起), aged 48, Chairman and an executive Director of the Company. He is a member of the Tenth Session of the Political Consultative Committee of Zhengzhou, head of the Urban Gas Association of Henan Province and a senior economist. He was deputy head of water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation from 1997 to 1998, deputy chairman and executive deputy general manager of Zhengzhou Municipal Gas Company Limited, and deputy chairman and general manager of Zhengzhou Gas Group from 1998 to 2000. Mr. Yan was appointed Chairman of the Company on 5 January 2001.

Mr. Song Jinhui (宋金會), aged 50, an executive Director and general manager of the Company and a senior engineer. He was deputy head of general office of Zhengzhou Municipal Coal Gas Company from 1983 to 1986, head of safety and technology department and sales and services outlets of Zhengzhou Municipal Natural Gas Corporation from 1986 to 1998, deputy general manager of Zhengzhou Municipal Gas Company Limited and deputy chairman of Zhengzhou Gas Group from 1998 to 2000. Mr. Song was appointed General Manager of the Company in December 2000.

Ms. Niu Minghua (牛鳴華), aged 45, an executive Director of the Company. She was the office head and the deputy general party secretary of Zhengzhou Municipal Gas Company Limited and the office head and general party secretary of Zhengzhou Gas Group. Ms. Niu was appointed an executive Director in August 2002.

Non-executive Directors

Mr. Chang Zongxian, (常宗賢), aged 43, a non-executive Director of the Company and chairman of Zhengzhou Gas Group. He is a NPC representative of Henan Province and a senior engineer. He was head of the planning and construction bureau of the Zhengzhou High and New Technology Industrial Development Zone from 1988 to 1992, general manager of Zhengzhou High Land Construction Development Corporation from 1992 to 1994, deputy head of management committee of the Zhengzhou High and New Technology Industrial Development Zone from 1994 to 1995, deputy chief commandant of construction command of the new Zhengzhou Airport from 1995 to 1997, deputy head of the Zhengzhou Municipal Transport Bureau form 1997 to 1998 and chairman of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Chang was appointed non-executive Director in May 2001.

Mr. Wang Yuheng (王玉珩), aged 52, a non-executive Director of the Company and a senior consultant. He was deputy general manager of Zhengzhou Municipal Natural Gas Company Limited from 1998 to 2000. He is an executive deputy general manager of Zhengzhou Gas Group since 2000. Mr. Wang was appointed non-executive Director in December 2000.

Profiles
of Directors, Supervisors and Senior Management

Mr. Zhang Wushan (張武山), aged 47, a non-executive Director of the Company and a senior engineer. He was head of the storage and distribution station and the measuring department of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997, and chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and deputy general manager of Zhengzhou Gas Group since 1998. Mr. Zhang was appointed non-executive Director in December 2000.

Mr. Li Keqing (李克清), aged 37, a non-executive Director of the Company. He was manager of the engineering section of the mechanical installation company of the Textile Bureau of Henan Province from 1987 to 1992, and general manager of Zhengzhou Yingzi Industrial Company Limited from 1992 to 1997. Mr. Li is general manager of Zhengzhou Qiyuan Investment Consultancy Company Limited since 1997. Mr. Li was appointed non-executive Director in December 2000.

Mr. Zhang Chaoyi (張超義), aged 39, a non-executive Director of the Company, a certified public accountant and a certified auctioneer of the PRC. He is the general manager of Henan Auctioneer since 1993. Currently, he is honorary professor of Henan University, vice president of China Auctioneers Association and secretary general of Henan Auctioneers Association. Mr. Zhang was appointed non-executive Director in December 2000.

Mr. Li Zhenguo (李振國), aged 46, a non-executive Director of the Company. He formerly worked for the public defence engineering command of Zhengzhou, audit inspection sub-office local tax bureau of the Zhengzhou Tax Bureau and Xindazhong Industrial Development. He is currently executive deputy general manager of Xindazhong Industrial Development. He was appointed non-executive Director in April 2002.

Independent non-executive Directors

Mr. Zhang Yichun (張亦春), aged 69, an independent non-executive Director of the Company and head of the Financial Research Institute of Xiamen University. Since August 1960, he was tutor, lecturer and department party general secretary of the economics department, associate professor and deputy head of the finance and fiscal department of the economics faculty, professor, supervisor of doctoral candidates and department head of the finance and fiscal department, professor, supervisor of doctoral candidates and faculty head of the economics faculty, and professor, supervisor of doctoral candidates and head of the fiscal research institute, of Xiamen University. In 1993, Mr. Zhang founded Xiamen Hongda Securities Company and has been its managing director since. He was appointed independent non-executive Director in May 2001.

Mr. Liu Jianwen (劉劍文), aged 43, an independent non-executive Director of the Company and a doctor of jurisprudence. He is presently a professor of Beijing University and a supervisor of doctoral candidates (research directions in fiscal and securities laws, tax laws and finance laws). He was tutor, lecturer, associate professor, professor, supervisor of masters candidates in economic laws, supervisor of doctoral candidates (specialized in civil commercial laws), head of Hong Kong and Taiwan laws research institute, deputy head of economic law teaching and research office, party branch secretary of civil and economic laws, deputy head of the law department and the law faculty, and head of the faculty's teaching guidance committee of the faculty of law of Wuhan University. Since July 1999, Mr. Liu is professor, supervisor of masters candidates in economic laws and supervisor of doctoral candidates (specialized in economic laws) of the School of Law of Beijing University. He was appointed independent non-executive Director in April 2002.

Profiles
of Directors, Supervisors and Senior Management

Ms. Yu Shulian (余恕蓮), aged 49, an independent non-executive Director of the Company, professor of accounting and supervisor of doctoral candidates of the External Economics and Trade University and a PRC registered accountant. She was appointed independent non-executive Director in April 2002.

SUPERVISORS

Ms. Yang Qing (楊清), aged 32, chairperson of the supervisory committee of the Company, has a master degree in law with qualifications of practising lawyer and corporate law consultant in the PRC. She was a prosecutor of Nanguan District Prosecutorate, Kaifeng in November 1991. She joined Zhengzhou Municipal Gas Company Limited as a legal advisor in October 1998. Ms. Yang was appointed a supervisor in December 2000, and chief legal advisor of the Company in May 2001.

Mr. Ding Ping (丁平), aged 39, a supervisor of the Company and a political engineer. He was head of the coordination division, branch secretary of cylinder testing section and organisation and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. He joined the Group in October 1998 and was appointed chairman of the supervisory committee of the Company in December 2000. Having retired as chairman of the supervisory committee, he remained as one of its supervisors.

Ms. Zhou Weihua (周衛華), aged 33, a supervisor of the Company. She is a member of the Eleventh Session of Youth Federation of Zhengzhou, director of the Youth Volunteers Federation of Zhengzhou and an accountant. She was secretary of regiment branch and deputy head of corporate customer management office of Zhengzhou Municipal Natural Gas Company, secretary of regiment committee and organisation and promotion office of Zhengzhou Municipal Gas Company Limited. Ms. Zhou joined the Group in October 1998 and was appointed a supervisor in December 2000.

Mr. Gao Mingshun (高明順), aged 40, a supervisor of the Company. He worked for the planning commission of Zhengzhou and Zhengzhou Sifang Construction and Decoration Company Limited. He is currently chairman of Zhengzhou Sifang Construction and Decoration Company Limited. Mr. Gao was appointed a supervisor in December 2000.

Ms. Wang Xiaoxing (王小興), aged 31, a supervisor of the Company. She worked for Zhengzhou Commercial Bank and Henan Province Property Joint Development Corporation. She is currently deputy general manager of Zhengzhou Qiyuan Investment Consultancy Company Limited. She was appointed a supervisor in December 2000.

Profiles
of Directors, Supervisors and Senior Management

QUALIFIED ACCOUNTANT

Mr. Wong Cheuk Lam (黃焯琳), aged 34, qualified accountant and company secretary of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan, Sakura Finance Asia Limited and the Bank of China Group. Mr. Wong has over nine years of experience in accounting and finance. He is an associate member of the Hong Kong Society of Accountants and member of CPA Australia.

SENIOR MANAGEMENT

Mr. Li Yantong (李燕同), aged 45, deputy general manager of the Company and a senior engineer. He was head of natural gas storage & distribution station, and deputy chief engineer and chief engineer of Zhengzhou Municipal Gas Company Limited from 1989 to 2000. In December 2000, Mr. Li was appointed deputy general manager of the Company.

Mr. Li Jinlu (李金陸), aged 37, deputy general manager of the Company and a senior engineer. He was head of pipeline network of Zhengzhou Municipal Natural Gas Company, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. In December 2000, he was appointed deputy general manager of the Company.

Mr. Hao Ganjun (郝幹軍), aged 50, deputy general manager of the Company and a senior consultant. He was head of corporate management office of Zhengzhou Municipal Natural Gas Corporation and assistant to general manager of Zhengzhou Municipal Gas Company Limited from 1997 to 2000. In December 2000, Mr. Hao was appointed deputy general manager of the Company.

Mr. Liu Daoshuan (劉道栓), aged 38, deputy general manager of the Company and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Coal Gas Company, deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited and chief engineer of the Company from 1992 to 2002. In August 2002, Mr. Liu was appointed deputy general manager of the Company.

Ms. Qiao Hong (喬紅), aged 35, financial controller of the Company and an accountant. She was deputy head of the accounting department of Zhengzhou Municipal Coal Gas Project Preparation Division, deputy head of finance office of Zhengzhou Municipal Gas Company Limited and head of securities investment division of Zhengzhou Gas Group. She was appointed financial controller of the Company in May 2001.

Mr. Huang Biao (黃飆), aged 34, chief economist of the Company and an engineer. He was deputy head of sales management station of Zhengzhou Municipal Natural Gas Corporation, deputy manager of No.1 Engineering Company and deputy head of sales office of Zhengzhou Municipal Gas Company Limited. Mr. Huang was appointed chief economist of the Company in December 2000.

Profiles
of Directors, Supervisors and Senior Management

Mr. Suo Caifa (索才法), aged 46, assistant to the general manager of the Company and senior engineer. He was head of the No. 4 construction department of the No. 9 building company of Linzhou, Henan Province, head of building and construction department and deputy manager of Zhengzhou Water Construction Company, general manager of Zhengzhou Gas Real Estate Development Company Limited and general manager of Zhengzhou Gas Construction and Building Company Limited. Mr. Suo was appointed assistant to the general manager of the Company in August 2002.

Mr. Zhao Ruibao (趙瑞保), aged 37, assistant to the general manager and deputy chief engineer of the Company and a senior engineer. He was technician and section head of Zhengzhou Municipal Gas Company, deputy head of Zhengzhou Gas Company Limited and manager of the No. 1 natural gas branch company of the Company. Mr. Zhao was appointed assistant to general manager and deputy chief engineer of the Company in August 2002.

Mr. Li Hongwai (李紅衛), aged 32, secretary to the board of Directors of the Company, committee member of the Youth Federation of Zhengzhou and an economist, and has a master degree in economics. He was business head of corporate management office of Zhengzhou Municipal Water Company, deputy chief economist of Zhengzhou Municipal Gas Company Limited and head of general office of Zhengzhou Gas Group. He was appointed secretary to the board of Directors of the Company in December 2000.

Implementation
of Business Objectives

	Targets (From Latest Practicable Date* to 31 December 2002)	Numbers actually Implemented
Sales of piped natural gas *(in '0,000 m^3)*		
— residential customers	1,900	1,606
— commercial/industrial customers	700	926
Number of meters installed *(units)*		
— residential customers	5,700	15,305
— commercial/industrial customers	120	131
Vehicular gas customers developed *(cars)*	350	261
Sales of LPG *(tonnes)*		
— retail	2,300	2,956
— wholesale	1,000	1,212
High-pressure long transmission pipelines constructed *(km)*	20	—
Urban pipelines network constructed *(km)*		
— main pipelines	—	5.6
— branch pipelines	—	23.36
Newly built vehicle gas stations *(number)*	—	2
Purchases and supplies of natural gas	Renew natural gas purchase contract for 1 year with Sinopec Zhongyuan	Renewed
Sales and marketing	Commence promotion activities on vehicular natural gas in Zhengzhou	The promotion activities were finished with great success

* *As stated in the section "Business Objectives" in the prospectus of the Group, the Latest Practicable Date was 16 October 2002.*

Implementation of Business Objectives

Explanations relating to the implementation of objectives:

A. Piped natural gas consumption by residential customers was 16,058,300 m^3, which was below the estimated figure of 19,000,000 m^3 due to the following reasons:

   1. There was a decrease in average residential gas consumption from 0.42 m^3/day in 2001 to 0.415 m^3/day in 2002, which was attributable to the increasingly diversified cooking fuels available to residential customers in Zhengzhou.

   2. As the Group was unable to fully satisfy its customers' demand within a short period due to insufficient sources of gas supply during the winter, sales of piped natural gas was affected.

   3. Total residential gas consumption was affected by the short consumption cycle of new customers whose consumption commenced late in the year.

B. The target of developing 350 vehicular gas customers was partly successful, of which the Group has successfully completed 200 natural gas-driven vehicles, but failed to achieve the target of developing the remaining 150 LPG-driven vehicles. It was largely attributable to surges in LPG prices in the PRC caused by rises in petrol prices internationally during the same period. As a result, fuel price of LPG vehicles became as high as their gasoline counterparts. LPG lost its low-price advantage that substantially affected motivations of vehicle users to turn to LPG-driven vehicles.

C. The objective of constructing 20 km of high-pressure long transmission pipeline did not materialise because of delays in the Pipelines Project and re-planning of the Fourth Circular Road as a result of the redevelopment of a new district in eastern Zhengzhou. Accordingly, the Company could not commence constructing 20 km of high-pressure long transmission pipeline as scheduled in 2002 as it is aimed to complement with the Pipelines Project. The above pipeline construction project will be postponed to 2003, so as to coincide with the Pipelines Project and the urban construction of Zhengzhou.

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 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiary are the sale of natural gas, liquefied petroleum gas ("LPG") and gas appliances and the construction of gas pipelines. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

The principal activities of the Group are the sale of natural gas, LPG and gas appliances and the construction of gas pipelines to local consumers. Natural gas and LPG are similar products, and gas appliances and gas pipelines are for the conveyance of natural gas and LPG. The products and services of the Group are subject to similar risks and returns and therefore, the Group has only one business segment. The principal assets of the Group are located in Zhengzhou, Henan, the PRC. Accordingly, no segmental analyses by business and geographical segments are provided.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 70.

The directors recommend the payment of a final dividend of RMB0.01453 per share in respect of the year, to shareholders on the register of shareholders on 28 May 2003. This recommendation has not been incorporated in the financial statements for the year ended 31 December 2002. Further details of dividends are set out in note 8 to the financial statements.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" of the "Stock Exchange") on 29 October 2002 (the "Listing Date"), after the deduction of net proceeds from the sale of 50,060,000 Sale H Shares and related issue expenses, amounted to approximately RMB118,897,000.

Report of the Directors

The net proceeds from the public listing were applied during the year ended 31 December 2002 in accordance with the proposed applications set out in the Company's prospectus dated 22 October 2002 (the "Prospectus") as follows:

	Year ended 31 December 2002 Planned use of proceeds as set out in the Prospectus RMB million	Actual use of proceeds RMB million
Construction and renovation of urban pipeline networks	26.95	19.84
General working capital	5.39	5.00
	32.34	24.84

Reason for major difference:

As a result of being unable to receive the proceeds from initial public offering on time due to difficulties in arrangement for foreign exchange transfer, use of proceeds for the construction and renovation of urban pipeline networks has been postponed in some ways.

The remaining net proceeds of RMB94,060,000 have been placed with commercial banks in the PRC for future use as set out in the Group's business objectives in the Prospectus. The Group does not envisage any circumstances that may lead to any material alteration to the proposed use of net proceeds.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last three financial years prepared on the basis set out in the note below is as follows:

Results

	Year ended 31 December		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Turnover	**282,154**	224,523	171,083
Cost of sales	**(181,535)**	(155,573)	(133,259)
Gross profit	**100,619**	68,950	37,824
Other revenue	**523**	3,064	9,917
Selling and distribution costs	**(16,326)**	(13,761)	(12,331)
Administrative costs	**(27,964)**	(18,665)	(12,849)
Other operating costs	**(47)**	(293)	—
Profit from operating activities	**56,805**	39,295	22,561
Finance costs	**(567)**	(3,237)	(6,194)
Profit before income tax	**56,238**	36,058	16,367
Income tax expenses	**(18,301)**	(12,151)	(5,492)
Profit before minority interests	**37,937**	23,907	10,875
Minority interests	**(613)**	29	—
Net profit attributable to shareholders	**37,324**	23,936	10,875
Dividends	**10,407**	—	—
Earnings per share (RMB) — Basic	**0.044**	0.032	0.014

Report of the Directors

Assets, Liabilities and Minority Interests

	31 December		
	2002	2001	2000
	RMB'000	RMB'000	RMB'000
Total assets	**439,742**	276,129	306,702
Total liabilities	**157,975**	140,943	199,423
Minority interests	**4,738**	3,971	—
Net assets	**277,029**	131,215	107,279

Note: The consolidated results of the Group for the year ended 31 December 2001, together with the pro forma consolidated results of the Group for the year ended 31 December 2000, have been extracted from the Prospectus, while those of the year ended 31 December 2002 were prepared based on the consolidated income statement as set out on page 40 of the financial statements. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital, together with the reasons therefor, are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 23 to the financial statements. Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 44 of the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB35,666,000.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover for the year. Accordingly, a corresponding analysis of major customers is not presented.

Purchases from the Group's five largest suppliers accounted for 89% (2001: 75%) of the total purchases and purchases from the largest supplier included therein amounted to 61% (2001: 53%).

Amongst the Group's five largest suppliers, Zhengzhou Zhengran Materials Co., Ltd., the third largest supplier of the Group, and Zhengzhou Zhengran Gas Appliances Co., Ltd., the fourth largest supplier of the Group, are subsidiaries of Zhengzhou Gas Group Co., Ltd., the controlling shareholder of the Company.

Save as disclosed above, none of the directors and supervisors 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 suppliers and customers.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year were:

Executive Directors

Mr. Yan Guoqi
Mr. Song Jinhui
Ms. Bao Hongwei (resigned on 28 August 2002)
Ms. Niu Minghua (appointed on 28 August 2002)

Non-executive Directors

Mr. Chang Zhongxian
Mr. Wang Yuheng
Mr. Zhang Wushan
Mr. Li Keqing
Mr. Zhang Chaoyi
Mr. Li Zhenguo (appointed on 25 April 2002)
Ms. Lin Juan (resigned on 25 April 2002)

Report of the Directors

Independent Non-executive Directors

Mr. Zhang Yichun
Mr. Liu Jianwen
Ms. Yu Shulian

Supervisors

Ms. Yang Qing
Mr. Ding Ping
Ms. Zhou Weihua
Mr. Gao Mingshun
Ms. Wang Xiaoxing

According to articles 100 and 122 of the Company's articles of association, the term of the directors and supervisors are appointed for a period of three years.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out under the Profiles of Directors, Supervisors and Senior Management Section of the Annual Report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors of the Company has entered into a service agreement with the Company with effect from the date of appointment of the respective director and supervisor, for a term of three years.

None of the directors or supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors or supervisors of the Company had a significant beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company, its subsidiary or any of its fellow subsidiaries was a party during the year.

DIRECTORS' AND SUPERVISOR' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its holding company, its subsidiary or any of its fellow subsidiaries a party to any arrangement to enable any directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

None of the directors, supervisors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the GEM, 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 December 2002, the following interests of 10% or more in the respective class of the registered share capital of the Company (other than interests held by directors or supervisors of the Company) were recorded in the register of substantial shareholders required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

Name	Number of Domestic shares held	Approximate percentage of beneficial interest in Domestic Shares	Approximate percentage of beneficial interests in the total registered capital of the Company
Zhengzhou Gas Group Co., Ltd.	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Limited (Note)	115,500,000	16.48%	9.23%

Note: Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") holds 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan is not a substantial shareholder of the Company because Domestic Shares held by Zhengzhou Qiyuan only represents 9.23% of the total registered share capital of the Company.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2002, the interests of the directors 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 SDI Ordinance or which will be required pursuant to Rules 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) At 31 December 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 Co., Ltd. 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) At 31 December 2002, Li Keqing was taken to be interested in 115,500,000 Domestic Shares as a result of him and his spouse, Guo Wenjun, being in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Co., Ltd. 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.

Save as disclosed above, none of the directors, supervisors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the Group's connected transactions during the year are included in note 24 to the financial statements.

The Group's connected transactions, in respect of which the Stock Exchange has granted a waiver to strictly comply with Rules 20.35 and 20.36 of the GEM Listing Rules pursuant to its letter dated 18 October 2002, are as follows:

(1) In respect of the three property lease agreements dated 25 January 2002, 13 March 2002 and 17 May 2002, and the supplemental agreement thereto dated 30 September 2002 entered into between the Company and Zhengzhou Gas Group Co., Ltd. (the "Property Lease Agreements"), under which the Company leased from Zhengzhou Gas Group Co., Ltd. eight properties for office and operational uses, the annual cap for the transactions for each of the three financial years ending 31 December 2004 will not exceed RMB1,942,850; and

(2) In respect of the four land use rights lease agreements all dated 16 January 2002 and the supplementary agreement thereto dated 30 September 2002 entered into between the Company and Zhengzhou Gas Group Co., Ltd. (the "Land Use Right Lease Agreements"), under which the Company leased from Zhengzhou Gas Group Co., Ltd. the land use rights on four pieces of land for operational uses, the annual cap for the transactions for each of the three financial years ending 31 December 2004 will not exceed RMB1,850,000.

With respect to the connected transactions which have been granted a waiver as explained above, the independent non-executive directors of the Company have reviewed the connected transactions and confirmed that, during the year ended 31 December 2002, such transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than those available to or from independent third parties;

(3) in accordance with the Property Lease Agreements and the Land Use Rights Lease Agreements governing the transactions; and

(4) on terms that are fair and reasonable and in the best interests of the shareholders of the Company as a whole.

Ernst & Young, the auditors of the Company (as required by the Stock Exchange in its letter dated 18 October 2002), have also reviewed the said transactions, and advised the board of directors in writing that such transactions were:

(1) approved by the board of directors of the Company;

(2) entered into in accordance with the Property Lease Agreements and the Land Use Rights Lease Agreements governing the transactions; and

(3) within the relevant caps applicable to such transactions under the waiver granted by the Stock Exchange.

In respect of each connected transactions other than those which have been granted a waiver as explained above, the directors confirm that the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules after the Listing Date.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors of the Company, the Company has complied with the code of best practice as set out in Rules 5.28 to 5.39 of the GEM Listing Rules after the Listing Date.

SPONSOR'S INTERESTS

As at 31 December 2002, neither South China Capital Limited (the "Sponsor"), nor any of its directors or employees or associates, had any interests in the securities of the Company or any members to the Group or any rights to subscribe for or to nominated persons to subscribe for the securities of the Company or any members 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 the 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.

AUDIT COMMITTEE

The Company 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 duty of the audit committee is to review the financial reporting process and internal control systems of the Group.

Report
of the Directors

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 of the audit committee.

During the year, the audit committee has not held any formal meeting after the Listing Date.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD
Yan Quoqi
Chairman

Zhengzhou, Henan Province, the PRC
18 March 2003

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
ZHENGZHOU GAS COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 40 to 70 which have been prepared in accordance with International Accounting Standards and Interpretations of the Standing Interpretations Committee (collectively as "IAS") as adopted by the International Accounting Standards Board.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of the 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 December 2002 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
18 March 2003

Consolidated

Income Statement

Year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
Turnover	4	**282,154**	224,523
Cost of sales		**(181,535)**	(155,573)
Gross profit		**100,619**	68,950
Other revenue	4	**523**	3,064
Selling and distribution costs		**(16,326)**	(13,761)
Administrative costs		**(27,964)**	(18,665)
Other operating costs		**(47)**	(293)
Profit from operating activities		**56,805**	39,295
Finance costs		**(567)**	(3,237)
Profit before income tax	5	**56,238**	36,058
Income tax expenses	7	**(18,301)**	(12,151)
Profit before minority interests		**37,937**	23,907
Minority interests		**(613)**	29
Net profit attributable to shareholders		**37,324**	23,936
Dividends	8	**10,407**	—
Earnings per share			
— Basic and diluted (RMB)	9	**0.044**	0.032

The accompanying notes form an integral part of the financial statements.

Balance Sheets

31 December 2002

	Notes	Group 2002 RMB'000	Group 2001 RMB'000	Company 2002 RMB'000	Company 2001 RMB'000
ASSETS					
Non-current assets					
Interests in subsidiaries	11	—	—	21,704	5,957
Deferred tax assets	16	1,013	—	1,013	—
Property, plant and equipment and construction in progress	12	226,765	155,840	225,472	152,387
		227,778	155,840	248,189	158,344
Current assets					
Cash and cash equivalents		166,969	87,240	144,315	80,750
Trade receivables	13	35,284	24,354	35,284	24,354
Inventories	14	1,389	1,745	1,239	1,745
Prepayments, deposits and other receivables	15	8,322	6,950	7,051	6,950
		211,964	120,289	187,889	113,799
TOTAL ASSETS		439,742	276,129	436,078	272,143
EQUITY AND LIABILITIES					
Equity					
Share capital	22	125,150	75,090	125,150	75,090
Reserves	23	151,879	56,125	151,879	56,125
		277,029	131,215	277,029	131,215
Minority interests		4,738	3,971	—	—
Non-current liabilities					
Deferred tax liabilities	16	—	4,386	—	4,386
Due to the holding company	20	32,433	—	32,433	—
		32,433	4,386	32,433	4,386
Current liabilities					
Interest-bearing loans and borrowings	17	—	30,000	—	30,000
Trade payables	18	10,735	4,523	8,221	4,523
Deferred income	19	80,468	52,404	85,142	52,404
Accrued liabilities and other payables		26,994	11,573	26,153	11,558
Tax payable		6,607	3,680	6,378	3,680
Due to the holding company	20	500	34,182	500	34,182
Due to fellow subsidiaries	21	238	195	222	195
		125,542	136,557	126,616	136,542
TOTAL EQUITY AND LIABILITIES		439,742	276,129	436,078	272,143

Yan Quoqi
Chairman

Song Jinhui
Director

The accompanying notes form an integral part of the financial statements.

Consolidated
Cash Flow Statement

Year ended 31 December 2002

	2002 RMB'000	2001 RMB'000
Cash flows from operating activities		
Profit before income tax	**56,238**	36,058
Adjustments for:		
Depreciation	**10,205**	9,180
Loss on disposal of property, plant and equipment	**—**	153
Loss on dissolution of a subsidiary	**29**	—
Interest expenses	**567**	3,237
Interest income from investment securities	**—**	(2,583)
Interest income from bank balances	**(523)**	(481)
Operating profit before working capital changes	**66,516**	45,564
(Increase)/decrease in trade receivables	**(10,930)**	1,989
Decrease/(increase) in inventories	**356**	(272)
Increase in prepayments, deposits and other receivables	**(1,372)**	(4,312)
Increase in trade payables	**6,212**	837
Increase in deferred income	**28,064**	36,989
Increase in accrued liabilities and other payables	**15,421**	9,076
(Decrease)/increase in amount due to the holding company	**(1,249)**	13,462
Increase/(decrease) in amounts due to fellow subsidiaries	**43**	(2,603)
Cash generated from operations	**103,061**	100,730
Income tax paid	**(20,773)**	(8,392)
Net cash inflows from operating activities	**82,288**	92,338
Cash flows from investing activities		
Sale of investment securities	**—**	100,000
Return from investment securities	**—**	12,000
Interest income from bank balances	**523**	481
Proceeds from disposal of property, plant and equipment	**—**	82
Acquisition of property, plant and equipment and construction in progress	**(81,130)**	(25,224)
Net cash (used in)/inflows from investing activities	**(80,607)**	87,339

The accompanying notes form an integral part of the financial statements.

Consolidated
Cash Flow Statement

Year ended 31 December 2002

	2002 RMB'000	2001 RMB'000
Cash flows from financing activities		
Proceeds from new shares issued	132,809	—
Share issue expenses	(13,912)	—
Proceeds from new bank loans	—	30,000
Repayment of bank loans	(30,000)	(150,000)
Capital contributed by minority shareholders of subsidiaries	4,125	4,000
Cash paid to a minority shareholder arising from the dissolution of a subsidiary	(4,000)	—
Dividends paid	(10,407)	—
Interest paid	(567)	(3,237)
Net cash inflows from/(used in) financing activities	78,048	(119,237)
Net increase in cash and cash equivalents	79,729	60,440
Cash and cash equivalents at beginning of year	87,240	26,800
Cash and cash equivalents at end of year	166,969	87,240
Analysis of balances of cash and cash equivalents		
Cash and bank balances	166,969	87,240

The accompanying notes form an integral part of the financial statements.

Consolidated
Statement of Changes in Equity

Year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
Issued and fully paid capital	22		
Ordinary shares of RMB0.10 each			
At beginning of year		**75,090**	75,090
New shares issued		**50,060**	—
At end of year		**125,150**	75,090
Share premium	22		
At beginning of year		**32,189**	32,189
New shares issued		**82,749**	—
Share issue expenses		**(13,912)**	—
At end of year		**101,026**	32,189
Statutory surplus reserve	23(a)		
At beginning of year		**2,124**	—
Transferred from retained earnings		**3,962**	2,124
At end of year		**6,086**	2,124
Statutory public welfare fund	23(b)		
At beginning of year		**2,124**	—
Transferred from retained earnings		**3,962**	2,124
At end of year		**6,086**	2,124
General surplus reserve			
At beginning of year		**—**	—
Transferred from retained earnings		**2,124**	—
At end of year		**2,124**	—
Retained earnings	23(c)		
At beginning of year		**19,688**	—
Net profit for the year		**37,324**	23,936
Transferred to statutory surplus reserve		**(3,962)**	(2,124)
Transferred to statutory public welfare fund		**(3,962)**	(2,124)
Transferred to general surplus reserve		**(2,124)**	—
Dividends paid		**(10,407)**	—
At end of year		**36,557**	19,688
Reserves		**151,879**	56,125
Total equity		**277,029**	131,215

The accompanying notes form an integral part of the financial statements.

Notes
to the Financial Statements

31 December 2002

1. CORPORATION INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 29 October 2002.

The Company and its subsidiary are principally engaged in the sale of natural gas, liquefied petroleum gas ("LPG") and gas appliances and the construction of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC") and interpretations issued by the Standing Interpretations Committee of the IASC as adopted by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"). They have been prepared on the historical cost basis.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries established or dissolved during the year are consolidated from or to their effective dates of establishment or dissolution. All significant intra-group transactions and balances have been eliminated on consolidation.

Subsidiary

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

In the Company's financial statements, interests in subsidiaries are accounting for using the equity method. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

2. 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:

Sale of natural gas, LPG and gas appliances

— Revenue is recognised when the significant risks and rewards of ownership have been passed 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.

Construction of gas pipelines

— Revenue is recognised upon completion of pipeline construction, which according to industry practice in the region coincides with the "fire ignition ceremony".

Interest income

— Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost 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 the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	25 years
Machinery and equipment	12–28 years
Gas pipelines	22–25 years
Office equipment	8 years
Motor vehicles	8 years
Computer software	3 years

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed these recoverable amounts, assets are written down to their recoverable amounts.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Construction in progress

Construction in progress represents gas station structures, machinery, gas pipelines and other fixed assets during the acquisition period and is stated at cost. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing. Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Inventories

Inventories, including LPG, construction materials, consumables and spare parts, are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition are calculated using the weighted average method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

Net realisable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Construction contract work in progress and revenue recognition

Short term construction contract work in progress represents construction of gas pipelines work in progress, which is stated at cost less foreseeable losses and progress payments received and receivable.

Where progress payments received and receivable on contracts exceed the costs incurred to date less foreseeable losses, the surplus is shown in the balance sheet as deferred income.

Revenue in respect of construction of gas pipelines is recognised upon completion of pipeline construction, which according to industry practice in the region coincides with the "fire ignition ceremony".

Trade and other receivables

Trade receivables, which generally have terms ranging from 30 to 60 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms ranging from 7 to 30 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to the holding company and fellow subsidiaries are recognised and carried at cost.

Loans and borrowings

All loans and borrowings, which are interest-bearing and held to maturity, are initially recognised at cost, being the fair value of the consideration received, and subsequently measured at amortised cost.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are recognised as expense in the income statement on a straight-line basis over the lease terms.

Retirement benefits

Obligatory retirement benefits in the form of contributions under the defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre are charged to the income statement as incurred.

Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Renminbi ("RMB").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

Income tax

Deferred income tax is provided, using the liability method, for all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying values for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rules that have been enacted or substantively enacted at the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash on hand and in banks are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks.

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.

Use of estimates

The preparation of the financial statements in conformity with IAS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. SEGMENT INFORMATION

The principal activities of the Group are the sale of natural gas, LPG and gas appliances to local consumers and the construction of gas pipelines for local consumers. Natural gas and LPG are similar products, and gas appliances and gas pipelines are for the conveyance of natural gas and LPG. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment. The principal assets employed by the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segmental analyses by business and geographical segments are provided.

Notes
to the Financial Statements

31 December 2002

4. TURNOVER AND REVENUE

	2002 RMB'000	2001 RMB'000
Natural gas	**133,386**	112,494
LPG	**35,890**	31,554
Gas appliances	**13,133**	13,338
Construction of gas pipelines		
— Connection fee	**81,217**	47,867
— Repairs and maintenance of gas pipelines	**20,688**	20,355
Others	**1,909**	1,599
	286,223	227,207
Less: Business tax and government surcharges	**(4,069)**	(2,684)
Turnover	**282,154**	224,523
Return from investment securities	**—**	2,583
Interest income from bank balances	**523**	481
Other revenue	**523**	3,064
Total revenue	**282,677**	227,587

Business tax is calculated at 3% of revenue from the construction of gas pipelines. Government surcharges, comprising City Maintenance and Construction Tax and Education Surtax, are calculated at 7% and 3% of business tax and net VAT payable, respectively.

Notes
to the Financial Statements

31 December 2002

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2002 RMB'000	2001 RMB'000
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 6):		
Retirement benefits		
— defined contribution fund	**3,757**	3,232
Accommodation benefits		
— defined contribution fund	**1,509**	1,304
Salaries and other staff costs	**26,984**	20,438
Total staff costs	**32,250**	24,974
Auditors' remuneration	**848**	240
Depreciation	**10,205**	9,180
Loss on disposal of property, plant and equipment	**—**	153
Provision for bad and doubtful debts	**93**	29
Operating lease rentals in respect of equipment and land and buildings	**5,218**	4,913
Interest on bank loans wholly repayable within one year	**567**	3,237

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the directors' and supervisors' emoluments are as follows:

	2002 RMB'000	2001 RMB'000
Fees:		
— Executive directors	—	—
— Non-executive directors	150	102
	150	102
Other emoluments for executive directors and supervisors:		
— Basic salaries and other benefits	464	444
— Bonuses paid and payable	69	52
— Pension scheme contributions	20	15
	553	511
	703	613

All directors' and supervisors' emoluments fell within the range of nil to HK$1 million.

During the year ended 31 December 2002, the six (2001: six) non-executive directors received individual fees of approximately RMB30,000, RMB24,000, RMB24,000, RMB24,000, RMB24,000 and RMB24,000 respectively (2001: approximately RMB30,000, RMB24,000, RMB24,000, RMB12,000, RMB10,000 and RMB2,000 respectively). The four (2001: three) executive directors received individual emoluments of approximately RMB130,000, RMB126,000, RMB41,000 and RMB24,000 respectively (2001: approximately RMB121,000, RMB119,000 and RMB72,000 respectively). The four (2001: four) supervisors received individual emoluments of approximately RMB101,000, RMB77,000, RMB30,000 and RMB24,000 respectively (2001: approximately RMB73,000, RMB72,000, RMB30,000 and RMB24,000 respectively). The remaining three (2001: three) non-executive directors and one (2001: one) supervisor did not receive any emoluments during the year ended 31 December 2002.

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

During the year ended 31 December 2002, the five highest paid individuals of the Group included two (2001: two) directors and one supervisor (2001: nil). Information relating to these directors' and supervisor's emoluments have been disclosed above. Details of the emoluments of the remaining two (2001: three) highest paid, non-director employees are as follows:

	2002 **RMB'000**	2001 RMB'000
Basic salaries and other benefits	**175**	247
Bonuses paid and payable	**28**	32
Pension scheme contributions	**8**	10
	211	289

All the highest paid, non-director employees' emoluments fell within the range of nil to HK$1 million.

During the year ended 31 December 2002, no emoluments were paid by the Group to the directors or the other highest paid, non-director employees, as an inducement to join or upon joining the Group, or as a compensation for loss of office. No director has waived or agreed to waive any emoluments during the year.

7. INCOME TAX EXPENSES

According to the relevant PRC laws and regulations, the Company and its subsidiary are subject to corporate income tax at 33% of their taxable profits. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2002.

Major components of the Group's income tax expenses for the year ended 31 December 2002 are as follows:

	2002 **RMB'000**	2001 RMB'000
Provision for income tax in respect of profit for the year:		
— Current	**19,535**	11,930
— Deferred	**(1,234)**	221
Tax expenses before minority interests	**18,301**	12,151

7. INCOME TAX EXPENSES (CONTINUED)

A numerical reconciliation between tax expenses and the product of accounting profit multiplied by the applicable tax rate is as follows:

	2002 RMB'000	2001 RMB'000
Accounting profit	**56,238**	36,058
Tax at an applicable tax rate of 33%	**18,559**	11,899
Tax effect of:		
— non-deductible tax losses of the subsidiary	**—**	24
— (non-taxable profit)/expenses not deductible from assessable income tax	**(258)**	228
Tax expenses before minority interests	**18,301**	12,151

8. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Declared and paid during the year:		
— Final dividend pertaining to 2001 — RMB0.1386 per ordinary shares	**10,407**	—
Proposed for payment in 2003:		
— Final dividend pertaining to 2002 — RMB0.01453 per ordinary share (2001: RMB0.1386)	**18,184**	10,407

The proposed final dividend pertaining to 2002 for payment in 2003 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2002.

For dividend purposes, the amount which the Company and its subsidiary can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IAS.

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8. DIVIDENDS (CONTINUED)

In accordance with the articles of association of the Company, the reserve available for distribution is based on the lower of the Group's profits determined under PRC GAAP and IAS.

9. EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2002 is computed by dividing net profit attributable to shareholders of approximately RMB37,324,000 (2001: approximately RMB23,936,000) by the weighted average number of 840,048,000 ordinary shares (2001: 750,900,000 ordinary shares) in issue during the year, as if the sub-division of the Company's shares from one Domestic Share of nominal value of RMB1.00 each into 10 Domestic Shares of RMB0.10 each, as described in note 22(a) below, had taken place on 1 January 2001.

Diluted earnings per share equals basic earnings per share because there were no potential dilutive ordinary shares outstanding during the year.

10. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiary participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company and its subsidiary are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 24.23% of the previous year's average basic salaries within the geographical area where the employees are under employment with the Company and its subsidiary. The Company and its subsidiary have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiary and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiary except for such contributions to the accommodation fund.

11. INTERESTS IN SUBSIDIARIES

	Company 2002 RMB'000	Company 2001 RMB'000
Unlisted investments — share of net assets	**23,975**	5,957
Due to a subsidiary	**(2,271)**	—
	21,704	5,957

The amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The consolidated financial statements include the financial statements of the Company and the consolidated subsidiaries listed in the following table.

Particulars of the Company's subsidiaries are as follows:

Name of company	Place and date of establishment	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company 2002	Percentage of equity interest attributable to the Company 2001	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC 19 June 2002	RMB25,000,000	**83.5%**	—	Construction of gas pipelines
Zhengzhou Zhengran Luneng Gas Co., Ltd. (note (b))	PRC 30 October 2001	RMB10,000,000	**—**	60%	Sale of gas used by motor vehicles

Notes:

(a) On 19 June 2002, Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and Zhengzhou Gas Group Labor Union Committee in Zhengzhou, Henan Province, the PRC. The results of Zhengzhou Gas Engineering and Construction Co., Ltd. were consolidated from 19 June 2002, the date of its establishment.

(b) On 29 April 2002, the Company and Henan Zhongyuan Luneng Hi-Tech Co., Ltd. ("Henan Luneng"), the minority shareholder of Zhengran Luneng Gas Co., Ltd. ("Zhengran Luneng"), passed a shareholders' resolution (the "Resolution") in respect of the dissolution of Zhengran Luneng. Pursuant to the Resolution, the Company took over the entire business undertakings together with the underlying assets and liabilities of Zhengran Luneng upon paying RMB4,000,000, which represented the paid-up capital of Zhengran Luneng subscribed by Henan Luneng, in cash on 9 May 2002 to Henan Luneng for its 40% interest in Zhengran Luneng. Thereafter, Zhengran Luneng was deregistered on 16 August 2002. The results of Zhengran Luneng were consolidated up to 16 August 2002, the date of its dissolution.

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12. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Group:

	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2002	—	80,407	104,743	2,025	9,095	—	27,276	223,546
Additions	4	3,219	—	1,071	3,486	195	73,155	81,130
Transferred from/(to)	698	4,955	—	32	—	—	(5,685)	—
At 31 December 2002	702	88,581	104,743	3,128	12,581	195	94,746	304,676
Accumulated depreciation:								
At 1 January 2002	—	20,912	41,968	487	4,339	—	—	67,706
Charges for the year	15	3,887	4,403	252	1,613	35	—	10,205
At 31 December 2002	15	24,799	46,371	739	5,952	35	—	77,911
Net book value:								
At 31 December 2002	687	63,782	58,372	2,389	6,629	160	94,746	226,765
At 31 December 2001	—	59,495	62,775	1,538	4,756	—	27,276	155,840

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12. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS (CONTINUED)

Company:

	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2002	—	80,407	104,743	2,001	9,095	—	23,847	220,093
Additions	4	1,110	—	1,006	2,100	195	81,448	85,863
Transferred from/(to)	698	4,955	—	32	—	—	(5,685)	—
Transferred to a subsidiary as capital contribution	—	(2,137)	—	(215)	(1,562)	(22)	—	(3,936)
At 31 December 2002	702	84,335	104,743	2,824	9,633	173	99,610	302,020
Accumulated depreciation:								
At 1 January 2002	—	20,912	41,968	487	4,339	—	—	67,706
Charges for the year	15	3,805	4,403	239	1,529	32	—	10,023
Transferred to a subsidiary as capital contribution	—	(291)	—	(19)	(867)	(4)	—	(1,181)
At 31 December 2002	15	24,426	46,371	707	5,001	28	—	76,548
Net book value:								
At 31 December 2002	687	59,909	58,372	2,117	4,632	145	99,610	225,472
At 31 December 2001	—	59,495	62,775	1,514	4,756	—	23,847	152,387

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13. TRADE RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Outstanding balances with ages:				
Within 30 days	**31,989**	22,137	**31,989**	22,137
Between 31 days to 90 days	**1,693**	1,668	**1,693**	1,668
Between 91 days to 180 days	**707**	479	**707**	479
Between 181 days to 365 days	**899**	58	**899**	58
Over 365 days	**415**	291	**415**	291
	35,703	24,633	**35,703**	24,633
Less: Provision for bad and doubtful debts	**(419)**	(279)	**(419)**	(279)
	35,284	24,354	**35,284**	24,354

14. INVENTORIES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
LPG	**547**	828	**547**	828
Construction materials	**513**	59	**363**	59
Spare parts and consumables	**329**	858	**329**	858
	1,389	1,745	**1,239**	1,745

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15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**7,522**	4,977	**6,469**	4,977
Deposits	**109**	101	**—**	101
Sundry debtors	**691**	1,919	**582**	1,919
	8,322	6,997	**7,051**	6,997
Less: Provision for bad and doubtful debts	**—**	(47)	**—**	(47)
	8,322	6,950	**7,051**	6,950

16. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
— Accrued expenses not deductible until payments are made	**1,013**	742	**1,013**	742
Gross deferred tax assets	**1,013**	742	**1,013**	742
Deferred tax liabilities:				
— Sales revenue recognised in the IAS financial statements but not taken up in the statutory accounts of the Company	**—**	(5,128)	**—**	(5,128)
Gross deferred tax liabilities	**—**	(5,128)	**—**	(5,128)
Net deferred tax assets/(liabilities)	**1,013**	(4,386)	**1,013**	(4,386)

17. INTEREST-BEARING LOANS AND BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans, unsecured:				
— Repayable within one year	**—**	30,000	**—**	30,000

18. TRADE PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Outstanding balances with ages:				
Within 30 days	**8,080**	2,456	**5,680**	2,456
Between 31 days to 90 days	**1,078**	175	**1,078**	175
Between 91 days to 180 days	**811**	570	**697**	570
Between 181 days to 365 days	**306**	1,012	**306**	1,012
Over 365 days	**460**	310	**460**	310
	10,735	4,523	**8,221**	4,523

19. DEFERRED INCOME

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Progress payments received	**95,496**	61,426	**85,721**	61,426
Less: Contract costs incurred to date	**(15,028)**	(9,022)	**(579)**	(9,022)
	80,468	52,404	**85,142**	52,404

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20. DUE TO THE HOLDING COMPANY

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion (note (a))	**500**	34,182	**500**	34,182
Long term portion (note (b))	**32,433**	—	**32,433**	—
	32,933	34,182	**32,933**	34,182

Notes:

(a) The amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

(b) On 30 September 2002, the Company entered into a repayment agreement with its holding company, Zhengzhou Gas Group Co., Ltd. Pursuant to the repayment agreement, the repayment term of an amount of RMB32,433,000 due to the holding company was revised from repayable on demand to wholly repayable on 1 January 2004. The amount of RMB32,433,000 due to the holding company is unsecured and interest-free.

The holding company has undertaken to the Company that it will not demand repayment of any outstanding amount due from the Company before 1 January 2004. From 1 January 2004, the holding company will not demand repayment of any outstanding amount unless:

(i) the Group has positive cash flow and retained earnings and such positive cash flow is sufficient to fund the repayment of the amount due and all working capital needs of the Group for the financial year in which such repayment is required to be made; and

(ii) each of the independent non-executive directors confirms that such repayment of any of the outstanding amount will not adversely affect the Group's operations or the implementation of its business plans during the year ending 31 December 2004.

21. DUE TO FELLOW SUBSIDIARIES

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

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22. SHARE CAPITAL

	2002		2001	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Registered	1,251,500	125,150	75,090	75,090
Issued and fully paid:				
— Domestic Shares of RMB0.10 each (2001: RMB1.00 each)	700,840	70,084	75,090	75,090
— H Shares of RMB0.10 each	550,660	55,066	—	—
	1,251,500	125,150	75,090	75,090

A summary of the movements of the Company's ordinary share capital during the year is as follows:

	2002		2001	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
At beginning of year	75,090	75,090	75,090	75,090
Share subdivision (note (a))	750,900	75,090	75,090	75,090
Domestic Shares converted into Sale H Shares (note (b))	(50,060)	(5,006)	—	—
Share placement (note (c))	550,660	55,066	—	—
At end of year	1,251,500	125,150	75,090	75,090

Notes:

(a) Pursuant to the resolutions adopted at the shareholders' meeting of the Company held on 25 April 2002 and an approval issued by the China Securities Regulatory Commission ("CSRC") on 22 June 2002, each Domestic Share of the Company with nominal value of RMB1.00 each was sub-divided into 10 Domestic Shares of nominal value of RMB0.10 each.

(b) Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund" (《減持國有股籌集社會保障基金管理暫行方法》), 50,060,000 Domestic Shares of Zhengzhou Gas Group Co., Ltd. and Henan Auctioneer, two founding shareholders of the Company, were converted into 50,060,000 Sale H Shares. Net proceeds from the sale of the 50,060,000 Sale H Shares should be remitted to the National Social Security Fund.

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22. SHARE CAPITAL (CONTINUED)

(c) On 28 October 2002, 550,660,000 ordinary H Shares of RMB0.10 each, which represented 500,600,000 New H Shares and 50,060,000 Sale H Shares, were issued to the foreign investors at a price of HK$0.25 (equivalent to approximately RMB0.265) per share. After deducting net proceeds of approximately RMB11,887,000 from the sale of 50,060,000 Sale H Shares, which should be remitted to the National Social Security Fund as explained in note (b) above, and share issue expenses of approximately RMB13,912,000, the Company raised net proceeds of approximately RMB118,897,000, of which paid-up share capital amounted to RMB50,060,000 and share premium amounted to RMB68,837,000.

23. RESERVES

Company	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	General surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Notes		(a)	(b)	(c)	(d)	
At 1 January 2002	32,189	2,124	2,124	—	19,688	56,125
New shares issued	82,749	—	—	—	—	82,749
Shares issue expenses	(13,912)	—	—	—	—	(13,912)
Net profit for the year	—	—	—	—	37,324	37,324
Transferred from/(to) retained earnings	—	3,901	3,901	2,124	(9,926)	—
Dividends paid	—	—	—	—	(10,407)	(10,407)
At 31 December 2002	101,026	6,025	6,025	2,124	36,679	151,879

Notes:

(a) Statutory surplus reserve ("SSR")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiary, the Company and its subsidiary are required to allocate 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiary, to the SSR until such reserve reaches 50% of the registered capital of the Company and its subsidiary. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) Statutory public welfare fund ("PWF")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiary, the Company and its subsidiary are required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiary, to the PWF which is a non-distributable reserve other than in the event of liquidation of the Company and its subsidiary. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiary.

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23. RESERVES (CONTINUED)

(b) Statutory public welfare fund ("PWF") (Continued)

When the PWF is utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF is transferred from the PWF to the general surplus reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

(c) General surplus reserve ("GSR")

In addition to the above statutory reserves which are required by the Company Law of the PRC and respective articles of association of the Company and its subsidiary, the shareholders of the Company resolved to transfer approximately RMB2,124,000 from the Company's retained earnings as at 31 December 2001 to the GSR.

(d) Distributable reserves

As set out in note 8 to the financial statements, for dividend purposes, the amount which the Company and its subsidiary can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IAS.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Group's profits determined under PRC GAAP and IAS.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfers to the SSR and PWF as set out above.

As at 31 December 2002, the Company's reserves available for distribution were approximately RMB35,666,000 (2001: RMB16,990,000), before taking into account the proposed final dividend as explained in note 8 above and the proposed transfer to general surplus reserve as explained in note 28 below.

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24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties:

Name of related parties	Nature of transactions	2002 RMB'000	2001 RMB'000
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease of equipment and land and buildings from the related company	**5,081**	4,753
	Bank loans guaranteed by the related company (note (c))	**—**	30,000
	Construction of gas pipelines for the related company	**—**	6,526
	Material costs for the replacement of gas metres reimbursed by the related company (note (d))	**330**	5,354
Zhengzhou Zhengran Gas Equipment Co., Ltd. (note (b))	Purchases of construction materials from the related company	**601**	—
Zhengzhou Zhengran Gas Appliances Co., Ltd. (note (b))	Purchases of gas appliances from the related company	**4,038**	—
Zhengzhou Gas Group LPG Co., Ltd. (note (b))	Provision of technology consultancy services to the related company	**167**	—
Zhengzhou Zhengran Materials Co., Ltd. (note (b))	Purchases of construction materials and consumables from the related company	**9,236**	23,940

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Zhengzhou Zhengran Gas Equipment Co., Ltd., Zhengzhou Zhengran Gas Appliances Co., Ltd., Zhengzhou Gas Group LPG Co., Ltd. and Zhengzhou Zhengran Materials Co., Ltd. are fellow subsidiaries of the Company.

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24. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) The bank loans of RMB30 million outstanding as at 31 December 2001 were guaranteed by Zhengzhou Gas Group Co., Ltd. and were fully repaid on 18 April 2002. Thereafter, the guarantee given by Zhengzhou Gas Group Co., Ltd. was released.

(d) In accordance with an agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd. dated 1 July 2001, Zhengzhou Gas Group Co., Ltd. reimbursed the Company for the material costs at original purchase costs paid by the Company to its suppliers for the replacement of gas metres during the period from 1 January 2001 to 31 March 2002.

The directors of the Company are of the opinion that the above transactions with related parties were conducted under normal commercial terms in the ordinary course of business. The prices of the above transactions were determined based on the prevailing market prices.

25. COMMITMENTS

	2002 RMB'000	2001 RMB'000
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
— Authorised, but not contracted for	**77,957**	6,987
— Contracted, but not provided for	**14,579**	2,258
	92,536	9,245
Operating lease commitments		
Future minimum rentals payable under non-cancellable operating leases for each of the following periods:		
— Within one year	**3,843**	4,753
— In the second to fifth years, inclusive	**18,974**	14,051
— Over five years	**41,721**	—
	64,538	18,804

26. CONTINGENT LIABILITIES

As at 31 December 2002, the Group did not have any significant contingent liabilities, nor did it provide any guarantees to other parties.

27. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group is exposed to market risk, including primarily changes in interest rates and commodity prices. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

Foreign currency risk

The Group operates in the PRC and its principal activities are transacted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group does not have significant credit risk as credit given to any individual or entity is not significant.

Fair value

The fair values of the Group's financial instruments are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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27. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk exposure

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2002 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated on the balance sheet.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group sells its products to a diversity of consumers, thereby mitigating any significant concentrations of credit risk.

28. SUBSEQUENT EVENTS

Subsequent to 31 December 2002, the directors proposed a final dividend of RMB0.01453 per ordinary share, totalling approximately RMB18,184,000, pertaining to 2002 for payment in 2003. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2002.

In addition, subsequent to 31 December 2002, the directors proposed to transfer 10%, totalling approximately RMB3,901,000 of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2002 to the general surplus reserve. The proposed transfer to general surplus reserve is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to general surplus reserve has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2002.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2003.