



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)



First Quarterly Report 2003



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Financial Highlights

- Unaudited consolidated turnover and profit attributable to shareholders of the Group for the Relevant Period amounted to approximately RMB91,776,000 and RMB15,031,000 respectively, representing respective increases of 21.26% and 6.09% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB47,038,000, representing an increase of approximately 19.70% over the corresponding period of last year, which was primarily attributed to increases in the number of residential, commercial and industrial users.
- Operating revenue derived from connection fees aggregated to approximately RMB26,071,000 for the Relevant Period, representing an increase of approximately 36.28% over the corresponding period of last year, which was primarily attributed to satisfactory growth in the pipeline connection projects for residential users.
- Sales of LPG for the Relevant Period amounted to approximately RMB11,051,000, representing an increase of approximately 48.84% over the corresponding period of last year.
- Basic earnings per share for the Relevant Period was approximately RMB0.01, representing a decrease of approximately 47.37% over the corresponding period of last year, which was primarily attributed to the dilutive effect caused by the issue of H Shares by the Group on 29 October 2002.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.

Consolidated Results for First Quarter of 2003 (Unaudited)

The board of Directors (the “Board”) of Zhengzhou Gas Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiary (collectively the “Group”) for the three months ended 31 March 2003 (the “Relevant Period”) together with the comparative audited figures for the corresponding period of 2002 (the audited consolidated results for the first quarter of 2002 were prepared specially for the purpose of seeking approval of the China Securities Regulatory Commission for listing on GEM, the GEM Listing Rules do not require the published quarterly results of an issuer to be audited):

	Notes	Three months ended	
		31 March 2003 RMB'000	2002 RMB'000
Turnover	3	91,776	75,684
Cost of sales		(60,093)	(44,837)
Gross profit		31,683	30,847
Other revenue		122	157
Selling and distribution costs		(2,439)	(3,486)
Administrative costs		(7,130)	(5,902)
Profit from operating activities		22,236	21,616
Finance costs		(10)	(474)
Profit before income tax		22,226	21,142
Income tax expense	4	(6,402)	(6,991)
Profit before minority interests		15,824	14,151
Minority interests		(793)	17
Net profit attributable to shareholders		15,031	14,168
Earnings per share (RMB) — basic	5	0.01	0.019



Consolidated Results for First Quarter of 2003 (Unaudited)

Notes:

1. Basis of consolidation and presentation

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 18 December 2000. The overseas listed shares with a nominal value of RMB0.10 each (the "H Shares") in the registered share capital of the Company were listed on GEM on 29 October 2002.

The financial statements and related notes presented in this quarterly report have been prepared in accordance with International Accounting Standards and interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee (collectively, the "International Accounting Standards"), the Companies Ordinance of Hong Kong and the GEM Listing Rules.

The Group is principally engaged in the sale of piped natural gas, liquefied petroleum gas ("LPG") and gas appliances and the provision of gas pipeline construction services. The parent company of the Group is Zhengzhou Gas Group Co., Ltd., which is incorporated in the PRC.

2. Change in significant accounting policies

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

Consolidated Results for First Quarter of 2003 (Unaudited)

3. Turnover

An analysis of the Group's turnover for the three months ended 31 March 2003 together with the comparative figures for the corresponding period in 2002 are as follows:

	Three months ended	
	31 March	
	2003	2002
	RMB'000	RMB'000
Natural gas	47,038	39,298
LPG	11,051	7,425
Gas appliances	1,668	3,899
Gas pipeline construction services		
— Connection fees	26,071	19,131
— Gas pipeline repairs and maintenance services	6,980	6,580
Others	303	443
	93,111	76,776
Less: Business tax and government surcharges (note)	(1,335)	(1,092)
Turnover	91,776	75,684

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



Consolidated Results for First Quarter of 2003 (Unaudited)

4. Taxes

No provision for Hong Kong profits tax has been made as none of the Group's income was arising in or derived from Hong Kong during the Relevant Period. The PRC income tax of the Company has been provided at the applicable income tax rate of 33% on the assessable profit in accordance with the relevant tax laws and regulations.

	Three months ended	
	31 March	
	2003	2002
	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:		
— Current	3,921	7,254
— Deferred	2,481	(263)
Tax charge for the period	6,402	6,991

5. Earnings per share

Basic earnings per share is computed by dividing net profit attributable to shareholders for the Relevant Period of approximately RMB15,031,000 (2002: approximately RMB14,168,000) by the weighted average number of 1,251,500,000 shares, comprising 700,840,000 Domestic Shares and 550,660,000 H Shares (2002: 750,900,000 Domestic Shares, based on the assumption that 750,900,000 Domestic Shares had been in issue since 1 January 2002, as if the sub-division of the Company's shares from one Domestic Share with a nominal value of RMB1.00 each into ten Domestic Shares with a nominal value of RMB0.10 each in June 2002 (the "Sub-Division") had taken place since 1 January 2002).

Consolidated Results for First Quarter of 2003 (Unaudited)

On the assumption that the effect of the Sub-Division is not taken into account and the actual number of shares in issue for the three months ended 31 March 2002 was 75,090,000 Domestic Shares, basic earnings per share was approximately RMB0.19, on which basis the basic earnings per share for the Relevant Period fell by 94.74% when comparing with that of the corresponding period of last year.

Diluted earnings per share for the three months ended 31 March 2002 and 31 March 2003 respectively have not been calculated as there was no dilutive event during those periods.

6. Reserves

Movements in reserves for the three months ended 31 March 2003 together with the comparative figures for the corresponding period of 2002 were as follows:

	Statutory					Retained earnings	Total
	Share premium	Statutory surplus reserve	public welfare fund	General surplus reserve			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	32,189	2,124	2,124	—	19,688	56,125	
Profit for the period	—	—	—	—	14,168	14,168	
At 31 March 2002	32,189	2,124	2,124	—	33,856	70,293	
At 1 January 2003	101,026	6,025	6,025	2,124	36,679	151,879	
Dividend paid for 2002	—	—	—	—	(18,184)	(18,184)	
Profit for the period	—	—	—	—	15,031	15,031	
At 31 March 2003	101,026	6,025	6,025	2,124	33,526	148,726	



Management Discussion and Analysis

BUSINESS REVIEW

Consolidated

Total turnover and gross profit of the Group for the three months ended 31 March 2003 were approximately RMB91,776,000 and RMB31,683,000 respectively. Compared with the corresponding period of last year, total turnover increased by 21.26%, which was primarily attributed to the increase in number of natural gas users. Viewed from the angle of gas consumption, significant increases in gas consumption by industrial and commercial users was also one of the reasons for such increase in turnover.

Gross profit margin of the Group for the Relevant Period was approximately 34.52%, representing a decrease from 40.76% over the corresponding period of last year, which was primarily attributed to increases in purchase costs of natural gas. This led to an increase in costs of sales for the Relevant Period of 34.03% over the corresponding period of last year.

Administrative costs for the Relevant Period were approximately RMB7,130,000, representing an increase of 20.81% from RMB5,902,000 of last year, which was primarily attributed to increases in fees to intermediaries and promotional expenses.

Income tax expense for the Relevant Period was approximately RMB6,402,000. The income tax rate of 33% was in accordance with the relevant tax laws and regulations.

Net profit attributable to shareholders for the Relevant Period was approximately RMB15,031,000, representing an increase of 6.09% from RMB14,168,000 over the corresponding period of last year.

Sale of piped natural gas

Sales revenue of piped natural gas for the Relevant Period amounted to approximately RMB47,038,000 during the Relevant Period, representing an increase of 19.70% over the corresponding period of last year.



Management Discussion and Analysis

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 30,870,000 m³, representing an increase of 19.41% as compared with approximately 25,853,000 m³ for the corresponding period of last year. Gas consumption by residential, commercial and industrial users were approximately 18,323,000 m³, 11,810,000 m³ and 737,000 m³ respectively, representing respective increases of 12.03%, 26.53% and 352.15% over the corresponding period of last year. As the Group is committed to develop commercial and industrial users vigorously, the component proportions of gas consumption by these two types of users increased from 63:36:1 (residential to commercial to industrial) as at 31 March 2002 to 59:38:3 as at 31 March 2003. Thus the Group was reducing its reliance on residential users as a source of revenue by diverting its sales towards the industrial and commercial markets with higher consumption.

The Group converted 260 natural gas-driven vehicles during the Relevant Period and began preparation for two new gas-refuelling stations, the construction of which was expected to commence at the end of April 2003. The new gas-refuelling stations will serve to promote the vehicular gas business better upon completion.

Natural gas pipeline construction services

For the three months ended 31 March 2003, operating revenue of connection fees amounted to approximately RMB26,071,000, representing an increase of 36.28% over the corresponding period of last year. The management believes that revenue from connection fees will continue to grow. However, the new tax law implemented in January 2003 may have certain negative impacts on connection fees. Under the new tax law, out of the connection fees per user of RMB3,300, the urban pipeline construction fees per user of RMB1,800, which were previously subject to a business tax of 3%, are now subject to a value added tax which is taxed at a higher rate. Accordingly, the revenue to be derived from connection fees may be reduced. As connection fees are not recognised until the construction is completed, connection fees from pipeline connection projects implemented in 2003 have not been incorporated in the profit and loss account for this quarter. Therefore, impact of changes in tax laws may only be reflected in the coming financial results.



Management Discussion and Analysis

Total length of the Group's pipeline network increased from approximately 1,490 km as at 31 December 2002 to approximately 1,519 km as at 31 March 2003.

In addition, the Group also collects fees from users for providing repair and maintenance services to gas pipelines. During the Relevant Period, such fees were approximately RMB6,980,000, representing a slight increase of approximately 6.08% over the corresponding period of last year.

LPG

Operating revenue of the Group's sales of LPG amounted to approximately RMB11,051,000 during the Relevant Period, representing an increase of 48.84% over the corresponding period of last year. In view of the long subsisting, ferocious and disorderly competition in the LPG market of Zhengzhou, the gross profit of the Company's LPG business prevailed with a downward declining trend.

FUTURE PROSPECTS

Zhengzhou's development is in line with rapid growth of the PRC economy

According to the figures released by the State Statistics Bureau, the gross domestic product ("GDP") of the PRC for the first quarter of 2003 grew by 9.9% over the corresponding period of last year, the highest growth recorded for the same quarter since 1997. The foundations of such growth were comprehensive and extended to core segments of consumption activities like sales of commodity houses and motor vehicles.

The economic development of Zhengzhou, one of the most important cities in the central region of the PRC, is obviously driven with sustainable growth by the macroeconomic axis of the PRC. Housing sales in Zhengzhou during March 2003 attained a new historical high, representing an increase of 25.4% over the previous historical high of May 2001. Besides, industrial and commercial sectors also revealed buoyant development in the past quarter with an increase of 20.1% in the industrial production value of Zhengzhou during the first quarter of 2003 over the corresponding period of last year. In view of the amelioration in



Management Discussion and Analysis

economic environment, in particular, the satisfactory development of real estate, commercial and industrial sectors, which are closely associated with the Group's business, the management is cautiously optimistic about the performance of the Group in 2003. As long as economic growth does not fizzle or detonate higher inflation and lead to increases in costs, the Group will continue to benefit from the amelioration in overall economic climate.

Environmental protection measures will benefit its development

In order to improve the state of pollution, the Environmental Protection Bureau of Zhengzhou designated a non-coal fuel area of 4 sq km within the urban area where coal was substituted by natural gas as fuel in 2002. Such designated areas will continue to expand gradually over the years. In 2003, the Environmental Protection Bureau of Zhengzhou will, based on the present foundation of the established non-coal fuel area, continue to build non-coal fuel areas of not less 0.5 sq km within each district of Zhengzhou. Such measures will undoubtedly provide further opportunities for continual development of the gas industry.

Commercial opportunities presented by the West to East Pipelines

It is expected that the West to East Pipelines will commence its supply of natural gas to Zhengzhou in October 2003. By that time, the Group's room for development will be broadened with more adequate natural gas supply. At present, the Group is occupied with the commencement in the construction of the Zhaojiazhuang Processing Station and the depressuring station at Zhongyuan West Road to equip itself for the natural gas supply of the West to East Pipelines.



Other Information

DIVIDENDS

On 18 March 2003, the Board of the Company recommended the payment of a final dividend of RMB0.01453 per ordinary share (aggregating approximately RMB18,184,000) in respect of the profit for the year ended 31 December 2002 to shareholders whose names appear in the register of members of the Company on 28 May 2003. The proposed dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 28 May 2003.

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: nil).

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2003, the interests of the directors, chief executives and supervisors of the Company in the shares of the Company and in the share capital of any of its associated corporations as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which will be required to disclose 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 % of beneficial interests in Domestic Shares	Approximate % in total registered share capital of the Company
Gao Mingshun	Corporate (note 1)	15,400,000	2.20%	1.23%
Li Keqing	Corporate (note 2)	115,500,000	16.48%	9.23%

Notes:

- (1) As at 31 March 2003, 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) As at 31 March 2003, 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 Company Limited, 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, as at 31 March 2003, none of the directors, chief executives and supervisors of the Company holds any interests in the business of the Company and its associated corporations. None of the directors, chief executives or supervisors of the Company or their spouses or children under the age of eighteen has been conferred or exercised any rights to subscribe for the shares of the Company.



Other Information

SUBSTANTIAL SHAREHOLDERS

As 31 March 2003, the following shareholders, being interested in 10% or more in the respective classes 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 SDI Ordinance:

Name	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd.	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Company Limited (<i>note</i>)	115,500,000	16.48%	9.23%

Note: Zhengzhou Qiyuan Investment Consultancy Company Limited ("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 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 has registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance.

SPONSOR'S INTERESTS

As at 31 March 2003, 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 member of the Group or any rights to subscribe for or to nominate 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 GEM commenced (i.e., 29 October 2002) to 31 December 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

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 functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive directors, and Mr. Zhang Chaoyi, a non-executive director. Ms. Yu Shulian is the chairperson of the audit committee.

During the Relevant Period, the audit committee held two formal meetings and reviewed the 2002 Annual Report and this quarterly report.



Other Information

COMPETING INTERESTS

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

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

Zhengzhou, PRC, 14 May 2003

* *For identification purpose only*