



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

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



Third Quarterly Report 2004

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”).**

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

**FINANCIAL HIGHLIGHTS**

- During the Relevant Period, unaudited consolidated turnover and profit attributable to shareholders of the Group amounted to approximately RMB310,863,000 and RMB49,270,000 respectively, representing respective increases of approximately 25.78% and 22.94% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB191,778,000, representing an increase of approximately 41.52% over the corresponding period of last year, which was primarily attributed to the increase in the number of residential, industrial, commercial and vehicular users, coupled with a significant increase in gas consumption by industrial, commercial and vehicular users.
- Turnover derived from gas pipeline construction aggregated to approximately RMB96,314,000 for the Relevant Period, representing an increase of approximately 29.35% over the corresponding period of last year, which was primarily attributed to satisfactory growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0394, representing an increase of approximately RMB0.0074 as compared with approximately RMB0.0320 for the corresponding period of last year.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.

**CONSOLIDATED RESULTS FOR THE THIRD QUARTER OF 2004 (UNAUDITED)**

The board of Directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2004 (the "Relevant Period") and comparative figures of the corresponding period of 2003 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	3	<b>96,067</b>	72,124	<b>310,863</b>	247,158
Cost of sales		<b>(65,638)</b>	(40,332)	<b>(200,702)</b>	(156,118)
Gross profit		<b>30,429</b>	31,792	<b>110,161</b>	91,040
Other revenue		<b>248</b>	622	<b>669</b>	1,026
Selling and distribution costs		<b>(3,788)</b>	(4,547)	<b>(8,824)</b>	(8,930)
Administrative costs		<b>(13,964)</b>	(10,855)	<b>(29,246)</b>	(25,814)
Other operating costs		<b>(691)</b>	-	<b>(816)</b>	(20)
Profit from operating activities		<b>12,234</b>	17,012	<b>71,944</b>	57,302
Finance costs		-	57	-	-
Profit before income tax		<b>12,234</b>	17,069	<b>71,944</b>	57,302
Income tax expenses	4	<b>3,893</b>	(4,347)	<b>(16,432)</b>	(14,886)
Profit before minority interests		<b>16,127</b>	12,722	<b>55,512</b>	42,416
Minority interests		<b>(3,937)</b>	(768)	<b>(6,242)</b>	(2,339)
Net profit attributable to shareholders		<b>12,190</b>	11,954	<b>49,270</b>	40,077
Basic Earnings per share (RMB Yuan)	5	<b>0.0097</b>	0.0096	<b>0.0394</b>	0.0320

**NOTES:****1. BASIS OF CONSOLIDATION AND PRESENTATION**

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

The financial statements 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 GEM Listing Rules. They have been prepared on the historical cost basis.

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

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

**2. SIGNIFICANT CHANGE IN ACCOUNTING POLICIES**

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

### 3. TURNOVER

An analysis of the Group's turnover for the nine months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 is as follows:

Turnover	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Natural gas	61,281	40,092	191,778	135,515
LPG (Note)	–	–	–	11,051
Gas appliances	2,405	2,530	5,828	7,638
Gas pipeline				
– Gas pipeline construction	27,716	23,589	96,314	74,458
– Gas pipeline repairs and maintenance services	6,271	6,693	20,761	21,492
Others	13	39	72	417
	<b>97,686</b>	72,943	<b>314,753</b>	250,571
Business tax and government surcharges	(1,619)	(821)	(3,890)	(3,414)
Turnover	<b>96,067</b>	72,124	<b>310,863</b>	247,158

Note: Pursuant to the resolution of the Board dated 18 March 2003, the Company has terminated the LPG sales business since 1 April 2003.

The Directors of the Company are of the view that the termination of the LPG sales business will not have any significant impact on the Group's operating results.

#### 4. TAX

No provision for Hong Kong tax has been made as none of the Group's income was arising in nor derived from Hong Kong during the Relevant Period. The PRC income tax of the Company has been provided at the applicable income tax rate of 33% on estimated assessable profit in accordance with the relevant tax laws and regulations.

	Three months ended		Nine months ended	
	30 September		30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:				
– Current	<b>(1,744)</b>	5,376	<b>13,425</b>	12,240
– Deferred	<b>(2,149)</b>	(1,029)	<b>3,007</b>	2,646
Tax expenses for the period	<b>(3,893)</b>	4,347	<b>16,432</b>	14,886

The income tax expenses for the three months ended 30 September 2004 had a credit balance because there was a write-back of excessive provisions for income tax calculated on a net profit basis as compared with those calculated on a revenue basis for the Relevant Period in the accounts of Zhengzhou Gas Engineering and Construction Company Limited, a subsidiary of the Company, as a result of the approval of the tax bureau in the PRC for the continuous use of revenue basis for the calculation of income tax payable by Zhengzhou Gas Engineering and Construction Company Limited.

#### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB49,270,000 (corresponding period in 2003: approximately RMB40,077,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2003 was 1,251,500,000 shares).

Diluted earnings per share for the nine months ended 30 September 2003 and 2004 have not been calculated as no diluting events existed during those periods.

## 6. RESERVES

The changes in reserves for the nine months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 are as follows:

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Undistributed profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	101,026	6,025	6,025	2,124	36,679	151,879
Dividend paid for 2002					(18,184)	(18,184)
Transferred from retained earnings				3,932	(3,932)	-
Profit for the period					28,123	28,123
As at 30 June 2003	101,026	6,025	6,025	6,056	42,686	161,817
Profit for the period					11,954	11,954
As at 30 September 2003	101,026	6,025	6,025	6,056	54,640	173,771
As at 1 January 2004	101,026	13,797	13,797	6,180	51,832	186,632
Dividend paid for 2003					(5,507)	(5,507)
Transferred from retained earnings				6,572	(6,572)	-
Profit for the period					37,080	37,080
As at 30 June 2004	101,026	13,797	13,797	12,752	76,833	218,205
Profit for the period					49,270	49,270
As at 30 September 2004	101,026	13,797	13,797	12,752	126,103	267,475



## ***DIVIDEND***

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2004.

## ***MANAGEMENT DISCUSSION AND ANALYSIS***

### **Business Review**

#### *General*

During the nine months ended 30 September 2004, the Group recorded a total turnover of approximately RMB310,863,000, a gross profit of approximately RMB110,161,000, representing an increase in total turnover of approximately 25.78% over the corresponding period of last year, which was primarily attributed to the increase in the number of natural gas users, coupled with the substantial increase in gas consumption by industrial, commercial and vehicular users.

Gross profit margin of the Group for the Relevant Period was approximately 35.44%, which was lower than approximately 36.83% of the corresponding period of last year. It was mainly due to the decrease in gross profit margin of gas pipelines repairs and maintenance services.

During the Relevant Period, administrative expenses amounted to approximately RMB29,246,000, representing an increase of 13.30% as compared to approximately RMB25,814,000 for the corresponding period of last year. The major reason was the increase in salary and staff benefit resulting from the recruitment of new staff to assist the Group's development.

Income tax expenses of the Group for the Relevant Period were approximately RMB16,432,000. The income tax rate of 33% was in compliance with the relevant tax laws and regulations.

Net profit attributable to shareholders of the Group for the Relevant Period was approximately RMB49,270,000, representing an increase of approximately 22.94% from approximately RMB40,077,000 of the corresponding period of last year.

#### *Sale of piped natural gas*

The turnover of piped natural gas sales for the Relevant Period amounted to approximately RMB191,778,000, representing an increase of approximately 41.52% from approximately RMB135,515,000 over the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 127,700,000 m<sup>3</sup>, representing an increase of approximately 36.49% as compared with approximately 93,560,000 m<sup>3</sup> for the corresponding period of last year. The Group's natural gas consumption as represented by types of users during the Relevant Period together with the comparative figures for the corresponding period of last year are stated as follows:

	Nine months ended 30 September				
	2004		2003		
		As a percentage of total gas consumption		As a percentage of total gas consumption	Increase %
<b>Natural Gas</b>					
total gas consumption (approximately '000 m <sup>3</sup> )	<b>127,700</b>		93,560		36.49%
including:					
residential users	<b>51,150</b>	<b>40.05%</b>	47,770	51.06%	7.08%
commercial users	<b>28,910</b>	<b>22.64%</b>	20,323	21.72%	42.25%
industrial users	<b>30,310</b>	<b>23.74%</b>	21,134	22.59%	43.42%
vehicular users	<b>17,330</b>	<b>13.57%</b>	4,333	4.63%	299.95%

According to the table above, gas consumption by residential users during the Relevant Period sustained a stable growth with 51,150,000 m<sup>3</sup>, representing an increase of 7.08% as compared with the corresponding period of last year. Consumption by industrial users maintained its high growth momentum with about 30,310,000 m<sup>3</sup>, representing an increase of 43.42% as compared with the corresponding period of last year. Consumption by commercial users amounted to 28,910,000 m<sup>3</sup>, representing an increase of 42.25% as compared with the corresponding period of last year. As at 30 September 2004, the Group has 485,918 residential users, representing an increase of 28,247 users as compared with 457,671 users as at 31 December 2003; 885 commercial users representing an increase of 126 users as compared with 759 users as at 31 December 2003, and 26 industrial users representing an increase of 8 users as compared with 18 users as at 31 December 2003.

In respect of the gas powered vehicle business, given the persistently high oil price, vehicle operators such as taxi drivers were more eager to convert their vehicles into natural gas powered vehicles. Our target to secure additional 1,200 vehicular users in 2004 was overfulfilled in the first half of the year. During the Relevant Period, the Group's natural gas powered vehicular users has been increased by 1,976, and the total number of natural gas powered vehicles converted has reached 3,504 as at 30 September 2004. The sale of gas to vehicular users reached 17,330,000 m<sup>3</sup>, representing an increase of 299.95% as compared with 4,333,000 m<sup>3</sup> for the corresponding period

of last year. The Group has increased the price of vehicular gas from RMB1.9/m<sup>3</sup> to RMB2.1/m<sup>3</sup> from 1 July 2004. As at 30 September 2004, the income from vehicular gas business has increased RMB1,420,000 marginally since the increment of price. Apparently, the gas powered vehicles business has become the new momentum of the Group's profit growth.

During the Relevant Period, the Group purchased approximately 92,544,000 m<sup>3</sup> of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines"; at an aggregate cost of RMB97,085,000 based on the after tax cost of RMB1.04907/m<sup>3</sup>, representing 64.73% of the total volume of natural gas purchased.

To expand its market into Dengfeng City, the Group established a subsidiary, Dengfeng Zhengran Gas Limited (登封鄭燃氣有限公司) ("Dengfeng Zhengran"), on 17 February 2004. Its registered capital was RMB10,000,000, and 65% of its registered capital was owned by the Company directly and 35% by the Zhengzhou Gas Engineering and Construction Company Limited, a non-wholly owned subsidiary of the Company. During the Relevant Period, Dengfeng Zhengran has completed 50% of the pipeline construction works and made an investment of RMB2,275,000, but has not yet commenced gas supply to users in Dengfeng City.

During the Relevant Period, the Group has completed conversion to natural gas for users in the areas using coal gas. However, since conversion work has just completed, the data on users of the original coal gas areas as well as income from the sales of natural gas has not been reflected in the statistics and results of the Relevant Period. Besides, it is not certain whether the Group will incur capital expenditure as a result of the conversion. If necessary, the Company will make further announcement in relation to the required capital expenditure according to the GEM Listing Rules.

### **Natural gas pipeline construction services**

For the Relevant Period, the Group's turnover in natural gas pipeline construction services amounted to approximately RMB96,314,000, representing a growth of 29.35% as compared with RMB74,458,000 for the corresponding period of last year and this was mainly attributable to the satisfactory growth in the natural gas pipeline construction projects for residential users. The Group has built gas pipelines for 33,918 residential users during the Relevant Period.

In addition, the Group also collects fees from users for providing repair and maintenance services to gas pipelines. During the Relevant Period, such fees were approximately RMB20,761,000, representing a drop of 3.4% as compared with RMB21,492,000 for the corresponding period of last year. The drop was mainly due to a decrease in pipeline replacement projects, which resulted in a reduction in such fees received from users.

## Future Prospects

### *(i) Business*

In 2004, the Group will, on the basis of developing the market of residential users, further explore the market with a focus on industrial and commercial users. With a stronger emphasis on environmental protection in Zhengzhou, coal furnace under 10 tons will be prohibited by 2006 and the coal combustion-free zone will be further expanded. Both measures provide a golden opportunity to the Group for further exploring the market of commercial users. In addition, to maintain a balanced development of commercial and industrial sectors in Zhengzhou, the local government of Zhengzhou promulgated certain preferential policies to encourage industrial investments and it is believed that such policies shall further propel the Group's development in the market of industrial users. Meanwhile, both the setting up of Zhengzhou new city and the enlargement of the scale of urbanization shall act as a catalyst for the Group's development of residential market and the Group expected the growth in the number of residential users can reach 30,000 by the year of 2004.

In respect of the vehicular gas business, the Group planned to build another two natural gas refueling stations to further improve the vehicular gas supply network. In addition, the Group is currently undertaking studies to expand the application of natural gas to air-conditioning, heating and power generation in order to further expand the development potential of the Group.

### *(ii) Introduction of strategic investors*

On 1 June 2004, Zhengzhou Gas Group Co., Ltd. (the Group's holding company) entered into a framework agreement with China Resources Petrochems (Group) Company Limited ("China Resources Petrochems") (a subsidiary of China Resources Enterprise, Limited), pursuant to which, Zhengzhou Gas Group Co., Ltd., in principle, agreed to sell 250,300,000 domestic shares ("Domestic Shares") of the Company, representing 20% of the Company's total issued share capital to China Resources Petrochems. Up to 30 September 2004, the parties concerned were negotiating the specific terms, including the amount and payment method of the consideration, and no concrete terms have been concluded. In the opinion of the Board, should the equity investment by China Resources Petrochems be finalized, it would bring substantial benefits to the Group in many aspects, such as introduction of advanced management system, improvement of operation efficiency and expansion of development scopes.

## DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES

As at 30 September 2004, the interests and short positions of the Directors, chief executives and supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" to be notified to the Company and the Stock Exchange were as follows:

### Long positions in shares

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

#### Notes:

- (1) As at 30 September 2004, Gao Mingshun was interested in 15,400,000 Domestic Shares as a result of him being interested in 95.71% of the registered capital of Zhengzhou Sifang Construction and Decoration Co., Ltd. which holds approximately 1.23% (out of the total registered share capital) and 2.20% (out of Domestic Shares) of the registered share capital of the Company.
- (2) As at 30 September 2004, Li Keqing was interested in 115,500,000 Domestic Shares as a result of him and his spouse, Guo Wenjun, being in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Company Limited, which holds approximately 9.23% (out of the total registered share capital) and 16.48% (out of Domestic Shares) of the registered share capital of the Company.

Save as disclosed in this paragraph, as at 30 September 2004, none of the Directors, chief executives or supervisors of the Company or their respective associates had interest and short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

## **DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

So far as was known to any Director or supervisor of the Company, as at 30 September 2004, the persons or companies (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

### **Long positions in shares**

<b>Name</b>	<b>Number of H Shares held</b>	<b>Approximate % of beneficial interests in H Shares</b>	<b>Number of Domestic Shares held</b>	<b>Approximate % of beneficial interests in Domestic Shares</b>	<b>Approximate % in total registered capital share of the Company</b>
Zhengzhou Gas Group Co., Ltd			540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Company Limited (Note 1)			115,500,000	16.48%	9.23%
Guo Wenjun (Note 2)			115,500,000	16.48%	9.23%
Partners Capital International Limited (Note 3)	29,400,000	5.34%			2.35%

Name of subsidiary of the Company	Name of shareholder	Amount of registered capital of the subsidiary	Approximate percentage of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司)	Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會)	RMB6,600,000	16.50%
Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司)	RMB3,500,000	35.00%

*Notes:*

1. Zhengzhou Qiyuan Investment Consultancy Company Limited ("Zhengzhou Qiyuan") holds 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.
2. As at 30 September 2004, Guo Wenjun was interested in 115,500,000 Domestic Shares of the Company as Guo Wenjun and her spouse, Li Keqing were in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan, which was interested in 115,500,000 Domestic Shares or approximately 16.48% of the beneficial interests in the Domestic Shares of the Company. However, pursuant to the GEM Listing Rules, Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares held by Guo Wenjun represented only 9.23% of the total registered share capital of the Company.
3. Partners Capital International Limited ("Partners Capital") was a financial adviser to the Company. Pursuant to the GEM Listing Rules, Partners Capital was not a substantial shareholder of the Company because the H Shares held by Partners Capital represented only 2.35% of the total registered share capital of the Company.

Save as disclosed above, as at 30 September 2004, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying right to vote in all circumstances at general meetings of any member of the Company.

## ***DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES***

Save as disclosed above, during the nine months ended 30 September 2004, none of the Directors, chief executives or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 September 2004, none of the Directors, chief executives or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

## ***SPONSOR'S INTERESTS***

As at 30 September 2004, neither South China Capital Limited (the "Sponsor"), nor any of its directors or employees or associates, had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members to the Group.

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

## ***PURCHASE, SALE OR REDEMPTION OF SECURITIES***

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 29 October 2002 (i.e. the date on which the H Shares were listed on GEM) to 30 September 2004.

## ***AUDIT COMMITTEE***

The Company established an audit committee on 31 March 2002 with terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive directors of the Company, and Mr. Zhang Chaoyi, a non-executive director. Ms. Yu Shulian is the chairperson of the audit committee.

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



## ***CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS***

During the nine months ended 30 September 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

## ***COMPETING INTERESTS***

Zhengzhou Gas Group Co., Ltd., being the controlling shareholder and initial management shareholder of the Company, through its interest in 48% of the registered capital in Zhengzhou Gas Group LPG Co., Ltd. ("Zhengzhou LPG"), is engaged in the sales of bottled LPG in Zhengzhou. As both of the business of Zhengzhou LPG of selling bottled LPG in Zhengzhou and the Company's business of selling pipeline natural gas involve the provision of fuel to customers, such businesses therefore constitute competing interests.

Save as disclosed above, none of the Directors, the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## ***BOARD PRACTICES AND PROCEDURES***

In the opinion of the Directors, the Company has complied with the requirements of board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the accounting period covered by this report.

## ***DIRECTORS***

The members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會) and Ms. Niu Minghua (牛鳴華); (ii) the non-executive Directors, namely, 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), and Mr. Li Zhenguo (李振國); and (iii) the independent non-executive Directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮).

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

11 November 2004, Zhengzhou

\* for identification purpose only