



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

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



Third Quarterly Report 2003

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This report, for which the directors of Zhengzhou Gas Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- Unaudited consolidated turnover and profit attributable to shareholders of the Group for the Relevant Period amounted to approximately RMB247,158,000 and RMB40,077,000 respectively, representing respective increases of approximately 22.65% and 35.02% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB135,515,000, representing an increase of approximately 51.02% 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 increase in gas consumption by industrial and commercial users.
- Turnover derived from connection fees aggregated to approximately RMB74,458,000 for the Relevant Period, representing an increase of approximately 19.52% 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 RMB0.0320, representing a decrease of approximately 18.99% over the corresponding period of last year, which was primarily attributed to the diluted 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 THE THIRD 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 subsidiaries (collectively the "Group") for the nine months ended 30 September 2003 (the "Relevant Period") together with the comparative figures for the corresponding period of 2002, which are set out as follows:

	Notes	Three months ended 30 September 2003		Nine months ended 30 September 2003	
		RMB'000	2002 RMB'000	RMB'000	2002 RMB'000
Turnover	3	72,124	60,397	247,158	201,517
Cost of sales		(40,332)	(42,061)	(156,118)	(127,585)
Gross profit		31,792	18,336	91,040	73,932
Other revenue		622	197	1,026	482
Selling and distribution costs		(4,547)	(3,978)	(8,930)	(10,784)
Administrative costs		(10,855)	(6,698)	(25,814)	(18,275)
Other operating costs		-	(46)	(20)	(430)
Profit from operating activities		17,012	7,811	57,302	44,925
Finance costs		57	-	-	(567)
Profit before income tax		17,069	7,811	57,302	44,358
Income tax expenses	4	(4,347)	(2,575)	(14,886)	(14,636)
Profit before minority interests		12,722	5,236	42,416	29,722
Minority interests		(768)	(39)	(2,339)	(39)
Net profit attributable to shareholders		11,954	5,197	40,077	29,683
Basic earnings per share (RMB in yuan)	5	0.0096	0.0069	0.0320	0.0395

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 the interpretations issued by the Interpretations Committee of the International Accounting Standards Board (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, 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 significant change in accounting policies during the Relevant Period.

3. Turnover

An analysis of the Group's turnover for the nine months ended 30 September 2003 together with the comparative figures for the corresponding period in 2002 are as follows:

Turnover and revenue

	Three months ended 30 September		Nine months ended 30 September	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Natural gas	40,092	24,858	135,515	89,731
LPG	–	8,608	11,051	22,394
Gas appliances	2,530	3,830	7,638	10,632
Gas pipeline construction services				
– Connection fees	23,589	18,142	74,458	62,296
– Gas pipeline repairs and maintenance services	6,693	4,576	21,492	16,865
Others	39	1,235	417	2,759
	72,943	61,249	250,571	204,677
Less: Business tax and government surcharges (<i>Note</i>)	(821)	(852)	(3,414)	(3,160)
Turnover	72,122	60,397	247,158	201,517

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. 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		Nine months ended	
	30 September		30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:				
– Current	5,376	3,299	12,240	16,788
– Deferred	(1,029)	(724)	2,646	(2,152)
Tax expenses for the period	4,347	2,575	14,886	14,636

5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB40,077,000 (corresponding period in 2002: approximately RMB29,683,000) 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 nine months ended 30 September 2002 and 30 September 2003 have not been calculated as no diluting events existed during those periods.

6. Reserves

Movements in reserves for the nine months ended 30 September 2003 together with the comparative figures for the corresponding period of 2002 were as follows:

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public Discretionary		Undistributed profit <i>RMB'000</i>	Total <i>RMB'000</i>
			welfare fund <i>RMB'000</i>	surplus reserve <i>RMB'000</i>		
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	-	-	-	-	24,486	24,486
As at 30 June 2002	32,189	2,124	2,124	2,124	31,643	70,204
Profit for the period	-	-	-	-	5,197	5,197
As at 30 September 2002	32,189	2,124	2,124	2,124	36,840	75,401
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	-	-	-	-	28,123	28,123
As at 30 June 2003	101,026	6,025	6,025	6,056	42,686	161,817
Profit for the period	-	-	-	-	11,954	11,954
As at 30 September 2003	101,026	6,025	6,025	6,056	54,640	173,771

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2003. (The corresponding period of 2002: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Consolidated

Total turnover and gross profit of the Group for the nine months ended 30 September 2003 were approximately RMB247,158,000 and RMB91,040,000 respectively. As compared with the corresponding period of last year, the total turnover has increased by 22.65%, which was primarily attributed to the increase in the number of natural gas users and significant increase in gas consumption by industrial and commercial users.

Gross profit margin of the Group for the Relevant Period was approximately 36.83%, which was the same as compared to the gross profit margin of the Group of approximately 36.69% over the corresponding period of last year.

Administrative costs for the Relevant Period were approximately RMB25,814,000, representing an increase of 41.25% from approximately RMB18,275,000 of the corresponding period of last year, which was primarily attributed to increases in fees to intermediaries, insurance premiums and promotional expenses.

Income tax expenses of the Group for the Relevant Period were approximately RMB14,886,000. 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 RMB40,077,000, representing an increase of 35.02% from approximately RMB29,683,000 of the corresponding period of last year.

Sales of piped natural gas

Sales revenue of piped natural gas for the Relevant Period amounted to approximately RMB135,515,000 during the Relevant Period, representing an increase of 51.02% over the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 93,560,000 m³, representing an increase of approximately 56.06% as compared with approximately 59,950,000 m³ for the corresponding period of last year. Comparative figures for the Group's volume of sales of natural gas during the Relevant Period, as compared with those of last year, are set out by user segments as follows:

	For nine months ended 30 September				Growth %
	2003	2002	Percentage of total sales volume	Percentage of total sales volume	
Natural gas					
Total volume of sales (in approximate '000m ³)	93,560	59,950			56.06%
of which					
Residential users	47,770	42,326	51.06%	70.60%	12.86%
Commercial users	24,656	16,270	26.35%	27.14%	51.54%
Industrial users	21,134	1,354	22.59%	2.26%	1,460.86%

According to the above table, the Group has been reducing its reliance on residential users as a source of revenue by diverting its sales towards the industrial and commercial markets with higher consumption, representing a more balanced structure in gas sales. As at 30 September 2003, the Group has 444,372 residential users, 1,820 commercial users (including 1,101 natural gas powered vehicles) and 18 industrial users.

The Group converted 679 natural gas powered vehicles during the Relevant Period. As regards the three gas refueling stations for natural gas powered vehicles proposed to be constructed in 2003, Longhai West Road station was completed and has commenced operation in August, and Zijingshan Road station will be completed and will commence operation in October, while Rantun Road station is also expected to be completed and will commence operation by the end of this year. The construction of new gas refueling stations will improve their coverage and will serve to promote better services in the natural gas powered vehicles operations.

Natural gas pipeline construction services

For the Relevant Period, operating revenue of the Group derived from connection fees amounted to approximately RMB74,458,000, representing an increase of approximately 19.52% 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 nine months ended 30 September 2003. For the Relevant Period, VAT taxation payable by the Group based on the connection fees recognized was approximately RMB1,105,000, 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 RMB21,492,000, representing an increase of approximately 27.44% over the corresponding period of last year.



Prospects

The Company will duly sign a Sale and Purchase Agreement on the Transmitting of Natural Gas through the West to East Pipelines with PetroChina Company Limited ("PetroChina") in October 2003 in Zhengzhou. Such agreement will represent a conclusion to the negotiation which has lasted for 3 years. Zhengzhou will become the first city to use natural gas supplied by the project of Transmitting Natural Gas through the West to the East Pipelines. Following execution of the sale and purchase agreement, the Company will be able to significantly reduce its reliance on its sole supplier on the supply of natural gas, which in turn will contribute to the stabilization of its natural gas supply. Prior to the signing of the sale and purchase agreement, the Company mainly relied on the supply by Zhongyuan Petroleum of the Sinopec Group on the supply of natural gas, and the Group often had to face with an undersupply of natural gas during the winter peak season. With the supply of natural gas under the project of Transmitting Natural Gas through the West to the East Pipelines, the Company will be able to provide stable natural gas supply to its customer and proactively secure new users, which in turn exerting a decisive effect on the Group's development.

In the next few years, along with the expected rapid growth of Zhengzhou City in its industry, commerce and population, demand for natural gas will also increase. In view of this, the Board believes it is necessary to raise further capital in order to meet the requirements for future development. Accordingly, the Group is considering an A share offering in the PRC and the introduction of new investors in order to strengthen its shareholders base. However, the above initiative to raise further capital is still at an initial stage, and no plan has been implemented up to now. Should any plan be implemented, the Company will make appropriate disclosure in compliance with the GEM Listing Rules.

Directors' and supervisors' interests in shares

As at 30 September 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	Capacity/ 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	Corporation (Note 1)	15,400,000	2.20%	1.23%
Li Keqing	Corporation (Note 2)	115,500,000	16.48%	9.23%

Notes:

- (1) As at 30 September 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 September 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 September 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 September 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	Capacity/ Nature of interests	Number of H Shares held	Approximate % of beneficial interests in H Shares	Approximate %		
				Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered capital share of the Company
Zhengzhou Gas Group Co., Ltd	Beneficial owner			540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Company Limited (Note 1)	Beneficial owner			115,500,000	16.48%	9.23%
Guo Wenjun (Note 2)	Family			115,500,000	16.48%	9.23%
Partners Capital International Limited (Note 3)	Beneficial owner	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	16.50%

Notes:

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 approximately 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 September 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 nine months ended 30 September 2003, none of the Directors, Chief Executives or Supervisors was granted options to subscribe for H shares of the Company. As at 30 September 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 September 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 period of 29 October 2002 (i.e. the date on which the H Shares were listed on GEM) to 30 September 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 four formal meetings and reviewed this quarterly report.

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

Zhengzhou, The PRC
7 November 2003

* For identification purpose only