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

Annual Report **2004**

* for identification purpose only

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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)
HKICPA, CPA Australia

Compliance Officer

Mr. Yan Guoqi

Qualified Accountant

Mr. Wong Cheuk Lam,
HKICPA, CPA Australia

Authorised Representatives

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

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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

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9 Queen's Road Central
Hong Kong

Financial Adviser to the Company

Partners Capital International Limited
1305, 13th Floor
9 Queen's Road Central
Hong Kong

Corporate Information

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As to Hong Kong law:

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Suite 1101, 11/F
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As to PRC law:

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Certified Public Accountants
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Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
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Hopewell Centre
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Hong Kong

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Henan Province
PRC

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Funiu Road Branch, Zhengzhou City
26 Funiu Road South
Zhengzhou City
Henan Province
PRC

Stock Code

8099

Financial Highlights

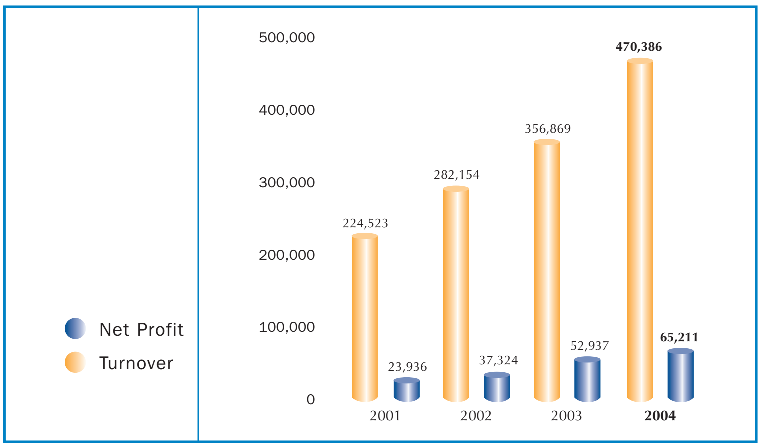
FINANCIAL STATISTICS

For the year ended 31 December

	2004	2003	2002	2001
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Turnover	***470,386***	356,869	282,154	224,523
Profit before taxation	**98,722**	78,457	56,238	36,058
Net profit	**65,211**	52,937	37,324	23,936
Earnings per share (RMB in Yuan) (Basic)	**0.052**	0.042	0.044	0.032

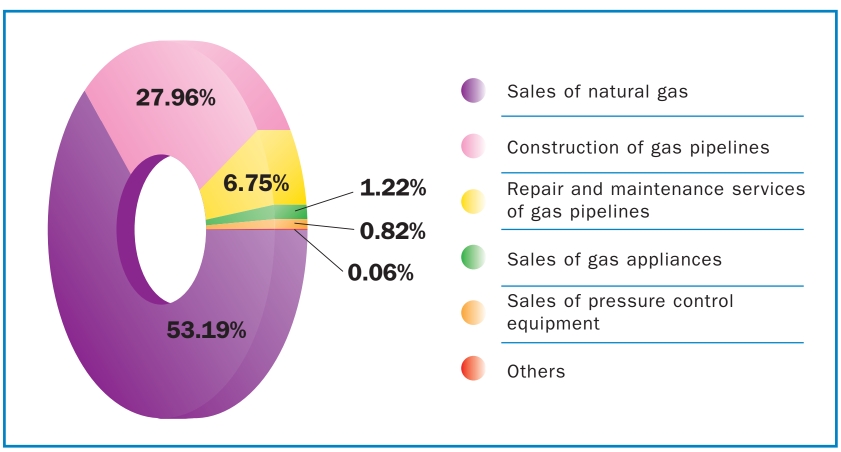
TURNOVER AND NET PROFIT

RMB'000



TURNOVER BREAKDOWN

(For the year ended 31 December, 2004)



Chairman's Statement

Mr. Yan Guoqi
Chairman

To all shareholders

The year 2004 was a critical year for the development of Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectivelly the "Group"). During the year, the benefits brought by the Project of Transmitting Natural Gas through the West to the East Pipelines (the "West to East Pipelines Project") became obvious. The Group managed to strengthen its efforts on market development and increase the scale of gas supply. As a result, the Company continued to maintain rapid growth and recorded the best operating results ever since the establishment of the Group. Hereby, I would like to share with all shareholders the Group's business performance in the past year and the prospects in the future.

Business Review

During the year ended 31 December 2004 (the "Relevant Period"), the Group recorded remarkable results with total turnover of RMB 470,386,000 and profit attributable to shareholders of RMB 65,211,000, representing an increase of 31.81% and 23.19% respectively over the corresponding period of the previous year.

Capturing Opportunities and Stepping up Development Pace

Following natural gas supply to Zhengzhou through the West to East Pipelines Project, Zhengzhou is no longer considered lack of gas source. This presented a rare opportunity for the business development of the Group. Capitalizing on its edge on gas sources to support

Chairman's Statement

the municipal government's policies of expanding urban area and protecting environment, the Group has focused on the expansion of vehicular users, and industrial and commercial users. The Group has established marketing network whereby the work of market development is left to front-line staff who are more familiar with market needs. The Group has developed some large and medium-sized industrial and commercial users and its market presence has been expanded to the newly-established Zheng East district which has huge market potential. During the Relevant Period, the Group had developed 50,750 new residential users, totalling 508,421 residential users. Meanwhile, the Group had developed 207 new commercial users, totalling 966 commercial users, and 20 new industrial users, totalling 38 industrial users. Due to the fast growth of the number of users, the Group's turnover of natural gas sales for the Relevant Period exceeded RMB300 million. Sales of natural gas reached 184,730,000 m^3, representing an increase of 27.50% as compared with 144,881,000 m^3 for the corresponding period of the previous year.

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. During the Relevant Period, the Group's additional natural gas powered vehicular users amounted to 2,551, making the total number of natural gas powered vehicles converted reach 4,079 as at 31 December 2004. Sales of gas to vehicular users reached 26,240,000 m^3, representing an increase of 263.03% as compared with 7,228,000 m^3 for the corresponding period of the previous year.

During the Relevant Period, the Group also converted all the coal gas systems in the urban area of Zhengzhou City into natural gas systems at the instructions of Henan Provincial government and the Provincial Development and Reform Commission, this has actively promoted the consolidation of the gas market. As at 31 December 2004, the Group's newly developed residential, commercial and industrial customers that resulted from the conversion was 7,853, 34 and 13 respectively.

During the Relevant Period, the Group built 2 natural gas powered vehicles refueling stations and laid down 52 kilometers of natural gas pipeline in the urban area. The Group's new investment in the urban pipeline construction, vehicle gas refueling station, vehicular natural gas processing station and pressure-tuning station, cathode protection system and distant monitoring and signaling system was approximately RMB82,160,000, RMB10,420,000, RMB8,650,000 and RMB12,560,000 respectively, making the investment in the infrastructure construction during the Relevant Period accumulated to approximately RMB126,000,000.

For market expansion outside Zhengzhou City, the first gas project undertaken by the Group outside Zhengzhou City, Dengfeng City natural gas project, has currently completed 10 kilometers of its transmission pipeline layout, and the residential pipeline network design for the first batch of users has preliminarily been completed. It is expected that the Group will be able to provide gas supply to users in Dengfeng City in October 2005. In addition, the Group's businesses in pipeline construction works and sales of gas pressure control equipment have also expanded to provinces outside Henan. During the Relevant Period, Zhengzhou Gas Engineering and Construction Company Limited, a member of the Group, undertook a project in Harbin City and obtained market access certificate from Hangzhou City. The gas pressure control equipment of Zhengzhou Zhengran Pressure Control Technology Company Limited, another member of the Group, have been sold to various provinces such as Shandong, Hebei, Shanxi and Ningxia, apart from assuring to meet the market demand from Zhengzhou City. The Group will actively explore new development opportunities in other markets outside Zhengzhou City .

With satisfactory operating results, the board of directors is pleased to decide the payment of dividend of RMB0.016 per share to shareholders so that they can enjoy the Group's achievements.

Improvement of Customer Service Quality

The Group fully recognizes that sales of natural gas not only means supply of energy but also provision of services to customers. As such, the Group places great emphasis on improvement of the quality of customer service. For the Relevant Period, the Group shifted its core business value from supply of products to provision of services. The Group enhanced supervision of service performance of front-line employees and improved its appraisal and rewarding mechanism. The Group also simplified the internal procedures to approve gas supply applications from customers. As a result, the time for pipelines design and construction has been shortened. Meanwhile, the Group also makes service commitment to customers that it will shorten repair time and strengthen communications with customers via customer service hotline.

Chairman's Statement

Enhancement of Pipelines Construction

During the Relevant Period, the high pressure natural gas pipelines project along the western fourth ring, one of the key constructions of the Group, formally commenced. The project formed an important part of the high pressure natural gas pipelines project along the fourth ring of Zhengzhou City. Anticipated to be completed within 5 years, the high pressure natural gas pipelines project was constructed along the fourth ring, with expected total pipelines of 110 kilometers in length and a total investment of RMB120 million. Upon completion, the project along the fourth ring, together with the middle pressure pipelines along the third ring completed in 2001, will form a safe distribution and allocation network system of high, middle and low pressure natural gas in Zhengzhou which can ensure the development needs of natural gas supply infrastructure for Zhengzhou City in the next 10 to 20 years. Upon completion of the urban pipelines construction project along the western fourth ring, any new residents within the fourth ring of Zhengzhou City can have the natural gas supply from duel natural gas sources.

Improvement in Management

The Group has set up a fund settlement centre during the Relevant Period to integrate the management of fund deposit, allocation and recovery among members of the Group, so that supervision over and utilization of fund inflow and outflow will be more effective. Besides, the Group has also strengthened budget management and tax plans, leading into reduction in unnecessary operation costs and tax expenditure.

For project management, the Group improved its project quality by obtaining internationally recognised certifications. For the Relevant Period, Zhengzhou Gas Engineering and Construction Company Limited, a member of the Group, has obtained ISO9001 Certification of Quality Control System (updated version), ISO14001 Certification of Environmental Management System and OHSAS18001 Certification of Integration of Occupational Health & Safety Management System, which resulted in an overall improvement of its project management. Meanwhile, the gas transmitting pipeline network project constructed by the company in Huan Cheng Highway in Zhengzhou was awarded the 2003 National Municipal Administration Golden Trophy for Model Project. This is the first time the prize is awarded to a natural gas company in the PRC.

Outlook

In 2005, the Group will adhere to its mission to strive for improvement in management and corporate governance, and to foster and enhance its core competitive edge by adopting flexible market strategies and advanced management methods. Our development strategy will remain developing business mainly in Zhengzhou, and expanding to other markets while suitable investment opportunities are identified.

Chairman's Statement

On behalf of the board of the Company, I wish to express my heartfelt appreciation to our shareholders and employees for their full support to the development of the Company. The board of directors of the Company will try their utmost in securing best returns to shareholders and striving for further achievement. I wish the Group a smooth development in the coming year.

Yan Guoqi
Chairman
Zhengzhou Gas Company Limited

14 March 2005, Zhengzhou

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 in this report.

The Group is principally engaged in the sale of piped natural gas and gas appliances to residential, commercial, industrial and vehicular users, sale of pressure control equipment and the provision of gas pipeline construction services. Analysis of the turnover of each 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 2003 and 2004 are set out below:

Table 1 Turnover

	Year ended 31 December				
	2004		2003		
	Turnover *(RMB'000)*	**As % of total turnover**	Turnover *(RMB'000)*	As % of total turnover	Increase %
Natural gas	**300,699**	**63.19%**	212,001	58.55%	41.84%
LPG	**–**	**–**	11,234	3.10%	-100.00%
Gas appliances	**5,825**	**1.22%**	9,316	2.57%	-37.47%
Pressure control equipment	**3,912**	**0.82%**	–	–	N/A
Gas pipelines					
– Construction of gas pipelines	**133,060**	**27.96%**	102,290	28.25%	30.08%
– Repairs and maintenance of gas pipelines	**32,114**	**6.75%**	26,638	7.36%	20.56%
Others	**288**	**0.06%**	614	0.17%	-53.09%
	475,898	**100.00%**	362,093	100.00%	
Less: Business tax and Government surcharges	**(5,512)**		(5,224)		
Total	**470,386**		356,869		31.81%

Table 2 The number of customers of natural gas

	Year ended 31 December		
	2004	2003	Increase %
Number of residential customers	**508,421**	457,671	11.09%
Number of commercial customers	**966**	759	27.27%
Number of industrial customers	**38**	18	111.11%
Number of vehicular customers	**4,079**	1,528	166.95%
Total:	**513,504**	459,976	11.64%

Table 3 Consumption

	Year ended 31 December				
	2004		2003		
	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)*	**197,954**	**100%**	144,881	100%	**36.63%**
of which					
residential customers	**69,222**	**34.97%**	66,762	46.08%	**3.68%**
commercial customers	**56,806**	**28.70%**	38,050	26.26%	**49.29%**
industrial customers	**45,686**	**23.08%**	32,841	22.67%	**39.11%**
vehicular customers	**26,240**	**13.25%**	7,228	4.99%	**263.03%**

General

For the year ended 31 December 2004, the Group recorded a total turnover of approximately RMB470,386,000 and gross profit of RMB169,743,000, as compared with the total turnover of approximately RMB356,869,000 and gross profit of approximately RMB127,724,000 over the corresponding period of the previous year, representing a total turnover increase of approximate 31.81%. The increase was mainly due to the fact that the number of customers of natural gas has increased, while natural gas consumption of commercial, industrial and vehicular customers has also increased remarkably.

During the Relevant Period, the gross profit margin of the Group was approximately 36.09%, representing a slight increase as compared with the gross profit margin of approximately 35.79% in the corresponding period of the previous year. The increase was mainly due to the termination of the LPG business in 2003 which had a lower gross profit margin.

Management Discussion and Analysis

During the Relevant Period, administrative costs were approximately RMB47,157,000, representing an increase of approximate 23.60% as compared with that of approximately RMB38,153,000 in the corresponding period of the previous year. The increase was mainly due to the increase in salary and staff welfare expenses as a result of the increase in number of staff in order to cope with the development of the Group.

During the Relevant Period, income tax expense was approximately RMB23,813,000, income tax rate was 33%, which was in accordance with the relevant PRC tax law and regulation.

During the Relevant Period, the net profit attributable to the shareholders of the Group was approximately RMB65,211,000, representing an increase of approximate 23.19% as compared with approximately RMB52,937,000 over the corresponding period of the previous year.

Sales of piped natural gas

During the Relevant Period, turnover of natural gas was approximately RMB300,699,000, representing an increase of approximately 41.84% as compared with approximately RMB212,001,000 over the corresponding period of the previous year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 197,954,000 m^3, representing an increase of approximately 36.63% as compared with approximately 144,881,000 m^3 for the corresponding period of the previous year.

As shown in Table 3 above, gas consumption by residential users during the Relevant Period sustained a stable growth to 69,222,000 m^3, representing an increase of 3.68% as compared with the corresponding period of the previous year. Consumption by industrial users maintained its high growth momentum with an increase of 39.11% to 45,686,000 m^3 as compared with the corresponding period of the previous year. During the Relevant Period, consumption by commercial users amounted to 56,806,000 m^3, representing an increase of 49.29% as compared with the corresponding period of the previous year. As at 31 December 2004, the Group had 508,421 residential users, representing an increase of 50,750 (approximately 11.09%) users as compared with 457,671 users as at 31 December 2003; 966 commercial users representing an increase of 207 users (approximately 27.27%) as compared with 759 users as at 31 December 2003, and 38 industrial users representing an increase of 20 users (approximately 111.11%) as compared with 18 users as at 31 December 2003.

In respect of the gas powered vehicles 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 an additional 1,200 vehicular users in 2004 was achieved within the initial 6 months of 2004. During the Relevant Period, the number of the Group's natural gas powered vehicular users has increased by 2,551 (approximately 166.95%), and the total number of natural gas powered vehicles converted reached 4,079 as at 31 December 2004. The gas sales to vehicular users reached 26,240,000 m^3, representing an increase of 263.03% as compared with 7,228,000 m^3 for the corresponding period of the previous year. In addition, the Group has increased the sales price of vehicular gas from RMB1.9 per m^3 to RMB2.1 per m^3 effective from 1 July 2004. With the price adjustment, the vehicular gas business resulted in better return for the Group. Vehicular gas business has become the new momentum of the Group's profit growth.

During the Relevant Period, the Group purchased approximately 151,602,000 m^3 of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", at an aggregate cost of approximately RMB159,382,000, representing approximately 71.00% of the total volume of natural gas purchased.

In addition, with a view to expand its market into Dengfeng City, the Group established a subsidiary, Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司) ("Dengfeng Zhengran"), on 17 February 2004. Its registered capital was RMB10,000,000, out of which 65% was owned by the Company directly and the remaining 35% by the Zhengzhou Gas Engineering and Construction Company Limited, a non-wholly owned subsidiary of the Company. The Group believes that the establishment of Dengfeng Zhengran would have a positive impact on its market development in Dengfeng City and the Group will be benefited from fostering experience on market development outside Zhengzhou. During the Relevant Period, Dengfeng Zhengran has completed 10 km pipeline construction works and the preliminary design of house-based gas pipeline network for the first batch of users in Dengfeng City. Dengfeng Zhengran expects to commence gas supply to users in Dengfeng City in October 2005.

Natural gas pipeline construction services

For the Relevant Period, the Group's turnover in natural gas pipeline construction services amounted to approximately RMB133,060,000, representing a growth of 30.08% as compared with approximately RMB102,290,000 for the corresponding period of the previous year and this was mainly attributable to the satisfactory growth in the natural gas pipeline construction projects for residential users. For the Relevant Period, the Group provided gas pipeline connection service to a total of 45,294 residential users and 84 industrial and commercial users.

In addition, the Group also collects fees from users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees were approximately RMB32,114,000, representing an increase of 20.56% as compared with approximately RMB26,638,000 for the corresponding period of the previous year. The increase was mainly due to an increase in number of users, which resulted in an increase in such fees collected from users.

Management Discussion and Analysis

Sales of Pressure Control Equipment

Apart from manufacturing pressure control equipment to meet its own needs, the Group also sold such equipment to other natural gas providers. For the Relevant Period, turnover of pressure control equipment amounted to approximately RMB3,912,000. The market for this new business of the Group covers provinces in the PRC such as Shandong, Hebei, Shanxi and Ningxia.

Sales of Gas Appliances

The Group also engages in sales of gas appliances. The gas appliances available for sales include gas stoves, water heaters and wall-attached stoves. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou.

For the Relevant Period, turnover of gas appliances amounted to approximately RMB5,825,000, representing a drop of 37.47% as compared with approximately RMB9,316,000 for the corresponding period of the previous year. The drop was mainly due to keen competition in the market of gas appliances faced by the Group.

Net Profit and Return to Shareholders

During the Relevant Period, net profit margin of the Group was approximately 13.86%, which was lower than the 14.83% recorded for the previous year. The decease was mainly attributable to the fact that Zhengzhou Gas Group LPG Company Limited has ceased leasing the equipment of the former LPG business of the Group, therefore, the Group had to make a provision for impairment loss of approximately RMB6,488,000 for the idle equipment. The Group believes that it is not necessary to make any further provision for other equipment such as gas leakage meter and electric transmission equipment as they could still be used by the Group in its natural gas business.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to shareholders divided by the average of shareholders' equity at the beginning and at the end of the period, was approximately 19.09%, which was higher than that of 17.98% over the corresponding period of the previous year.

Liquidity, Financial Resources and Capital Structure

Borrowings and Banking Facilities

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 2004, the Group had no outstanding interest-bearing borrowings.

As at 31 December 2004, the Group had amounts due to its holding company, Zhengzhou Gas Group Company Limited ("Zhengzhou Gas Group"), of RMB12,433,000, which was unsecured and interest-free.

Net Current Liabilities

As at 31 December 2004, the Group had net current liabilities of approximately RMB21,504,000 (as at 31 December 2003: the Group had net current assets of approximately RMB8,013,000). Although the Group recorded a net current liability for the year ended 31 December 2004, there was an advanced payment received of approximately RMB138,958,000 in the current liabilities, which was an unrecognized income from pipeline network project, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB117,454,000 after deducting such advanced payment received.

Working capital

As at 31 December 2004, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB112,410,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity to liabilities ratio

As at 31 December 2004, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 174.48% which was lower than that of approximately 183.14% as at 31 December 2003. The current liabilities level of the Group indicated that, with over half of the assets being financed by its shareholders, the Group had ample room for external borrowings.

Capital commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipment. As at 31 December 2004, the Group had capital commitments of approximately RMB98,204,000, of which approximately RMB41,117,000 was for the contracts of pipeline network construction and equipment purchase, and the balance of approximately RMB57,087,000 was for operating lease commitments. The management believes that such capital expenditure can be defrayed by funds generated from operations and proceeds from listing.

Management Discussion and Analysis

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.

Contingent liability and pledged assets

As at 31 December 2004, the Group had no significant contingent liability or any asset under pledge.

Employees and remuneration policy

As at 31 December 2003 and 31 December 2004, an analysis of the Group's employees by functions is as follows:

	As at 31 December	
	2004	2003
Management and administration	**179**	174
Finance	**46**	36
Sales and marketing	**174**	243
Safety maintenance and technical upgrading	**68**	60
Purchases and supplies	**17**	11
Engineering and installation	**211**	152
Repairs, maintenance and testing	**337**	242
Others	**303**	189
Total	**1,335**	1,107

In 2004, the Group had 1,335 employees, an addition of 228 employees as compared with 1,107 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. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB46,056,000, representing an increase of approximately 36.91% compared with the total staff costs of approximately RMB33,640,000 for the corresponding period of the previous year.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2004 and the corresponding period of the previous year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

Material Investment

As at 31 December 2004, the Group had no material investment, likewise as at 31 December 2003.

Future Prospects

(i) Business

In 2005, 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. It is believed that such policies shall further motivate the Group's development in the market of industrial users. Meanwhile, both the setting up of Zhengzhou new city and the increase in the scale of urbanization shall act as a catalyst for the Group's development of residential market. The Group plans to attract approximately 40,000 additional residential users in 2005.

In respect of the vehicular gas business, the Group plans to build two to three additional natural gas refueling stations to further improve the vehicular gas supply network.

(ii) Introduction of strategic investors

On 1 June 2004, Zhengzhou Gas Group 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 in the Company, representing 20% of the Company's total issued share capital to China Resources Petrochems. As at 31 December 2004, the parties concerned were still engaged in the negotiation of 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.

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 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 2004, 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 2004	
	Application of proceeds as planned in the Prospectus	**Actual application of proceeds**
	RMB million	*RMB million*
Ancillary works for the "West to East Pipelines" project *(Note 1)*	10.60 *	2.80
Construction and renovation of urban pipeline networks *(Note 2)*	4.24	4.27
Expansion of sales network and sales and marketing team *(Note 3)*	0.53	–
Upgrading of management efficiency of pipeline networks *(Note 4)*	6.36	10.91
Development of vehicular gas business *(Note 5)*	7.95	3.41
General working capital	–	0.30
Total	29.68	21.69

Notes:

1. Proceeds from the public listing of approximately RMB10, 600,000 planned to be used in 2004 in ancillary works for the "West to East Pipelines" project were to be used mainly in the construction of high-pressure transmission pipelines in Fourth Ring Road (四環路). Since the project is delayed, the fund planned for such investment will not be used until in the second half of the year. The Group has no intention to change the usage of such funds.

2. Proceeds from the public listing of approximately RMB4,240,000 planned to be used in 2004 for the construction and renovation of urban pipeline networks were to be used mainly in the construction of pipelines of Huancheng Road (環城路). Accumulated investment in the pipelines Huancheng Road amounts to approximately RMB6,720,000, of which, approximately RMB4,270,000 was funded by the proceeds from initial public offering and the balance of approximately RMB2,450,000 was financed by the funds generated from operations.

3. Proceeds from the public listing of approximately RMB530,000 planned to be used for the expansion of the sales network and sales and marketing team were used mainly in the construction of sales centre at Mianfang East Road (棉紡東路). The total investment in this centre was approximately RMB4,311,900, of which approximately RMB2,120,000 was funded by the proceeds from the public listing and the balance was financed by internal funds. Since the completion of the sales centre was ahead of schedule, the proceeds from the public listing planned to be used in 2004 for the expansion of the sales network and sales and marketing team was fully utilized earlier in 2003.

4. Proceeds from the public listing of approximately RMB6,360,000 planned to be used in 2004 for upgrading the efficiency of pipeline networks were to be used in the purchase of the cathode protection system, the distant monitoring and signaling system and development of geographical information system. In March 2004, the Company entered into a sale and purchase agreement with Zhengzhou Gas Group Co., Ltd to purchase the cathode protection system and the distant monitoring and signaling system at a consideration of RMB12,560,000, of which, RMB10,600,000 was funded by the proceeds from the public listing and the balance was financed by internal funds. Furthermore, approximately RMB310,000 of the proceeds from the public listing was used in the development of the geographical information system in 2004.

5. Proceeds from the public listing of approximately RMB7,950,000 planned to be used in 2004 for the development of vehicular gas business were mainly used for the expansion of existing refueling stations.

Proceeds not yet utilized, amounting to approximately RMB12,460,000, were placed with commercial banks in the PRC, and will be applied in the future in accordance with the Group's business objectives described in the Prospectus, among which, approximately RMB3,357,000 was the difference between the actual amount (approximately RMB118,897,000) of the proceeds received from the initial public offering and the estimated amount (approximately RMB115,540,000) of the proceeds from the initial public offering in the Prospectus of the Company. The excessive fund was not included in the plan for the use of the proceeds from the public listing as set out in the Prospectus. This additional fund will be used as general working capital of the Company.

* Exchange rate used herein is HK$1.00 to RMB1.06.

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

Comparison of Business Objectives with Actual Business Progress

	Business objectives from 1 January 2004 to 31 December 2004	Actual progress
Piped natural gas (in '0,000 m^3)		
– Residential users	**6,100**	6,922
– Commercial/industrial users	**8,200**	10,249
Number of meters installed (units)		
– Residential users	**30,000**	45,294
– Commercial/industrial users	**240**	200
New vehicular gas users (cars)	**2,500**	2,551
LPG (tonnes) *(Note 1)*		
– Retail	**9,000**	–
– Wholesale	**50,000**	–
Urban pipelines network constructed (km)		
– Main pipelines	**25**	24.43
– Branch pipelines	**30**	33.38
Geographical distribution of sales of natural gas pipelines	**Zhengzhou City**	Zhengzhou City
Operation facilities		
Newly built vehicular refueling stations (number) *(Note 2)*	**6**	2
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 3)*	**RMB6,360,000**	RMB10,910,000

Notes:

1. The Company has terminated the LPG business by stages since April 2003.

2. Due to difficult land expropriation in urban areas and difficult coordination among governmental departments, the Group had only built 2 gas refueling stations this year.

3. In March 2004, the Company entered into a sale and purchase agreement with Zhengzhou Gas Group Co., Ltd to purchase the cathode protection system and the distant monitoring and signaling system at a consideration of RMB12,560,000, of which, RMB10,600,000 was funded by proceeds from the public listing and the balance by internal funds. Futhermore, approximately RMB310,000 of the proceeds from the public listing was used in the development of geographical information system in 2004.

Profiles of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Yan Guoqi (閆國起), aged 50, Chairman and an executive Director of the Company. He is a representative of the 12th National People's Congress of Zhengzhou City, head of the Urban Gas Association of Henan Province and a senior engineer. 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 51, an executive Director and general manager of the Company, a member of the 11th Chinese People's Political Consultative Conference of Zhengzhou City, a representative of the 12th National People's Congress of Zhongyuan District, Zhengzhou City, and a senior political tutor. He was deputy head of general office of Zhengzhou Municipal Coal Gas Company from 1983 to 1986; head of safety and technology division 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 47, an executive Director of the Company and a political tutor. She was the deputy office head and the general party branch secretary of Zhengzhou Municipal Gas Company Limited, the office head and general party branch secretary of Zhengzhou Gas Group, the head of supervision office and secretary of disciplinary inspection committee, as well as the head of party committee work department and general party branch secretary of the Company. Ms. Niu was appointed executive Director in August 2002.

Non-executive Directors

Mr. Chang Zongxian, (常宗賢), aged 45, a non-executive Director of the Company and chairman of Zhengzhou Gas Group. He is a representative of the 12th National People's Congress 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 from 1997 to 1998 and chairman of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Chang was appointed non-executive Director in May 2001.

Profiles of Directors, Supervisors and Senior Management

Mr. Wang Yuheng (王玉珩), aged 54, a non-executive Director of the Company and a senior consultant. He was deputy general manager of Zhengzhou Municipal Gas Company Limited from 1998 to 2000. He was deputy general manager and executive deputy general manager of Zhengzhou Gas Group from 2000 to 2003. Mr. Wang was appointed non-executive Director in December 2000.

Mr. Zhang Wushan (張武山), aged 49, 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 39, a non-executive Director of the Company. He was a manager of the engineering section of the mechanical installation company of the Textile Bureau of Henan Province from 1987 to 1992, and the general manager of Zhengzhou Yingzi Industrial Company Limited from 1992 to 1997. Mr. Li is the 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 41, 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 a honorary professor of Henan University, the vice president of China Auctioneers Association and the secretary general of Henan Auctioneers Association. Mr. Zhang was appointed non-executive Director in December 2000.

Mr. Li Zhenguo (李振國), aged 48, 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 71, an independent non-executive Director of the Company and head of the Financial Research Institute of Xiamen University. Since August 1960, he was a 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. Apart from this Company, Mr. Zhang is currently also an independent non-executive director of EB Pramerica Fund Management Company, Fujian Zhonghe Company Limited and Fortune Securities Brokerage Company Limited, as well as a supervisor of Industral Bank Company Limited.

Profiles of Directors, Supervisors and Senior Management

Mr. Liu Jianwen (劉劍文), aged 45, an independent non-executive Director of the Company, 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), the director of Financial & Economic Laws Research Centre of Beijing University, the chairman of Chinese Fiscal Laws Education Forum, the vice chairman of Beijing Monetary Laws and Fiscal Laws Forum, arbitrator of China International Economic & Trade Arbitration Commission, advisor of the drafting group of the "Law on State-owned Assets of the PRC", and chief Chinese expert of the WB-loan project of National General Tax Bureau. 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, head of the faculty's teaching guidance committee of the faculty of law, and head of Hong Kong and Taiwan laws research institute of Wuhan University. Since July 1999, Mr. Liu is a 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. Mr. Liu was appointed independent non-executive Director in April 2002.

Ms. Yu Shulian (余恕蓮), aged 51, 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 certified accountant (non-practising). She was appointed independent non-executive Director in April 2002. Apart from this Company, Ms. Yu is presently also an independent Director of Create Technology and Science Company Limited (000551, listed in Shenzhen) and Shenyang Siasun Robot and Automation Company Limited.

Supervisors

Ms. Yang Qing (楊清), aged 34, 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 supervisor of the Company in December 2000, and in May 2001, chief legal advisor of the Company.

Mr. Ding Ping (丁平), aged 41, a supervisor of the Company and a political tutor. 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, as well as the office head and deputy party secretary of the Company. 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.

Profiles of Directors, Supervisors and Senior Management

Ms. Zhou Weihua (周衛華), aged 35, a supervisor of the Company. She is a member of the 10th Session of Youth Federation of Zhengzhou, director of the Youth Volunteers Federation of Zhengzhou and an accountant. She was the secretary of regiment branch and deputy head of customer management office of Zhengzhou Municipal Natural Gas Corporation, secretary of regiment committee and organisation and promotion office of Zhengzhou Municipal Gas Company Limited. Ms. Zhou was appointed supervisor of the Company in December 2000.

Mr. Gao Mingshun (高明順), aged 42, a supervisor of the Company. 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 supervisor of the Company in December 2000.

Ms. Wang Xiaoxing (王小興), aged 33, a supervisor of the Company. She worked for Zhengzhou Commercial Bank and Henan Province Property Joint Development Corporation. She is currently a deputy general manager of Zhengzhou Qiyuan Investment Consultancy Company Limited. She was appointed supervisor of the Company in December 2000.

Qualified Accountant

Mr. Wong Cheuk Lam (黃焯琳), aged 36, 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 Finance (Asia) Limited and the BOC International Company Limited. Mr. Wong has over ten years of experience in accounting and finance. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia.

Senior Management

Mr. Li Yantong (李燕同), aged 47, deputy general manager of the Company and a senior engineer. He was the 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 38, deputy general manager of the Company and a senior engineer. He was the head of pipeline network of Zhengzhou Municipal Natural Gas Corporation, 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 52, deputy general manager of the Company and a senior consultant. He was the 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.

Profiles of Directors, Supervisors and Senior Management

Mr. Liu Daoshuan (劉道栓), aged 39, deputy general manager of the Company and a senior engineer. He was the 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 37, financial controller of the Company, chief accountant. She was the 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 34, secretary to the board of Directors and chief economist 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 36, chief engineer of the Company and an engineer. He was the deputy head of sales management station, deputy manager of No. 1 Engineering Company of Zhengzhou Municipal Natural Gas Corporation, deputy head of sales office of Zhengzhou Municipal Gas Company Limited, and chief economist of the Company. Mr. Huang was appointed chief engineer of the Company in August 2004.

Mr. Suo Caifa (索才法), aged 47, 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 Engineering and Construction Company Limited. Mr. Suo was appointed assistant to the general manager of the Company in August 2002.

Mr. Zhao Ruibao (趙瑞保), aged 38, assistant to the general manager of the Company and a senior engineer. He was technician and section head of Zhengzhou Municipal Natural Gas Corporation, deputy head of various departments of Zhengzhou Gas Company Limited, manager of the No. 1 natural gas branch company of the Company, assistant to general manager, deputy chief engineer and chief engineer of the Company. In August 2004, Mr. Zhao was appointed assistant to the general manager of the Company.

Profiles of Directors, Supervisors and Senior Management

Ms. Bao Hongwei (鮑紅偉), aged 46, a political tutor, held a post-graduate diploma in industrial economics of Capital University of Economics and Business. She successively held offices as the branch secretary of CCYL, general branch secretary of CCYL and branch secretary of CPC of Zheng Cottons Sixth Factory, from 1977 to 1988; deputy head of filing office, deputy head and head of the general office of Zhengzhou Municipal Natural Gas Corporation from 1988 to 1998; head of personnel department of Zhengzhou Municipal Gas Company Limited; the chairlady of labour union committee and director of the Company from 2000 to 2002. Ms. Bao currently is the chairlady of labour union, member of Party Committee and director of Zhengzhou Gas Group and the chairlady of labour union committee of the Company. Ms. Bao is also the chairlady of board of directors of Zhengzhou Zhengran Property Management Co., Ltd., a subsidiary of the controlling shareholder.

Ms. Geng Tongmin (耿同敏), aged 39, a deputy general manager and senior engineer of the Company. Ms. Geng consecutively held offices as a deputy head of planning design institute, a deputy head of design scientific research institute and a deputy chief engineer of Zhengzhou Municipal Natural Gas Corporation, a deputy chief engineer and chief engineer of Zhengzhou Gas Group. Ms. Geng was appointed as a deputy general manager of the Company in August 2004.

Mr. Ren Sihang (任四行), aged 45, assistant to the general manager and economist of the Company. Mr. Ren consecutively held offices as a coordinator in Luzhuang commune organ in Henan province, a teacher in Gong County No.3 Middle School, a member, secretary and officer propaganda department of Gongyi city, a deputy secretary of Zhitian town party committee, the head of Gongyi Municipal Foreign Economic Administration Bureau, a deputy head of Hebi Municipal Economic System Reform Committee. Mr. Ren joint Zhengzhou Gas Group in October 2004, and consecutively held offices as a deputy secretary of disciplinary committee, head of supervisory office the board secretary of Zhengzhou Gas Group and currently an assistant to the general manager 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 2004.

Principal Activities

The principal activities of the Company and its subsidiaries are the sale of natural gas, pressure control equipment and gas appliances and the construction of gas pipelines.

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, pressure control equipment and gas appliances to consumers and the construction of gas pipelines. Gas appliances, pressure control equipment and gas pipelines are for the conveyance of natural gas. 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 segment analyses by business and geographical segments are provided.

Results and Dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 80.

The directors recommend the payment of a final dividend of RMB0.016 per ordinary share in respect of the year ended 31 December 2004 to shareholders whose names appear in the register of members of the Company on 18 May 2005. Further details of the 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 H Shares at the time of its listing on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2002, after deduction of net proceeds from the sale of 50,060,000 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 Initial Public Offering 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 five financial years prepared on the basis set out in the note below is as follows:

RESULTS

	Year ended 31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**470,386**	356,869	282,154	224,523	171,083
Cost of sales	**(300,643)**	(229,145)	(181,535)	(155,573)	(133,259)
Gross profit	**169,743**	127,724	100,619	68,950	37,824
Other revenue	**1,144**	925	523	3,064	9,917
Selling and distribution costs	**(16,822)**	(11,331)	(16,326)	(13,761)	(12,331)
Administrative costs	**(47,157)**	(38,153)	(27,964)	(18,665)	(12,849)
Other operating costs	**(8,186)**	(708)	(47)	(293)	–
Profit from operating activities	**98,722**	78,457	56,805	39,295	22,561
Finance costs	**–**	–	(567)	(3,237)	(6,194)
Profit before income tax	**98,722**	78,457	56,238	36,058	16,367
Income tax expenses	**(23,813)**	(22,003)	(18,301)	(12,151)	(5,492)
Profit for the year	**74,909**	56,454	37,937	23,907	10,875
Attributable to:					
Shareholders of the Company	**65,211**	52,937	37,324	23,936	10,875
Minority interests	**9,698**	3,517	613	(29)	–
	74,909	56,454	37,937	23,907	10,875
Dividends	**5,507**	18,184	10,407	–	–
Earnings per share *(RMB)*					
– Basic	**0.052**	0.042	0.044	0.032	0.014

Summary Financial Information *(continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**615,510**	502,399	439,742	276,129	306,702
Total liabilities	**224,244**	177,437	157,975	140,943	199,423
Minority interests	**19,780**	13,180	4,738	3,971	–
Net assets	**391,266**	324,962	281,767	135,186	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 "Prospectus") issued by the Company dated 22 October 2002. The consolidated results of the Group for the years ended 31 December 2002 and 2003 have been extracted from the 2002 and 2003 annual reports of the Company, while those for the year ended 31 December 2004 were prepared based on the consolidated income statement as set out on page 42 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 12 and 14, respectively, to the financial statements.

Share Capital

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2004.

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.

Report of the Directors

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 Group and the Company during the year are set out in the statements of changes in equity on pages 45 and 46 of the financial statements.

Distributable Reserves

At 31 December 2004, 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 RMB57,170,000, of which approximately RMB20,024,000 has been proposed as a final dividend for the year and approximately RMB7,153,000 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

During the year ended 31 December 2004, the turnover attributable to the five largest customers accounted for less than 30% of the Group's total turnover. Accordingly, a corresponding analysis of major customers is not presented.

Purchases from the Group's five largest suppliers accounted for 88% (2003: 90%) of the total purchases and purchases from the largest supplier included therein amounted to 58% (2003: 64%).

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.

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 Zongxian
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 directors and supervisors are appointed for a term of three years.

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 Profiles of Directors, Supervisors and Senior Management Section of the annual report.

Report of the Directors

Confirmation of Independence by Independent Non-executive Directors

The Company confirms that it has received from each of independent non-executive directors of the Company an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers, based on the confirmations received, the independent non-executive directors of the Company to be independent.

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 ended 31 December 2004 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 or supervisors of the Company had any interest in a business which competes or may compete with the businesses of the Group.

Directors' and Supervisors' Interests in Shares and Underlying Shares or Debentures

As at 31 December 2004, 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 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 "Code of Conduct regarding Securities Transactions by Directors of Listed Issuers" 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 interests**	**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) As at 31 December 2004, 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) As at 31 December 2004, 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, as at 31 December 2004, none of the directors or supervisors of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures 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 "Code of Conduct regarding Securities Transactions by Directors of Listed Issuers" to be notified to the Company and the Stock Exchange.

Report of the Directors

Disclosures under the SFO and Substantial Shareholders

As at 31 December 2004, so far as the Directors are aware, 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 which will be required pursuant to section 336 of the SFO to be recorded in the register of the Company 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	29,400,000	5.34%	–	–	2.35%

Disclosures under the SFO and Substantial Shareholders *(continued)*

Name of subsidiary of the Company which has any shareholders, other than the company, which held 10% or more interests in any class of share capital of such subsidiary	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%
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB3,500,000	35%

Notes:

(1) As at 31 December 2004, 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) As at 31 December 2004, 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 2.35% of the total registered share capital of the Company.

Save as disclosed above, 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' Rights to Acquire H Shares

Save as disclosed above, during the year ended 31 December 2004, none of the directors or supervisors was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2004, 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 ended 31 December 2004 are included in note 27 to the financial statements.

The Group's connected transactions, in respect of which the Stock Exchange has granted a conditional waiver from strictly compliance 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 "Old 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.

On 5 November 2004, the Group and Zhengzhou Gas Group Co., Ltd. terminated the Old Property Lease Agreements and entered into the certain new property lease agreements (the "New Property Lease Agreements") with Zhengzhou Gas Group Co., Ltd., pursuant to which Zhengzhou Gas Group Co., Ltd. as landlord agreed to lease the occupation rights in certain properties to the Group as tenant for office and operational use for a duration of three years commencing from 1 November 2004 to 31 October 2007 (with an option to renew exercisable by the Group) at respective rentals of RMB7,807,899 per annum.

Connected Transactions *(continued)*

The lease arrangements under the New Property Lease Agreements should be regarded as continuing connected transactions under Rule 20.34 of the GEM Listing Rules and the annual rentals under the New Property Lease Agreements should be aggregated under Rule 20.25 of the GEM Listing Rules. As the aggregate annual rental as stipulated in the New Property Lease Agreements, being RMB7,807,899, exceeded the annual cap of RMB1,942,850 as imposed under the conditional waiver dated 18 October 2002 granted by the Stock Exchange, the Company had to re-comply with the reporting and announcement requirements described in Rules 20.45 to 20.47 of the GEM Listing Rules pursuant to Rule 20.36(1) of the GEM Listing Rules. On such basis, and pursuant to Rule 20.34 (1) of the GEM Listing Rules, each of the percentage ratios (other than the profit ratio) calculated with reference to the aggregate rentals under the New Property Lease Agreements is less than 2.5% on an annual basis. Accordingly, no independent shareholders' approval was required, and the New Property Lease Agreements were only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules. Pursuant to the Rule 20.35 of the GEM Listing Rules, the Annual Cap for the New Property Lease Agreements would be RMB7,807,899 which is based on the valuation of the fair market rental of the Properties conducted by an independent valuer, CB Richard Ellis Limited.

In respect of each of the related party transactions as listed in note 27 to the financial statements which are also connected transactions, other than those connected transactions for which the Stock Exchange has granted a waiver as explained above, the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

With respect to the above connected transactions, the independent non-executive directors of the Company have reviewed the connected transactions and confirmed that, during the year ended 31 December 2004, 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.

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 the annual report.

Code of Conduct Regarding Securities Transactions by Directors

During the year ended 31 December 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 with 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.

Sponsor's/Compliance Adviser's Interests

As at 31 December 2004, 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 nominate 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.

The Sponsor Agreement was expired on 31 December 2004 together with the sponsorship period of the Company. The Company did not appoint any sponsor or compliance adviser (as defined in Rule 6A.01 of the GEM Listing Rules) thereafter.

Competing Interests

Zhengzhou Gas Group Co., Ltd., being the controlling shareholder and initial management shareholder of the Company, through its branch, is engaged in the sales of bottled LPG in Zhengzhou. As both of the business 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 constituted 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.

Audit Committee

The Company established an audit committee on 30 September 2002 with terms of reference in compliance with Rules 5.28 and 5.33 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 held two formal meetings during the year ended 31 December 2004.

Statement of No Change in Auditors

The Board confirms that there has been no change in auditors of the Company in any of the preceding 3 years from the year ended 31 December 2004.

Auditors

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

Report of the Directors

Directors

As at the date of this report, the members of the board of directors of the Company include (i) the executive Directors, namely, Mr. Yan Guoqi (閆國起) (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
Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
14 March 2005

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 42 to 80 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 Institute of Certified Public 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 2004 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
14 March 2005

Consolidated Income Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	*4*	**470,386**	356,869
Cost of sales		**(300,643)**	(229,145)
Gross profit		**169,743**	127,724
Other revenue	4	**1,144**	925
Selling and distribution costs		**(16,822)**	(11,331)
Administrative costs		**(47,157)**	(38,153)
Other operating costs		**(8,186)**	(708)
Profit from operating activities		**98,722**	78,457
Finance costs		**–**	–
Profit before income tax	5	**98,722**	78,457
Income tax expenses	7	**(23,813)**	(22,003)
Profit for the year		**74,909**	56,454
Attributable to:			
Shareholders of the Company		**65,211**	52,937
Minority interests		**9,698**	3,517
		74,909	56,454
Dividends	8	**5,507**	18,184
Earnings per share			
– Basic *(RMB)*	9	**0.052**	0.042

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

		Group		Company	
		2004	2003	**2004**	2003
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Interests in subsidiaries	*11*	**–**	–	**42,450**	35,950
Long term investment	*13*	**200**	200	**200**	200
Property, plant and equipment	*12*	**300,947**	199,267	**293,762**	188,080
Construction in progress	*14*	**101,977**	123,962	**83,110**	116,869
Land use rights	*15*	**7,005**	4,687	**7,005**	4,687
Deferred tax assets	*16*	**2,641**	1,266	**2,641**	1,266
		412,770	329,382	**429,168**	347,052
Current assets					
Cash and cash equivalents		**112,410**	115,261	**55,625**	62,893
Trade receivables	*17*	**71,022**	39,816	**70,095**	39,816
Inventories	*18*	**3,940**	1,234	**1,614**	974
Construction contract work in progress	*21*	**359**	2,008	**–**	–
Prepayments, deposits and other receivables	*19*	**15,009**	14,698	**8,522**	12,154
		202,740	173,017	**135,856**	115,837
TOTAL ASSETS		**615,510**	502,399	**565,024**	462,889
EQUITY AND LIABILITIES					
Equity					
Share capital	*25*	**125,150**	125,150	**125,150**	125,150
Reserves	*26*	**246,336**	186,632	**207,623**	169,868
		371,486	311,782	**332,773**	295,018
Minority interests		**19,780**	13,180	**–**	–
Total equity		**391,266**	324,962	**332,773**	295,018
Non-current liabilities					
Due to the holding company	*22*	**–**	12,433	**–**	12,433
Current liabilities					
Trade payables	*20*	**31,008**	18,568	**19,232**	11,621
Advanced payment received	*21*	**138,958**	88,958	**10,105**	47,834
Accrued liabilities and other payables		**27,300**	23,712	**25,993**	20,095
Tax payable		**10,968**	11,697	**10,044**	11,516
Due to the holding company	*22*	**15,155**	21,509	**15,155**	21,509
Due to subsidiaries	*23*	**–**	–	**150,867**	42,303
Due to fellow subsidiaries	*24*	**855**	560	**855**	560
		224,244	165,004	**232,251**	155,438
TOTAL EQUITY AND LIABILITIES		**615,510**	502,399	**565,024**	462,889

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 2004

	2004	2003
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before income tax	**98,722**	78,457
Adjustments for:		
Depreciation of property, plant and equipment	**16,307**	10,932
Amortisation of land use rights	**211**	14
Provision for impairment loss of property, plant and equipment	**6,488**	–
Loss on disposal of property, plant and equipment	**62**	708
Interest income from bank balances	**(596)**	(623)
(Reversal)/provision for bad and doubtful debts	**(192)**	1,046
Operating profit before working capital changes	**121,002**	90,534
Increase in trade receivables	**(31,014)**	(5,578)
(Increase)/decrease in inventories	**(2,706)**	155
Decrease/(increase) in construction contract work in progress	**1,649**	(2,008)
Increase in prepayments, deposits and other receivables	**(311)**	(6,376)
Increase in trade payables	**12,440**	7,833
Increase in advanced payment received	**50,000**	8,490
Increase/(decrease) in accrued liabilities and other payables	**3,588**	(3,282)
(Decrease)/increase in an amount due to the holding company	**(18,787)**	1,009
Increase in amounts due to fellow subsidiaries	**295**	322
Cash generated from operations	**136,156**	91,099
Income tax paid	**(25,917)**	(17,166)
Net cash inflow from operating activities	**110,239**	73,933
Cash flows from investing activities		
Interest income from bank balances	**596**	623
Proceeds from disposal of property, plant and equipment	**2,019**	653
New long term investment	**–**	(200)
Acquisition of property, plant and equipment and construction in progress	**(107,100)**	(113,458)
Net cash used in investing activities	**(104,485)**	(112,382)
Cash flows from financing activities		
Capital contributed by minority shareholders of subsidiaries	**–**	4,925
Dividends paid	**(8,605)**	(18,184)
Net cash used in financing activities	**(8,605)**	(13,259)
Net decrease in cash and cash equivalents	**(2,851)**	(51,708)
Cash and cash equivalents at beginning of year	**115,261**	166,969
Cash and cash equivalents at end of year	**112,410**	115,261
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**112,410**	115,261

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

Statement of Changes in Equity

Year ended 31 December 2004

Group

	Notes	Year ended 31 December 2004 Attributable to Shareholders of the Company RMB'000	Year ended 31 December 2004 Minority interests RMB'000	Year ended 31 December 2004 Total equity RMB'000	Year ended 31 December 2003 Attributable to Shareholders of the Company RMB'000	Year ended 31 December 2003 Minority interests RMB'000	Year ended 31 December 2003 Total equity RMB'000
CAPITAL							
Issued and fully paid capital	*25*						
Ordinary shares of RMB0.10 each							
At beginning and end of year		**125,150**	**–**	**125,150**	125,150	–	125,150
RESERVES							
Share premium							
At beginning and end of year		**101,026**	**–**	**101,026**	101,026	–	101,026
Statutory surplus reserve	*26(a)*						
At beginning of year		**13,797**	**413**	**14,210**	6,086	61	6,147
Transferred from retained earnings		**11,686**	**970**	**12,656**	7,711	352	8,063
At end of year		**25,483**	**1,383**	**26,866**	13,797	413	14,210
Statutory public welfare fund	*26(b)*						
At beginning of year		**13,797**	**413**	**14,210**	6,086	61	6,147
Transferred from retained earnings		**9,468**	**532**	**10,000**	7,711	352	8,063
At end of year		**23,265**	**945**	**24,210**	13,797	413	14,210
General surplus reserve	*26(c)*						
At beginning of year		**6,180**	**31**	**6,211**	2,124	–	2,124
Transferred from retained earnings		**6,572**	**176**	**6,748**	4,056	31	4,087
At end of year		**12,752**	**207**	**12,959**	6,180	31	6,211
Retained earnings	*26(d)*						
At beginning of year		**51,832**	**3,273**	**55,105**	36,557	491	37,048
Net profit for the year		**65,211**	**9,698**	**74,909**	52,937	3,517	56,454
Transferred to statutory surplus reserve		**(11,686)**	**(970)**	**(12,656)**	(7,711)	(352)	(8,063)
Transferred to statutory public welfare fund		**(9,468)**	**(532)**	**(10,000)**	(7,711)	(352)	(8,063)
Transferred to general surplus reserve		**(6,572)**	**(176)**	**(6,748)**	(4,056)	(31)	(4,087)
Dividends declared		**(5,507)**	**(3,098)**	**(8,605)**	(18,184)	–	(18,184)
At end of year		**83,810**	**8,195**	**92,005**	51,832	3,273	55,105
Total reserves		**246,336**	**10,730**	**257,066**	186,632	4,130	190,762
Minority interests in the capital of subsidiaries							
At beginning of year		**–**	**9,050**	**9,050**	–	4,125	4,125
Capital contribution		**–**	**–**	**–**	–	4,925	4,925
At end of year		**–**	**9,050**	**9,050**	–	9,050	9,050
Total equity		**371,486**	**19,780**	**391,266**	311,782	13,180	324,962

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

Statement of Changes in Equity

Year ended 31 December 2004

Company

	Notes	2004 RMB'000	2003 RMB'000
CAPITAL			
Issued and fully paid capital	25		
Ordinary shares of RMB0.10 each			
At beginning and end of year		**125,150**	125,150
RESERVES			
Share premium			
At beginning and end of year		**101,026**	101,026
Statutory surplus reserve	26(a)		
At beginning of year		**11,707**	6,025
Transferred from retained earnings		**7,153**	5,682
At end of year		**18,860**	11,707
Statutory public welfare fund	26(b)		
At beginning of year		**11,707**	6,025
Transferred from retained earnings		**7,153**	5,682
At end of year		**18,860**	11,707
General surplus reserve	26(c)		
At beginning of year		**6,025**	2,124
Transferred from retained earnings		**5,682**	3,901
At end of year		**11,707**	6,025
Retained earnings	26(d)		
At beginning of year (as previously stated)		**60,303**	36,679
Effect of adopting IAS 27 (amended 2004)		**(20,900)**	(3,101)
At beginning of year (restated)		**39,403**	33,578
Net profit for the year (as previously stated)		**43,262**	57,073
Effect of adopting IAS 27 (amended 2004)		**–**	(17,799)
Net profit for the year (restated)		**43,262**	39,274
Transferred to statutory surplus reserve		**(7,153)**	(5,682)
Transferred to statutory public welfare fund		**(7,153)**	(5,682)
Transferred to general surplus reserve		**(5,682)**	(3,901)
Dividends declared		**(5,507)**	(18,184)
At end of year		**57,170**	39,403
Reserves		**207,623**	169,868
Total equity		**332,773**	295,018

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

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 H 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, pressure control equipment 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.

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 ("IAS") and Interpretations of the Standing Interpretations 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.

Changes in accounting policies

The accounting policies adopted are consistent with those adopted for the previous year except that the Group has early adopted the following accounting standards which are mandatory for the financial years beginning on and after 1 January 2005. The principal effect of this decision is discussed below:

2. Summary of significant accounting policies *(continued)*

Changes in accounting policies *(continued)*

IAS 27 "Consolidated and Separate Financial Statements (amended 2004)"

The Group has resolved to early adopt IAS 27 (amended 2004) which has resulted in a change of accounting policy on the recognition of interests in subsidiaries from using the equity method to the cost method. Under the superseded IAS 27, an entity could either account for its interests in subsidiaries using the equity method or cost method. Previously, the Group accounted for its interests in subsidiaries using the equity method.

IAS 27 now requires investments in subsidiaries that are not held for resale under IFRS 5 be accounted for either at cost or in accordance with IAS 39. The Group has resolved to account for its investments in subsidiaries at cost. This accounting policy has been adopted retrospectively and comparative disclosures have been amended accordingly.

The effect of the revised accounting policy has decreased the Company's current year profit by RMB29,649,000 (2003: RMB17,799,000).

Early adoption of other IFRS

In addition to IAS 27 referred to above, the Group has resolved to early adopt the following revised standards from 1 January 2004 for the preparation of these financial statements and comparative amounts have been amended as required:

- IAS 1 – Presentation of Financial Statements (amended 2004);
- IAS 2 – Inventories (revised 2003);
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003);
- IAS 10 – Events after the Balance Sheet Date (amended 2004);
- IAS 16 – Property, Plant and Equipment (amended 2004);
- IAS 17 – Leases (amended 2004);
- IAS 24 – Related Party Disclosures (revised 2003);
- IAS 32 – Financial Instruments: Disclosure and Presentation (amended 2004);
- IAS 33 – Earnings per Share (amended 2004); and
- IAS 39 – Financial Instruments: Recognition and Measurement (amended 2004).

2. Summary of significant accounting policies *(continued)*

Impact of recently issued IFRS but not early adopted

The following new standards which are generally effective for accounting periods beginning on or after 1 January 2005 may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented:

- IFRS 2 – Share-Based Payments; and
- IFRS 5 – Non-Current Assets Held For Sale and Discontinued Operations;

IFRS 2 "Share-Based Payments"

IFRS 2 is applicable to accounting periods beginning on or after 1 January 2005 and requires the Group to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. For equity-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, IFRS 2 requires an entity to measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in profit or loss for the period. For share-based payment transactions in which the terms of the arrangement provide either the Group or the supplier of goods or services with a choice of whether the Group settles the transaction in cash or by issuing equity instruments, the Group is required to account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the Group has incurred a liability to settle in cash (or other assets), or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. The provisions of IFRS 2 will apply to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at the beginning on or after 1 January 2005. The Group does not expect IFRS 2 to have a material effect on its results of operations and financial position.

2. Summary of significant accounting policies *(continued)*

Impact of recently issued IFRS but not early adopted *(continued)*

IFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations"

IFRS 5 is applicable to accounting periods beginning on or after 1 January 2005 and requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed of the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use.

Under the superseded IAS 35 the Group would have previously recognised a discontinued operation at the earlier of when the Group enters into a binding sale agreement; and the board of directors have approved and announced a formal disposal plan.

The result of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than under IAS 35 due to the recognition criteria being stricter under IFRS 5. The Group does not expect IFRS 5 to have a material effect on its results of operations and financial position.

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 stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired.

Long term investment

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

2. Summary of significant accounting policies *(continued)*

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, pressure control equipment 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 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.

Land use rights

Land use rights are stated at costs less accumulated amortisation and any impairment losses. Land use rights are amortised on a straight-line basis over the unexpired period of the rights.

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.

2. Summary of significant accounting policies *(continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is calculated as the higher of its value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises.

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 advanced payment received.

Short term construction contract work in progress and advanced payment received are disclosed on an individual contract basis.

2. Summary of significant accounting policies *(continued)*

Construction contract work in progress and revenue recognition *(continued)*

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.

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.

2. Summary of significant accounting policies *(continued)*

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity. 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, carryforward 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, and the carryforward 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.

3. Segment information

The principal activities of the Group are the sale of natural gas, pressure control equipment and gas appliances and the construction of gas pipelines. Gas appliances, pressure control equipment and gas pipelines are for the conveyance of natural gas. 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 segment analyses by business and geographical segments are provided.

4. Turnover and revenue

	2004	2003
	RMB'000	*RMB'000*
Natural gas	**300,699**	212,001
LPG *(note)*	**–**	11,234
Gas appliances	**5,825**	9,316
Pressure control equipment	**3,912**	–
Gas pipelines:		
– Construction of gas pipelines	**133,060**	102,290
– Repairs and maintenance of gas pipelines	**32,114**	26,638
Others	**288**	614
	475,898	362,093
Less: Business tax and government surcharges	**(5,512)**	(5,224)
Turnover	**470,386**	356,869
Interest income from bank balances	**596**	623
Rental income	**280**	210
Others	**268**	92
Other revenue	**1,144**	925
Total revenue	**471,530**	357,794

Note:

Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of liquefied petroleum gas ("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.

5. Profit before income tax

Profit before income tax is arrived at after charging/(crediting):

	2004	2003
	RMB'000	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 6):		
Retirement benefits		
– defined contribution fund	**6,224**	3,758
Accommodation benefits		
– defined contribution fund	**1,753**	1,508
Salaries and other staff costs	**38,079**	28,374
Total staff costs	**46,056**	33,640
Operating lease rentals in respect of:		
Land and buildings	**5,396**	4,561
Equipment	**1,922**	620
Trademarks	**313**	–
Total operating lease rentals	**7,631**	5,181
Auditors' remuneration	**1,070**	906
Depreciation of property, plant and equipment	**16,307**	10,932
Amortisation of land use rights	**211**	14
Loss on disposal of property, plant and equipment	**62**	708
(Reversal)/provision for bad and doubtful debts	**(192)**	1,046
Provision for impairment loss of property, plant and equipment	**6,488**	–

6. Directors', supervisors' and senior executives' emoluments

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

	2004	2003
	RMB'000	*RMB'000*
Fees:		
– Executive directors	**–**	–
– Non-executive directors	**228**	199
	228	199
Other emoluments for executive directors and supervisors:		
– Basic salaries and other benefits	**471**	446
– Bonuses paid and payable	**253**	190
– Pension scheme contributions	**25**	23
	749	659
	977	858
Executive directors:		
– Yan Guoqi	**158**	158
– Song Jinhui	**167**	157
– Niu Minghua	**107**	97
Supervisors:		
– Yang Qing	**106**	96
– Ding Ping	**115**	97
– Gao Mingshun	**30**	30
– Wang Xiaoxing	**24**	24
– Zhou Weihua	**42**	–
Non-executive directors:		
– Chang Zongxian	**–**	–
– Wang Yuheng	**–**	–
– Zhang Wushan	**–**	–
– Li Keqing	**30**	30
– Zhang Chaoyi	**24**	24
– Li Zhenguo	**24**	24
Independent non-executive directors:		
– Zhang Yichun	**50**	42
– Liu Jianwen	**50**	37
– Yu Shulian	**50**	42
Total	**977**	858

6. Directors', supervisors' and senior executives' emoluments *(continued)*

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

The renumeration package of each director or supervisor of the Company is determined with reference to his duties and responsibilities in the Company. As at the date of this report, the Company has not adopted any share option scheme as an incentive plan.

During the year ended 31 December 2004, the five highest paid individuals of the Group included two (2003: two) directors. They were Mr. Yan Guoqi and Mr. Song Jinhui. Information relating to these directors' emoluments has been disclosed above. Details of the emoluments of the remaining three (2003: three) highest paid, non-director employees are as follows:

	2004	2003
	RMB'000	*RMB'000*
Basic salaries and other benefits	**425**	383
Bonuses paid and payable	**135**	120
Pension scheme contributions	**10**	10
	570	513

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

During the year ended 31 December 2004, no emoluments was 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 a rate of 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 2004.

Major components of the Group's income tax expenses for the year ended 31 December 2004 are as follows:

	2004	2003
	RMB'000	*RMB'000*
Provision for income tax in respect of profit for the year:		
– Current	**25,188**	22,256
– Deferred	**(1,375)**	(253)
Tax expenses	**23,813**	22,003

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

	2004	2003
	RMB'000	*RMB'000*
Accounting profit	**98,722**	78,457
Tax at an applicable tax rate of 33%	**32,578**	25,891
Tax effect of:		
– non-deductible expenses	**1,703**	639
– taxable advance from customers	**1,622**	–
– non-taxable profit of a subsidiary	**(14,745)**	(5,777)
– under/(over) provision in prior years	**114**	(115)
– unrealised profit	**2,541**	1,365
Tax expenses	**23,813**	22,003

8. Dividends

	2004	2003
	RMB'000	*RMB'000*
Declared and paid during the year:		
– Final dividend pertaining to 2003 – RMB0.0044 per ordinary share (2002: RMB0.01453)	**5,507**	18,184
Proposed for payment in 2005:		
– Final dividend pertaining to 2004 – RMB0.016 per ordinary share (2003: RMB0.0044)	**20,024**	5,507

The proposed final dividend pertaining to 2004 for payment in 2005 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 2004.

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 for the year ended 31 December 2004 is computed by dividing net profit attributable to shareholders of approximately RMB65,211,000 (2003: approximately RMB52,937,000) by the weighted average number of 1,251,500,000 ordinary shares (2003: 1,251,500,000 ordinary shares) in issue during the year ended 31 December 2004.

Diluted earnings per share amount for the years ended 31 December 2004 and 2003 have not been calculated because there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2004 and 2003.

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% (2003: 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, each of the Company and its subsidiaries and their employees are 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	
	2004	2003
	RMB'000	*RMB'000*
Unlisted investments, at cost	**42,450**	35,950

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 Group 2004	2003	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%**	51%	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. *(note (c))*	PRC 17 February 2004	RMB10,000,000	**94.2%**	–	Sale of natural gas and gas appliances and the provision of natural gas installation and maintenance

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.

(c) Dengfeng Zhengran Gas Co., Ltd. was established by the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. on 17 February 2004.

12. 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 2004	11,706	118,359	132,194	4,494	16,998	503	284,254
Additions	206	16,891	7,140	1,701	3,182	109	29,229
Transferred from construction in progress *(note 14)*	5,135	14,009	73,660	1,347	–	3,176	97,327
Disposals	–	(446)	(2,430)	(17)	(177)	–	(3,070)
At 31 December 2004	17,047	148,813	210,564	7,525	20,003	3,788	407,740
Accumulated depreciation and provision for impairment losses:							
At 1 January 2004	40	29,196	50,774	1,167	3,613	197	84,987
Depreciation charges for the year	541	6,319	6,710	639	1,917	181	16,307
Impairment losses provided for the year	652	5,836	–	–	–	–	6,488
Disposals	–	(26)	(956)	(7)	–	–	(989)
At 31 December 2004	1,233	41,325	56,528	1,799	5,530	378	106,793
Net book value:							
At 31 December 2004	15,814	107,488	154,036	5,726	14,473	3,410	300,947
At 31 December 2003	11,666	89,163	81,420	3,327	13,385	306	199,267

12. 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 2004	11,706	106,061	136,331	4,007	12,659	481	271,245
Additions	206	13,950	7,140	1,394	765	106	23,561
Transferred from construction in progress *(note 14)*	5,135	14,009	82,189	1,347	–	3,176	105,856
Disposals	–	(446)	(2,430)	(17)	(177)	–	(3,070)
At 31 December 2004	17,047	133,574	223,230	6,731	13,247	3,763	397,592
Accumulated depreciation and provision for impairment losses:							
At 1 January 2004	40	28,397	50,774	1,089	2,681	184	83,165
Depreciation charges for the year	541	5,563	6,981	563	1,345	173	15,166
Impairment losses provided for the year	652	5,836	–	–	–	–	6,488
Disposals	–	(26)	(956)	(7)	–	–	(989)
At 31 December 2004	1,233	39,770	56,799	1,645	4,026	357	103,830
Net book value:							
At 31 December 2004	15,814	93,804	166,431	5,086	9,221	3,406	293,762
At 31 December 2003	11,666	77,664	85,557	2,918	9,978	297	188,080

13. Long term investment

	Group and Company	
	2004	2003
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**200**	200

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

14. Construction in progress

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**123,962**	94,746	**116,869**	99,610
Additions	**77,871**	96,902	**74,626**	89,082
Transferred to land use rights *(note 15)*	**(2,529)**	(4,701)	**(2,529)**	(4,701)
Transferred to property, plant and equipment *(note 12)*	**(97,327)**	(62,985)	**(105,856)**	(67,122)
At end of year	**101,977**	123,962	**83,110**	116,869

15. Land use rights

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**4,687**	–	**4,687**	–
Transferred from construction in progress *(note 14)*	**2,529**	4,701	**2,529**	4,701
Charge for the year	**(211)**	(14)	**(211)**	(14)
At end of year	**7,005**	4,687	**7,005**	4,687

16. Deferred tax assets

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Accrued expenses not deductible until payments are made	**1,019**	1,037	**1,019**	1,037
– Taxable advances from customers	**1,622**	–	**1,622**	–
– Other deductible temporary differences	**–**	229	**–**	229
	2,641	1,266	**2,641**	1,266

17. Trade receivables

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outstanding balances aged:				
Within 30 days	**63,796**	35,758	**63,757**	35,758
Between 31 days and 90 days	**6,986**	3,917	**6,098**	3,917
Between 91 days and 180 days	**325**	851	**325**	851
Between 181 days and 365 days	**72**	244	**72**	244
Over 365 days	**1,116**	511	**1,116**	511
	72,295	41,281	**71,368**	41,281
Less: Provision for bad and doubtful debts	**(1,273)**	(1,465)	**(1,273)**	(1,465)
	71,022	39,816	**70,095**	39,816

18. Inventories

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction materials	**3,940**	1,107	**1,614**	847
Spare parts and consumables	**–**	127	**–**	127
	3,940	1,234	**1,614**	974

19. Prepayments, deposits and other receivables

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**13,645**	13,298	**7,559**	10,908
Deposits	**144**	141	**10**	60
Sundry debtors	**1,220**	1,259	**953**	1,186
	15,009	14,698	**8,522**	12,154

20. Trade payables

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outstanding balances aged:				
Within 30 days	**20,341**	11,821	**14,318**	5,389
Between 31 days and 90 days	**5,524**	2,402	**689**	2,015
Between 91 days and 180 days	**3,225**	2,890	**2,610**	2,890
Between 181 days and 365 days	**376**	591	**190**	529
Over 365 days	**1,542**	864	**1,425**	798
	31,008	18,568	**19,232**	11,621

21. Construction contract work in progress/advanced payment received

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	**359**	2,008	**–**	–

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advanced payment received				
Progress payments received	**180,683**	111,912	**10,921**	48,430
Less: Contract costs incurred to date	**(41,725)**	(22,954)	**(816)**	(596)
	138,958	88,958	**10,105**	47,834

22. Due to the holding company

Except for the repayment term of an amount of RMB12,433,000 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 amount of RMB12,433,000 due to the holding company should be repayable on 31 December 2005.

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

(i) the Group has a 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 2005.

23. Due to subsidiaries

	Company	
	2004	2003
	RMB'000	*RMB'000*
Zhengzhou Gas Engineering and Construction Co., Ltd.	**147,819**	42,303
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	**3,048**	–
	150,867	42,303

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

24. Due to fellow subsidiaries

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

25. Share capital

	2004		2003	
	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

There is no movement of the Company's ordinary share capital during the year.

26. 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 28 May 2004 to transfer approximately RMB5,682,000 from the Company's retained earnings as at 31 December 2003 to the GSR.

(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.

26. Reserves *(continued)*

(d) Distributable reserves *(continued)*

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 2004, the Company's reserves available for distribution were approximately RMB57,170,000 (2003: RMB39,403,000), of which approximately RMB20,024,000 has been proposed as a final dividend for the year ended 31 December 2004 and approximately RMB7,153,000 has been proposed to be transferred to the GSR.

27. Related party transactions

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

Name of related parties	Nature of transactions	2004 *RMB'000*	2003 *RMB'000*
Group			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**4,706**	4,179
	Trademarks fee *(note (e))*	**313**	–
	Purchases of equipment and natural gas distribution pipelines *(note (f))*	**19,700**	–
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Group's leased equipment and land and buildings *(note (g))*	**946**	845

27. Related party transactions *(continued)*

Name of related parties	Nature of transactions	2004 *RMB'000*	2003 *RMB'000*
Group *(continued)*			
Zhengzhou Zhengran Gas Equipment Co., Ltd. *(note (b))*	Purchases of construction materials from the related company *(note (h))*	**–**	1,002
	Purchases of property, plant and equipment from the related company *(note (h))*	**233**	488
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Provision of gas meter testing services by the related company *(note (h))*	**902**	579
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Operating lease of plant and equipment to the related company *(note (i))*	**280**	210
	Sales of LPG to the related company *(note (i))*	**–**	285
	Sales of motor vehicles to the related company *(note (i))*	**–**	650
	Provision of installation services to the related company *(note (h))*	**323**	–
Company			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**4,542**	4,135
	Trademarks fee *(note (e))*	**313**	–
	Purchases of equipment and natural gas distribution pipelines *(note (f))*	**19,700**	–

27. Related party transactions *(continued)*

Name of related parties	Nature of transactions	2004 RMB'000	2003 RMB'000
Company *(continued)*			
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 (g))*	**790**	767
Zhengzhou Zhengran Gas Equipment Co., Ltd. *(note (b))*	Purchases of construction materials from the related company *(note (h))*	**–**	337
	Purchases of property, plant and equipment from the related company *(note (h))*	**–**	488
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Provision of gas meter testing services by the related company *(note (h))*	**902**	579
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Operating lease of plant and equipment to the related company *(note (i))*	**280**	210
	Sales of LPG to the related company *(note (i))*	**–**	285
	Sales of motor vehicles to the related company *(note (i))*	**–**	650
	Provision of installation services to the related company *(note (h))*	**323**	–
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (c))*	Provision of construction services by the related company *(note (j))*	**23,210**	10,145
	Advances from the related company *(note (k))*	**147,819**	42,302

27. Related party transactions *(continued)*

Name of related parties	Nature of transactions	2004 RMB'000	2003 RMB'000
Company *(continued)*			
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (c))*	Purchases of construction materials from the related company *(note (h))*	**5,016**	–

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., and Zhengzhou Gas Group LPG Co., Ltd., are fellow subsidiaries of the Company.

(c) Zhengzhou Gas Engineering and Construction Co., Ltd. and Zhengzhou Zhengran Pressure Control Technology Co., Ltd. are subsidiaries of the Company.

(d) In accordance with the property lease agreements, the land use rights lease agreements, the equipment lease 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. 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.

(e) On 20 May 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement 1"). Pursuant to the trademark licence agreement 1, Zhengzhou Gas Group Co., Ltd. agreed to grant a right to the Group for the use of two of its trademarks free of charge for the period from 16 July 2001 to 15 July 2004.

On 1 August 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into a supplemental agreement to the trademark licence agreement 1. Pursuant to the supplemental agreement, Zhengzhou Gas Group Co., Ltd. undertakes to permit the Group to use such trademark upon the expiry of the trademark licence agreement 1. Upon the expiry of the trademark licence agreement 1, the annual trademark fee to be charged for the use of the trademark will be based on the negotiation between the Company and Zhengzhou Gas Group Co., Ltd.

On 30 September 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into the second supplemental agreement to the trademark licence agreement 1. Pursuant to the second supplemental agreement, the Company and Zhengzhou Gas Group Co., Ltd. will negotiate on adjustments to the annual trademark fees every three years. In any event, it has been agreed that such annual trademark fee shall not exceed RMB800,000.

27. Related party transactions *(continued)*

Notes (continued):

(e) On 29 September 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into another trademark licence agreement (the "trademark licence agreement 2"). Pursuant to the trademark licence agreement 2, Zhengzhou Gas Group Co., Ltd. has agreed to grant the right to the Group for the use of two of its trademarks at a trademark fee of RMB750,000 per annum for the period from 1 August 2004 to 31 July 2007. 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) On 30 March 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired equipment and natural gas distribution pipelines amounting to RMB19,700,000 from Zhengzhou Gas Group Co., Ltd.

This transaction was carried out based on normal commercial terms and the purchase consideration was determined by agreement of parties with reference to the valuation of an independent valuer.

(g) 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 Group's leased equipment and land and buildings to the Group. In the opinion of the directors, these transactions were carried out based on normal commercial terms and at market prices.

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

(i) Pursuant to a resolution of the board of directors dated 18 March 2003, the Company discontinued the sale of LPG on 1 April 2003. Following the discontinuance of the sale of LPG by the Company, the business 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 the 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 a net book value of RMB7,104,000 as at 31 December 2004 (2003: RMB7,530,000) 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 the valuation of a PRC appraiser.

27. Related party transactions *(continued)*

Notes (continued):

(j) The gas pipeline construction fee paid to Zhengzhou Gas Engineering and Construction Co., Ltd. were determined by reference to the Base Prices of Municipal Construction Projects in Henan Province regulated by the Base Prices Standardization Office, Henan Province.

(k) The advances from Zhengzhou Gas Engineering and Construction Co., Ltd. are unsecured, interest-free and have no fixed terms of repayment as set out in note 23.

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.76% per annum for the year ended 31 December 2004, the Company would have borne interest expense, net of tax, of approximately RMB2,754,000 (2003: RMB1,307,000) for the year ended 31 December 2004.

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.

28. Commitments

	2004	2003
	RMB'000	*RMB'000*
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
– Authorised, but not contracted for	**27,051**	66,761
– Contracted, but not provided for	**14,066**	1,202
	41,117	67,963
Capital commitment in respect of equity investment authorised but not contracted for	**–**	10,000
	41,117	77,963

28. Commitments *(continued)*

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:

	2004	2003
	RMB'000	*RMB'000*
– Within one year	**16,130**	5,005
– In the second to fifth years, inclusive	**26,317**	13,766
– Over five years	**14,640**	34,697
	57,087	53,468

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:

	2004	2003
	RMB'000	*RMB'000*
– Within one year	**–**	280

29. Contingent liabilities

As at 31 December 2004, the Group did not have any significant contingent liabilities.

30. Financial instruments

Financial risk management objectives and policies

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

Business risk

Natural gas, the major raw material sourced by the Group, accounted for approximately 79% of the total purchase for the year ended 31 December 2004 (2003: 78%). The Group purchased all its natural gas from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co. Ltd. The Group's purchases from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co. Ltd. accounted for approximately 19% and 53%, respectively, of the total cost of sales of the Group for the year ended 31 December 2004 (2003: 56% and 12%).

Foreign currency risk

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

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 which 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 that the counterparties fail to perform their obligations as at 31 December 2004 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated on the balance sheet.

30. Financial instruments *(continued)*

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.

31. Subsequent events

The following significant events took place subsequent to 31 December 2004:

(a) Subsequent to 31 December 2004, the directors proposed a final dividend of RMB0.016 per ordinary share, totalling approximately RMB20,024,000, pertaining to 2004 for payment in 2005. 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 2004.

(b) Subsequent to 31 December 2004, the directors proposed to transfer 10%, totalling approximately RMB7,153,000, 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 2004 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2004.

32. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

33. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 14 March 2005.

Notice of Annual General Meeting

NOTICE IS HEREBY given that the annual general meeting of the Company will be held at Samost Hotel, Zhengzhou, Henan Province, the PRC on 18 May 2005 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 2004;

2. to consider and approve the report of the supervisors of the Company for the year ended 31 December 2004;

3. to consider and approve a final dividend of RMB0.016 per share for the year ended 31 December 2004. The proposed dividend will be payable on 14 June 2005 to shareholders whose names appear in the register of members of the Company on 18 May 2005;

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 2005 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.

Directors

As at the date of this notice, the members of the board of directors of the Company include (i) the executive Directors, namely, Mr. Yan Guoqi (閆國起) (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 (佘恕蓮).

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

Zhengzhou, the PRC

14 March 2005

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 46/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 18 April 2005 to 18 May 2005 (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 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4: 00 p.m. on 15 April 2005, for registration.

(iv) Holders of H shares whose names appear in the register of holders of H shares of the Company on 18 April 2005 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 46/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 26 April 2005.

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