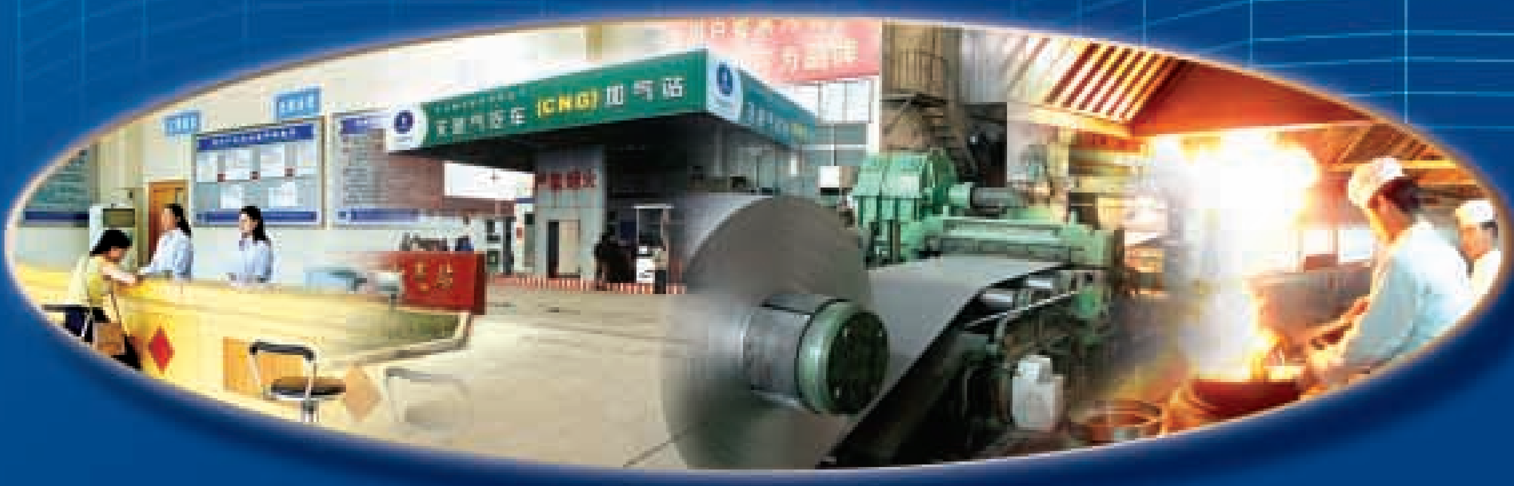
鄭州燃氣股份有限公司
Zhengzhou Gas Company Limited*

Annual Report 2003



* for identification purpose only

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

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

This annual report, for which the directors of Zhengzhou Gas Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to Zhengzhou Gas Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. Zhang Yichun (張亦春)
Mr. Liu Jianwen (劉劍文)
Ms. Yu Shulian (余恕蓮)

SUPERVISORS

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

AUDIT COMMITTEE

Ms. Yu Shulian
Mr. Zhang Yichun
Mr. Zhang Chaoyi

COMPANY SECRETARY

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

COMPLIANCE OFFICER

Mr. Yan Guoqi

QUALIFIED ACCOUNTANT

Mr. Wong Cheuk Lam,
AHKSA, CPA Australia

AUTHORISED REPRESENTATIVES

Mr. Yan Guoqi
Mr. Wong Cheuk Lam,
AHKSA, CPA Australia

REGISTERED OFFICE

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SPONSOR

South China Capital Limited
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Hong Kong

Corporate Information

FINANCIAL ADVISER TO THE COMPANY

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1305, 13th Floor
9 Queen's Road Central
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LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law:
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The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
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714, Huapu International Plaza
19 Chaowai Main Street
Chaoyang District
Beijing
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AUDITORS AND REPORTING ACCOUNTANTS

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Certified Public Accountants
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10 Harcourt Road
Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Room 1712-1716, 17th Floor
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Hong Kong

PRINCIPAL BANKERS

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

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

STOCK CODE

8099

Financial Highlights

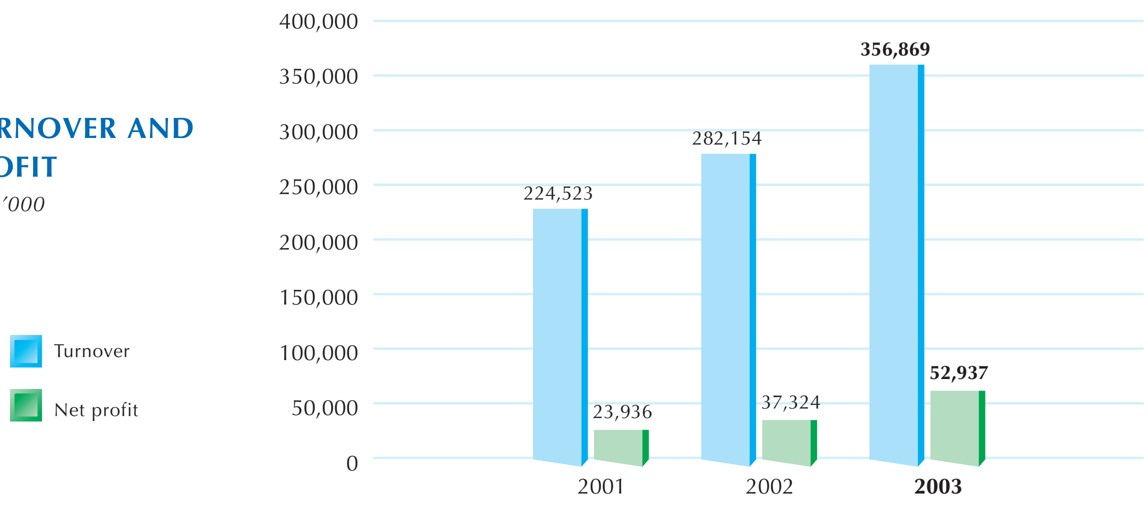
FINANCIAL STATISTICS

For the year ended 31 December

	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)
Turnover	**356,869**	282,154	224,523
Profit before taxation	**78,457**	56,238	36,058
Net profit	**52,937**	37,324	23,936
Earnings per share (RMB) (Basic)	**0.042**	0.044	0.032

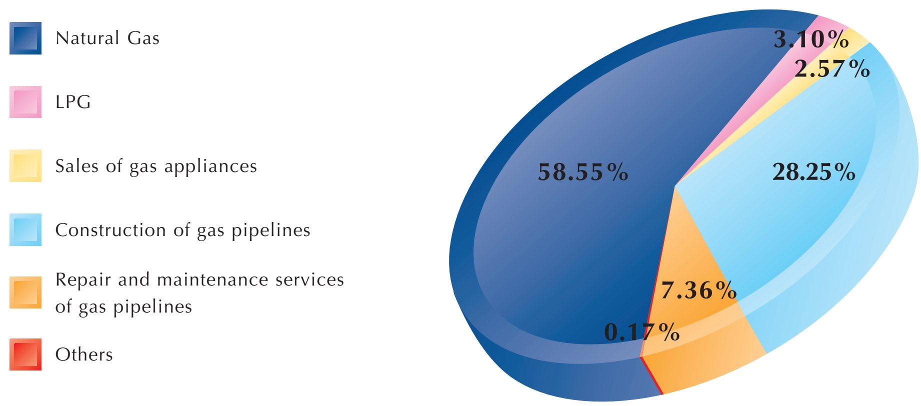
TURNOVER AND PROFIT

RMB'000



TURNOVER BREAKDOWN

(For the year ended 31 December, 2003)



Chairman's Statement

Mr. Yan Guoqi
Chairman

To all shareholders:

The year 2003 witnessed a fast development of Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectivelly called the "Group"). Under the Group's business guidelines of "intensifying reforms, regularizing management, capturing opportunities and stepping up development pace", the Group had focussed on the exploration of the industrial and commercial markets, as well as that for vehicular gas. It had put much emphasis on the improvement of its services and competitiveness and carried out an aggressive expansion plan during 2003. It also completed the auxiliary construction works under the project of Transmitting Natural Gas through the West to the East Pipelines (the West to East Pipelines Project) and had signed a sale and purchase agreement on transmitting of natural gas through the west to east pipelines (the "West to East Natural Gas Sales Agreement"), making Zhengzhou the first city to use the gas from the West to East Pipelines Project in the country, thereby starting a new page in the history of the Group's development. Hereby, I would like to share with all shareholders the Group's business performance in the past year and the prospects in the future.

Chairman's Statement

Review

For the year ended 31 December 2003, the turnover of the Group was RMB356,869,000, representing an increase of 26.48% over that of approximately RMB282,154,000 in the previous year. Profit attributable to the shareholders of the Group was approximately RMB52,937,000, representing an increase of 41.83% over that of approximately RMB37,324,000 in the previous year. The performance was remarkable.

Intensifying Reforms and Regularizing Management

Behind the good business results lays a series of management reforms. The year 2003 witnessed positive effects of an internal management streamlining by the Group. One of the Group's objectives is to establish modern corporate systems so that scientific management will become the important means to improve management skills. Putting management theories into practice, the Group had worked out a corporate objective tree to define "business targets and the means to achieve them" and delegated responsibilities to each individual by signing responsibility agreements with them, thus integrating the corporate targets with those of individuals. At the same time, the Group implemented the "2003 efficiency based remuneration package" which linked staff remuneration packages to their work efficiency, realizing the unification of individual objective and corporate objective.

The Company has been awarded by Henan Industrial and Commercial Administration Bureau a Certificate of "Integrity" and by Henan Credit Rating Company Limited, a certificate of "Credit Rating AAA of Zhenzhou City". This helps the Group to build up a good corporate image and brand name to stand out in the increasingly competitive market.

Chairman's Statement

In respect of the legal status and organizational enhancement, the Ministry of Commerce of the People Republic of China (the "PRC") has recognized the Company as a Sino-foreign joint equity enterprise at the beginning of October 2003. As a result, the Company obtained a Foreign Investment Enterprise Business License and became a foreign investment enterprise entitled to many favorable treatments in the future. In addition, in the current year, the Company set up a subsidiary, Zhengzhou Zhengran Pressure Control Technology Company Limited ("Pressure Control Technology Company"), to ensure the steady supply and improve the quality of pressure regulating facilities. Besides, in 2003, the Company established a project management department and a legal consultation department with a view to strengthen the management of construction projects and legal governance so as to ensure a more regulated and scientific internal management.

For information technology construction, the Group completed the input of all information required by Phase One of the Natural Gas Geographical Information System Project. The computerized regulating system for pipeline network was put to trial use in 2003. Being an important project in the Group's efforts to use advanced technology in corporate management, the establishment of the information system can facilitate scientific and computerized management of the data of natural gas pipeline facilities, and also help to improve the physical conditions of the facilities.

Capturing Opportunities and Stepping up Development Pace

During the year 2003, the Group's strategy of "giving priority to the development of industrial and commercial users while relying on the support of residential users" had been proved a success. As at 31 December 2003, the Group had a total of 457,671 natural gas residential users, 759 commercial users and 18 industrial users, representing an increase of 10.17%, 17.31% and 28.57% respectively over 415,407 residential users, 647 commercial users and 14 industrial users respectively in the previous year. In terms of natural gas consumption volume, as at 31 December 2003, natural gas consumed by residential users amounted to 66,762,000m^3, representing an increase of 11.57% over 59,840,000m^3 in the previous year; natural gas consumed by commercial users amounted to 38,050,000m^3, representing an increase of 56.91% over 24,249,000m^3 in the previous year; and natural gas consumed by industrial users amounted to 32,841,000m^3, representing a huge increase of 781.16% over 3,727,000m^3 in the previous year. The fact that the aggregate natural gas consumed by industrial and commercial users had surpassed that of residential users was an evidence of the Group's strategic success.

In the year 2003, the Group recorded a good result in sales of vehicular gas which became a new driver for the growth of the Group's business. As at 31 December 2003, the Group served a total of 1,528 natural gas powered vehicles, and natural gas consumed by vehicular users amounted to 7,228,000m^3, representing an increase of 605.86% over 1,024,000m^3 in the previous last year. To cope with the fast growing vehicular gas refueling business, the Group constructed 3 natural gas powered vehicles refueling stations in 2003 in order to improve its gas refueling station network.

Natural gas supplied to Zhengzhou through the West to East Pipelines Project was a landmark in the Group's business development. On 15 October 2003, the Company duly signed a Sale of Natural Gas Agreement on the West to East Pipelines Project with PetroChina Company Limited in Zhengzhou. The "fire ignition" ceremony at Zhao Jia Zhuang processing station in Zhengzhou on 16 October 2003 made Zhengzhou the

Chairman's Statement

first city along the West to East Pipelines to use natural gas supplied from the West to East Pipelines Project, and at the same time signified an end to the insufficient gas supply which had posed a hindrance to the Group's business development for a long time.

With an abundant gas supply, the Group is now firm on its feet ready for external expansion. In 2003, the Company signed the "Framework Agreement for the Development of Natural Gas Project in Dengfeng" with Dengfeng Municipal Government to kick off its first natural gas project outside Zhengzhou. At present, the application documents and the registration filings for establishing a new company in Dengfeng are on the way. Natural gas supply will be available to the first group of users in Dengfeng in October 2004. Besides, the newly established fleet of CNG tankers has started as a natural gas provider to supply compressed natural gas to distributors in Xu Chang and its neighborhood. Although the newly developed markets have limited profit contribution to the Group, the markets have huge potential for future development.

As the Group has made a good profit and encouraging operating results, the Board resolved to declare a dividend of RMB0.0044 per share to the shareholders in order for them to share the fruitful results of the Group.

Future Development

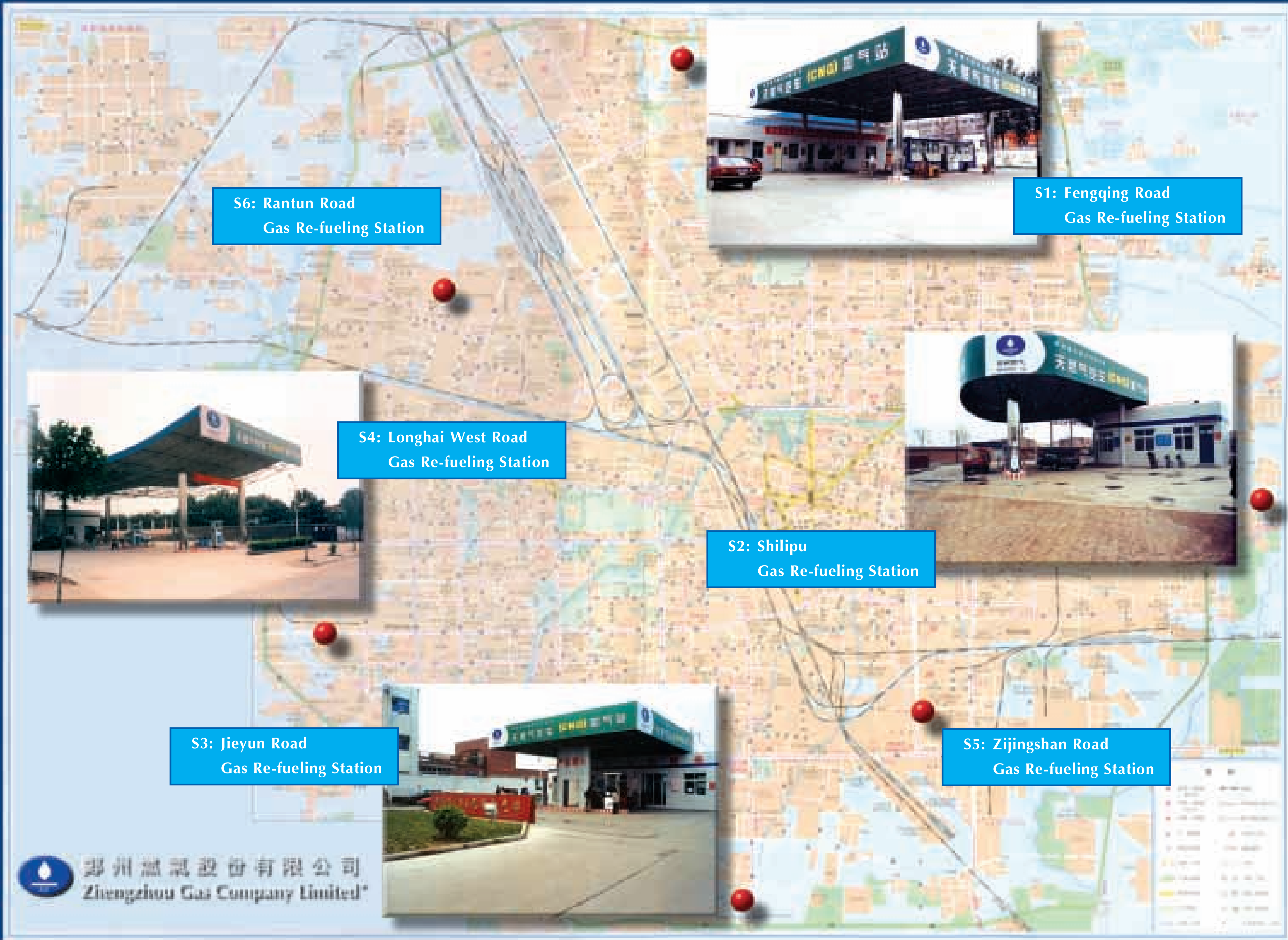
In anticipation of a fast industrial and commercial development and population growth in Zhengzhou and its surrounding areas in the coming years, the demand for natural gas will increase accordingly. In view of this, the Board believes it is necessary to raise further capital in order to meet the requirements for future development. Accordingly, the Group is considering an A Share offering in the PRC and introduction of new investors in order to enhance its shareholders base. However, the above initiative to raise further capital are still at an initial stage, and no plan has been implemented up till now.

In addition, the Group will continue to focus on developing the number of industrial and commercial users, to strive to explore the vehicular gas market and to promote its experienced quality service to cities beyond Zhengzhou in order to build up a more extensively accepted brand of the Group's product and services.

On behalf of the Board, I wish to express my heartfelt appreciation to the shareholders for their supports to the Group. The directors of the Company will try their utmost in securing best returns to shareholders. In addition, the Board also wishes to express its deepest gratitude to all the Group's employees for their diligence and hard work. The Group's development is the fruit created by all of them. I wish the Group a more breaking through and promising growth in the coming year.

Yan Guoqi
Chairman

17 March 2004, Zhengzhou


S1: Fengqing Road
Gas Re-fueling Station
S6: Rantun Road
Gas Re-fueling Station
S4: Longhai West Road
Gas Re-fueling Station
S2: Shilipu
Gas Re-fueling Station
S3: Jieyun Road
Gas Re-fueling Station
S5: Zijingshan Road
Gas Re-fueling Station
郑州燃气股份有限公司
Zhengzhou Gas Company Limited

Management Discussion and Analysis

Mr. Song Jinhui
Executive Director and General Manager

PERFORMANCE REVIEW

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

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

Management Discussion and Analysis

product and service (see Table 1), the number of customers of natural gas (see Table 2) and gas consumption (see Table 3) for the year ended 31 December 2002 and 2003 are set out below:

Table 1 Turnover

	Year ended 31 December				
	2003		2002		
(RMB'000)	**Turnover**	**As % of total turnover**	Turnover	As % of total turnover	Increase %
Natural gas	**212,001**	**58.55%**	133,386	46.60%	58.94%
LPG	**11,234**	**3.10%**	35,890	12.54%	-68.70%
Gas appliances	**9,316**	**2.57%**	13,133	4.59%	-29.06%
Gas pipelines					
– Construction of gas pipelines	**102,290**	**28.25%**	81,217	28.38%	25.95%
– Repairs and maintenance of gas pipelines	**26,638**	**7.36%**	20,688	7.23%	28.76%
Others	**614**	**0.17%**	1,909	0.67%	-67.84%
	362,093	**100.00%**	286,223	100.00%	
Less: Business tax and government surcharges	**(5,224)**		(4,069)		
Total	**356,869**		282,154		26.48%

Management Discussion and Analysis

Table 2 The number of customers of natural gas

	Year ended 31 December		
	2003	2002	Increase %
Number of residential customers	**457,671**	415,407	10.17%
Number of commercial customers	**759**	647	17.31%
Number of industrial customers	**18**	14	28.57%
Number of vehicular customers	**1,528**	422	262.09%
Total:	**459,976**	416,490	10.44%

Table 3 Consumption

	Year ended 31 December				
	2003		2002		
	Gas consumption	**As % of total gas consumption**	Gas consumption	As % of total gas consumption	Increase %
Natural gas					
Total gas consumption *(in approximate '000 m^3)*	**144,881**	**100%**	88,840	**100%**	63.08%
of which					
residential customers	**66,762**	**46.08%**	59,840	67.36%	11.57%
commercial customers	**38,050**	**26.26%**	24,249	27.30%	56.91%
industrial customers	**32,841**	**22.67%**	3,727	4.20%	781.16%
vehicular customers	**7,228**	**4.99%**	1,024	1.15%	605.86%

For the year ended 31 December 2003 (the "Relevant Period"), the overall turnover, gross profit and gross margin of the Group were approximately RMB356,869,000, RMB127,724,000 and 35.79% respectively, representing an increase of approximate 26.48% and 26.94% respectively, as compared with the turnover of approximate RMB282,154,000 and the gross profit of approximate RMB100,619,000 in the previous year. The gross margin for the relevant period was comparable to the 35.66% in the previous year.

Management Discussion and Analysis

SALES OF NATURAL GAS

For the year ended 31 December 2003, turnover of natural gas sales, the principal source of revenue of the Group, was approximately RMB212,001,000, accounting for approximate 58.55% of its total turnover, representing an increase of 58.94% over that in the previous year.

For the year ended 31 December 2003, the Group has fully implemented its strategy of "developing residential customers as a basis, developing industrial and commercial customers as a focus". During the relevant period, the Group had a total of 457,671 residential customers, 759 commercial customers and 18 industrial customers of natural gas, representing an increase of approximate 10.17%, 17.31% and 28.57% respectively over 415,407 residential customers, 647 commercial customers and 14 industrial customers in the previous year.

As shown in Table 3, the gas consumption structure becomes more stable as revenue from the Group's natural gas sales is less dependent on residential customers, but increasingly dependent on industrial and commercial markets which consume more gas. During the Relevant Period, natural gas consumption of the Group's residential customers was approximately 66,762,000m^3, representing an increase of approximate 11.57% over the 59,840,000m^3 in the previous year; natural gas consumption of commercial customers was approximately 38,050,000m^3, representing an increase of approximate 56.91% over the 24,249,000m^3 in the previous year; and natural gas consumption of industrial customers was approximately 32,841,000m^3, representing a significant increase of approximate 781.16% over 3,727,000m^3 in the previous year. Obviously, the total consumption of natural gas of industrial and commercial customers has exceeded those of residential customers, that has further confirmed the strategy of putting focus on the development of industrial and commercial customers.

Management Discussion and Analysis

In year 2003, the Group invested a total of approximately RMB76,660,000 in the construction of new urban pipelines network, with a length of 67.41km, making the Group's total length of pipelines network to 1,557.4km.

During the Relevant Period, vehicle consumed natural gas business of the Group achieved significant development and gradually became a new drive for the Group's revenue increase. As at 31 December 2003, a total of 1,528 vehicles consumed the Group's natural gas, consuming a volume of approximately 7,228,000m^3, represented an increase of 605.86% over 1,024,000m^3 in the previous year. Anticipating the growth in vehicle consumed natural gas business, in year 2003 the Group established three new natural gas refueling stations, namely Longhai West Road station, Zijingshan Road station and Rantun Road station, to extend its gas station network.

Since 16 October 2003, the Group has officially purchased natural gas from the West to East Pipelines Project. For the year ended 31 December 2003, the Group has purchased approximately 26,801,000m^3 of natural gas from the West to East Pipelines Project at the cost of approximately RMB28,116,000. Pursuant to the West to East Natural Gas Sales Agreement entered into between the Company and PetroChina Company Limited (中國石油天然氣股份有限公司), the cost of purchasing natural gas from the West to East Pipelines Project net after deduction of any value added tax was RMB1.04907/m^3.

SALES OF LPG

In March 2003, the Company decided to phase out the sales of LPG by the Group. The management decided to terminate the Group's LPG business mainly due to the following reasons:

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

   Net profit contributed from the Group's LPG business for the year ended 31 December 2001 was approximately RMB156,683. However, it reversed with a net loss of RMB136,483 for the year ended 31 December 2002. Though the Group was able to make a net profit of RMB152,532 for the three months ended 31 March 2003, the first quarter of the year generally represented the peak season for LPG sales. Therefore, its performance prospects would 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 if the LPG business continued. This was precipitated by the sharp increase in operating costs of the LPG business which led to continual erosion of its profit margin.

2. Ferocious market competition has limited room for development

   Due to ferocious competition 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

For the year ended 31 December 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 ended 31 December 2002. On the contrary, return on assets of the natural gas business increased continuously from 17.65% for the year ended 31 December 2001 to 31.5% for the year ended 31 December 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 full-swing gas supply. In 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 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 concentrate all of the Group's resources on the natural gas business, which is a high growth sector with promising prospects.

As at 31 December 2003, the carrying values of total assets, total liabilities and net assets of the Group's underlying LPG business were approximately RMB985,565, RMB195,582 and RMB789,983 respectively. The fixed assets of the underlying LPG business was successively disposed of at a consideration of RMB650,000 and leased at a rental of RMB280,000 per annum to Zhengzhou Gas Group LPG Co., Ltd. ("Zhengzhou LPG"), a subsidiary of the Company's holding company Zhengzhou Gas Group Company Limited. The termination of the LPG business operations did 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 its 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 best interests of the Company and its shareholders as a whole. In addition, the Board was of the opinion that any agreement between the Company and Zhengzhou LPG for the leasing or disposal of the underlying assets of its LPG business, was on normal commercial terms and in best the interests of the Company and its shareholders as a whole.

SALES OF GAS APPLIANCES

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

Turnover of gas appliances sales for the relevant period was approximately RMB9,316,000, accounting for 2.57% of the Group's total turnover, representing a decrease of 29.06% over that in the previous year due to the ferocious competition prevailing in the gas appliance sales market.

Management Discussion and Analysis

NATURAL GAS PIPELINE CONSTRUCTION SERVICES

The Group collects connection fees from property developers or property management companies for the construction of natural gas pipelines connecting each household to the Group's main gas pipeline networks. For the year ended 31 December 2003, turnover of construction of gas pipeline network was approximately RMB102,290,000, accounting for approximate 28.25% of the Group's total turnover, representing an increase of 25.95% over that in the previous year. Since January 2003, China has implemented a new tax law on connection fees. The Group was previously required to pay a business tax of 3% on the connection fees of RMB3,300 collected from each household. However, instead of the business tax, a value added tax of 13% has to be paid by the Group in respect to RMB1,800 of the above mentioned connection fee under the new tax law. During the Relevant Period, the Group was subject to a value added tax of approximately RMB7,356,000 arising out of the connection fees. However, starting from the year 2004, the connection fee will be collected by a subsidiary of the Company, Zhengzhou Gas Engineering and Construction Company Limited, instead of the Company and this arrangement will make the connection fees subject to business tax instead of value added tax again in accordance with relevant tax rules.

Moreover, the Group also collects fees from customers for providing repair and maintenance services of gas pipelines. For the year ended 31 December 2003, such fees were approximately RMB26,638,000, accounting for 7.36% of its total turnover, representing an increase of 28.76% over that in the previous year. The increase was mainly attributable to an increase of customers.

NET PROFIT AND SHAREHOLDERS' RETURN

For the year ended 31 December 2003, profits attributable to the shareholders of the Group amounted to approximately RMB52,937,000, representing an increase of 41.83% over that in the previous year, while net profit margin for the year ended 31 December 2003 was 14.83%, which was higher than that of 13.23% in the previous year. The increase was mainly attributable to the fact that there were no substantial increase in administrative costs in the year 2003 as compared with the year 2002 when the group was preparing for a listing on GEM. Further, as a result of stringent cost control and termination of the LPG business, increase in the number of staff in the year 2003 remained at a relatively low level with a mere additional recruitment of 30 employees over the year, this helped to slow down the increase in overall costs. During the Relevant Period, the overall costs increased by 11.78% which was lower than the 24.89% in the year 2002.

In addition, average return to shareholders for the year ended 31 December 2003, based on the profit attributable to shareholders divided by the average of shareholders' equity at the beginning and at the end of the year, was 17.98%, which was comparable to that of 17.96% in the previous year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

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

As at 31 December 2003, the Group had no outstanding interest-bearing borrowings.

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

Net current assets

As at 31 December 2003, the Group had net current assets of approximately RMB8,013,000. Current assets comprised cash and cash equivalents of approximately RMB115,261,000, trade receivables of approximately RMB39,816,000, inventories of approximately RMB1,234,000, short term projects of construction contracts in process of approximately RMB2,008,000, prepayments, deposits and other receivables of approximately RMB14,698,000. Current liabilities comprised trade payables of approximately RMB18,568,000, deferred income of approximately RMB88,958,000, accrued liabilities and other payables of approximately RMB23,712,000, taxes payable of approximately RMB11,697,000, amounts due to its holding company of approximately RMB21,509,000 and amounts due to related companies of approximately RMB560,000. An advance of RMB32,433,000 due to its holding company, of which RMB20,000,000 shall be repayable in 2004 upon fulfillment of terms in the repayment agreement dated 30 September 2002. As a result, the amount was reclassified from long term liability to short-term liability, thus causing an increase in the amount of current liabilities.

Management Discussion and Analysis

Working capital

As at 31 December 2003, the Group had no outstanding interest-bearing bank borrowings and had cash and bank balances of approximately RMB115,261,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements, but will not exclude the possibility of raising working capitals as required by way of additional equity financing or bank loans in future.

Gearing ratio

As at 31 December 2003, the gearing ratio (being share capital divided by total liabilities and presented in %) of the Group was 183.14% which was higher than the 175.93% in the previous year, indicating that over half of the assets are financed by its shareholders' equity and that the Group has ample room for external borrowings.

Capital commitments

In order to complement the urbanization and environmental protection policies of Zhengzhou, the Group is required to further expand its urban natural gas pipeline network and related gas supply equipment. For the year ended 31 December 2003, the Group has capital commitments of approximately RMB131,431,000, of which approximately RMB67,963,000 is for the contracts of pipeline network construction and equipment purchase; approximately RMB10,000,000 is for equity investment commitments, and the balance of approximately RMB53,468,000 is for operating lease commitments. The management believes that such capital expenditure can be defrayed by funds generated from operations and proceeds from listing.

Foreign exchange 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.

Human resources

As at 31 December 2002 and 2003, an analysis of the Group's employees by functions is as follows:

	As at 31 December	
	2003	2002
Management and administration	**174**	167
Finance	**36**	36
Sales and marketing	**243**	290
Safety maintenance and technical upgrading	**60**	57
Purchases and supplies	**11**	16
Engineering and installation	**152**	172
Repairs, maintenance and testing	**242**	240
Others	**189**	99
Total	**1,107**	1,077

As at 31 December 2003, the Group had 1,107 employees, an addition of 30 employees as compared with 1,077 employees in the previous year.

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

The management is of the opinion that employees are the most treasured assets of the Group. Accordingly, the Group has actively created a corporate environment to nurture them to their full potentials. In 2003, the Group provided intensified MBA training for full time middle management. With some of them having passed the "Qualification of Business Administration" examination, the general qualification of the Company's management team has further improved. Further, the Group also established its own "Talent Base", and attained a greater breakthrough than the past in the selection, cultivation, verification and treatment of its talents. The Group has initially established a modern corporate talent management system that is characterized by the dynamic management of its talent base, whereby, its talents can be deployed here and there while remuneration can be adjusted upward or downward.

Others

For the year ended 31 December 2003 and the corresponding period of the previous year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

As at 31 December 2003, the Group had no material investment, likewise as at 31 December 2002.

As at 31 December 2003, the Group had no pledged asset, likewise as at 31 December 2002.

As at 31 December 2003, the Group had no material contingent liability, likewise as at 31 December 2002.

Use of Proceeds from the IPO and Comparison of Business Objectives with Actual Business Progress

USE OF PROCEEDS FROM THE IPO

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

During the year ended 31 December 2003, net proceeds from the public listing were applied in accordance with the plans set out in the prospectus of the Company dated 22 October 2002 (the "Prospectus'') as follows:

	Year ended 31 December 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	15.90	14.60
Construction and renovation of urban pipeline networks *(Note 1)*	15.37	22.00
Expansion of sales network and sales and marketing team *(Note 2)*	1.59	2.12
Upgrading of management efficiency of pipeline networks *(Note 3)*	6.36	1.81
Development of vehicular gas business *(Note 4)*	10.60	15.14
General working capital	4.24	4.24
Total	**54.06**	**59.91**

Note:

Reasons for the significant differences

1. The utilization plan for the proceeds had not been fully implemented in accordance with the schedule last year due to the delay in the remittance of the proceeds from the listing in 2002 to China. As such, the actual amount used for the "Construction and renovation of urban pipeline networks" exceeded those planned for this year since all the unused amount planned for the previous year was utilised in this year.

2. The proceeds from the listing vested in "Expansion of sales network and sales and marketing team" was principally used for the establishment of the Group's sales center in Mianfang East Road (棉紡東路). The total investment for this sales center amounted to approximately RMB4,311,900, of which approximately RMB2,120,000 was funded by the proceeds from the listing, with the balance being funded from its internal resources. The proceeds from the listing used for "Expansion of sales network and sales and marketing team" planned for 2004 was also fully utilised ahead of schedule as the project was completed earlier than expected.

3. An amount of RMB6,360,000 was scheduled for investment in 2003, mainly used for the cathode protection project and geographical information system. Construction of the cathode protection project was financed and constructed by the holding company of the Company, Zhengzhou Gas Group Co., Ltd, and the project has currently been completed and accepted. Upon completion of the assessment, the Company will acquire the project from its holding company after due assessment. The Group will make further announcement pursuant to the GEM Listing Rules upon the signing of any agreement in relation to the purchase. Establishment of the geographical information system was financed by the Company. The planned investment in the first phase was RMB1,980,000 with a construction period from August 2002 to August 2003, with an accumulated investment of RMB1,810,000 already injected.

Use of Proceeds from the IPO and Comparison of Business Objectives with Actual Business Progress

4. The number of gas-powered vehicles increased by 1,106 (a significant increase of more than 2 times) for the year ended 31 December 2003 due to the rapid development of the vehicular gas business. As such, the actual utilization of the proceeds from the listing was faster than expected this year.

The unused proceeds from the listing of RMB34,150,000 has been deposited in domestic commercial banks in the PRC, and will be applied in the future in accordance with the Group's business objectives as stated in the Prospectus. The Group anticipates no circumstances that may cause any significant changes to the application of the proceeds as planned.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business objectives up to 31 December 2003	**Actual progress**
Piped natural gas (in '0,000 m^3)		
Residential users *(Note 1)*	5,700	6,676
Commercial/industrial users *(Note 1)*	5,400	7,812
Number of meters installed		
Residential users	30,000	37,444
Commercial/industrial users (units) *(Note 2)*	230	147
New vehicular gas users (cars)	1,100	1,106
LPG (tonnes) *(Note 3)*		
Retail	8,000	2,154
Wholesale	25,000	1,281
High-pressure long transmission pipelines constructed (km) *(Note 4)*	85	12.50
Urban pipelines network constructed (km)		
Main pipelines	37	38.87
Branch pipelines *(Note 4)*	30	16.04
Geographical distribution of sales of natural gas pipelines	Zhengzhou City	Zhengzhou City
Newly built vehicular refueling stations (number) *(Note 5)*	5	Vehicle refueling stations at Longhai West Road, Zijingshan Road and Rantun Road have been completed and the station at Fengqing Road has been expanded.

Use of Proceeds from the IPO and Comparison of Business Objectives with Actual Business Progress

	Business objectives up to 31 December 2003	Actual progress
Newly built Zhaojiazhuang vehicular natural gas processing station	Expected to be completed at the end of 2003	Gas supply started on 16 October 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	RMB1,810,000

Notes:

1. In the 2003 Year, the Group relied on sales to residential users while putting emphasis on the market development of industrial and commercial users. Taking advantage of the "West to East Pipelines" Project on the transmission of natural gas to Zhengzhou City, the Group had taken aggressive steps to explore potential natural gas market. As a result, the actual progress is greater than the business objectives.

2. In the 2003 Year, the Group had signed contracts to install 256 meters for industrial and commercial users. As the installation work was time consuming and there were piled-up installation works left-over from the previous year, and together with the adverse impact of SARS which resulted in a suspension of the installation work, the Group had only completed the installation of 147 meters.

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

4. The respective actual number of "high-pressure long transmission pipelines constructed" and "urban network branch pipelines constructed" were lower than those stated in the business objectives because there was a delay in obtaining approval from the competent authorities in charge of land administration for the construction of certain pipelines as well as postponed construction works resulting from a delay in urban planning.

5. Due to difficult land expropriation in urban areas and difficult coordination among governmental departments, the Group had only built 3 gas refueling stations this year namely, the Zijinshan Road, Rantun Road and Longhai West Road stations.

6. The investment amount planned for 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 Zhengzhou Gas Group Company Limited, 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. Further details will be announced by the Group to the public in compliance with the GEM Listing Rules upon the signing of any agreement in relation to such acquisition. The geographical information system project financed and constructed by the Company, with a sum of RMB1,980,000 to be injected into the project during its first phrase, has a construction period between August 2002 to August 2003, with an accumulated investment of RMB1,810,000 already injected.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Yan Guoqi (閆國起), aged 49, Chairman and an executive Director of the Company. He is a member of the Tenth Session of the Political Consultative Committee of Zhengzhou, head of the Urban Gas Association of Henan Province and a senior economist. He was deputy head of water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation from 1997 to 1998, deputy chairman and executive deputy general manager of Zhengzhou Municipal Gas Company Limited, and deputy chairman and general manager of Zhengzhou Gas Group from 1998 to 2000. Mr. Yan was appointed Chairman of the Company on 5 January 2001.

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

Ms. Niu Minghua (牛鳴華), aged 46, an executive Director of the Company and a political engineer. She was the office head and the deputy general party secretary of Zhengzhou Municipal Gas Company Limited and the office head and general party secretary of Zhengzhou Gas Group. Ms. Niu was appointed an executive Director in August 2002.

Non-executive Directors

Mr. Chang Zongxian, (常宗賢), aged 44, a non-executive Director of the Company and chairman of Zhengzhou Gas Group. He is a National People's Congress representative of Henan Province and a senior engineer. He was head of the planning and construction bureau of the Zhengzhou High and New Technology Industrial Development Zone from 1988 to 1992, general manager of Zhengzhou High Land Construction Development Corporation from 1992 to 1994, deputy head of management committee of the Zhengzhou High and New Technology Industrial Development Zone from 1994 to 1995, deputy chief commandant of construction command of the new Zhengzhou Airport from 1995 to 1997, deputy head of the Zhengzhou Municipal Transport Bureau form 1997 to 1998 and chairman of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Chang was appointed non-executive Director in May 2001.

Mr. Wang Yuheng (王玉珩), aged 53, a non-executive Director of the Company and a senior consultant. He was deputy general manager of Zhengzhou Municipal Natural Gas Company Limited from 1998 to 2000. He was an executive deputy general manager of Zhengzhou Gas Group from 2000 to 2003. Mr. Wang was appointed non-executive Director in December 2000.

Profiles of Directors, Supervisors and Senior Management

Mr. Zhang Wushan (張武山), aged 48, a non-executive Director of the Company and a senior engineer. He was head of the storage and distribution station and the measuring department of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997, and chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and deputy general manager of Zhengzhou Gas Group since 1998. Mr. Zhang was appointed non-executive Director in December 2000.

Mr. Li Keqing (李克清), aged 38, a non-executive Director of the Company. He was manager of the engineering section of the mechanical installation company of the Textile Bureau of Henan Province from 1987 to 1992, and general manager of Zhengzhou Yingzi Industrial Company Limited from 1992 to 1997. Mr. Li is general manager of Zhengzhou Qiyuan Investment Consultancy Company Limited since 1997. Mr. Li was appointed non-executive Director in December 2000.

Mr. Zhang Chaoyi (張超義), aged 40, a non-executive Director of the Company, a certified public accountant and a certified auctioneer of the PRC. He is the general manager of Henan Auctioneer since 1993. Currently, he is honorary professor of Henan University, vice president of China Auctioneers Association and secretary general of Henan Auctioneers Association. Mr. Zhang was appointed non-executive Director in December 2000.

Mr. Li Zhenguo (李振國), aged 47, a non-executive Director of the Company. He formerly worked for the public defence engineering command of Zhengzhou, audit inspection sub-office local tax bureau of the Zhengzhou Tax Bureau and Xindazhong Industrial Development. He is currently executive deputy general manager of Xindazhong Industrial Development. He was appointed non-executive Director in April 2002.

Independent non-executive Directors

Mr. Zhang Yichun (張亦春), aged 70, an independent non-executive Director of the Company and head of the Financial Research Institute of Xiamen University. Since August 1960, he was tutor, lecturer and department party general secretary of the economics department, associate professor and deputy head of the finance and fiscal department of the economics faculty, professor, supervisor of doctoral candidates and department head of the finance and fiscal department, professor, supervisor of doctoral candidates and faculty head of the economics faculty, and professor, supervisor of doctoral candidates and head of the fiscal research institute, all of Xiamen University. In 1993, Mr. Zhang founded Xiamen Hongda Securities Company and is its managing director. He was appointed independent non-executive Director in May 2001.

Mr. Liu Jianwen (劉劍文), aged 44, an independent non-executive Director of the Company and a doctor of jurisprudence. He is presently a professor of Beijing University and a supervisor of doctoral candidates (research directions in fiscal and securities laws, and tax laws and finance laws). He was tutor, lecturer, associate professor, professor, supervisor of masters candidates in economic laws, supervisor of doctoral candidates (specialized in civil commercial laws), head of Hong Kong and Taiwan laws research institute, deputy head of economic law teaching and research office, party branch secretary of civil and economic laws, deputy head of the law department and the law faculty, and head of the faculty's teaching guidance committee of the faculty of law of Wuhan University. Since July 1999, Mr. Liu is professor, supervisor of masters candidates in economic laws and supervisor of doctoral candidates (specialized in economic laws) of the School of Law of Beijing University. He was appointed independent non-executive Director in April 2002.

Profiles of Directors, Supervisors and Senior Management

Ms. Yu Shulian (余恕蓮), aged 50, an independent non-executive Director of the Company, professor of accounting and supervisor of doctoral candidates of the External Economics and Trade University and a PRC registered accountant. She was appointed independent non-executive Director in April 2002.

Supervisors

Ms. Yang Qing (楊清), aged 33, chairperson of the supervisory committee of the Company and head of legal consulting department, has a master degree in law with qualifications of practising lawyer and corporate law consultant in the PRC. She was a prosecutor of Nanguan District Prosecutorate, Kaifeng in November 1991. She joined Zhengzhou Municipal Gas Company Limited as a legal advisor in October 1998. Ms. Yang was appointed a Supervisor in December 2000, and in May 2001, chief legal advisor of the Company.

Mr. Ding Ping (丁平), aged 40, a supervisor of the Company and a political engineer. He was head of the coordination division, branch secretary of cylinder testing section and organisation and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. He joined the Group in October 1998 and was appointed chairman of the supervisory committee of the Company in December 2000. Having retired as chairman of the supervisory committee, he remained as one of its supervisors.

Ms. Zhou Weihua (周衛華), aged 34, a Supervisor. She is a member of the Eleventh Session of Youth Federation of Zhengzhou, director of the Youth Volunteers Federation of Zhengzhou and an accountant. She was secretary of regiment branch and deputy head of corporate customer management office of Zhengzhou Municipal Natural Gas Company, secretary of regiment committee and organisation and promotion office of Zhengzhou Municipal Gas Company Limited. Ms. Zhou joined the Group in October 1998 and was appointed a Supervisor in December 2000.

Mr. Gao Mingshun (高明順), aged 41, a Supervisor. He worked for the planning commission of Zhengzhou and Zhengzhou Sifang Construction and Decoration Company Limited. He is currently chairman of Zhengzhou Sifang Construction and Decoration Company Limited. Mr. Gao was appointed a Supervisor in December 2000.

Ms. Wang Xiaoxing (王小興), aged 32, a Supervisor. She worked for Zhengzhou Commercial Bank and Henan Province Property Joint Development Corporation. She is currently deputy general manager of Zhengzhou Qiyuan Investment Consultancy Company Limited. She was appointed a Supervisor in December 2000.

QUALIFIED ACCOUNTANT

Mr. Wong Cheuk Lam (黄焯琳), aged 35, qualified accountant and company secretary of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan, Sakura Asia Finance Limited and the Bank of China Group. Mr. Wong has over ten years of experience in accounting and finance. He is an associate member of the Hong Kong Society of Accountants and the Australian Society of Accountants.

Profiles of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Li Yantong (李燕同), aged 46, deputy general manager of the Company and a senior engineer. He was head of natural gas storage & distribution station, and deputy chief engineer and chief engineer of Zhengzhou Municipal Gas Company Limited from 1989 to 2000. In December 2000, Mr. Li was appointed deputy general manager of the Company.

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

Mr. Hao Ganjun (郝幹軍), aged 51, deputy general manager of the Company and a senior consultant. He was head of corporate management office of Zhengzhou Municipal Natural Gas Corporation and assistant to general manager of Zhengzhou Municipal Gas Company Limited from 1997 to 2000. In December 2000, Mr. Hao was appointed deputy general manager of the Company.

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

Ms. Qiao Hong (喬紅), aged 36, financial controller of the Company, chief accountant. She was deputy head of the accounting department of Zhengzhou Municipal Coal Gas Project Preparation Division, deputy head of finance office of Zhengzhou Municipal Gas Company Limited and head of securities investment division of Zhengzhou Gas Group. She was appointed financial controller of the Company in May 2001.

Mr. Li Hongwai (李紅衛), aged 33, secretary to the board of Directors of the Company, committee member of the Youth Federation of Zhengzhou and an economist, and has a master degree in economics. He was business head of corporate management office of Zhengzhou Municipal Water Company, deputy chief economist of Zhengzhou Municipal Gas Company Limited and head of general office of Zhengzhou Gas Group. He was appointed secretary to the board of Directors of the Company in December 2000.

Mr. Huang Biao (黃飆), aged 35, chief economist of the Company and an engineer. He was deputy head of sales management station of Zhengzhou Municipal Natural Gas Corporation, deputy manager of No. 1 Engineering Company and deputy head of sales office of Zhengzhou Municipal Gas Company Limited. Mr. Huang was appointed chief economist of the Company in December 2000.

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

Mr. Zhao Ruibao (趙瑞保), aged 37, chief engineer of the Company and a senior engineer. He was technician and section head of Zhengzhou Municipal Gas Company, deputy head of Zhengzhou Gas Company Limited, manager of the No. 1 natural gas branch company of the Company, assistant to general manager and deputy chief engineer of the Company. In June 2003, Mr. Zhao was appointed chief engineer of the Company.

Report of The Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries are the sale of natural gas, liquefied petroleum gas ("LPG") and gas appliances and the construction of gas pipelines. Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG from 1 April 2003. The directors of the Company are of the opinion that the discontinuance of the sale of LPG did not have any significant effect on the Group's results.

Save as disclosed above, there were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

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

The Company discontinued the sale of LPG during the year, details of which are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 72.

The directors recommend the payment of a final dividend of RMB0.0044 per share in respect of the year, to shareholders on the register of members on 28 May 2004. Further details of dividends are set out in note 8 to the financial statements.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

Details of the use of proceeds from the Company's initial public offering are set out under the Use of Proceeds from the IPO and Comparison of Business Objectives with Actual Business Progress Section of the annual report.

Report of The Directors

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	Year ended 31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**356,869**	282,154	224,523	171,083
Cost of sales	**(229,145)**	(181,535)	(155,573)	(133,259)
Gross profit	**127,724**	100,619	68,950	37,824
Other revenue	**925**	523	3,064	9,917
Selling and distribution costs	**(11,331)**	(16,326)	(13,761)	(12,331)
Administrative costs	**(38,153)**	(27,964)	(18,665)	(12,849)
Other operating costs	**(708)**	(47)	(293)	–
Profit from operating activities	**78,457**	56,805	39,295	22,561
Finance costs	**–**	(567)	(3,237)	(6,194)
Profit before income tax	**78,457**	56,238	36,058	16,367
Income tax expenses	**(22,003)**	(18,301)	(12,151)	(5,492)
Profit before minority interests	**56,454**	37,937	23,907	10,875
Minority interests	**(3,517)**	(613)	29	–
Net profit attributable to shareholders	**52,937**	37,324	23,936	10,875
Dividends	**18,184**	10,407	–	–
Earnings per share (RMB)				
– Basic	**0.042**	0.044	0.032	0.014

SUMMARY FINANCIAL INFORMATION (CONTINUED)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December			
	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**502,399**	439,742	276,129	306,702
Total liabilities	**177,437**	157,975	140,943	199,423
Minority interests	**13,180**	4,738	3,971	–
Net assets	**311,782**	277,029	131,215	107,279

Note: The consolidated results of the Group for the year ended 31 December 2001 and the pro forma consolidated results of the Group for the year ended 31 December 2000 have been extracted from the Prospectus. The consolidated results of the Group for the year ended 31 December 2002 have been extracted from the 2002 annual report, while those for the year ended 31 December 2003 were prepared based on the consolidated income statement as set out on page 40 of the financial statements. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Details of movements in property, plant and equipment and construction in progress of the Company and the Group during the year are set out in notes 13 and 14, respectively, to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the statements of changes in equity on page 43 of the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB54,705,000, of which approximately RMB5,507,000 has been proposed as a final dividend for the year and approximately RMB5,682,000 has been proposed to be transferred to the general surplus reserve. In addition, the Company's share premium account, in the amount of RMB101,026,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases from the Group's five largest suppliers accounted for 90% (2002: 89%) of the total purchases and purchases from the largest supplier included therein amounted to 64% (2002: 61%).

None of the directors and supervisors of the Company or any of their associates or any shareholders (who, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers and customers.

Report of The Directors

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Yan Guoqi
Mr. Song Jinhui
Ms. Niu Minghua

Non-executive Directors

Mr. Chang Zhongxian
Mr. Wang Yuheng
Mr. Zhang Wushan
Mr. Li Keqing
Mr. Zhang Chaoyi
Mr. Li Zhenguo

Independent Non-executive Directors

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

Supervisors

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

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

Pursuant to a resolution of the board of directors dated 12 August 2003, Mr. Wang Yuheng resigned as a director of the Company. The resignation of Mr. Wang Yuheng as a director of the Company and the appointment of a new director of the Company are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Report of The Directors

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out under the Profile of Directors, Supervisors and Senior Management Section of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

None of the directors, supervisors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the GEM, the "GEM Listing Rules") had any interest in a business which competes or may compete with the businesses of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 2003, the interests and short positions of the directors 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 ordinary shares of the Company:

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

Notes:

(1) At 31 December 2003, Gao Mingshun had an interest in 15,400,000 Domestic Shares as a result of his having an interest in 95.71% of the registered capital of Zhengzhou Sifang Construction and Decoration Co., Ltd. which held approximately 1.23% of the total registered share capital, and 2.20% of the Domestic Shares of the registered share capital of the Company.

(2) At 31 December 2003, Li Keqing had an interest in 115,500,000 Domestic Shares as a result of an aggregate interest in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Co., Ltd. held by him and his spouse, Guo Wenjun, who together held approximately 9.23% of the total registered share capital, and 16.48% of the Domestic Shares of the registered share capital of the Company.

Save as disclosed above, at 31 December 2003, none of the directors or supervisors of the Company or their respective associates had interests 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); (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.

DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2003, the persons or companies (not being a director 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 ordinary shares of the Company:

Name	Capacity/ Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in Domestic Shares	Approximate % of beneficial interest in the total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd.	Beneficial owner	–	–	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. *(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	Nominal value of registered and paid-up capital of the subsidiary held	Approximate % of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Co., Ltd. (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)	RMB6,600,000	16.50%

DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

(1) At 31 December 2003, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") held 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) At 31 December 2003, Guo Wenjun had an interest in 115,500,000 Domestic Shares of the Company as Guo Wenjun and her spouse, Li Keqing, were in aggregate having an interest in 40% of the registered and paid-up capital of Zhengzhou Qiyuan, which had an interest 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 31 December 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 were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company).

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

Save as disclosed above, during the year ended 31 December 2003, none of the directors or supervisors was granted options to subscribe for H shares of the Company. During the year ended 31 December 2003, none of the directors 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.

CONNECTED TRANSACTIONS

Details of the Group's connected transactions during the year are included in note 25 to the financial statements.

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

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

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

With respect to the connected transactions which have been granted a waiver as explained above, the independent non-executive directors of the Company have reviewed the connected transactions and confirmed that, during the year ended 31 December 2003, such transactions were entered into:

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

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

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

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

CONNECTED TRANSACTIONS (CONTINUED)

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

(1) approved by the board of directors;

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

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

The Company has entered into a vehicle sale agreement and asset rental agreement on 1 April 2003 and 15 December 2003 respectively with Zhengzhou Gas Group LPG Co., Ltd. ("Zhengzhou LPG"), a fellow subsidiary of the Company.

Pursuant to the said vehicle sale agreement, the Company disposed of 8 vehicles to Zhengzhou LPG at a consideration of RMB650,000 (equivalent to approximately HK$609,756).

Pursuant to the said asset rental agreement, the Company leased out the underlying fixed assets of the LPG business to Zhengzhou LPG for a period from 1 April 2003 to 31 December 2004 for an annual rental of RMB280,000 (equivalent to approximately HK$262,664). In that regard, the aggregate rental paid by Zhengzhou LPG to the Company for the year ended 31 December 2003 was RMB210,000 (equivalent to approximately HK$196,998).

Furthermore, on 12 December 2003, the Company disposed of certain inventories of LPG business to Zhengzhou LPG at an aggregate consideration of RMB284,530.20 (equivalent to approximately HK$266,914) (the "Transactions").

As the aggregate considerations paid for the Transactions for the year ended 31 December 2003 were RMB1,144,530.20 (equivalent to approximately HK$1,073,668), such considerations had exceed the amount allowed by the de minimis rule under Rule 20.24 of the GEM Listing Rules when the asset rental agreement was entered into on 15 December, 2003.

The Transactions have not been disclosed in an announcement and the directors realized that the failure to comply with the disclosure requirement of the GEM Listing Rules was a breach of the GEM Listing Rules. The directors propose to disclose the details of these transactions by way of announcement.

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company has complied with the requirements of board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules throughout the accounting period covered by the annual report.

Report of The Directors

SPONSOR'S INTERESTS

At 31 December 2003, neither South China Capital Limited (the "Sponsor"), nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules), had any interests in the securities of the Company or of any members of the Group, or had any rights to subscribe for or to nominated persons to subscribe for the securities of the Company or of any members of the Group.

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

AUDIT COMMITTEE

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

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.

The audit committee met four times during the year ended 31 December 2003.

AUDITORS

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

BY ORDER OF THE BOARD

Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
17 March 2004

Report of The Auditors

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 40 to 72 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
17 March 2004

Consolidated Income Statement

Year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
Turnover	4	**356,869**	282,154
Cost of sales		**(229,145)**	(181,535)
Gross profit		**127,724**	100,619
Other revenue	4	**925**	523
Selling and distribution costs		**(11,331)**	(16,326)
Administrative costs		**(38,153)**	(27,964)
Other operating costs		**(708)**	(47)
Profit from operating activities		**78,457**	56,805
Finance costs		**–**	(567)
Profit before income tax	5	**78,457**	56,238
Income tax expenses	7	**(22,003)**	(18,301)
Profit before minority interests		**56,454**	37,937
Minority interests		**(3,517)**	(613)
Net profit attributable to shareholders		**52,937**	37,324
Dividends	8	**18,184**	10,407
Earnings per share			
– Basic (RMB)	9	**0.042**	0.044

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

Balance Sheets

31 December 2003

		Group		Company	
		2003	2002	**2003**	2002
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Interests in subsidiaries	*11*	**–**	–	**14,547**	21,704
Long term investment	*12*	**200**	–	**200**	–
Deferred tax assets	*15*	**1,266**	1,013	**1,266**	1,013
Property, plant and equipment	*13*	**203,954**	132,019	**192,767**	125,862
Construction in progress	*14*	**123,962**	94,746	**116,869**	99,610
		329,382	227,778	**325,649**	248,189
Current assets					
Cash and cash equivalents		**115,261**	166,969	**62,893**	144,315
Trade receivables	*16*	**39,816**	35,284	**39,816**	35,284
Inventories	*17*	**1,234**	1,389	**974**	1,239
Construction contract work in progress	*20*	**2,008**	–	**–**	–
Prepayments, deposits and other receivables	*18*	**14,698**	8,322	**12,154**	7,051
		173,017	211,964	**115,837**	187,889
TOTAL ASSETS		**502,399**	439,742	**441,486**	436,078
EQUITY AND LIABILITIES					
Equity					
Share capital	*23*	**125,150**	125,150	**125,150**	125,150
Reserves	*24*	**186,632**	151,879	**190,768**	151,879
		311,782	277,029	**315,918**	277,029
Minority interests		**13,180**	4,738	**–**	–
Non-current liabilities					
Due to the holding company	*21*	**12,433**	32,433	**12,433**	32,433
Current liabilities					
Trade payables	*19*	**18,568**	10,735	**11,621**	8,221
Deferred income	*20*	**88,958**	80,468	**47,834**	85,142
Accrued liabilities and other payables		**23,712**	26,994	**20,095**	26,153
Tax payable		**11,697**	6,607	**11,516**	6,378
Due to the holding company	*21*	**21,509**	500	**21,509**	500
Due to fellow subsidiaries	*22*	**560**	238	**560**	222
		165,004	125,542	**113,135**	126,616
TOTAL EQUITY AND LIABILITIES		**502,399**	439,742	**441,486**	436,078

Yan Guoqi
Chairman

Song Jinhui
Director

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

Consolidated Cash Flow Statement

Year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
Cash flows from operating activities		
Profit before income tax	78,457	56,238
Adjustments for:		
Depreciation	10,946	10,205
Loss on disposal of property, plant and equipment	708	–
Loss on dissolution of a subsidiary	–	29
Interest expenses	–	567
Interest income from bank balances	(623)	(523)
Operating profit before working capital changes	89,488	66,516
Increase in trade receivables	(4,532)	(10,930)
Decrease in inventories	155	356
Increase in construction contract work in progress	(2,008)	–
Increase in prepayments, deposits and other receivables	(6,376)	(1,372)
Increase in trade payables	7,833	6,212
Increase in deferred income	8,490	28,064
(Decrease)/increase in accrued liabilities and other payables	(3,282)	15,421
Increase/(decrease) in an amount due to the holding company	1,009	(1,249)
Increase in amounts due to fellow subsidiaries	322	43
Cash generated from operations	91,099	103,061
Income tax paid	(17,166)	(20,773)
Net cash inflows from operating activities	73,933	82,288
Cash flows from investing activities		
Interest income from bank balances	623	523
Proceeds from disposal of property, plant and equipment	653	–
New long term investment	(200)	–
Acquisition of property, plant and equipment and construction in progress	(113,458)	(81,130)
Net cash used in investing activities	(112,382)	(80,607)
Cash flows from financing activities		
Proceeds from new shares issued	–	132,809
Share issue expenses	–	(13,912)
Repayment of bank loans	–	(30,000)
Capital contributed by minority shareholders of subsidiaries	4,925	4,125
Cash paid to a minority shareholder arising from the dissolution of a subsidiary	–	(4,000)
Dividends paid	(18,184)	(10,407)
Interest paid	–	(567)
Net cash (used in)/inflows from financing activities	(13,259)	78,048
Net (decrease)/increase in cash and cash equivalents	(51,708)	79,729
Cash and cash equivalents at beginning of year	166,969	87,240
Cash and cash equivalents at end of year	115,261	166,969
Analysis of balances of cash and cash equivalents		
Cash and bank balances	115,261	166,969

Statement of Changes in Equity

Year ended 31 December 2003

	Notes	Group 2003 RMB'000	Group 2002 RMB'000	Company 2003 RMB'000	Company 2002 RMB'000
Issued and fully paid capital	23				
Ordinary shares of RMB0.10 each					
At beginning of year		**125,150**	75,090	**125,150**	75,090
New shares issued		**–**	50,060	**–**	50,060
At end of year		**125,150**	125,150	**125,150**	125,150
Share premium					
At beginning of year		**101,026**	32,189	**101,026**	32,189
New shares issued		**–**	82,749	**–**	82,749
Share issue expenses		**–**	(13,912)	**–**	(13,912)
At end of year		**101,026**	101,026	**101,026**	101,026
Statutory surplus reserve	24(a)				
At beginning of year		**6,086**	2,124	**6,025**	2,124
Transferred from retained earnings		**7,711**	3,962	**5,682**	3,901
At end of year		**13,797**	6,086	**11,707**	6,025
Statutory public welfare fund	24(b)				
At beginning of year		**6,086**	2,124	**6,025**	2,124
Transferred from retained earnings		**7,711**	3,962	**5,682**	3,901
At end of year		**13,797**	6,086	**11,707**	6,025
General surplus reserve	24(c)				
At beginning of year		**2,124**	–	**2,124**	–
Transferred from retained earnings		**4,056**	2,124	**3,901**	2,124
At end of year		**6,180**	2,124	**6,025**	2,124
Retained earnings	24(d)				
At beginning of year		**36,557**	19,688	**36,679**	19,688
Net profit for the year		**52,937**	37,324	**57,073**	37,324
Transferred to statutory surplus reserve		**(7,711)**	(3,962)	**(5,682)**	(3,901)
Transferred to statutory public welfare fund		**(7,711)**	(3,962)	**(5,682)**	(3,901)
Transferred to general surplus reserve		**(4,056)**	(2,124)	**(3,901)**	(2,124)
Dividends declared		**(18,184)**	(10,407)	**(18,184)**	(10,407)
At end of year		**51,832**	36,557	**60,303**	36,679
Reserves		**186,632**	151,879	**190,768**	151,879
Total equity		**311,782**	277,029	**315,918**	277,029

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

Notes to Financial Statements

31 December 2003

1. CORPORATION INFORMATION

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

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

Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG from 1 April 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretation Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"). They have been prepared on the historical cost basis.

Basis of consolidation

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

Subsidiaries

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long term investment

Investment in an unlisted company held on a long term basis is stated at cost less any impairment losses.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of natural gas, LPG and gas appliances

– Revenue is recognised when the significant risks and rewards of ownership have been passed to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Construction of gas pipelines

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

Interest income

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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

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

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

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

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

Construction in progress

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

Notes to Financial Statements

31 December 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

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

Construction contract work in progress and revenue recognition

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

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

Short term construction contract work in progress and deferred income are disclosed on an individual contract basis.

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

Trade and other receivables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other payables

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

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

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Retirement benefits

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

Accommodation benefits

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

Foreign currencies

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

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

Notes to Financial Statements

31 December 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

Cash and cash equivalents

Cash on hand and in banks are carried at cost.

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

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SEGMENT INFORMATION

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

The Company discontinued the sale of LPG during the year, details of which are set out in note 4 below.

4. TURNOVER AND REVENUE

	2003 ***RMB'000***	2002 *RMB'000*
Natural gas	**212,001**	133,386
LPG *(note)*	**11,234**	35,890
Gas appliances	**9,316**	13,133
Gas pipelines		
– Construction of gas pipelines	**102,290**	81,217
– Repairs and maintenance of gas pipelines	**26,638**	20,688
Others	**614**	1,909
	362,093	286,223
Less: Business tax and government surcharges	**(5,224)**	(4,069)
Turnover	**356,869**	282,154
Interest income from bank balances	**623**	523
Rental income	**210**	–
Others	**92**	–
Other revenue	**925**	523
Total revenue	**357,794**	282,677

4. TURNOVER AND REVENUE (CONTINUED)

Note:

Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG from 1 April 2003. The directors of the Company are of the opinion that the discontinuance of the sale of LPG did not have any significant effect on the Group's results.

Following the discontinuance of the sale of LPG by the Company, the business undertakings of the sale of LPG together with the underlying plant and equipment were taken over by Zhengzhou Gas Group LPG Co., Ltd., the Company's fellow subsidiary, from the Company, details of which are set out in note 25(g) below.

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2003	2002
	RMB'000	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 6):		
Retirement benefits		
– defined contribution fund	**3,758**	3,757
Accommodation benefits		
– defined contribution fund	**1,508**	1,509
Salaries and other staff costs	**28,374**	26,984
Total staff costs	**33,640**	32,250
Operating lease rentals in respect of:		
Land and buildings	**4,561**	4,536
Equipment	**620**	682
Total operating lease rentals	**5,181**	5,218
Auditors' remuneration	**906**	848
Depreciation	**10,946**	10,205
Loss on disposal of property, plant and equipment	**708**	–
Provision for bad and doubtful debts	**1,046**	93
Interest on bank loans wholly repayable within one year	**–**	567

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

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

	2003	2002
	RMB'000	RMB'000
Fees:		
– Executive directors	–	–
– Non-executive directors	199	150
	199	150
Other emoluments for executive directors and supervisors:		
– Basic salaries and other benefits	446	464
– Bonuses paid and payable	190	69
– Pension scheme contributions	23	20
	659	553
	858	703

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

During the year ended 31 December 2003, the six (2002: six) non-executive directors received individual fees of approximately RMB42,000, RMB42,000, RMB37,000 RMB30,000, RMB24,000 and RMB24,000, respectively (2002: approximately RMB30,000, RMB24,000, RMB24,000, RMB24,000, RMB24,000 and RMB24,000, respectively). The three (2002: four) executive directors received individual emoluments of approximately RMB158,000, RMB157,000 and RMB97,000, respectively (2002: approximately RMB130,000, RMB126,000, RMB41,000 and RMB24,000, respectively). The four (2002: four) supervisors received individual emoluments of approximately RMB97,000, RMB96,000, RMB30,000 and RMB24,000, respectively (2002: approximately RMB101,000, RMB77,000, RMB30,000 and RMB24,000, respectively). The remaining three (2002: three) non-executive directors and one (2002: one) supervisor did not receive any emoluments during the year ended 31 December 2003.

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

During the year ended 31 December 2003, the five highest paid individuals of the Group included two (2002: two) directors. Information relating to these directors' emoluments has been disclosed above. Details of the emoluments of the remaining three (2002: two) highest paid, non-director employees are as follows:

	2003	2002
	RMB'000	*RMB'000*
Basic salaries and other benefits	**257**	175
Bonuses paid and payable	**125**	28
Pension scheme contributions	**15**	8
	397	211

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

During the year ended 31 December 2003, no emoluments were paid by the Group to the directors or the other highest paid, non-director employees, as an inducement to join or upon joining the Group, or as a compensation for loss of office. No director has waived or agreed to waive any emoluments during the year.

7. INCOME TAX EXPENSES

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at 33% of their taxable profits. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2003.

Major components of the Group's income tax expenses for the year ended 31 December 2003 are as follows:

	2003	2002
	RMB'000	*RMB'000*
Provision for income tax in respect of profit for the year:		
– Current	**22,256**	19,535
– Deferred	**(253)**	(1,234)
Tax expenses before minority interests	**22,003**	18,301

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

	2003	2002
	RMB'000	*RMB'000*
Accounting profit	**78,457**	56,238
Tax at an applicable tax rate of 33%	**25,891**	18,559
Tax effect of:		
– non-deductible expenses	**639**	620
– accounting profit of a subsidiary exceeding its deemed profit and was non-taxable	**(5,777)**	(878)
– over provision in prior years	**(115)**	–
– unrealised profit	**1,365**	–
Tax expenses before minority interests	**22,003**	18,301

Notes to Financial Statements

31 December 2003

8. DIVIDENDS

	2003	2002
	RMB'000	*RMB'000*
Declared and paid during the year:		
– Final dividend pertaining to 2002 – RMB0.01453 per ordinary share (2001: RMB0.1386)	**18,184**	10,407
Proposed for payment in 2004:		
– Final dividend pertaining to 2003 – RMB0.0044 per ordinary share (2002: RMB0.01453)	**5,507**	18,184

The proposed final dividend pertaining to 2003 for payment in 2004 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2003.

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC accounting principles and financial regulations (collectively as "PRC GAAP"). These profits differ from those that are reflected in this report which is prepared in accordance with IFRS.

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

9. EARNINGS PER SHARE

Basic earnings per share amount for the year ended 31 December 2003 is computed by dividing net profit attributable to shareholders of approximately RMB52,937,000 (2002: approximately RMB37,324,000) by the weighted average number of 1,251,500,000 ordinary shares (2002: 840,048,000 ordinary shares) in issue during the year.

Diluted earnings per share amount for the years ended 31 December 2003 and 2002 have not been calculated because there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2003 and 2002.

10. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 23% (2002: 24.23%) of the previous year's average basic salaries within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

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

11. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted investments – share of net assets	**56,850**	23,975
Due to a subsidiary	**(42,303)**	(2,271)
	14,547	21,704

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

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

11. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows:

Name of company	Place and date of establishment	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company 2003	2002	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (a))*	PRC 19 June 2002	RMB40,000,000	83.5%	83.5%	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (b))*	PRC 14 November 2003	RMB5,000,000	51%	–	Manufacture and sale of gas appliances and heating systems

Notes:

(a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. Zhengzhou Gas Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC, and is accountable to the Labour Union Member Meeting which represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., the holding company of the Company, from time to time.

(b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.

12. LONG TERM INVESTMENT

	31 December 2003 **RMB'000**	31 December 2002 *RMB'000*
Unlisted equity investment, at cost	**200**	–

Unlisted equity investment, held on a long term basis, represent the Company's 7.46% equity interests in an unlisted company incorporated in the PRC with limited liability.

Notes to Financial Statements

31 December 2003

13. PROPERTY, PLANT AND EQUIPMENT

Group:

	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2003	702	88,581	104,743	3,128	12,581	195	209,930
Additions	131	5,918	–	737	9,462	308	16,556
Transferred from construction in progress *(note 14)*	15,574	23,860	27,451	629	172	–	67,686
Disposals	–	–	–	–	(5,217)	–	(5,217)
At 31 December 2003	**16,407**	**118,359**	**132,194**	**4,494**	**16,998**	**503**	**288,955**
Accumulated depreciation:							
At 1 January 2003	15	24,799	46,371	739	5,952	35	77,911
Charges for the year	39	4,397	4,403	428	1,517	162	10,946
Disposals	–	–	–	–	(3,856)	–	(3,856)
At 31 December 2003	**54**	**29,196**	**50,774**	**1,167**	**3,613**	**197**	**85,001**
Net book value:							
At 31 December 2003	**16,353**	**89,163**	**81,420**	**3,327**	**13,385**	**306**	**203,954**
At 31 December 2002	687	63,782	58,372	2,389	6,629	160	132,019

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:

	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2003	702	84,335	104,743	2,824	9,633	173	202,410
Additions	131	1,281	–	582	7,805	308	10,107
Transferred from construction in progress *(note 14)*	15,574	23,860	31,588	629	172	–	71,823
Transferred to a subsidiary as capital contribution	–	(3,415)	–	(28)	(172)	–	(3,615)
Disposals	–	–	–	–	(4,779)	–	(4,779)
At 31 December 2003	**16,407**	**106,061**	**136,331**	**4,007**	**12,659**	**481**	**275,946**
Accumulated depreciation:							
At 1 January 2003	15	24,426	46,371	707	5,001	28	76,548
Charges for the year	39	3,971	4,403	382	1,116	156	10,067
Disposals	–	–	–	–	(3,436)	–	(3,436)
At 31 December 2003	**54**	**28,397**	**50,774**	**1,089**	**2,681**	**184**	**83,179**
Net book value:							
At 31 December 2003	**16,353**	**77,664**	**85,557**	**2,918**	**9,978**	**297**	**192,767**
At 31 December 2002	687	59,909	58,372	2,117	4,632	145	125,862

The cost of buildings of the Group and the Company includes relocation compensation fees of RMB4,701,000 as at 31 December 2003 (2002: Nil) for two patches of land where the buildings of the Group and the Company are located.

Notes to Financial Statements

31 December 2003

14. CONSTRUCTION IN PROGRESS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**94,746**	27,276	**99,610**	23,847
Additions	**96,902**	73,155	**89,082**	81,448
Transferred to property, plant and equipment *(note 13)*	**(67,686)**	(5,685)	**(71,823)**	(5,685)
At end of year	**123,962**	94,746	**116,869**	99,610

15. DEFERRED TAX ASSETS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Accrued expenses not deductible until payments are made	**1,037**	1,013	**1,037**	1,013
– Other deductible temporary differences	**229**	–	**229**	–
	1,266	1,013	**1,266**	1,013

Notes to Financial Statements

31 December 2003

16. TRADE RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outstanding balances aged:				
Within 30 days	**35,758**	31,989	**35,758**	31,989
Between 31 days to 90 days	**3,917**	1,693	**3,917**	1,693
Between 91 days to 180 days	**851**	707	**851**	707
Between 181 days to 365 days	**244**	899	**244**	899
Over 365 days	**511**	415	**511**	415
	41,281	35,703	**41,281**	35,703
Less: Provision for bad and doubtful debts	**(1,465)**	(419)	**(1,465)**	(419)
	39,816	35,284	**39,816**	35,284

17. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
LPG	**–**	547	**–**	547
Construction materials	**1,107**	513	**847**	363
Spare parts and consumables	**127**	329	**127**	329
	1,234	1,389	**974**	1,239

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**13,298**	7,522	**10,908**	6,469
Deposits	**141**	109	**60**	–
Sundry debtors	**1,259**	691	**1,186**	582
	14,698	8,322	**12,154**	7,051

Notes to Financial Statements

31 December 2003

19. TRADE PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outstanding balances aged:				
Within 30 days	**11,821**	8,080	**5,389**	5,680
Between 31 days to 90 days	**2,402**	1,078	**2,015**	1,078
Between 91 days to 180 days	**2,890**	811	**2,890**	697
Between 181 days to 365 days	**591**	306	**529**	306
Over 365 days	**864**	460	**798**	460
	18,568	10,735	**11,621**	8,221

20. CONSTRUCTION CONTRACT WORK IN PROGRESS/DEFERRED INCOME

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	**2,008**	–	**–**	–

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred income				
Progress payments received	**111,912**	95,496	**48,430**	85,721
Less: Contract costs incurred to date	**(22,954)**	(15,028)	**(596)**	(579)
	88,958	80,468	**47,834**	85,142

21. DUE TO THE HOLDING COMPANY

Except for the repayment term of an amount of RMB32,433,000 due to the holding company as set out below, the amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

Pursuant to the repayment agreement entered into between the Company and its holding company, Zhengzhou Gas Group Co., Ltd., on 30 September 2002, the maturities of an amount of RMB32,433,000 due to the holding company are as follows:

	Amount
	RMB'000
Repayable on:	
– 1 March 2004	10,000
– 31 December 2004	10,000
– 31 December 2005	12,433
	32,433
Portion classified as current liabilities	(20,000)
Non-current portion	12,433

The holding company has also undertaken to the Company that it will not demand repayment of any outstanding amount when they fall due unless:

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

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

Notes to Financial Statements

31 December 2003

22. DUE TO FELLOW SUBSIDIARIES

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

23. SHARE CAPITAL

	2003		2002	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	*RMB'000*	*'000*	*RMB'000*
Registered	**1,251,500**	**125,150**	1,251,500	125,150
Issued and fully paid:				
– 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

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

	2003		2002	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	*RMB'000*	*'000*	*RMB'000*
At beginning of year	**1,251,500**	**125,150**	75,090	75,090
Share subdivision	–	–	750,900	75,090
Issue of new shares	–	–	500,600	50,060
At end of year	**1,251,500**	**125,150**	1,251,500	125,150

24. RESERVES

(a) Statutory surplus reserve ("SSR")

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

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

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

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

(c) General surplus reserve ("GSR")

In addition to the above statutory reserves which are required by the Company Law of the PRC and respective articles of association of the Company and its subsidiaries, the shareholders of the Company resolved on 18 March 2003 to transfer approximately RMB3,901,000 from the Company's retained earnings as at 31 December 2002 to the GSR.

24. RESERVES (CONTINUED)

(d) Distributable reserves

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

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

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

As at 31 December 2003, the Company's reserves available for distribution were approximately RMB54,705,000 (2002: RMB35,666,000), of which approximately RMB5,507,000 has been proposed as a final dividend for the year and approximately RMB5,682,000 has been proposed to be transferred to the general surplus reserve.

25. RELATED PARTY TRANSACTIONS

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

Name of related parties	Nature of transactions	2003 *RMB'000*	2002 *RMB'000*
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note(c))*	**4,179**	5,081
	Material costs for the replacement of gas meters reimbursed by the related company *(note (d))*	**–**	330
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Company's leased equipment and land and buildings *(note (e))*	**845**	–

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of related parties	Nature of transactions	2003 *RMB'000*	2002 *RMB'000*
Zhengzhou Zhengran Gas Equipment Co., Ltd. *(note (b))*	Purchases of construction materials from the related company *(note (f))*	**1,002**	601
	Purchases of property, plant and equipment from the related company *(note (f))*	**488**	–
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Purchases of gas appliances from the related company *(note (f))*	**–**	4,038
	Provision of gas meter testing services by the related company *(note (f))*	**579**	–
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Provision of technology consultancy services to the related company *(note (f))*	**–**	167
	Operating lease of plant and equipment to the related company *(note (g))*	**210**	–
	Sales of LPG to the related company *(note (g))*	**285**	–
	Sales of motor vehicles to the related company *(note (g))*	**650**	–
Zhengzhou Zhengran Materials Co., Ltd. *(note (b))*	Purchases of construction materials and consumables from the related company *(note (f))*	**–**	9,236

25. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

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

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

(c) In accordance with the property lease agreements, the land use rights lease agreements, the equipment lease agreement and the property management services agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment and land and buildings to the Company for its office and operational uses, and provided property management services in relation to the underlying leased equipment and land and buildings to the Company. In the opinion of the directors, these transactions were carried out based on normal commercial terms and in accordance with the terms of the underlying agreements.

Following the establishment of Zhengzhou Zhengran Property Management Co., Ltd. by Zhengzhou Gas Group Co., Ltd., the property management services in relation to the underlying leased equipment and land and buildings were then provided by Zhengzhou Zhengran Property Management Co., Ltd. to the Company, details of which are set out in note (e) below, and the property management services agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd. was terminated thereafter.

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

(e) In accordance with the property management services agreement entered into between the Company and Zhengzhou Zhengran Property Management Co., Ltd. dated 15 June 2003, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the Company's leased equipment and land and buildings to the Company. In the opinion of the directors, these transactions were carried out based on normal commercial terms and in accordance with the terms of the underlying agreements.

(f) These transactions were carried out based on normal commercial terms and at market prices.

(g) Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG from 1 April 2003. Following the discontinuance of the sale of LPG by the Company, the business undertakings of the sale of LPG together with the underlying plant and equipment were taken over by Zhengzhou Gas Group LPG Co., Ltd. from the Company. Further details of the transactions were as follows:

(i) Sales of LPG from the Company to Zhengzhou Gas Group LPG Co., Ltd. amounting to RMB285,000 were carried out based on normal commercial terms and at market prices;

(ii) Sales of motor vehicles from the Company to Zhengzhou Gas Group LPG Co., Ltd. amounting to RMB650,000 were carried out based on normal commercial terms and determined by agreement of parties based on valuation of a PRC appraiser; and

(iii) In accordance with a lease agreement entered into between the Company and Zhengzhou Gas Group LPG Co., Ltd., the Company leased plant and equipment with net book value of RMB7,530,000 as at 31 December 2003 to Zhengzhou Gas Group LPG Co., Ltd. for an annual rental of RMB280,000 for a fixed period from 1 April 2003 to 31 December 2004. This transaction was carried out based on normal commercial terms and determined by agreement of parties based on valuation of a PRC appraiser.

The directors of the Company are of the opinion that the above transactions with related parties were carried out based on normal commercial terms in the ordinary course of business.

26. COMMITMENTS

	2003	2002
	RMB'000	*RMB'000*
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
– Authorised, but not contracted for	**66,761**	77,957
– Contracted, but not provided for	**1,202**	14,579
	67,963	92,536
Capital commitment in respect of equity investment authorised but not contracted for	**10,000**	–
	77,963	92,536

Operating lease commitments

As lessee

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of equipment and land and buildings falling due as follows:

	2003	2002
	RMB'000	*RMB'000*
– Within one year	**5,005**	3,843
– In the second to fifth years, inclusive	**13,766**	18,974
– Over five years	**34,697**	41,721
	53,468	64,538

26. COMMITMENTS (CONTINUED)

Operating lease commitments (Continued)

As lessor

At the balance sheet date, the Group had future minimum lease receivables under non-cancellable operating leases in respect of plant and equipment falling due as follows:

	2003	2002
	RMB'000	*RMB'000*
– Within one year	**280**	–

27. CONTINGENT LIABILITIES

As at 31 December 2003, the Group did not have any significant contingent liabilities.

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

Interest rate risk

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

Foreign currency risk

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

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

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

Fair value

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

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

Credit risk exposure

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2003 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated on the balance sheet.

Significant concentrations of credit risk

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

Notes to Financial Statements

31 December 2003

29. SUBSEQUENT EVENTS

Subsequent to 31 December 2003, the directors proposed a final dividend of RMB0.0044 per ordinary share, totalling approximately RMB5,507,000, pertaining to 2003 for payment in 2004. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2003.

In addition, subsequent to 31 December 2003, the directors proposed to transfer 10%, totalling approximately RMB5,682,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2003 to the general surplus reserve. The proposed transfer to the general surplus reserve is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the general surplus reserve has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2003.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2004.

Notice of Annual General Meeting

NOTICE IS HEREBY given that the annual general meeting of the Company will be held at Shengmao Hotel, Zhengzhou, Henan Province, the PRC on 28 May 2004 at 9:00 a.m. for the following purposes:

1. to consider and approve the audited financial statements of the Company and the report of the board of directors and the auditors of the Company for the year ended 31 December 2003;

2. to consider and approve the report of the supervisors of the Company for the year ended 31 December 2003;

3. to consider and approve a final dividend of RMB0.0044 per share for the year ended 31 December 2003. The proposed dividend will be payable on 18 June 2004 to shareholders whose names appear in the register of members of the Company on 28 May 2004;

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

5. to consider and approve the reappointment of Ernst & Young as the auditors of the Company for the year 2004 and to authorise the board of directors to fix their remuneration;

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

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

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

Zhengzhou, the PRC

17 March 2004

Notice of Annual General Meeting

Principal place of business in Hong Kong:

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

Registered Office in the PRC:

352 Longhai Road West
Zhengzhou, Henan Province
PRC 450006

Notes:

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

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

(iii) The register of holders of H shares of the Company in Hong Kong will be closed from 26 April 2004 to 28 May 2004 (both days inclusive), during which no transfer of shares will be registered. All properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901– 1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4: 00 p.m. on 23 April 2004, for registration.

(iv) Holders of H shares whose names appear in the register of holders of H shares of the Company on 26 April 2004 are entitled to attend and vote at the meeting.

(v) Holders of H shares of the Company who intend to attend the annual general meeting shall complete and deposit or post or fax (fax no.: (852) 3107 0091) the enclosed form of attendance to the Company's share registrar of H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901–1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or the Company's legal address at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC (fax no.: 86-371-8890488) on or before 8 May 2004.

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