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Interim Report 2005



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)

* for identification purpose only



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This report, for which the directors (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 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

- For the six months ended 30 June 2005, unaudited consolidated turnover and profit attributable to shareholders of the Group amounted to approximately RMB307,460,000 and RMB52,458,000 respectively, representing respective increases of approximately 43.14% and 41.47% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB205,328,000, representing an increase of approximately 57.34% 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 RMB79,547,000 for the Relevant Period, representing an increase of approximately 15.96% 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 RMB0.0419, representing an increase of approximately 41.47% as compared with approximately RMB0.0300 for the corresponding period of last year.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.



FINANCIAL STATEMENTS

The board of Directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to present to its shareholders the unaudited financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 (the "Relevant Period") and comparative figures of the corresponding period of 2004 as follows:

Consolidated Income Statement (Unaudited)

For the three months and six months ended 30 June 2005 and 2004

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	132,337	104,369	307,460	214,796
Cost of sales		(83,516)	(61,688)	(202,711)	(135,064)
Gross profit		48,821	42,681	104,749	79,732
Other revenue		1,047	248	1,130	421
Selling and distribution costs		(5,983)	(2,827)	(11,636)	(5,036)
Administrative costs		(11,592)	(7,934)	(24,856)	(15,282)
Other operating costs		(126)	(25)	(176)	(125)
Profit from operating activities		32,167	32,143	69,211	59,710
Finance costs		–	–	–	–
Profit before income tax		32,167	32,143	69,211	59,710
Income tax expenses	4	(2,050)	(12,885)	(8,744)	(20,325)
PROFIT FOR THE RELEVANT PERIOD		30,117	19,258	60,467	39,385
Attributable to:					
Shareholders of the Company		25,272	18,221	52,458	37,080
Minority interests		4,845	1,037	8,009	2,305
		30,117	19,258	60,467	39,385
Basic earnings per share (RMB Yuan)	5	0.0241	0.0146	0.0419	0.0300



Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000 (Audited)
ASSETS			
Non-current assets			
Long term investment		200	200
Property, plant and equipment	7	307,776	300,947
Deferred income tax assets		–	2,641
Land use rights		7,230	7,005
Construction in progress		104,898	101,977
		<u>420,104</u>	<u>412,770</u>
Current Assets			
Cash and cash equivalents		150,266	112,410
Trade receivables	8	38,249	71,022
Bills receivables		160	–
Inventories		3,097	3,940
Construction contract work in progress		–	359
Prepayments, deposits and other receivables		19,139	15,009
		<u>210,911</u>	<u>202,740</u>
TOTAL ASSETS		<u>631,015</u>	<u>615,510</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	9	125,150	125,150
Reserves	10	278,769	246,336
		<u>403,919</u>	<u>371,486</u>
Minority interests		19,605	19,780
TOTAL EQUITY		<u>423,524</u>	<u>391,266</u>
Non-current liabilities			
Deferred income tax liabilities		2,228	–
		<u>2,228</u>	<u>–</u>
Current liabilities			
Trade payables	12	26,847	31,008
Advanced payment received		134,707	138,958
Other payables and accrued liabilities		26,873	27,300
Tax payable		3,315	10,968
Due to the holding company	11	12,880	15,155
Due to fellow subsidiaries	13	641	855
		<u>205,263</u>	<u>224,244</u>
TOTAL EQUITY AND LIABILITIES		<u>631,015</u>	<u>615,510</u>



Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Net cash inflow/(outflow) from operating activities	83,634	41,125
Net cash inflow/(outflow) from investing activities	(19,207)	(49,298)
Net cash inflow/(outflow) from financing activities	(26,571)	(8,542)
Net increase/(decrease) in cash and cash equivalents	37,856	(16,715)
Balance of cash and cash equivalents, at beginning of the period	112,410	115,261
Balance of cash and cash equivalents, at end of the period	150,266	98,547

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Total equity at beginning of the period	371,485	311,782
Net profit for the period	52,458	37,080
Dividends	(20,024)	(5,507)
Total equity, at end of the period	403,919	343,355

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules, International Financial Reporting Standards ("IFRS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board.

The accounting policies and methods used in preparing the condensed consolidated financial statements are the same as those used in the financial statements of the Group for the financial year ended 31 December 2004.

2. SEGMENT INFORMATION

The principal activities of the Group are the sale of natural gas and relevant appliances to local consumers and the construction of gas pipelines network for local consumers. 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 of the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segmental analyses by business and geographical segments are provided.



3. TURNOVER

An analysis of the Group's turnover for the three months and six months ended 30 June 2005 together with the comparative figures for the corresponding periods in 2004 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Natural gas	76,480	56,460	205,328	130,497
LPG	–	–	3,217	–
Gas appliances and pressure control equipment	1,553	2,570	3,218	3,423
Gas pipeline				
– Gas pipeline construction	45,140	37,666	79,547	68,598
– Gas pipeline repairs and maintenance services	10,981	8,917	19,297	14,490
Others	5	35	28	59
	134,159	105,648	310,635	217,067
Less: Business tax and government surcharges	(1,822)	(1,279)	(3,175)	(2,271)
Turnover	132,337	104,369	307,460	214,796

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 on estimated assessable profit in accordance with the relevant tax laws and regulations. Details of the Group's provision for PRC income tax for the three months and six months ended 30 June 2005 together with comparative figures for the corresponding periods in 2004 are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Provision for income tax in respect of profit for the period:				
– Current	3,613	12,669	4,766	15,169
– Deferred	(1,563)	216	3,978	5,156
Tax expenses for the period	2,050	12,885	8,744	20,325

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB52,458,000 (corresponding period in 2004: approximately RMB37,080,000) 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 six months ended 30 June 2004 and 2005 have not been calculated as no diluting events existed during those periods.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005.

7. DEPRECIATION

During the Relevant Period, depreciation charge in respect of the Group's property, plant and equipment was approximately RMB9,789,000 (the corresponding period of 2004: approximately RMB6,904,000).



8. TRADE RECEIVABLES

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Outstanding balances by aging:		
Within 30 days	28,434	63,796
31 days to 90 days	6,727	6,986
91 days to 180 days	2,100	325
181 days to 365 days	583	72
Over 365 days	1,677	1,116
	<u>39,521</u>	<u>72,295</u>
Less: Provision for bad and doubtful debts	(1,273)	(1,273)
	<u>38,249</u>	<u>71,022</u>

9. SHARE CAPITAL

During the Relevant Period, there was no change in the share capital of the Company.

	As at 30 June 2005		As at 31 December 2004	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Registered	1,251,500	125,150	1,251,500	125,150
Issued and fully paid share capital:				
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
	<u>1,251,500</u>	<u>125,150</u>	<u>1,251,500</u>	<u>125,150</u>

10. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Dis- cretionary surplus reserve RMB'000	Un- distributed profit RMB'000	Total RMB'000
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
Profit for the period					18,221	18,221
As at 30 June 2004	<u>101,026</u>	<u>13,797</u>	<u>13,797</u>	<u>12,752</u>	<u>76,833</u>	<u>218,204</u>
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
Profit for the period					25,272	25,272
As at 30 June 2005	<u>101,026</u>	<u>25,483</u>	<u>23,265</u>	<u>19,905</u>	<u>109,091</u>	<u>278,769</u>



11. DUE TO THE HOLDING COMPANY

The amount due to the holding company is unsecured and interest-free. Pursuant to the repayment agreement (the "Repayment Agreement") entered into between the Company and the holding company, Zhengzhou Gas Group Company Limited, on 30 September 2002, the Company still has an outstanding balance of RMB12,433,000 due to the holding company which will fall due on 31 December 2005.

Apart from the RMB12,433,000 payable to the holding company above, the balance payable to the holding company is unsecured and non-interest bearing.

12. TRADE PAYABLES

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Outstanding balances by aging:		
Within 30 days	22,390	20,341
Between 31 days to 90 days	732	5,524
Between 91 days to 180 days	398	3,225
Between 181 days to 365 days	2,367	376
Over 365 days	960	1,542
	26,847	31,008

13. DUE TO FELLOW SUBSIDIARIES

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

14. CONNECTED TRANSACTIONS

On 26 May 2005, the Company and Zhengzhou Gas Group Company Limited ("Zhengzhou Gas Group"), the controlling shareholder of the Company, entered into a land use right lease agreement (the "New Land Use Right Lease Agreement"), pursuant to which Zhengzhou Gas Group as landlord agreed to lease the land use right in the land located at Jing Guang Nan Xi Road, Nan San Huan Bei, Er Qi District, Zhengzhou, Henan Province, the PRC to the Company as tenant for the operation of a natural gas refueling station for a duration of three years commencing from 1 June 2005 to 31 May 2008 at a rental of RMB117,026 (approximately HK\$110,298) per annum which had been determined after arm's length negotiations between the Company and Zhengzhou Gas Group in the New Land Use Right Lease Agreement with reference to fair market rental of RMB117,026 (approximately HK\$110,298) per annum as appraised by CB Richard Ellis Limited ("CB Richard Ellis"), a professional independent valuer not being a connected person (as defined in the GEM Listing Rules) of the Company, as at 29 April 2005.

In addition, the Company and Zhengzhou Gas Group have agreed to adjust the annual rentals, effective from 1 June 2005, in respect of the three pieces of land originally leased from Zhengzhou Gas Group under the four land use rights lease agreements dated 16 January 2002 and the supplemental agreements thereto dated 30 September 2002 (the "Existing Land Use Rights Lease Agreements"), with reference to the aggregate fair market rentals of RMB1,427,970 (approximately HK\$1,345,871) per annum as appraised by CB Richard Ellis as at 29 April 2005. The annual rentals payable under the Existing Land Use Rights Lease Agreements, excluding one of the land use right lease agreements (the "Effective Land Use Rights Lease Agreements") after the adjustment were the same as the professional valuations as stated in the valuation report of CB Richard Ellis which reflect the prevailing market rentals as at 29 April 2005. The aggregate annual rentals for the Effective Land Use Rights Lease Agreements and the New Land Use Right Lease Agreement are RMB1,544,996 (approximately HK\$1,456,170).

Accordingly, pursuant to Rule 20.35(2) of the GEM Listing Rules, the new annual cap for the transactions under the Effective Land Use Rights Lease Agreements and the New Land Use Right Lease Agreement shall be fixed at RMB1,544,996 (approximately HK\$1,456,170).

Details of the above connected transactions are set out in the report of the Company published on the Stock Exchange's GEM website on 26 May 2005.



14. CONNECTED TRANSACTIONS (continued)

In addition to the above connected transactions, the Group entered into the following transactions with related parties:

Name of related parties	Nature of transactions	Period ended 30 June 2005 RMB'000	Period ended 30 June 2004 RMB'000
Zhengzhou Gas Group Co., Ltd. (note (1))	Operating lease of equipment, land and buildings and trademarks from the related company	5,480	1,804
	Receiving equipment rentals from the related company	40	–
Zhengran Property Management Co., Ltd. (note (2))	Payment of comprehensive service fee to related company	473	395
Zhengzhou Zhengran Gas Appliances Co., Ltd. (note (2))	Purchases of construction materials from the related company	388	297
Zhengran Design Development Co., Ltd. (note (2))	Payment of design fee to related company	–	428
Zhengzhou Gas Group LPG Co., Ltd. (note (3))	Receiving equipment rentals from related company	–	140

Note:

- Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.
- Zhengzhou Zhengran Property Management Co., Ltd., Zhengzhou Zhengran Gas Appliances Co., Ltd., and Zhengran Design Development Co., Ltd. are fellow subsidiaries of the Company.
- Zhengzhou Gas Group LPG Co., Ltd. is an associated company of the holding company of the Company.

The Directors of the Company, including the independent non-executive Directors, are of the view that the above transactions were conducted based on normal commercial terms and at market prices.

15. COMMITMENTS

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
– authorised, but not contracted for	27,016	27,051
– contracted, but not provided for	11,344	14,066
	<u>38,360</u>	<u>41,117</u>



15. COMMITMENTS (continued)

Operating lease commitments

As lessee

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
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:		
– Within one year	16,924	16,130
– In the second to fifth years, inclusive	22,106	26,317
– Over five years	13,566	14,640
	<u>52,596</u>	<u>57,087</u>

As lessor

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
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:		
– Within one year	240	–
– In the second to fifth years, inclusive	120	–
	<u>360</u>	<u>–</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

During the six months ended 30 June 2005, the Group recorded a total turnover of approximately RMB307,460,000 and a gross profit of approximately RMB104,749,000, representing an increase in total turnover of approximately 43.14% over the corresponding period of last year. The increase was primarily attributed to the increase in number of natural gas users, coupled with the substantial increase in gas consumption by industrial, commercial and vehicular users.

Gross profit margin of the Group for the Relevant Period was approximately 34.07%, which was lower than that of approximately 37.12% 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 six months ended 30 June 2004, the proportion of this revenue in the total turnover was 31.60%. During the Relevant Period, the proportion of this revenue in the total turnover dropped to 25.61%. Furthermore, commencing from 1 April 2005, the price of natural gas purchased from the Project of Transmitting Natural Gas through the West to the East Pipelines increased from RMB1.16 per m³ to RMB1.2 per m³, which also caused the decrease in the gross profit margin of the Group.

During the Relevant Period, non-cost-of-sales expenses amounted to approximately RMB36,492,000, representing an increase of 78.50% as compared to approximately RMB20,443,000 for the corresponding period of last year. The main reason was the substantial increases in staff costs and lease expenses. During the Relevant Period, staff costs, which were included in the selling and distribution costs and administrative costs, amounted to approximately RMB14,556,000, representing an increase of approximately 24.90% as compared to



approximately RMB11,654,000 for the corresponding period of last year. In addition, due to the scaling up of production and operation, the Group's lease expenses which were included in the selling and distribution costs and administrative costs amounted to approximately RMB6,878,000 for the Relevant Period, representing an increase of 203.16% from approximately RMB2,269,000 over the corresponding period of last year.

Income tax expenses of the Group for the Relevant Period were approximately RMB8,744,000, representing a decrease of approximately 56.98% as compared to approximately RMB20,325,000 for the corresponding period of last year. The decrease was largely due to the tax arrangements made by the Group, under which part of the revenue from pipeline construction which was used to be received by the Company was received by a subsidiary which was entitled to lower income tax rate instead.

Net profit attributable to shareholders of the Group for the Relevant Period was approximately RMB52,458,000, representing an increase of approximately 41.47% from approximately RMB37,080,000 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 RMB205,328,000, representing an increase of approximately 57.34% from approximately RMB130,497,000 over the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 131,740,000 m³, representing an increase of approximately 48.90% as compared with approximately 88,475,000 m³ 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:

	Six months ended 30 June					Increase %
	2005		2004			
	Gas consumption (approximately '000m ³)	As a percentage of total gas consumption	Gas consumption (approximately '000m ³)	As a percentage of total gas consumption		
Natural Gas						
total gas consumption	131,740		88,475			48.90%
including:						
residential users	46,560	35.34%	37,589	42.49%		23.87%
commercial users	39,720	30.15%	21,294	24.07%		86.53%
industrial users	24,420	18.54%	20,312	22.96%		20.22%
vehicular users	21,040	15.97%	9,280	10.49%		126.72%

According to the table above, gas consumption by residential users of the Group was approximately 46,560,000 m³ during the Relevant Period, representing a steady increase of approximately 23.87% over the corresponding period of last year. Gas consumption by industrial users maintained a steady growth during the Relevant Period and amounted to approximately 24,420,000 m³, representing an increase of approximately 20.22% over that of the corresponding period of last year. Gas consumption by commercial users during the Relevant Period amounted to approximately 39,720,000 m³, representing a substantial increase of approximately 86.53% over the corresponding period of last year. The main reasons for the substantial increase in gas consumption 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 at the beginning of the year 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 30 June 2005, the Group has 531,657 residential users, representing an increase of 23,236 users as compared with 508,421 residential users as at 31 December 2004, 1,093 commercial users representing an increase of 127 users as compared with 966 commercial users as at 31 December 2004, and 45 industrial users, representing an increase of 7 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 934, and the total number of natural gas powered vehicles converted has reached 5,013 as at 30 June 2005. The sale of gas to vehicular users reached 21,040,000 m³, representing an increase of 126.72% as compared with 9,280,000 m³ 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.

In addition, 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 fixed assets of approximately RMB7,789,000, and has 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 RMB3,218,000.

Natural gas pipeline construction services

For the Relevant Period, the Group's turnover attributable to the natural gas pipeline construction services amounted to approximately RMB79,547,000 relating to the connection of natural gas supply for 24,768 residential users and 54 commercial users, representing a growth of 15.96% as compared with RMB68,598,000 for the corresponding period of last year. The increase 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 RMB19,297,000, representing an increase of 6.68% as compared with RMB14,490,000 for the corresponding period of last year. Such increase was mainly due to an increase in the number of residential users.



Net profit and shareholders' return

Net profit margin of the Group for the Relevant Period was 17.06%, representing a decrease from 17.26% of the corresponding period of last year. Such decrease was primarily attributed to the decrease in gross profit margin and the significant increase in administrative costs.

In addition, average returns to shareholders for the Relevant Period, based on the profit attributable to shareholders of the Company divided by the average of shareholders' equity of the Company at the beginning and at the end of the period, was 13.53%, which was higher than that of 11.32% of the corresponding period of last year. Such increase was due to the growth in profits.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group relies on cash generated from its internal operation, net proceeds from the placing of H Shares and bank balances or cash in hand to meet its requirements of capital expenditure and operations. The Directors are of the view that, in the long run, the Group will generate liquidity from its business operation and may consider making use of further equity finances or bank loans when necessary.

As at 30 June 2005, the Group had no outstanding interest-bearing bank borrowings.

As at 30 June 2005, the Group had outstanding loans of RMB12,433,000 due to Zhengzhou Gas Group Co., Ltd., the holding company of the Group.

Net current assets

As at 30 June 2005, the Group had net current liabilities of approximately RMB5,648,000 (31 December 2004: net current liabilities of approximately RMB21,504,000). There was an advanced payment received of approximately RMB134,707,000 in the current liabilities, which was unrecognized income, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB140,355,000 after deducting such advanced payment received.

Working capital

As at 30 June 2005, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB150,266,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity to liabilities ratio

As at 30 June 2005, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 204.12% which was higher than that of approximately 174.48% as at 31 December 2004, which indicated that, with over half of the assets being financed by its shareholders, the Group had ample room for external borrowings.

Foreign currency risk

All of the Group's business 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 30 June 2005, the Group had no significant contingent liability or any asset under pledge.



Employees and remuneration policy

There is no significant change in the Group's employees and remuneration policy compared to that disclosed in the annual report for the year ended 31 December 2004.

Future Prospects

Zhengzhou's precedence in the rise of Central China

The Chinese government is currently implementing the policy of "The Rise of Central China", following the development strategies of "The Development of Coastal Regions", "Development of West China", etc. As the Capital of Henan, a province which is situated in Central China with a comparatively large population, Zhengzhou naturally becomes the leading city of "The Rise of Central China" strategy. Zhengzhou is currently developing a new area called "Zheng East New District", which is currently under construction and has a total area of 150 sq.m. (equivalent to that of the developed urban area in Zhengzhou) and a planned population of 1.5 million. The new development area comprises central business district, commercial and residential logistics zone, high-tech park, and economic and technological development zone. It is set to attract investments from large enterprises in industrial and commercial sectors all over the world. Upon completion of this new development area, Zhengzhou will become one of the regional hubs of the nation with massive population flows, logistics activities and fund flows. Backed by such policies, we believe that our business will have ample room for growth in the next decade.

With a stronger emphasis on environmental protection in Zhengzhou City, coal furnaces under 10 tons will be phased out by 2006, and coal combustion free zones will continuously expand, providing the Group with opportunities for further exploring the commercial users market. Meanwhile, to maintain a balanced development of commercial and industrial sectors in Zhengzhou, Zhengzhou municipal government has promulgated certain preferential policies to encourage industrial investments, which will to a certain extent boost the Group's development in the market of industrial users. In respect of vehicular gas business, the Group will continue to build additional natural gas refueling stations to expand its vehicular gas supply network.

With a well-established base for the natural gas business in Zhengzhou, and more than 20 years of experience in the natural gas industry, the Group intends to search for appropriate acquisition and joint-venture projects outside Zhengzhou, especially in cities alongside the West to the East Pipelines Project and cities within the Henan Province, so as to increase shareholders' return.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

New shares issued by the Company were listed on GEM on 29 October 2002 (the "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 six months ended 30 June 2005, net proceeds from the public listing were used in accordance with application plans set out in the prospectus dated 22 October 2002 (the "Prospectus") as follows:

	Six months ended 30 June 2005	
	Application of proceeds as planned in the Prospectus RMB million	Actual application of proceeds RMB million
Ancillary works for the "West to East Pipelines" project (Note 1)	0 *	9.10
General working capital	0	3.36
Total	0	12.46

Notes:

1. Proceeds from the public listing planned to be used in 2004 in ancillary works for the "West to East Pipelines" project is principally to be used in the construction of high-pressure transmission pipelines in Fourth Ring Road (四环路). Since the project is delayed to July 2004, the fund planned for such investment remains unused until the first half of 2005.

As at 30 June 2005, proceeds of approximately RMB118,897,000 raised from the public listing on 29 October 2002 by the Group have fully been used in accordance with the business objectives described in the Prospectus.

* The exchange rate used throughout this section is fixed at HK\$1.00 = RMB1.06.

OTHER INFORMATION

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

As at 30 June 2005, the interests or short positions of the Directors, chief executives and supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the 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	Capacity/ Nature of interests	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % in total registered share capital of the Company
Gao Mingshun	Corporate (Note 1)	15,400,000	2.20%	1.23%
Li Keqing	Corporate (Note 2)	115,500,000	16.48%	9.23%

Notes:

- (1) As at 30 June 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 30 June 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 30 June 2005, none of the Directors, chief executives 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 to be notified to the Company and the Stock Exchange.

DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or supervisor of the Company, as at 30 June 2005, the persons or companies (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

Long positions in shares

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 share capital of the Company
Zhengzhou Gas Group Co., Ltd Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (Note 1)	Beneficial owner			540,415,098	77.11%	43.18%
Guo Wenjun (Note 2)	Family			115,500,000	16.48%	9.23%
Daiwa SB Investments (HK) Limited	Beneficial owner	50,300,000	9.13%	115,500,000	16.48%	9.23%
Partners Capital International Limited (Note 3)	Beneficial owner	27,900,000	5.07%			4.02%
						2.23%

Name of subsidiary of the Company in which any shareholder, excluding the Company, holds 10% or above of any class of share capital

Name of subsidiary	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, 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 30 June 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 30 June 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 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 Company.

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

Save as disclosed above, during the six months ended 30 June 2005, none of the Directors, chief executives or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2005, none of the Directors, chief executives or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company nor its subsidiaries 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 30 June 2005.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2005, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, save and except the following:

Code provisions B.1.1 and B.1.3 of the Code stipulate that the majority of the members of the remuneration committee of the Company should be independent non-executive Directors and that the terms of reference of the remuneration committee should include, as a minimum, the specific duties set out in code provision B.1.3 of the Code.

The remuneration committee of the Company was established in 2002 with written terms of reference. During the six months ended 30 June 2005, the composition of the remuneration committee and its terms of reference did not comply with Code provisions B.1.1 and B.1.3. On 21 July 2005, by a board resolution of the Company, the composition of the remuneration committee was altered. There are currently five members in the remuneration committee, of which three are independent non-executive Directors. On the same date, amended terms of reference of the remuneration committee were adopted to comply with code provision B.1.3.



SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors of the Company, after having made enquiry among themselves, confirmed that they have complied with the Company's code of conduct regarding securities transactions by directors throughout the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company established an audit committee on 31 March 2002 with terms of reference in compliance with Rules 5.28 and 5.33 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 has held two official meetings and reviewed the interim report.

COMPETING INTERESTS

Zhengzhou Gas Group Co., Ltd., being the controlling shareholder and initial management shareholder of the Company, is engaged in the wholesales 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 AND SUPERVISOR

The members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閻國起) (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 August 2005, Zhenzhou, PRC