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)



2003 Interim 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 these 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 of the Stock Exchange 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. GEM-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 at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

Zhengzhou Gas Company Limited

2003 Interim Report

Contents

Financial Highlights

- Unaudited consolidated turnover and profit attributable to shareholders of the Group for the six months ended 30 June 2003 (the "Relevant Period") amounted to approximately RMB175,034,000 and RMB28,123,000 respectively, representing respective increases of approximately 24.03% and 14.85% over the corresponding period of last year.

- Sales of piped natural gas for the Relevant Period amounted to RMB95,423,000, representing an increase of approximately 47.09% over the corresponding period of last year, which was primarily attributed to the increase in the number of residential, commercial and industrial users, coupled with the recognition of revenue from the supply of gas to Henan AnFei Electronic Glass Company Limited (河南安飛電子玻璃有限公司) during the Relevant Period.

- Turnover derived from connection fees aggregated to approximately RMB50,869,000 for the Relevant Period, representing an increase of approximately 15.21% over the corresponding period of last year, which was primarily attributed to satisfactory growth in the pipeline connection projects for residential users.

- Basic earnings per share for the Relevant Period was approximately RMB0.022, representing a decrease from RMB0.033 of the corresponding period of last year, which was primarily attributed to the dilutive effect caused by the issue of H Shares.

- The Directors of the Group do not recommend the payment of any interim dividend for the Relevant Period.

FINANCIAL STATEMENTS

The board of directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to announce the financial statements of the Company and its subsidiaries (collectively the "Group") for the Relevant Period.

Consolidated Income Statement (Unaudited)

Unaudited consolidated results for the three months and six months ended 30 June 2003 together with the comparative unaudited figures for the corresponding periods in 2002 are set out as follows:

		Three months ended 30 June		Six months ended 30 June	
		2003	2002	**2003**	2002
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	3	**83,258**	65,436	**175,034**	141,120
Cost of sales		**(55,693)**	(40,687)	**(115,786)**	(85,524)
Gross profit		**27,565**	24,749	**59,248**	55,596
Other revenue		**282**	128	**404**	285
Selling and distribution costs		**(1,944)**	(3,320)	**(4,383)**	(6,806)
Administrative costs		**(7,829)**	(5,675)	**(14,959)**	(11,577)
Other operating costs		**(20)**	(384)	**(20)**	(384)
Profit from operating activities		**18,054**	15,498	**40,290**	37,114
Finance costs		**(47)**	(93)	**(57)**	(567)
Profit before income tax		**18,007**	15,405	**40,233**	36,547
Income tax expenses	4	**(4,137)**	(5,070)	**(10,539)**	(12,061)
Profit before minority interests		**13,870**	10,335	**29,694**	24,486
Minority interests		**(778)**	(17)	**(1,571)**	—
Net profit attributable to shareholders		**13,092**	10,318	**28,123**	24,486
Earnings per share (RMB in dollar)					
— basic	5	**0.010**	0.014	**0.022**	0.033

Consolidated Interim Results for 2003 (Unaudited)

Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2003 RMB'000 (Unaudited)	As at 31 December 2002 RMB'000 (Audited)
ASSETS			
Non-current assets			
Deferred tax assets		—	1,013
Property, plant and equipment and construction in progress	7	265,078	226,765
		265,078	227,778
Current assets			
Cash and bank balances		157,284	166,969
Trade receivables	8	25,920	35,284
Bills receivables		1,290	—
Inventories		1,785	1,389
Prepayments, deposits and other receivables		11,475	8,322
		197,754	211,964
TOTAL ASSETS		462,832	439,742

Consolidated Interim Results for 2003 (Unaudited)

	Notes	As at 30 June 2003 RMB'000 (Unaudited)	As at 31 December 2002 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	9	**125,150**	125,150
Reserves	10	**161,817**	151,879
		286,967	277,029
Minority interests		**6,308**	4,738
Non-current liabilities			
Deferred tax liabilities		**1,449**	—
Due to the Holding Company	11	**—**	32,433
		1,449	32,433
Current liabilities			
Dividends payable		**10,183**	—
Trade payables	12	**14,962**	10,735
Deferred income		**87,807**	80,468
Accrued liabilities and other payables		**19,631**	26,994
Tax payable		**1,966**	6,607
Due to the Holding Company	11	**32,883**	500
Due to fellow subsidiaries	13	**676**	238
		168,108	125,542
TOTAL EQUITY AND LIABILITIES		**462,832**	439,742

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June 2003 RMB'000	2002 RMB'000
Net cash inflow/(outflow) from operating activities	41,343	36,204
Net cash inflow/(outflow) from investing activities	(42,971)	(28,936)
Net cash inflow/(outflow) from financing activities	(8,058)	(44,974)
Net increase/(decrease) in cash and cash equivalents	(9,686)	(37,706)
Balances of cash and cash equivalents, at the beginning of the period	166,969	87,240
Balances of cash and cash equivalents, at the end of the period	157,283	49,534

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Six months ended 30 June 2003 RMB'000	2002 RMB'000
Total equity, at the beginning of the period	277,029	131,215
Profit for the period	28,123	24,486
Dividend	(18,184)	(10,408)
Total equity, at the end of the period	286,967	145,293

Condensed notes to financial statements

1. Basis of preparation and accounting policies

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 condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with International Financial Reporting Standards ("IFRS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board.

The accounting policies and methods used in preparing the condensed consolidated financial statements are the same as those used in the financial statements of the Group for the financial year ended 31 December 2002.

2. Segment information

The principal activities of the Group are the sale of natural gas, LPG and relevant 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 transmission 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 Province, the PRC. Accordingly, no segmental analyses by business and geographical segments are provided.

3. Turnover

An analysis of the Group's turnover for the three months and six months ended 30 June 2003 together with the comparative figures for the corresponding periods in 2002 is as follows:

Turnover	**Three months ended 30 June**		**Six months ended 30 June**	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Natural gas	**48,385**	25,575	**95,423**	64,873
LPG	**—**	6,361	**11,051**	13,786
Gas appliances	**3,440**	2,903	**5,108**	6,802
Gas pipeline construction services				
— Connection fees	**24,798**	25,023	**50,869**	44,154
— Gas pipeline repairs and maintenance services	**7,819**	5,709	**14,799**	12,289
Others	**75**	1,081	**378**	1,524
	84,517	66,652	**177,628**	143,428
Less: Business tax and government surcharges (Note)	**(1,258)**	(1,216)	**(2,593)**	(2,308)
Turnover	**83,258**	65,436	**175,034**	141,120

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

4. **Tax**

No provision for Hong Kong tax has been made as none of the Group's income was arising in nor 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 estimated assessable profit in accordance with the relevant tax laws and regulations.

	Three months ended 30 June		Six months ended 30 June	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provision for income tax in respect of profit for the period:				
— Current	**2,943**	6,235	**6,864**	13,489
— Deferred	**1,194**	(1,165)	**3,675**	(1,428)
Tax expenses for the period	**4,137**	5,070	**10,539**	12,061

5. **Earnings per share**

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB28,123,000 (corresponding period in 2002: approximately RMB24,486,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2002 was 750,900,000 shares 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 of nominal value of RMB1.00 each of the Company into 10 Domestic Shares of nominal value of RMB0.10 each in June 2002 had taken place since 1 January 2002).

Diluted earnings per share for the six months ended 30 June 2002 and 30 June 2003 have not been calculated as no diluting events existed during those periods.

6. **Interim dividend**

The Board does not recommend the payment of an interim dividend for the Relevant Period.

7. **Depreciation**

During the Relevant Period, depreciation charge in respect of the Group's property, plant and equipment and construction in progress was approximately RMB4,949,000 (year ended 31 December 2002: approximately RMB10,205,000).

8. **Trade receivables**

	As at 30 June 2003 RMB'000	As at 31 December 2002 RMB'000
Outstanding balances by aging:		
Within 30 days	**20,143**	31,989
31 days to 90 days	**2,934**	1,693
91 days to 180 days	**2,251**	707
181 days to 365 days	**283**	899
Over 365 days	**727**	415
	26,338	35,703
Less: Provision for bad and doubtful debts	**(419)**	(419)
	25,920	35,284

9. **Share capital**

During the Relevant Period, there was no change in the share capital of the Company.

	As at 30 June 2003		As at 31 December 2002	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Registered	**1,251,500**	**125,150**	1,251,500	125,150
Issued and fully paid share capital:				
Domestic Shares of RMB0.10 each	**700,840**	**70,084**	700,840	70,084
H Shares of RMB0.10 each	**550,660**	**55,066**	550,660	55,066
	1,251,500	**125,150**	1,251,500	125,150

10. **Reserves**

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Undistributed profit RMB'000	Total RMB'000
As at 1 January 2002	32,189	2,124	2,124	—	19,688	56,125
Dividend paid for 2001					(10,407)	(10,407)
Transferred from retained earnings				2,124	(2,124)	—
Profit for the period					14,168	14,168
As at 31 March 2002	32,189	2,124	2,124	2,124	21,325	59,886
Profit for the period					10,318	10,318
As at 30 June 2002	32,189	2,124	2,124	2,124	31,643	70,204
As at 1 January 2003	101,026	6,025	6,025	2,124	36,679	151,879
Dividend paid for 2002					(18,184)	(18,184)
Transferred from retained earnings				3,932	(3,932)	—
Profit for the period					15,031	15,031
As at 31 March 2003	101,026	6,025	6,025	6,056	29,594	148,726
Profit for the period					13,092	13,092
As at 30 June 2003	101,026	6,025	6,025	6,056	42,686	161,817

11. **Due to the Holding Company**

	As at 30 June 2003 RMB'000	As at 31 December 2002 RMB'000
Current (Note (1) and (2))	**32,883**	500
Long-term (Note (2))	—	32,433
	32,883	32,933

Notes:

(1) The amount due to Zhengzhou Gas Group Co., Ltd. (the "Holding Company") is unsecured and interest-free.

(2) On 30 September 2002, the Company entered into a repayment agreement with the Holding Company. Pursuant to the repayment agreement, the repayment terms of an amount of RMB32,433,000 due to the Holding Company were revised from payable on demand to wholly repayable on 1 January 2004. The amount due to the Holding Company of RMB32,433,000 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 cashflow 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.

12. **Trade payables**

	As at 30 June 2003 RMB'000	As at 31 December 2002 RMB'000
Outstanding balances by aging:		
Within 30 days	**9,935**	8,080
31 days to 90 days	**2,692**	1,078
91 days to 180 days	**1,054**	811
181 days to 365 days	**649**	306
Over 365 days	**632**	460
	14,962	10,735

13. **Due to fellow subsidiaries**

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

14. **Related party transactions**

Transactions between the Group and the related parties, save for the related party transactions and balances disclosed in other sections of this financial statement are set out as follows:

Name of related parties	Nature of transactions	Period ended 30 June 2003 RMB'000	Period ended 30 June 2002 RMB'000
Zhengzhou Gas Group Co., Ltd. (Note 1)	Rental paid to a related company in respect of equipment, land and buildings under operating leases	**1,270**	1,237
	Income in connection with material costs for the replacement of gas meters reimbursed by a related company (Note 3)	**—**	330
Zhengzhou Zhengran Gas Equipment Co., Ltd. (Note 2)	Purchases of construction materials from a related company	**268**	104
Zhengzhou Zhengran Gas Appliances Co., Ltd. (Note 2)	Purchases of construction materials from a related company	**467**	3,000
Zhengzhou Zhengran Materials Co., Ltd. (Note 2)	Purchases of construction materials and consumables from a related company	**—**	7,069

1. Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

2. Zhengzhou Zhengran Gas Equipment Co., Ltd., Zhengzhou Zhengran Gas Appliances Co., Ltd. and Zhengzhou Zhengran Materials Co., Ltd. are the fellow subsidiaries of the Company.

3. In accordance with the agreement between the Holding Company and the Company dated 1 July 2001, the Holding Company reimbursed the Company for the material costs at original purchase costs paid by the Company for the replacement of gas meters during the period from 1 January 2001 to 31 March 2002.

The Directors are of the view that all transactions above were conducted in the ordinary course of business of the Company and based on the normal commercial terms. The prices of the transactions were determined on the basis of prevailing market prices.

15. **Commitments**

	As at 30 June 2003 RMB'000	As at 31 December 2002 RMB'000
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
— Approved, but not contracted for	**52,400**	77,957
— Contracted, but not provided for	**3,051**	14,579
	55,452	92,536
Operating lease commitments		
Future minimum lease payments under non-cancellable operating leases for each of the following periods:		
— Within one year	**3,843**	3,843
— In the second to the fifth years, inclusive	**15,171**	18,974
— Over five years	**43,617**	41,721
	62,631	64,538

BUSINESS REVIEW

Consolidated

The outbreak of the Severe Acute Respiratory Syndrome (the "SARS") epidemic throughout the PRC during the Relevant Period did not bring forth any material financial impact on the Group. Total turnover and gross profit of the Group for the Relevant Period were approximately RMB175,034,000 and RMB59,248,000 respectively. As compared with the corresponding period of last year, the total turnover increased by approximately 24.03%, which was primarily attributed to the increase in the number of natural gas users, coupled with the recognition of revenue from the supply of gas to Henan AnFei Electronic Glass Co., Ltd. (河南安飛電子玻璃有限公司) (the "AnFei Project") (安飛供氣) during the Relevant Period. Judging in the context of gas consumption, significant increase in gas consumption by industrial and commercial users was the reason for such increase in turnover.

Gross profit margin of the Group for the Relevant Period was approximately 33.85%, representing a decrease from 39.40% over the corresponding period of last year, which was primarily attributed to increases in the purchase costs of natural gas. This led to an increase in costs of sales for the Relevant Period of approximately 35.38% over the corresponding period of last year.

Administrative costs for the Relevant Period were approximately RMB14,959,000, representing an increase of approximately 29.21% from RMB11,577,000 of the corresponding period of last year, which was primarily attributed to increases in fees to intermediaries and promotional expenses.

Income tax expenses of the Group for the Relevant Period were approximately RMB10,539,000. The income tax rate of 33% was in accordance with the relevant tax laws and regulations.

Net profit attributable to shareholders of the Company for the Relevant Period was approximately RMB28,123,000, representing an increase of approximately 14.85% from RMB24,486,000 of the corresponding period of last year.

Sale of piped natural gas

Sales revenue of piped natural gas for the Relevant Period amounted to approximately RMB95,423,000, representing an increase of approximately 47.09% over the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 53,762,000 m^3, representing an increase of approximately 24.87% as compared with approximately 43,053,000 m^3 for the corresponding period of last year. Gas consumption by residential, commercial and industrial users were approximately 34,108,000 m^3, 17,616,000 m^3 and 2,038,000 m^3 respectively, representing respective increases of approximately 14.82%, 36.16% and 398.29% over the corresponding period of last year. As the Group is committed to develop commercial and industrial users vigorously, the component proportions of the Company's gas consumption by these two types of users increased from 69:30:1 (residential to commercial to industrial) as at 30 June 2002 to 63:33:4 as at 30 June 2003. Thus the Group was reducing its reliance on residential users as a source of revenue by diverting itself towards the industrial and commercial markets with higher gas consumption.

As at 30 June 2003, residential, commercial and industrial users of the Group reached 435,549, 687 and 17 respectively with its strenuous efforts on business development.

During the Relevant Period, significant progresses in the construction of gas-refuelling stations for natural gas-driven vehicles in Zijingshan Road (紫荊山路), Longhai West Road (隴海西路) and Rantun Road (冉屯路) were made by the Group and helped to accelerate the network distribution for gas-refuelling stations. For the period ended 30 June 2003, the Group completed the retrofit for 471 vehicles with the sale of vehicular natural gas of approximately 2,350,000 m^3. It is expected the gas-refuelling stations in Longhai West Road (隴海西路), Zijingshan Road (紫荊山路) and Rantun Road (冉屯路) will become operational in the latter half of 2003 to further promote the vehicular natural gas business upon their completion.

Natural gas pipeline construction services

For the Relevant Period, operating revenue of the Group derived from connection fees amounted to approximately RMB50,869,000, representing an increase of approximately 15.21% over the corresponding period of last year. Impacts of the implementation of new tax laws on connection fees by the PRC government in January 2003 were reflected on the quarterly results of the Group for the three months ended 30 June 2003 (the "Second Quarter"). During the Second Quarter, taxation payable by the Group arising from the shift to VAT was approximately RMB346,000, demonstrating insignificant effects of the new tax laws on the revenue of the Group.

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 RMB14,799,000, representing an increase of 20.42% over the corresponding period of last year.

LPG

During the Second Quarter, the Group terminated its LPG business operations in stages with the intention of leasing or disposing the underlying assets of its LPG business. As at 30 June 2003, the Group was still under negotiations with an independent third party regarding the lease or disposal of the assets of its LPG business.

The management decided to phase out the Group's LPG business due to the following principal factors:

1. **Continual declining results recorded by the LPG business have dragged down the Group's overall revenue**

   Net profit for the Group's LPG business in 2001 was approximately RMB156,683. However, it reversed with a net loss of RMB136,483 in 2002. Though the Group was able to make a net profit of RMB152,532 in the first quarterly results for the three months ended 31 March 2003, the first quarter of the year generally represents the peak season for LPG sales, its performance prospects will not be optimistic as the profit posted in the first quarter would be diluted by the operating costs to be incurred in the coming low seasons should its operation be continued. This was precipitated by the sharp increase in operating costs of the LPG business which leads to continual erosion of its profit margin.

2. **Ferocious market competition has limited room for development**

   Due to the ferocious competition amongst numerous market players in the disorderly LPG sector in Zhengzhou City, the Group was faced with a very difficult operating environment. The Group secured a LPG market share of approximately 24% in Zhengzhou with a downward declining trend. Notwithstanding the numerous sales and marketing activities adopted by the Group in order to maintain its market share, the result was unremarkable with limited room for further market expansion.

3. **Focusing its resources on the development of its core operations of natural gas with high growth**

   In 2001, return on assets of the Group's LPG business amounted to a mere 1.61%. This figure dropped even further to -1.54% for the year 2002. On the contrary, return on assets of the natural gas business increased continuously from 17.65% in the year 2001 to 31.5% in the year 2002. Such comparative competitive advantages of the natural gas business will prevail upon the completion of the "West to East Pipelines" project for gas supplies to Zhengzhou City. At such time, the Group will actively expand its network of natural gas pipes throughout the suburban areas and the newly built urban areas around Zhengzhou City so as to achieve a total gas supply solution. Under such circumstances, the development prospects of the LPG market will be much dimmer when it has no choice but to gradually shift its business to those in low income areas like rural towns and villages. In view of the above, the management has decided to terminate the Group's LPG business operations and divert all of the Group's resources to the natural gas business, which has a high growth sector with promising prospects.

   As at 30 June 2003, the carrying values of total assets, total liabilities and net assets of the Group's LPG business were approximately RMB13,557,000 (including fixed assets with net book value of approximately RMB8,801,000), RMB443,000 and RMB13,114,000 respectively, representing approximately 4.47% of the net assets of the Group. The termination of the LPG business operations will not bring any material financial loss to the Group as no provision for redundancy payment was made upon transfers of all staff of the LPG business to the Holding Company or other departments of the Group.

Each of the Directors (including the independent non-executive Directors) considered that the termination of the LPG business was in the interests of the Company and its shareholders as a whole. In addition, the Board will ensure that any agreement to be entered into by the Company for the leasing or disposal of the underlying assets of its LPG business, presently under negotiations, is on normal commercial terms which will be in the interests of the Company and its shareholders as a whole. Further details will be announced by the Group to the public in compliance with the GEM Listing Rules (if so required by the GEM Listing Rules) upon entering into such agreement.

Net profit and returns of shareholders

Net profit margin of the Group for the Relevant Period was 16.07%, representing a decrease from 17.35% of the corresponding period of last year. Such decrease in net profit margin was primarily attributed to the increases in purchase costs of gas and administrative costs.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to shareholders divided by the average of shareholders' equity at the beginning and at the end of the period, was approximately 9.97%, which was lower than that of 17.71% 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 upon its listing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group relies on cash generated from its internal operation, net proceeds from the placing of H Shares and bank balances or cash in hand to meet its requirements of capital expenditure and operations. The Directors are of the view that, in the long run, the Group will generate liquidity from its business operation and may consider making use of further equity finances or bank loans when necessary.

As at 30 June 2003, the Group had no outstanding interest-bearing bank borrowings.

As at 30 June 2003, the Group had outstanding loans of RMB32,433,000 due to the Holding Company, details of which are set out in note 11 to financial statements.

Net current assets

As at 30 June 2003, the Group had net current assets of approximately RMB29,646,000 (31 December 2002: RMB86,422,000), showing the healthy financial position of the Group to meet its short-term liabilities. Net current assets reduced as compared to that of 31 December 2002 as the loans of approximately RMB32,433,000 which are repayable and due to the Holding Company within one year were reclassified as current liabilities.

Working capital

As at 30 June 2003, the Group had no outstanding bank borrowings with cash and bank balances of approximately RMB157,284,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Gearing ratio

As at 30 June 2003, gearing ratio (being share capital over total liabilities and expressed in percentage) of the Group was approximately 169.25%. Although it was lower than that of approximately 175.36% as at 31 December 2002, it indicated that, with over half of the assets being financed by its shareholders, the Group had ample room for external borrowings.

Contingent liability and pledged assets

As at 30 June 2003, the Group had no significant contingent liability or any asset under pledge.

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.

Employees and remuneration policy

There is no significant change in the Group's employees and remuneration policy compared to that disclosed in the Annual Report for the year ended 31 December 2002.

PROSPECTS

During the first half of 2003, the PRC economy received minor setbacks from the impact of SARS. Soon after SARS was reined under control, the economy regained impetus and resumed its sustainable rapid development. The sustained growth of economic development of Zhengzhou City, being one of the prime cities in the central region, is basically driven by the macro-economic axis of the PRC. Coming hard on the acceleration of urbanisation, demand of gas from urban household will be tremendous. Zhengzhou City is in the process of speeding up its pace in urbanisation by developing the Zhengdong New District and enlarging its urban framework. Coupled with the continuous improvements in the living standards of its residents and the on-going recovery of its property market, all these factors are favourable to the expansion of the gas industry.

To minimize pollution and environmental damages, the PRC government has been actively promoting the use of natural gas to replace the current heavy consumption of coal as fuel. Retirements or renovations of over 200 coal-driven furnaces in Zhengzhou City will provide the Group's core business with ample room for further development. The 4 sq. km. coal-free zone built in Zhengzhou City by Zhengzhou Environmental Bureau in 2002, which will be expanded gradually, aimed to replace coal with natural gas to reduce pollution. With its solid foundation in setting up coal-free zone, Zhengzhou Environmental Bureau will further establish coal-free zones of not less than 0.5 sq. km. in different districts throughout Zhengzhou City in 2003. Encouraged and driven by government efforts in promoting the use of natural gas, the size of the lower-end market of natural gas will be expanded gradually.

According to the schedule of "West to East Pipelines" Project, Zhengzhou City is going to receive natural gas supply in October 2003. As more natural gas resources will be available in Zhengzhou City by then, the Group will have a much broader horizon for further expansion. To facilitate the gas supply under the "West to East Pipelines" Project, the Group is currently discussing with PetroChina Company Limited ("PetroChina") on the details of a gas supply agreement, and is well positioned to commence the construction work of Zhaojiazhuang Processing Station and Zhongyuan West Road Depressurising Station.

In light of continuous market expansion and growth in customer base, the resources of management, technical know-how and brand name of the Group will achieve better economies of scale and bring fruitful returns to our shareholders for their unfailing support.

COMPARISONS OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

	Business objectives for the period from 1 January 2003 to 30 June 2003	Actual progress
Piped natural gas (in '0,000 m^3)		
— Residential users	2,900	3,411
— Commercial/industrial users (Note 1)	2,700	1,965
Number of meters installed (units)		
— Residential users	15,000	20,878
— Commercial/industrial users (Note 2)	115	57
New vehicular gas users (cars) (Note 3)	550	471
LPG (tonnes) (Note 4)		
— Retail	3,900	2,154
— Wholesale	10,000	1,281
High-pressure long transmission pipelines constructed (km) (Note 5)	45	8.1
Urban pipelines network constructed (km) (Note 5)		
— Main pipelines	20	28.2
— Branch pipelines	15	4.9
Geographical distribution of sales of natural gas pipelines	Zhengzhou City	Zhengzhou City
Operation facilities		
Newly built vehicular refueling stations (number)	2	Vehicle refueling stations at Longhai West Road and Zijingshan Road are under construction
Newly built Zhaojiazhuang vehicular natural gas processing station	Construction expected to commence in 2003	Construction commenced in April 2003
Invest HK$12,000,000 in the natural gas pipelines network cathode protection project, the distant testing and signal project and the natural gas pipelines network geographical information system in order to upgrade the management standard of the pipelines networks (Note 6)	RMB6,360,000	RMB920,000

Notes:

1. During the outbreak of SARS, as promotion activities towards industrial/commercial users were toned down, gas consumption did not meet the planned business objective.

2. Number of meters installed: As at the end of June 2003, the Group installed meters for 57 commercial/industrial users. Due to the adverse impact of SARS, the demand of meters from commercial/industrial users dropped in April and May 2003.

3. It was planned to achieve 550 gas vehicles for the first half of 2003. The actual retrofit was only 471 vehicles and failed to meet the target as planned. The main reason was that taxi is the primary market of the Company. During the SARS outbreak, patronage of taxis declined and resulted in a decrease in the number of retrofitted vehicles in April and May.

4. In the second quarter of 2003, the Company ceased the LPG business operation in stages. Details are set out in the paragraph headed "LPG" under the section headed "Management Discussion and Analysis".

5. The respective actual numbers of the "high-pressure long transmission pipelines constructed" and the "urban network branch pipelines" were lower than those expected in the business objectives because there was a delay in getting approval from the competent authorities of the local government for the construction of certain pipelines as well as the postponed construction under the effects of urban planning. In addition, some pipelines under construction before completion were not included, which also helped to explain the reasons for the respective differences between the numbers of pipelines scheduled to be constructed in the prospectus of the Company (the "Prospectus") over the actual numbers completed of the high pressure long transmission pipelines and the urban network branch pipelines.

6. The investment amount planned for the first half of 2003 was RMB6,360,000, which will be mainly used in cathode protection project and geographical information system. The cathode protection project, financed and constructed by the Holding Company of the Company, was already completed and accepted. Upon completion of assessment, the Company will acquire the project from the Holding Company, which is expected to take place in the second half of the year (details of which are set out in the relevant information about the "reasons for the placing and use of proceeds" on page 8 and the "statement of active business pursuit" on page 90 of the Prospectus). Further details will be announced by the Group to the public in compliance with the GEM Listing Rules upon entering into such acquisition. The geographical information system project financed by the Company, with a sum of RMB1,980,000 to be injected into during its first phrase, has a construction period between August 2002 to August 2003, with an accumulated sum of RMB922,000 being already injected.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

New shares issued by the Company were listed on GEM on 29 October 2002 (the "Listing Date"). Net proceeds raised after deducting proceeds from the sale of 50,060,000 Sale H Shares and relevant issue expenses amounted to approximately RMB118,897,000.

During the six months ended 30 June 2003, net proceeds from the public listing were used in accordance with application plans set out in the prospectus dated 22 October 2002 (the "Prospectus") as follows:

	Six months ended 30 June 2003	
	Application of proceeds as planned in the Prospectus RMB million	Actual application of proceeds RMB million
Ancillary works for the "West to East Pipelines" project (Note I)	8.48	10.51
Construction and renovation of urban pipeline networks (Note II)	7.95	7.95
Expansion of sales network and sales and marketing team	1.06	2.25
Upgrading of management efficiency of pipeline networks (Note III)	6.36	0.92
Development of vehicular gas business (Note IV)	4.24	6.14
General working capital	2.12	2.38
Total	30.21	30.15

Notes:

Reasons for significant differences

I. As the Zhaojiazhuang Processing Station and the depressurising station at Zhongyuan West Road projects were progressing ahead of schedule, injections of funds were faster than expected.

II. The Company has already used RMB15,650,000 for the construction of urban pipelines network for the six months ended 30 June 2003, of which, an amount of approximately RMB7,950,000 was raised by the proceeds from listing.

III. The "upgrading of management efficiency of the pipeline networks" described in the Prospectus included three projects, namely the cathode protection project, the distant monitoring and signaling project and the geographical information system. A total of RMB6.36 million was invested in the first half of 2003, intending to be used mainly in the cathode protection project and the geographical information system. The cathode protection project, financed and constructed by the Holding Company of the Company was already completed and accepted. Upon completion of assessment, the Company will acquire the project from the Holding Company, which is expected to take place in the second half of the year (details of which are set out in the relevant information about the "reasons for the placing and use of proceeds" on page 8 and the "statement of active business pursuit" on page 90 of the Prospectus). Further details will be announced by the Group to the public in compliance with the GEM Listing Rules upon entering into such acquisition. The geographical information system project financed by the Company, with a sum of RMB1,980,000 to be injected into during its first phrase, has a construction period between August 2002 to August 2003, with an accumulated sum of RMB922,000 being already injected.

IV. The actual amount applied was larger than expected because the Company expedited the construction of natural gas vehicular refuelling station in a move to procure the development of its vehicular gas business.

Proceeds not yet utilized, amounting to approximately RMB63,910,000, were placed with commercial banks in the PRC, and will be applied in future in accordance with the Group's business objectives described in the Prospectus. The Group does not expect to see any material changes in the intended application of proceeds in future.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30 June 2003, the interests and short positions of the Directors, chief executives and supervisors of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

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 30 June 2003, Gao Mingshun was 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 30 June 2003, Li Keqing was 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 in this paragraph, as at 30 June 2003, none of the Directors, chief executives or supervisors of the Company or their respective associates had interest and short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director, chief executive or supervisor of the Company, as at 30 June 2003, the persons or companies (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

Long positions in Shares

Name	Number of H Shares held	Approximate % of beneficial interests in H Shares	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 (Note 1)			115,500,000	16.48%	9.23%
Guo Wenjun (Note 2)			115,500,000	16.48%	9.23%
Partners Capital International Limited (Note 3)	31,000,000	5.63%			2.48%

Name of subsidiary of the Company	Name of shareholder	Amount of registered capital of the subsidiary	Approximate percentage of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司)	Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會)	RMB4,125,000	16.5%

Note:

1. 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 the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.

2. As at 30 June 2003, Guo Wenjun was interested in 115,500,000 Domestic Shares of the Company as Guo Wenjun and her spouse, Li Keqing were in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan, which was interested in 115,500,000 Domestic Shares or 16.48% of the beneficial interests in the Domestic Shares of the Company. However, pursuant to the GEM Listing Rules, Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares held by Guo Wenjun represented only 9.23% of the total registered share capital of the Company.

3. Partners Capital International Limited ("Partners Capital") was a financial adviser to the Company. Pursuant to the GEM Listing Rules, Partners Capital was not a substantial shareholder of the Company because the H Shares held by Partners Capital represented only 2.48% of the total registered share capital of the Company.

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying right to vote in all circumstances at general meetings of any member of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the six months ended 30 June 2003, none of the Directors, Chief Executives or Supervisors was granted options to subscribe for H shares of the Company. As at 30 June 2003, none of the Directors, Chief Executives or Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

SPONSOR'S INTERESTS

As at 30 June 2003, neither South China Capital Limited (the "Sponsor"), nor any of its directors or employees or associates (as defined in Note 3 of Rule 6.35 of the GEM Listing Rules), 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 period of 29 October 2002 (i.e. the date on which the H Shares were listed on GEM) to 30 June 2003.

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 of the Company, 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 three formal meetings and reviewed this interim report.

COMPLIANCE WITH GEM LISTING RULES 5.28 TO 5.39

In the opinion of the Directors, the Company complied with the Code of Best Practices set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the Relevant Period.

COMPETING INTERESTS

None of the directors, the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any 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

12 August 2003

* *for identification purpose only*