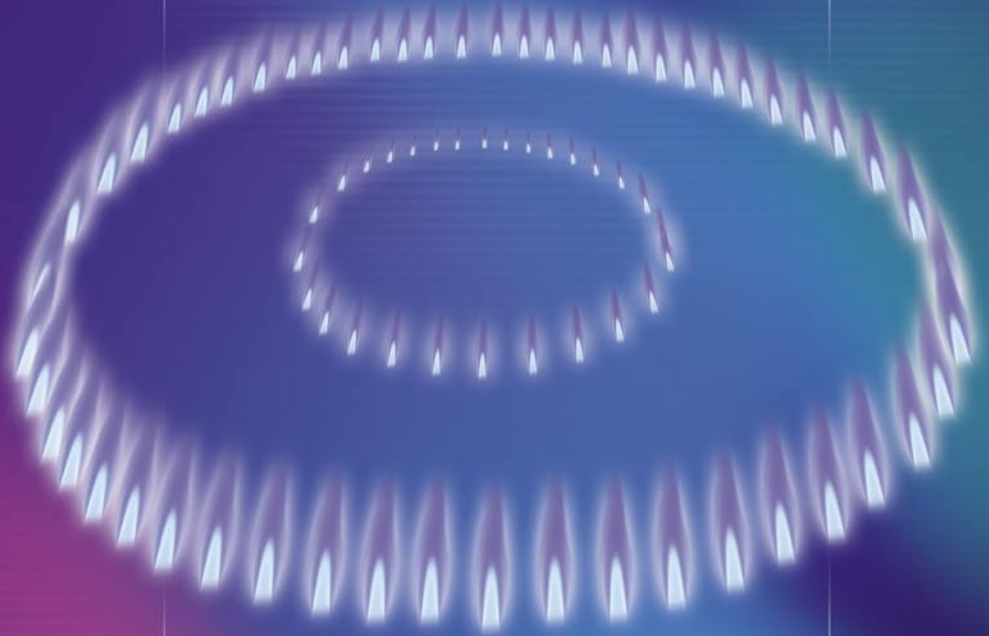


Zhengzhou Gas



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

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

First Quarterly Report 2005

* for identification purpose only

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

FINANCIAL HIGHLIGHTS

- During the Relevant Period, unaudited consolidated turnover and profit attributable to shareholders of the Group amounted to approximately RMB175,123,000 and RMB27,186,000 respectively, representing respective increases of approximately 58.59% and 44.15% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB128,848,000, representing an increase of approximately 74.03% over the corresponding period of last year, which was primarily attributed to the increase in the number of residential, industrial, commercial and vehicular users, coupled with a significant increase in gas consumption by commercial and vehicular users.
- Turnover derived from gas pipeline construction aggregated to approximately RMB34,407,000 for the Relevant Period, representing an increase of approximately 11.23% over the corresponding period of last year, which was primarily attributed to satisfactory growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0217, representing an increase of approximately 44.15% as compared with approximately RMB0.0151 for the corresponding period of last year.
- The Directors do not recommend the payment of any dividend for the Relevant Period.

CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2005 (UNAUDITED)

The board of Directors (the “Board”) of Zhengzhou Gas Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2005 (the “Relevant Period”) and comparative figures of the corresponding period of 2004 as follows:

	Notes	Three months ended 31 March	
		2005 RMB'000	2004 RMB'000
Turnover	3	175,123	110,427
Cost of sales		(119,195)	(73,376)
Gross profit		55,928	37,051
Other revenue		83	173
Selling and distribution costs		(5,653)	(2,209)
Administrative costs		(13,264)	(7,348)
Other operating costs		(50)	(100)
Profit from operating activities		37,044	27,567
Finance costs		-	-
Profit before income tax		37,044	27,567
Income tax expenses	4	(6,694)	(7,440)
Profit for the period		30,350	20,127
Attributable to:			
Shareholders of the Company		27,186	18,859
Minority interests		3,164	1,268
		30,350	20,127
Earnings per share			
– Basic (RMB Yuan)	5	0.0217	0.0151

Notes:

1. BASIS OF CONSOLIDATION AND PRESENTATION

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

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

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

2. SIGNIFICANT CHANGE IN ACCOUNTING POLICIES

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

3. TURNOVER

An analysis of the Group's turnover for the three months ended 31 March 2005 together with the comparative figures for the corresponding period in 2004 is as follows:

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
Natural gas	128,848	74,037
LPG	3,217	–
Gas appliances and pressure control equipment	1,665	853
Gas pipeline		
– Gas pipeline construction	34,407	30,932
– Gas pipeline repairs and maintenance services	8,316	5,573
Others	23	24
	176,476	111,419
Less: Business tax and government surcharges	(1,353)	(992)
Turnover	175,123	110,427

4. TAX

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

	Three months ended	
	31 March	
	2005	2004
	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:		
– Current	1,153	2,500
– Deferred	5,541	4,940
	<hr/>	<hr/>
Tax expenses for the period	6,694	7,440

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB27,186,000 (corresponding period in 2004: approximately RMB18,859,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2004 was 1,251,500,000 shares) .

Diluted earnings per share for the three months ended 31 March 2004 and 2005 have not been calculated as no diluting events existed during those periods.

6. RESERVES

The changes in reserves for the three months ended 31 March 2005 together with the comparative figures for the corresponding period in 2004 are as follows:

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>	Undistributed profit <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2004	101,026	13,797	13,797	6,180	51,832	186,632
Dividend paid for 2003	-	-	-	-	(5,507)	(5,507)
Transferred from retained earnings	-	-	-	6,572	(6,572)	-
Profit for the period	-	-	-	-	18,859	18,859
As at 31 March 2004	101,026	13,797	13,797	12,752	58,612	199,984
As at 1 January 2005	101,026	25,483	23,265	12,752	83,810	246,336
Dividend paid for 2004	-	-	-	-	(20,024)	(20,024)
Transferred from retained earnings	-	-	-	7,153	(7,153)	-
Profit for the period	-	-	-	-	27,186	27,186
As at 31 March 2005	101,026	25,483	23,265	19,905	83,819	253,498

DIVIDEND

On 17 March 2005, the Directors recommended the payment of a final dividend of RMB0.016 per ordinary share, totaling approximately RMB20,024,000, 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 (the final dividend for 2003 paid in 2004: RMB0.0044 per ordinary share, totaling approximately RMB5,507,000). This proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 18 May 2005.

The Directors do not recommend the payment of dividend for the three months ended 31 March 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

During the three months ended 31 March 2005, the Group recorded a total turnover of approximately RMB175,123,000 and a gross profit of approximately RMB55,928,000, representing an increase in total turnover of approximately 58.59% over the corresponding period of last year, which was primarily attributed to the increase in the number of natural gas users, coupled with the substantial increase in gas consumption by commercial and vehicular users.

Gross profit margin of the Group for the Relevant Period was approximately 31.94%, which was lower than the gross profit margin of approximately 33.55% for the corresponding period of last year. It was mainly due to the decrease in the proportion of revenue from the construction of gas pipelines, which generated a higher gross profit margin, in the total turnover. During the three months ended 31 March 2004, the proportion of this revenue in the total turnover was 27.76%. During the Relevant Period, the proportion of this revenue in the total turnover dropped to 19.50%.

During the Relevant Period, administrative expenses amounted to approximately RMB13,264,000, representing an increase of 80.51% as compared to approximately RMB7,348,000 for the corresponding period of last year. The main reasons were the substantial increases in salary, intermediary agency fee and lease expenses.

Income tax expenses of the Group for the Relevant Period were approximately RMB6,694,000. The income tax rate of 33% was in compliance with the relevant PRC tax laws and regulations.

Net profit attributable to shareholders of the Group for the Relevant Period was approximately RMB27,186,000, representing an increase of approximately 44.15% from approximately RMB18,859,000 of the corresponding period of last year.

Sale of piped natural gas

The turnover attributed to the sale of piped natural gas for the Relevant Period amounted to approximately RMB128,848,000, representing an increase of approximately 74.03% from approximately RMB74,037,000 over the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 77,798,000m³, representing an increase of approximately 56.50% as compared with approximately 49,710,000m³ for the corresponding period of last year. Natural gas consumption by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year are stated as follows:

Three months ended 31 March					
2005			2004		
As a percentage of total gas consumption		Gas consumption	As a percentage of total gas consumption		Increase %

Natural Gas

total gas consumption

(approximately
'000m³)

	77,798		49,710		56.50%
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including:

residential users	27,128	34.87%	20,786	41.81%	30.51%
commercial users	28,364	36.46%	14,691	29.55%	93.07%
industrial users	12,806	16.46%	10,659	21.44%	20.14%
vehicular users	9,500	12.21%	3,574	7.19%	165.81%

According to the table above, commercial users have replaced residential users as the main source of revenue for the Group's sale of natural gas in the Relevant Period. Gas consumption by commercial users amounted to approximately 28,364,000m³, representing 36.46% of the total gas consumption in the Relevant Period, which was more than the gas consumption of 27,128,000m³ by residential users. Gas consumption by residential users represented 34.87% of total gas consumption of the Relevant Period. The main reasons for the substantial increase in gas consumption of 93.07% by commercial users were (1) the original commercial users which were in the coal gas consumption region have changed to use natural gas by the end of 2004; (2) the temperature in the Relevant Period was colder than that of the corresponding period of last year, which caused commercial users such as hotels and restaurants to consume more natural gas for heating than the corresponding period of the last year; and (3) a regional natural gas thermal station designed to supply heat to the East Zhengzhou Economic Development Zone has started to operate, leading to a very remarkable increase in commercial gas consumption, compared with the corresponding period of last year.



As at 31 March 2005, the Group has 523,556 residential users, representing an increase of 15,135 users as compared with 508,421 residential users as at 31 December 2004; 1,037 commercial users representing an increase of 71 users as compared with 966 commercial users as at 31 December 2004, and 43 industrial users, representing an increase of 5 users as compared with 38 industrial users as at 31 December 2004.

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 natural gas powered vehicular users has increased by 452, and the total number of natural gas powered vehicles converted has reached 4,531 as at 31 March 2005. The sale of gas to vehicular users reached 9,500,000m³, representing an increase of 165.81% as compared with 3,574,000m³ for the corresponding period of last year. It is apparent that the gas powered vehicles business has become the new momentum of the Group's profit growth.

During the Relevant Period, a subsidiary of the Company, Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司) ("Dengfeng Zhengran"), completed its investment in pipelines of approximately RMB3,193,000, but has not yet commenced gas supply to the users.

Sales of liquefied petroleum gas

In the Relevant Period, certain users were transferred to the Group from a discontinued liquefied petroleum gas ("LPG") company, and the Company would convert their LPG systems into natural gas systems. As the conversion would take time, the Group had to resume its discontinued LPG business temporarily to supply LPG to those users. Thus, a turnover of LPG sales amounting to RMB3,217,000 was recorded. The Group has no intention to resume its LPG sales business which was terminated in April 2003. In March 2005, the Company has made an arrangement with Zhengzhou Gas Group Co. Ltd., the holding company of the Company, to supply LPG to those users until the conversion is completed, upon which the Group will take over those users.

Sales of gas appliances and pressure control equipment

The Group also engages in sales of gas appliances and pressure control equipment. The gas appliances available for sale 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. As for pressure control equipment, the main marketing focuses are other natural gas distributors. During the Relevant Period, turnover attributable to the sale of gas appliances and pressure control equipment amounted to approximately RMB1,665,000.

Natural gas pipeline construction services

For the Relevant Period, the Group's turnover attributable to the natural gas pipeline construction services amounted to approximately RMB34,407,000 and has connected natural gas supply for 10,257 residential users and 30 commercial users, representing a growth of 11.23% as compared with RMB30,932,000 for the corresponding period of last year and this was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users.

In addition, the Group also collects fees from users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB8,316,000, representing an increase of 49.22% as compared with RMB5,573,000 for the corresponding period of last year. Such increase was mainly due to an increase in the number of residential users.

Future Prospects

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 furnaces under 10 tons will be prohibited by 2006 and the coal combustion-free zone will be further expanded. Both measures provide a golden opportunity to the Group for further exploring the market of commercial users. In addition, to maintain a balanced development of commercial and industrial sectors in Zhengzhou, the local government of Zhengzhou promulgated certain preferential policies to encourage industrial investments and it is believed that such policies will further propel the Group's development in the market of industrial users. Meanwhile, both the construction of Zhengzhou new city and the enlargement of the scale of urbanization will be a catalyst for the Group's development of residential market and the Group plans to absorb approximately 40,000 new residential users in 2005.

In respect of the vehicular gas business, the Group plans to build another two or three natural gas refueling stations to further improve the vehicular gas supply network. In addition, the Group plans to raise the price of vehicular gas from the current RMB2.1 per m³ to RMB2.4 per m³ beginning from 1 April 2005.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 March 2005, 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 required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares

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

Notes:

- (1) As at 31 March 2005, Gao Mingshun was interested in 15,400,000 domestic shares as a result of him being interested in 95.71% of the registered capital of Zhengzhou Sifang Construction and Decoration Co., Ltd. which 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 March 2005, Li Keqing was interested in 115,500,000 domestic shares as a result of him and his spouse, Guo Wenjun, being in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan Investment Consultancy Company Limited, which 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 in this paragraph, as at 31 March 2005, none of the Directors or supervisors of the Company or their respective associates had interests and short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or supervisor of the Company, as at 31 March 2005, 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 of the Company which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or would 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 shares

Name	Capacity/ Nature of Interest	Number of H Shares held	Approximate % of beneficial interests in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered capital share 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%

**Name of subsidiary
of the Company
in which any shareholder,
excluding the Company,
holds any category
of capital interest
of 10% or above**

Name of shareholder

**Amount of
registered capital
of the subsidiary**

**Approximate
percentage 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	35.00%

Notes:

1. Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") holds 115,500,000 domestic shares of the Company, representing approximately 16.48% of the beneficial interests in domestic shares of the Company. 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 March 2005, Guo Wenjun was interested in 115,500,000 domestic shares of the Company as Guo Wenjun and her spouse, Li Keqing were in aggregate interested in 40% of the registered capital of Zhengzhou Qiyuan, which was interested in 115,500,000 domestic shares of the Company or approximately 16.48% of the beneficial interests in the domestic shares of the Company. However, pursuant to the GEM Listing Rules, Guo Wenjun was not a substantial shareholder of the Company because the domestic shares held by Guo Wenjun represented only 9.23% of the total registered share capital of the Company.
3. Partners Capital International Limited ("Partners Capital") was a financial adviser to the Company. Pursuant to the GEM Listing Rules, Partners Capital was not a substantial shareholder of the Company because the H Shares held by Partners Capital represented only 2.35% of the total registered share capital of the Company.

Save as disclosed above, as at 31 March 2005, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who 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 right to vote in all circumstances at general meetings of any member of the Group (other than the Company).

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

Save as disclosed above, during the three months ended 31 March 2005, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 March 2005, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company had not purchased, sold or redeemed any of the Company's listed securities during the period from 29 October 2002 (i.e. the date on which the H Shares of the Company were listed on GEM) to 31 March 2005.

AUDIT COMMITTEE

The Company established an audit committee on 31 March 2002 with terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive directors of the Company, and Mr. Zhang Chaoyi, a non-executive director. Ms. Yu Shulian is the chairperson of the audit committee.

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2005, 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 the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

COMPETING INTERESTS

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

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

DIRECTORS

The members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會) and Ms. Niu Minghua (牛鳴華); (ii) the non-executive Directors, namely, Mr. Chang Zongxian (常宗賢), Mr. Wang Yuheng (王玉珩), Mr. Zhang Wushan (張武山), Mr. Li Keqing (李克清), Mr. Zhang Chaoyi (張超義), and Mr. Li Zhenguo (李振國); and (iii) the independent non-executive Directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮).

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

12 May 2005, Zhengzhou, PRC

* *for identification purpose only*