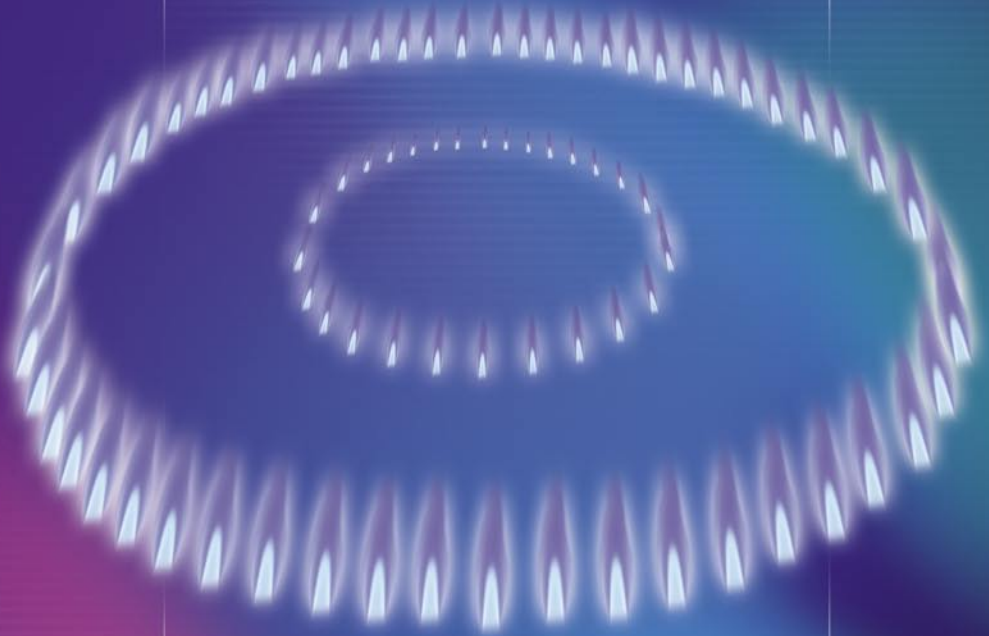


# Zhengzhou Gas



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)

**Third Quarterly Report 2005**

\* for identification purpose only

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

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*This report, for which the directors (the “Directors”) of Zhengzhou Gas Company Limited 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 of the Group and profit attributable to shareholders of the Company amounted to approximately RMB431,624,000 and RMB70,213,000 respectively, representing respective increases of approximately 38.85% and 42.51% as compared with the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB289,816,000, representing an increase of approximately 51.12% as compared with 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 RMB113,886,000 for the Relevant Period, representing an increase of approximately 18.24% as compared with the corresponding period of last year, which was primarily attributed to the satisfactory growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0561, representing an increase of approximately RMB0.0167 as compared with approximately RMB0.0394 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 THIRD 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 nine months ended 30 September 2005 (the "Relevant Period") and comparative figures of the corresponding period of 2004 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	3	<b>124,164</b>	96,067	<b>431,624</b>	310,863
Cost of sales		<b>(77,918)</b>	(65,638)	<b>(280,629)</b>	(200,702)
Gross profit		<b>46,246</b>	30,429	<b>150,995</b>	110,161
Other revenue		<b>569</b>	248	<b>1,699</b>	669
Selling and distribution costs		<b>(6,312)</b>	(3,788)	<b>(17,948)</b>	(8,824)
Administrative costs		<b>(17,939)</b>	(13,964)	<b>(42,795)</b>	(29,246)
Other operating costs		<b>(78)</b>	(691)	<b>(254)</b>	(816)
Profit from operating activities		<b>22,486</b>	12,234	<b>91,697</b>	71,944
Finance costs		-	-	-	-
Profit before income tax		<b>22,486</b>	12,234	<b>91,697</b>	71,944
Income tax expenses	4	<b>(756)</b>	3,893	<b>(9,500)</b>	(16,432)
Profit for the period		<b>21,730</b>	16,127	<b>82,197</b>	55,512
Attributable to:					
Shareholders of the Company		<b>17,755</b>	12,190	<b>70,213</b>	49,270
Minority interests		<b>3,975</b>	3,937	<b>11,984</b>	6,242
		<b>21,730</b>	16,127	<b>82,197</b>	55,512
Earnings per share					
- Basic (RMB Yuan)	5	<b>0.0142</b>	0.0097	<b>0.0561</b>	0.0394

NOTES:

**1. BASIS OF CONSOLIDATION AND PRESENTATION**

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

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

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

The Group is principally engaged in the sale of piped natural gas, gas appliances and 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 and nine months ended 30 September 2005 together with the comparative figures for the corresponding period in 2004 is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Natural gas	<b>84,488</b>	61,281	<b>289,816</b>	191,778
Liquefied Petroleum Gas	–	–	<b>3,217</b>	–
Gas appliances and pressure control equipment	<b>871</b>	2,405	<b>4,089</b>	5,828
Gas pipeline				
– Gas pipeline construction	<b>34,339</b>	27,716	<b>113,886</b>	96,314
– Gas pipeline repairs and maintenance services	<b>6,240</b>	6,271	<b>25,537</b>	20,761
Others	<b>10</b>	13	<b>38</b>	72
	<b>125,948</b>	97,686	<b>436,583</b>	314,753
Less: Business tax and government surcharges	<b>(1,784)</b>	(1,619)	<b>(4,959)</b>	(3,890)
Turnover	<b>124,164</b>	96,067	<b>431,624</b>	310,863

#### 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 Group has been provided at the applicable income tax rates of the Company and its subsidiaries in accordance with the relevant tax laws and regulations.

	Three months ended 30 September		Nine months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Provision for income tax in respect of profit for the period:				
– Current	484	(1,744)	5,250	13,425
– Deferred	272	(2,149)	4,250	3,007
<b>Tax expenses for the period</b>	<b>756</b>	<b>(3,893)</b>	<b>9,500</b>	<b>16,432</b>

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

#### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately RMB70,213,000 (corresponding period in 2004: approximately RMB49,270,000) 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: 1,251,500,000 shares).

Diluted earnings per share for the nine months ended 30 September 2004 and 2005 have not been calculated as no diluting events existed during those periods.

## 6. RESERVES

The changes in reserves for the nine months ended 30 September 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	-	-	-	-	37,080	37,080
As at 30 June 2004	101,026	13,797	13,797	12,752	76,833	218,205
Profit for the period	-	-	-	-	12,190	12,190
As at 30 September 2004	101,026	13,797	13,797	12,752	89,023	230,395
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	-	-	-	-	52,458	52,458
As at 30 June 2005	101,026	25,483	23,265	19,905	109,091	278,769
Profit for the period	-	-	-	-	17,755	17,755
<b>As at 30 September 2005</b>	<b>101,026</b>	<b>25,483</b>	<b>23,265</b>	<b>19,905</b>	<b>126,846</b>	<b>296,524</b>

## DIVIDEND

The Directors do not recommend the payment of interim dividend for the nine months ended 30 September 2005.

## CONNECTED TRANSACTIONS

On 23 September 2005, the Company and Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), the controlling shareholder of the Company, entered into an equipment sale and purchase agreement (the "Equipment Sale and Purchase Agreement"), pursuant to which the Company agreed to purchase from Zhengzhou Gas Group certain equipment, which was previously leased to the Group by Zhengzhou Gas Group and used by the Group for its operational use at a consideration of RMB2,622,000 (approximately HK\$2,513,902) which had been determined after arm's length negotiation between the Company and Zhengzhou Gas Group with reference to the fair market value of RMB2,622,000 (approximately HK\$2,513,902) as appraised by CB Richard Ellis Limited, a professional independent valuer not being a connected person of the Company as at 30 June 2005. The consideration under the Equipment Sale and Purchase Agreement is the same as the professional valuation as stated in the valuation report of CB Richard Ellis Limited.

On 23 September 2005, the Company and Zhengzhou Zhengran Gas Appliances Company Limited ("Zhengran Gas Appliances"), a subsidiary of the Zhengzhou Gas Group, entered into a gas meters sale and purchase agreement (the "Gas Meters Sale and Purchase Agreement"), pursuant to which the Company agreed to purchase gas meters (the "Gas Meters") from Zhengran Gas Appliances at a consideration of RMB1,731,803 (approximately HK\$1,660,406) which had been determined after arm's length negotiation between the Company and Zhengran Gas Appliances with reference to the prevailing market price of the Gas Meters. The Gas Meters will be used to replace obsolete or inappropriate gas meters of some of the natural gas users in order to ensure the accurate records of gas sales.

Details of the above connected transactions were set out in the announcement of the Company published on the GEM website on 23 September 2005.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *General*

During the Relevant Period, the Group recorded a total turnover of approximately RMB431,624,000 and a gross profit of approximately RMB150,995,000, representing an increase in total turnover of approximately 38.85% as compared with 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 34.98%, which was lower than that of approximately 35.44% for the corresponding period of last year. The main reason was that the price of natural gas purchased from the West-East Pipeline Project had increased from RMB1.16 per m<sup>3</sup> to RMB1.2 per m<sup>3</sup> since 1 April 2005.

During the Relevant Period, administrative expenses amounted to approximately RMB42,795,000, representing an increase of 46.33% as compared with approximately RMB29,246,000 for the corresponding period of last year, which was primarily due to the increase in staff costs. In addition, sales and distribution expenses for the Relevant Period were approximately RMB17,948,000, representing an increase of approximately 103.40% from approximately RMB8,824,000 for the corresponding period of last year. This was mainly due to the expansion in operation scale which led to a substantial increase in depreciation and lease expenses.

Income tax expenses of the Group for the Relevant Period were approximately RMB9,500,000, representing a decrease of approximately 42.19% from approximately RMB16,432,000 for the corresponding period of last year. The decrease was largely due to the taxation arrangement 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 enjoyed a lower income tax rate.

Net profit attributable to shareholders of the Company for the Relevant Period was approximately RMB70,213,000, representing an increase of approximately 42.51% from approximately RMB49,270,000 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 RMB289,816,000, representing an increase of 51.12% from approximately RMB191,778,000 as compared with the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 183,440,000m<sup>3</sup>, representing an increase of approximately 43.65% as compared with approximately 127,700,000m<sup>3</sup> 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:

Natural Gas	Nine months ended 30 September 2005		2004		Increase %
	Gas Consumption	As a percentage of total gas consumption	Gas Consumption	As a percentage of total gas consumption	
Total gas consumption (approximately '000 m <sup>3</sup> )	<b>183,440</b>		127,700		43.65%
Including:					
Residential users	<b>62,137</b>	<b>33.87%</b>	51,150	40.05%	21.48%
Commercial users	<b>51,131</b>	<b>27.87%</b>	28,910	22.64%	76.86%
Industrial users	<b>36,132</b>	<b>19.70%</b>	30,310	23.74%	19.21%
Vehicular users	<b>34,040</b>	<b>18.56%</b>	17,330	13.57%	96.42%

According to the table above, gas consumption by residential users for the Relevant Period amounted to 62,137,000m<sup>3</sup>, representing a steady increase of 21.48% as compared with the corresponding period of last year. Gas consumption by industrial users for the Relevant Period remained stable at 36,132,000m<sup>3</sup>, representing an increase of 19.21% as compared with the corresponding period of last year. Gas consumption by commercial users for the Relevant Period reached 51,131,000m<sup>3</sup>, representing an increase of 76.86% as compared with the corresponding period of last year. The substantial increase in gas consumption by commercial users was primarily due to the following reasons: (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) as the temperature at the beginning of the year was lower than that at the beginning of last year, commercial users such as hotels and restaurants consumed more natural gas for heating than in the beginning of the last year; and (3) a regional natural gas thermal station designed to supply heat to the East Zhengzhou Economic Development Zone has commenced operation, leading to a very remarkable increase in commercial gas consumption, as compared with the corresponding period of last year.

As at 30 September 2005, the Group had 555,378 residential users, representing an increase of 46,957 users as compared with 508,421 residential users as at 31 December 2004; 1,153 commercial users representing an increase of 187 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 increased by 1,312 and the total number of natural gas powered vehicles reached 5,391 as at 30 September 2005. The sale of gas to vehicular users reached 34,040,000m<sup>3</sup>, representing an increase of 96.42% as compared with 17,330,000m<sup>3</sup> for the corresponding period of last year. For the three months ended 30 September 2005, the Group slowed down the business development in respect of vehicular users mainly because there are only 8 natural gas refueling stations in Zhengzhou, which are not enough to meet the increasing demand of vehicular users for gas consumption. The Group will proactively build more natural gas refueling stations to cater for the development of vehicular gas business.

#### *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 made an arrangement with Zhengzhou Gas Group Co. Ltd., the holding company of the Company, for the supply of 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 the sales of gas appliances and pressure control equipment. The former includes 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 targets for marketing are other natural gas distributors. During the Relevant Period, turnover attributable to the sale of gas appliances and pressure control equipment amounted to approximately RMB4,089,000.

### *Natural gas pipeline construction services*

For the Relevant Period, the Group's turnover attributable to the natural gas pipeline construction services amounted to approximately RMB113,886,000, representing the connection of natural gas supply for 34,934 residential users and 85 commercial users, an increase of approximately 18.24% as compared with the approximately RMB96,314,000 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. The average fee for connection of natural gas supply for each residential user was RMB2,953 while that for each commercial user was RMB90,995.

In addition, the Group also charges users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB25,537,000, representing an increase of 23.00% as compared with RMB20,761,000 for the corresponding period of last year. Such increase was mainly due to an increase in the number of residential users.

### **Future Prospects**

The Chinese government is currently implementing the policy of "The Rise of Central China", further to the development strategies of "Development of Coastal Regions", "Development of West China", etc.. Zhengzhou, as the capital of Henan Province, the most populous province in Central China, naturally plays the leading role in "The Rise of Central China" strategy. Zhengzhou is currently developing a new area called "Zheng East New District", which will cover a total area of approximately 150 km<sup>2</sup>. (equivalent to the existing developed urban area in Zhengzhou) and a population of 1.5 million as planned. The new development area will include, inter alia, a central business district, commercial, residential and logistics zone, high-tech park, economic and technological development zone, to attract investments from large enterprises in the industrial and commercial sectors from all over the world. Upon completion of this new development area, Zhengzhou will become one of the regional hubs in China with massive population flow, logistics activities and capital flow. Backed up by such favourable 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, coal furnaces under 10 tons will be replaced before 2006 and the coal combustion-free zone will be further expanded. Both measures provide the Group a golden opportunity for further exploring the market of commercial users. Further, in order to maintain a balanced development of industrial and commercial sectors in Zhengzhou, the local government of Zhengzhou has promulgated a number of preferential policies to encourage industrial investments and it is believed that such policies will, to a certain extent, help the Group to develop the market of industrial users. In respect of the vehicular gas business, the Group will continue to build more natural gas refueling stations to further improve the vehicular gas supply network.

## OTHER INFORMATION

### THE INTEREST OF DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN SHARES

As at 30 September 2005, the interests and short positions of the Directors, chief executive 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 30 September 2005, Gao Mingshun was interested in 15,400,000 domestic shares as a result of his 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 September 2005, Li Keqing was interested in 115,500,000 domestic shares as a result of the aggregate interest of him and his spouse, Guo Wenjun, 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 September 2005, none of the Directors, chief executive 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 30 September 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	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			540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (Note 1)			115,500,000	16.48%	9.23%
Guo Wenjun (Note 2)			115,500,000	16.48%	9.23%
Emirates International Investment Company LLC	100,000,000	18.16%			7.99%
Daiwa SB Investments (HK) Limited	50,300,000	9.13%			4.02%

Name of subsidiary of the Company in which any shareholder, excluding the Company, holds any category of capital interest of 10% or above of any class of share capital	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. As at 30 September 2005, 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 30 September 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.

Save as disclosed above, as at 30 September 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 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.

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

Save as disclosed above, during the three months ended 30 September 2005, none of the Directors, chief executive or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 September 2005, none of the Directors, chief executive 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 and 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 September 2005.

## **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 nine months ended 30 September 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 currently comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive directors of the Company, and Mr. Zhang Wushan, a non-executive director. Ms. Yu Shulian is the chairperson of the audit committee.

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



## COMPETING INTERESTS

Zhengzhou Gas Group, being the controlling shareholder and initial management shareholder of the Company, is engaged in the wholesales of bottled LPG in Zhengzhou. The Company is engaged in the selling of pipeline natural gas. As both of the business of Zhengzhou Gas Group and the Company 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), Mr. Li Yantong (李燕同) and Mr. Li Jinliu (李金陸); (ii) the non-executive Directors, namely, Mr. Zhang Wushan (張武山), Mr. Yang Degu (楊德固) and Ms. Bao Hongwei (鮑紅偉); 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*

\* *for identification purpose only*

10 November 2005, Zhengzhou, the PRC