Zhengzhou Gas Company Limited*

stock code : 8099

Annual Report 2005

* for identification purpose only

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Yan Guoqi (閆國起), *(Chairman)*
Mr. Song Jinhui (宋金會)
Mr. Li Yantong (李燕同)
Mr. Li Jinliu (李金陸)

Non-executive Directors

Mr. Zhang Wushan (張武山)
Mr. Yang Degu (楊德固)
Ms. Bao Hongwei (鮑紅偉)

Independent Non-executive Directors

Mr. Zhang Yichun (張亦春)
Mr. Liu Jianwen (劉劍文)
Ms. Yu Shulian (余恕蓮)

SUPERVISORS

Mr. Chang Zongxian (常宗賢)
Ms. Niu Minghua (牛鳴華)
Mr. Li Zizheng (李自正)
Mr. Ding Ping (丁平)
Ms. Zhou Weihua (周衛華)
Mr. Cai Yuming (蔡玉明)
Mr. Yang Guirong (楊桂榮)

AUDIT COMMITTEE

Ms. Yu Shulian *(Chairlady)*
Mr. Zhang Yichun
Mr. Zhang Wushan

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳)
HKICPA, CPA Australia

COMPLIANCE OFFICER

Mr. Yan Guoqi

QUALIFIED ACCOUNTANT

Mr. Wong Cheuk Lam
HKICPA, CPA Australia

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 908, 9th Floor
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Hong Kong

LEGAL ADVISER TO THE COMPANY

As to Hong Kong law:
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(in association with King & Wood, PRC Lawyers)
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10 Harcourt Road
Central
Hong Kong

AUDITORS AND REPORTING ACCOUNTANTS

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Certified Public Accountants
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Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
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Hong Kong

PRINCIPAL BANKERS

Zhengzhou Commercial Bank
Commodity Exchange Branch
Weilai Building
69 Weilai Road
Zhengzhou City
Henan Province
PRC

Industrial and Commercial Bank of China
Funiu Road Branch, Zhengzhou City
26 Funiu Road South
Zhengzhou City
Henan Province
PRC

STOCK CODE

8099

Financial Highlights

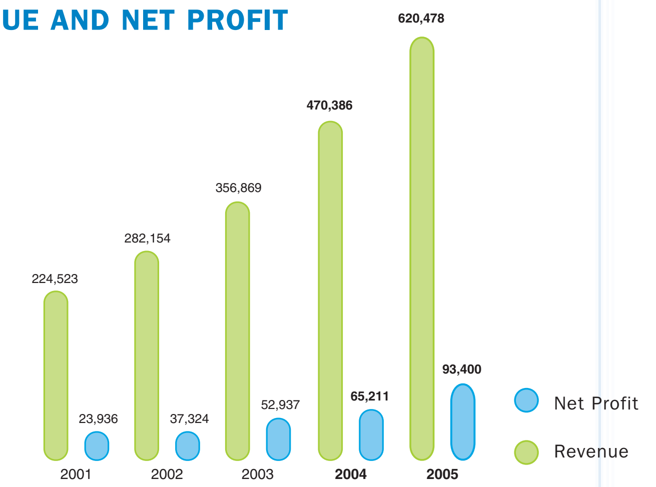
FINANCIAL STATISTICS

For the year ended 31 December

	2005 (RMB'000)	**2004 (RMB'000)**	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)
Revenue	**620,478**	**470,386**	356,869	282,154	224,523
Profit before taxation	**126,310**	**98,722**	78,457	56,238	36,058
Net profit attributable to the equity holders of the Company	**93,400**	**65,211**	52,937	37,324	23,936
Earnings per share (RMB in Yuan) (Basic and Diluted)	**0.075**	**0.052**	0.042	0.044	0.032

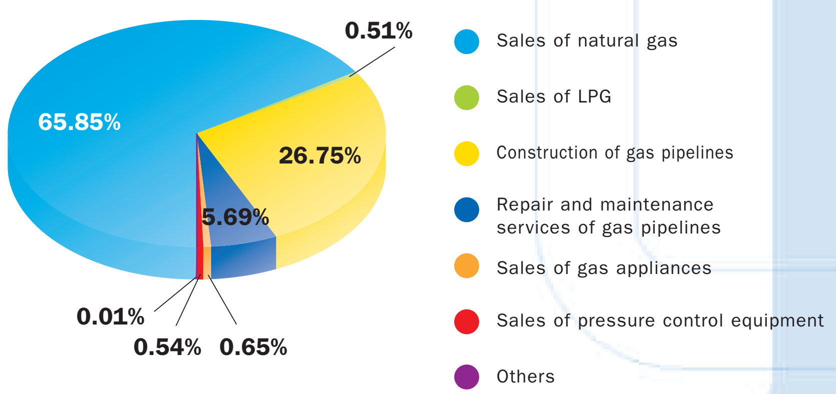
REVENUE AND NET PROFIT

RMB'000



REVENUE BREAKDOWN

(For the year ended 31 December, 2005)



Chairman's Statement

Mr. Yan Guoqi
Chairman

To all shareholders,

During the year ended 31 December 2005 (the "Relevant Period"), Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (together referred to as "the Group") successfully captured the opportunities arising from the rapid economic growth of Zhengzhou City to increase the scale of gas supply, which enabled the Company to maintain a sustained growth and recorded the best operating results ever since the establishment of the Group. Hereby, I would like to share with all shareholders the Group's business performance in the past year and the prospects in the future.

Performance Review and Dividends

During the Relevant Period, the Group recorded remarkable results with total revenue of RMB620,478,000 and profit attributable to equity holders of the Company of RMB93,400,000, representing an increase of 31.91% and 43.23% respectively over the corresponding period of last year. In consideration of the favourable operating results, the board (the "Board") of directors (the "Directors") of the Company is pleased to resolve the payment of a dividend of RMB0.0138 per share to shareholders so that they can share the Group's fruitful results.

Grow together with the City of Zhengzhou

During the year 2005, Zhengzhou's economy grew with noteworthy prosperity. According to the statistics released by the Statistical Bureau of Zhengzhou City, as at the end of 2005, there were 54 municipalities out of the total 287 in the People's Republic of China (the "PRC") recording a GDP of over RMB100 billion, among which Zhengzhou ranked 25 with a GDP of RMB165 billion, representing an increase of 15.8% over that of 2004, and ranked 17 by growth rate. The industrial, commercial and real estate industry all demonstrated well-grounded growth momentum, bringing forth a long-awaited and precious opportunity for the Group's expansion. During the Relevant Period, the Group had secured 60,069 new residential

Chairman's Statement

users, making the total number of residential users to 568,490. Meanwhile, the Group had developed 248 new commercial users, making the total number of commercial users to 1,214 and the Group also secured 10 new industrial users, thus making the total number of industrial users to 48 and the number of vehicular users also increased by 1,443 to a total of 5,522. Due to the rapid growth of the number of users, the Group's revenue generated from natural gas sales for the Relevant Period exceeded RMB400 million. Sales volume of natural gas amounted to 261,890,000 m^3, representing an increase of 32.3% as compared with 197,954,000 m^3 for the corresponding period of last year.

Natural Gas Supply Fell Short of Demand

Zhenzhou's annual consumption of natural gas increased from 88,840,000 m^3 in 2002 to 261,890,000 m^3 in the Relevant Period, representing an increase of several times in 3 years, causing the demand to outgrow the supply during the peak hours in winter. The shortage of natural gas supply in Zhengzhou was just an episode of the whole picture of energy shortage in China, which in turn was well reflected in Zhengzhou's energy supply status. To cope with the new challenge brought by the natural gas shortage, the Company tried to resolve the problem in 2 ways, the first one was to negotiate extra gas supply from suppliers such as PetroChina Company Limited ("PetroChina") and China Petroleum & Chemical Corporation ("SINOPEC"), and the second one was to seek for new sources of gas supply, such as introducing coal layer gas from Jincheng, Shanxi Province and compressed natural gas from Xuedian as ancillary gas sources. The Group also concluded the letter of intent for the supply of liquefied natural gas with Xinjiang Guanghui Co., Ltd., aiming to set up a liquefied natural gas storage base. In the long run, the Sichuan-to-Henan gas pipeline project of SINOPEC and the West to East Pipelines Project (2nd phase) of PetroChina can both satisfy Zhengzhou's demand for natural gas.

Speed Up Infrastructure Construction to Increase Gas Transmission and Storage Capacity

During the Relevant Period, the Group completed the construction of natural gas pipelines along 47 urban roads, with a total length of 2,300 kilometers, covering most of the major roads and residential areas in Zhengzhou, and further enhanced the network of urban gas pipeline. The medium to high pressure-adjustment stations in the north-western area commenced trial run in November 2005, thus opened up a second channel for the transmission of gas from the West to East Pipelines into Zhengzhou. The high pressure natural gas pipelines project along the south-western Fourth Ring Road commenced construction on 30 November 2005 and progressed as planned. Upon completion of the pipeline project, the gas transmission capacity of the Group will be further enhanced. Since the commencement of construction works in October 2002, the Group has invested up to RMB46,000,000 in pipelines construction in the newly-developed Zheng East New District, with a total length of nearly 90 kilometers. In addition, the Group also spent another RMB20 million in expanding two existing vehicular gas refuelling stations and building a new one.

Chairman's Statement

Provide Comprehensive Service and Improved Service Quality

During the Relevant Period, the Company improved its procedures to handle customer complaints and set up a quick response mechanism by introducing the "Measures for Management of Customer Complaints" and the "Satisfaction Guaranteed Service System", with an objective of enhancing our customer service standards. The Company has clearly set out the customer service and performance benchmarks for front-line staff through implementing the "Customer Service Workflow and Performance Standards", and the Company also conducts random survey on customers and set their satisfaction rate as the main criteria for assessing the performance of front-line staff.

Commencement of the Main Board Listing Program and the improvement of its Fund Raising Capability

In order to further enhance its fund raising capability as well as its stock liquidity, it was resolved in the Relevant Period to proceed with the program of the migration of its listing status from the GEM to the main board of the Stock Exchange and obtained the approval of the shareholders at the EGM held on 21 November 2005 to submit such application to the relevant PRC regulatory authorities. The Company is currently making necessary preparations and will submit the application to the relevant PRC regulatory authorities in due course.

Enhance Corporate Governance

In order to enhance its corporate governance, the Company has reinforced the power and responsibilities of the Nomination Committee, the Remuneration & Appraisal Committee and the Audit Committee under the Board as well as the roles of independent non-executive directors in those committees, which in turn, will further improve the Company's decision-making process. The Company has also established an Internal Audit Department to consolidate internal control. Meanwhile, the Company introduced two independent supervisors to strengthen the reform of its corporate governance structure.

Chairman's Statement

Prospects

Looking into the future, the Company will be facing both opportunities and challenges. The steady economic growth of Zhengzhou and the continuous expansion of its urban area have laid a solid foundation for the Group's future development, and there is huge growth potential in the natural gas market of Zhengzhou. However, insufficient gas sources will continue to pose a major obstacle for the Company's future expansion. The Company will continue to push on its reform and enhance its core competitive edge so as to achieve the objective of a listing on the main board of the Stock Exchange, and will make continuous efforts to maximize the value of the Company through optimizing the pricing system and consolidating its capability of sustained growth.

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

Zhengzhou Gas Company Limited
Chairman
Yan Guoqi

13 March 2006, Zhengzhou

Management Discussion and Analysis

Mr. Song Jinhui
Executive Director and General Manager

Performance Review

The Group is principally engaged in the sale of piped natural gas and gas appliances to residential, commercial, industrial and vehicular users, sale of pressure control equipment and the provision of gas pipeline construction services. Analysis of the revenue of each product and service (see Table 1), the number of customers of natural gas (see Table 2) and gas consumption (see Table 3) for the year ended 31 December 2004 and 2005 are set out below:

Table 1 Revenue

	Year ended 31 December				
	2005		2004		
	Revenue *(RMB'000)*	**As % of revenue**	Revenue *(RMB'000)*	As % of revenue	Growth
Natural gas	**413,606**	**65.85%**	300,699	63.19%	37.55%
LPG	**3,216**	**0.51%**	–	–	N/A
Gas appliances	**4,091**	**0.65%**	5,825	1.22%	-29.77%
Pressure control equipment	**3,414**	**0.54%**	3,912	0.82%	-12.73%
Gas pipelines					
– Construction of gas pipelines	**168,049**	**26.75%**	133,060	27.96%	26.30%
– Repairs and maintenance of gas pipelines	**35,721**	**5.69%**	32,114	6.75%	11.23%
Others	**50**	**0.01%**	288	0.06%	-82.64%
	628,147	**100.00%**	475,898	100.00%	31.99%
Less: Business tax and government surcharges	**(7,669)**		(5,512)		
Total	**620,478**		470,386		31.91%

Management Discussion and Analysis

Performance Review *(continued)*

Table 2 The number of customers of natural gas

	Year ended 31 December		
	2005	2004	Growth
Residential customers	**568,490**	508,421	11.81%
Commercial customers	**1,214**	966	25.67%
Industrial customers	**48**	38	26.32%
Vehicular customers	**5,522**	4,079	35.38%
Total:	**575,274**	513,504	12.03%

Table 3 Gas Consumption

	Year ended 31 December				
	2005		2004		
	Gas consumption	**As % of gas consumption**	Gas consumption	As % of gas consumption	**Growth %**
Natural gas					
Total gas consumption					
(in approximate'000 m^3)	**261,890**		197,954		**32.30%**
of which					
residential users	**89,737**	**34.27%**	69,222	34.97%	**29.64%**
commercial users	**81,895**	**31.27%**	56,806	28.70%	**44.17%**
industrial users	**49,921**	**19.06%**	45,686	23.08%	**9.27%**
vehicular users	**40,337**	**15.40%**	26,240	13.26%	**53.72%**

General

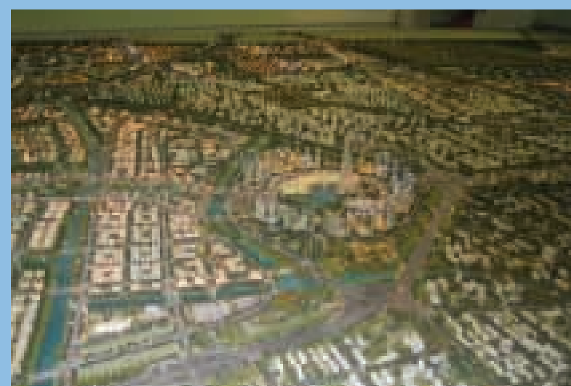
For the year ended 31 December 2005, the Group recorded a revenue of approximately RMB620,478,000 and gross profit of approximately RMB209,602,000, representing an increase of approximately 31.91% in revenue as compared with the corresponding period of last year. The increase was mainly due to the increase in the number of customers of natural gas, while natural gas consumption by commercial and vehicular users has also increased remarkably.

Management Discussion and Analysis

Performance Review *(continued)*

General *(continued)*

During the Relevant Period, the gross profit margin of the Group was approximately 33.78%, representing a slight decrease as compared with the gross profit margin of approximately 36.09% in the corresponding period of last year. The decrease was mainly due to a lower percentage of income derived from the construction of gas pipeline, which has a higher gross profit margin, as represented in the total revenue. In 2004, such income accounted for approximately 27.96% of the total revenue but the percentage decreased to 26.75% during the Relevant Period. Moreover, on 1 April 2005, the price of natural gas purchased by the Group under the "Project of Transmitting Natural Gas through the West to the East Pipelines" increased from RMB1.16 m^3 to RMB1.2 m^3, which resulted in a lower gross profit margin.



During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB84,862,000, representing an increase of approximately 32.64% as compared with that of approximately RMB63,979,000 in the corresponding period of last year. The increase was mainly due to the increase in lease and depreciation expenses as a result of the expansion of the scale of operation.

Income tax expenses of the Group for the Relevant Period were approximately RMB16,560,000, representing a decrease of approximately 30.46% from approximately RMB23,813,000 in 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 generated from pipeline construction which used to be received by the Company was received by a subsidiary which enjoyed a lower income tax rate.

During the Relevant Period, the net profit attributable to the equity holders of the Company was approximately RMB93,400,000, representing an increase of approximate 43.23% as compared with approximately RMB65,211,000 over the corresponding period of last year.

Sales of piped natural gas

During the Relevant Period, revenue derived from sale of natural gas was approximately RMB413,606,000, representing an increase of approximately 37.55% as compared with approximately RMB300,699,000 in the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 261,890,000 m^3, representing an increase of approximately 32.30% as compared with approximately 197,954,000 m^3 in the corresponding period of last year.

Management Discussion and Analysis

Performance Review *(continued)*

Sales of piped natural gas *(continued)*

As shown in Table 3 above, gas consumption by residential users during the Relevant Period sustained a stable growth to 89,737,000 m^3, representing an increase of 29.64% as compared with the corresponding period of last year. Consumption by industrial users also maintained a stable growth with an increase of 9.27% to 49,921,000 m^3 as compared with the corresponding period of last year. During the Relevant Period, consumption by commercial users amounted to 81,895,000 m^3, representing an increase of 44.17% as compared with the corresponding period of last year. The substantial increase in the gas consumption by commercial users was primarily due to the following reasons: (1) the original commercial users previously in the coal gas consumption region have changed to use natural gas by the end of 2004; (2) as during the Relevant Period the temperature of the winter was lower than that of last year, commercial users such as hotels and restaurants consumed more natural gas for heating; and (3) a regional natural gas thermal station designed to supply heat to the East Zhengzhou Economic Development Zone has commenced operation. The afore-mentioned reasons have led to a very remarkable increase in commercial gas consumption, as compared with the corresponding period of last year. As at 31 December 2005, the Group had a total of 568,490 residential users, representing an increase of 60,069 users as compared with 508,421 users as at 31 December 2004; 1,214 commercial users representing an increase of 248 users as compared with 966 users as at 31 December 2004, and 48 industrial users representing an increase of 10 users as compared with 38 users as at 31 December 2004.

In respect of the gas powered vehicles business, given the persistently high oil price, vehicle operators such as taxi drivers were more eager to convert their vehicles into natural gas powered vehicles. During the Relevant Period, the number of the Group's natural gas powered vehicular users has increased by 1,443, and the total number of natural gas powered vehicles reached 5,522 as at 31 December 2005. The gas consumption by vehicular users reached 40,337,000 m^3, representing an increase of 53.72% as compared with 26,240,000 m^3 in the corresponding period of last year. The business growth pace of natural gas sales was greater than expected, resulting an over demand of natural gas consumption in the peak season at the end of the year 2005. The Company has ceased its gas supply to the vehicular users since the end of November 2005 and expected to resume the gas supply in February 2006. The Group is presently trying its best endeavor to explore new gas sources and is negotiating with all of its gas suppliers on the increase of natural gas supply, with a hope that the supply and demand will reach equilibrium in 2006.

During the Relevant Period, the Group purchased approximately 185,179,000 m^3 of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", at an aggregate cost of approximately RMB201,102,000, representing approximately 67% of the total volume of natural gas purchased.

Management Discussion and Analysis

Performance Review *(continued)*

Sales of piped natural gas *(continued)*

In addition, Dengfeng Zhengran Gas Limited (登封鄭燃燃氣有限公司)("Dengfeng Zhengran"), a subsidiary of the Company, commenced gas supply to a small portion of users in Dengfeng during the Relevant Period. Due to the relative small scale of the project carried out by Dengfeng Zhengran, it has not yet brought any significant profits or losses to the Group.

Sales of liquefied petroleum gas

During 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 revenue derived from LPG sales amounting to RMB3,216,000 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. ("Zhengzhou Gas Group"), the holding company of the Company, for the supply of LPG to those users until the conversion is completed, upon which the Group will then take over those users.

Sales of gas appliances

The Group also engages in sales of gas appliances. The gas appliances available for sales include gas stoves, water heaters and wall-attached stoves. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou. For the Relevant Period, revenue from sale of gas appliances amounted to approximately RMB4,091,000, representing a drop of 29.77% as compared with approximately RMB5,825,000 in the corresponding period of last year. Such drop was mainly due to the keen competition in the market of gas appliances.

Sales of pressure control equipment

In relation to pressure control equipment for natural gas manufactured by the Group, the main targets for marketing are other natural gas suppliers. During the Relevant Period, revenue attributable to the sale of pressure control equipment amounted to approximately RMB3,414,000, a slip of approximately 12.73% when comparing with that of RMB3,912,000 in the corresponding period of last year.

Natural gas pipeline construction services

For the Relevant Period, the Group's revenue derived from the provision of the natural gas pipeline construction services amounted to approximately RMB168,049,000, representing the connection of natural gas supply for 46,320 residential users and 106 commercial users, or an increase of approximately 26.30% as compared with approximately RMB133,060,000 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 approximately RMB3,094 while that for each commercial user was approximately RMB105,766. Furthermore, the Group also received other construction project related income amounting to approximately RMB13,527,000.

Management Discussion and Analysis

Performance Review *(continued)*

Natural gas pipeline construction services *(continued)*

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 RMB35,721,000, representing an increase of 11.23% as compared with approximately RMB32,114,000 for the corresponding period of last year. Such increase was mainly due to an increase in the number of residential users.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was approximately 15.05%, which was higher than the 13.86% recorded for the corresponding period of last year. The increase was mainly attributable to the decrease in income tax as a result of the relevant tax arrangement and the impairment provision for liquefied gas assets was no longer required.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to equity holders of the Company divided by the average of equity attributable to equity holders of the Company at the beginning and at the end of the period, was approximately 22.88%, which was higher than that of 19.09% of the corresponding period of last year. Such increase was mainly brought by the growth of profit.

Liquidity, Financial Resources and Capital Structure

Borrowings and banking facilities

The Group currently finances its capital expenditure and operations mainly by internally generated funds, net proceeds from the listing and its bank deposits or cash on hand. The Directors are of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances or bank loans when necessary.

As at 31 December 2005, the Group had no outstanding interest-bearing borrowings.

Net current assets

As at 31 December 2005, the Group had net current assets of approximately RMB2,021,000 (as at 31 December 2004: the Group had net current liabilities of approximately RMB21,504,000), which was mainly due to the full settlement of an advance by Zhengzhou Gas Group amounting to RMB12,278,000.

Management Discussion and Analysis

Liquidity, Financial Resources and Capital Structure *(continued)*

Working capital

As at 31 December 2005, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB184,892,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity to liabilities ratio

As at 31 December 2005, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 170.22% which was lower than that of approximately 174.48% as at 31 December 2004. The current liabilities level of the Group indicated that, with over half of the assets being financed by its shareholders, the Group had ample room for external borrowings.

Capital commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipment. As at 31 December 2005, the Group had capital commitments of approximately RMB59,046,000, of which approximately RMB9,859,000 was for the contracts of pipeline network construction and equipment purchase, and the balance of approximately RMB49,187,000 was for operating lease commitments. The management believes that such capital expenditure can be defrayed by funds generated from operations and proceeds from listing.

Foreign exchange risk

All of the Group's businesses are operated in the PRC and all its transactions are settled in Renminbi. Therefore, the Group's exposure to foreign currency risk is minimal.

Contingent liability and pledged assets

As at 31 December 2005, the Group had no significant contingent liability or any asset under pledge.

Management Discussion and Analysis

Employees and remuneration policy

As at 31 December 2004 and 31 December 2005, an analysis of the Group's employees by functions is as follows:

	Year ended 31 December	
	2005	2004
Management and administration	**192**	179
Finance	**45**	46
Sales and marketing	**202**	174
Safety maintenance and technical upgrading	**130**	68
Purchases and supplies	**15**	17
Engineering and installation	**216**	211
Repairs, maintenance and testing	**350**	337
Others	**323**	303
Total	**1,473**	1,335

In 2005, the Group had 1,473 employees, an addition of 138 employees as compared with 1,335 employees in the previous year.

Salaries of the Group's employees are determined by reference to the performance, qualification and experience of the relevant staff. A discretionary incentive bonus based on individual performance during the year would be paid by the Group to reward their contributions to the Group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB52,571,000, representing an increase of approximately 14.15% compared with the total staff costs of approximately RMB46,056,000 for the corresponding period of last year.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2005 and the corresponding period of last year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

Material investment and contingent liabilities

As at 31 December 2005, the Group had neither material investment nor contingent liabilities, and likewise as at 31 December 2004.

Charge of assets

As at 31 December 2005, the assets of the Group had not under any charges and likewise as at 31 December 2004.

Management Discussion and Analysis

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 city of Henan Province, the most populous province in Central China, naturally plays the leading role in the implementation of "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^2. (equivalent to the whole 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 policy, the Group believes 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 Zhengzhou Municipal Government has promulgated a number of preferential policies to encourage industrial investments and it is believed that such policy will, to a certain extent, help the Group to develop the market of industrial users.

On 26 December 2005, the National Development and Reform Commission ("NDRC") issued a notice regarding the decision on reforming the mechanism for formulating factory production price of natural gas, aiming to peg the prices of natural gas with other kinds of energy such as crude oil, etc. subject to annual adjustment. Such policy means the price of natural gas may be increased constantly. The Group overwhelmingly supports the state policy in making the price of natural gas more in line with the competitive market. However, such increase of factory production price will apparently uplift the selling costs of natural gas business of the Group. The Group is now seeking an approval from the Zhengzhou Municipal Government for adjusting the selling price of natural gas to all kinds of its users so as to ease the adverse impact arising from the rise of costs, on the profits of next year.

The Group expects that in 2006, the supply of natural gas in Zhengzhou will still be in stringent position. Encountering the insufficiency of gas supply, the Group, on the one hand, will negotiate with its suppliers such as PetroChina and Sinopec, etc. for increasing the supply volume to Zhengzhou; on the other hand, will also take initiative to explore for new gas sources, and introduce coal layer gas from Jin City (晉城), Shanxi and compressed natural gas from Xuedian (薛店) as ancillary gas sources. The Group had also entered into a letter of intent regarding liquefied natural gas supply (液化天然氣供應意向書) with Xinjiang Guanghui Corporation (新疆廣匯公司) for preparing the establishment of a natural gas storage base. The Group expects the above measures can soothe the imbalance of supply and demand of natural gas in Zhengzhou during the year of 2006.

Use of Proceeds from the IPO

Use of Proceeds from the IPO

The new shares issued by the Company were listed on the GEM on 29 October 2002 ("Listing Date"). Net proceeds from the sale of 50,060,000 Sale H Shares, after deducting relevant listing expenses, amounted to approximately RMB118,897,000.

During the year ended 31 December 2005, net proceeds from the public listing were applied in accordance with the plans set out in the prospectus of the Company dated 22 October 2002 (the "Prospectus") as follows:

	Year ended 31 December 2005	
	Application of proceeds as planned in the Prospectus	**Actual application of proceeds**
	RMB million	*RMB million*
Ancillary works for the "West to East Pipelines" project *(Note 1)*	0*	9.1
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 were to be used mainly in the construction of high-pressure transmission pipelines in Fourth Ring Road (四環路). Since the project had been delayed until July 2004, the fund planned for such investment was used until 2005.

As of 31 December 2005, the fund amounted to appromixately RMB118,897,000 raised at the time of listing on 29 October 2002 by the Group was fully applied for the objectives of listing funds as described in the Prospectus.

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

Profiles of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Yan Guoqi (閆國起), aged 51, an executive Director, is also the Chairman of the Company. He is a representative of the 12th Session of National People's Congress of Zhengzhou, head of the Urban Gas Association of Henan Province and a senior engineer. He was deputy head of water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation from 1997 to 1998, deputy chairman and executive deputy general manager of Zhengzhou Municipal Gas Company Limited from 1998 to 2000, and deputy chairman and general manager of Zhengzhou Gas Group since 2000. Mr. Yan is also the chairman of Henan Zhongyuan Gas Heating Project Supervision Company Limited. Mr. Yan was appointed as the chairman of the Company since 2001.

Mr. Song Jinhui (宋金會), aged 52, an executive Director, is also the general manager of the Company, a member of the 11th Chinese People's Political Consultative Conference of Zhengzhou City, a representative of the 12th National People's Congress of Zhongyuan District, Zhengzhou City, and a senior engineer . He was deputy head of the general office of Zhengzhou Municipal Coal Gas Company from 1983 to 1986, head of safety and technology department and sales management outlets, deputy general manager of Zhengzhou Municipal Natural Gas Corporation from 1986 to 1998, deputy general manager of Zhengzhou Municipal Gas Company Limited from 1998 to 2000 and deputy chairman of Zhengzhou Gas Group since December 2000. Mr. Song has been appointed as general manager of the Company and executive Director since December 2000.

Mr. Li Yantong (李燕同), aged 48, an executive Director and an executive deputy general manager of the Company and a senior engineer. He was head of storage & distribution station of Zhengzhou Municipal Gas Corporation, deputy chief engineer and chief engineer of Zhengzhou Municipal Gas Company Limited from 1989 to 2000, chief engineer of Zhengzhou Gas Group from 2000 to 2002, and a director of Zhengzhou Gas Group since 2002. Mr. Li was appointed as a deputy general manager of the Company in 2000. Mr. Li is currently the chairman of Zhengzhou Gas Engineering and Construction Company Limited, a subsidiary of the Company. He is also the chairman of Zhengran Gas Design Development Company Limited, a subsidiary of Zhengzhou Gas Group, and a deputy chairman of Henan Zhongyuan Gas Heating Project Supervision Company Limited. Mr. Li was appointed as executive Director in October 2005.

Mr. Li Jinliu (李金陸), aged 39, an executive Director and a deputy general manager of the Company and a senior engineer. He was head of pipeline network of Zhengzhou Municipal Natural Gas Company, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. Mr. Li was the chief economist of Zhengzhou Gas Group from December 2000 to August 2002 and became a director of Zhengzhou Gas Group in 2002. In December 2000, he was appointed deputy general manager of the Company. Mr. Li was appointed as executive Director in October 2005.

Profiles of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Zhang Wushan (張武山), aged 50, a non-executive Director and a senior engineer. He was head of the storage and distribution station and the measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997, and chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and deputy general manager of Zhengzhou Gas Group Co, Ltd. since 1998 and currently a director of Zhengzhou Gas Group and the chairman of Zhengzhou Gas Estate Development Company Limited, a subsidiary of Zhengzhou Gas Group. Mr. Zhang was appointed as a non-executive Director in December 2000.

Mr. Yang Degu (楊德固), aged 56, a non-executive Director and a senior political engineer. He has successively been a deputy secretary for the disciplinary committee of Zhengzhou Municipal Administration of Public Utilities from 1985 to 1993, a secretary for the disciplinary committee of Zhengzhou Coal Gas Company from 1993 to 1998, a secretary for the disciplinary committee of Zhengzhou Municipal Gas Company Limited, a director, a deputy party secretary, a secretary for the disciplinary committee of Zhengzhou Gas Group since 1998. Mr. Yang has been a deputy Party secretary of the Company since 2004 and he is also a deputy party secretary, a secretary of the disciplinary committee, and the chairman of the supervisory committee of Zhengzhou Gas Group and the chairman of the supervisory committee of Zhengzhou Gas Estate Development Company Limited, a subsidiary of Zhengzhou Gas Group. Mr. Yang was appointed as a non-executive Director in October 2005.

Ms. Bao Hongwei (鮑紅偉), aged 47, a non-executive Director and a senior political tutor and has a postgraduate diploma in property economics from Capital University of Economics and Business. She has successively been a secretary of a division of the regiment committee, a secretary of a division of the general regiment committee, a secretary of a division of the party committee of Zhengzhou 6th Cotton Spinning Factory from 1977 to 1988, the deputy head of the records keeping office and the head of labour and personnel department of Zhengzhou Municipal Gas Company Limited from 1998 to 2000, the chairlady of the Company's Labour Union Committee from 2000 to 2002. Ms. Bao is currently the chairlady of Labour Union Committee, a member of the Party Committee and a director of Zhengzhou Gas Group and the chairlady of the Company's Labour Union Committee since 2004. Ms. Bao is also the chairlady of Zhengzhou Zhengran Property Management Company Limited, a subsidiary of Zhengzhou Gas Group. Mr. Bao was appointed as a non-executive Director in October 2005.

Independent Non-executive Directors

Mr. Zhang Yichun (張亦春), aged 72, is an independent non-executive Director of the Company. He holds an honorable doctor degree from Hong Kong Science Institute. He is the head of the Financial Research Institute of Xiamen University. Since August 1960, he was an assistant instructor, lecturer, associate professor, professor, supervisor of doctoral candidates, head of pivotal finance research project and as well as the deputy head and head of the finance and fiscal department and faculty head of the economics faculty, all of Xiamen University. In addition, Mr. Zhang is an independent non-executive director of Everbright Pramerica Fund Management Company Limited and Fujian Zhonghe Company Limited and an external supervisor of Industrial Bank Company Limited. Mr. Zhang was appointed as an independent non-executive Director in May 2001.

Profiles of Directors, Supervisors and Senior Management

Mr. Liu Jianwen (劉劍文), aged 46, an independent non-executive Director, is a doctor of jurisprudence. He is presently a professor of Beijing University, a supervisor of doctoral candidates (research directions in fiscal and securities laws, and tax laws and finance laws), an officer of research institute of economic and finance laws of Beijing University, an arbitrator of International Economic and Trade Arbitration Commission in the PRC, a consultant to the drafting group of the PRC State Assets Laws, the chief PRC expert of the State Tax Bureau on the World Bank debt project. He was a professor, supervisor of masters candidates in economic laws, supervisor of doctoral candidates (specialized in civil commercial laws), head of Hong Kong and Taiwan laws research institute, deputy head of economic law teaching and research office, party branch secretary of civil and economic laws, deputy head of the law department and the law faculty, and head of the faculty's teaching guidance committee of the faculty of law of Wuhan University. Since July 1999, Mr. Liu is a professor, supervisor of masters candidates in economic laws and supervisor of doctoral candidates (specialized in economic laws) of the School of Law of Beijing University. Mr. Liu was appointed as an independent non-executive Director in April 2002.

Ms. Yu Shulian (余恕蓮), aged 52, an independent non-executive Director, is a professor of accounting, supervisor of doctoral candidates of the External Economics and Trade University and a PRC registered accountant (non-practising). Ms. Yu is also an independent non-executive director of Create Technology and Science Company Limited, a company listed on the Shenzhen Stock Exchange, and Shenyang Siasun Robot & Automation Company Limited. Ms. Yu was appointed as an independent non-executive Director in April 2002.

Supervisors

Mr. Chang Zongxian (常宗賢), aged 46, a supervisor of the Company. He has also been the chairman of Zhengzhou Gas Group since December 2000. He is a representative of the 11th National People's Congress of Henan Province and a senior economist. He was the head of the planning and construction bureau of the Zhengzhou High and New Technology Industrial Development Zone from 1988 to 1992, a general manager of Zhengzhou High Land Construction Development Corporation from 1992 to 1994, the deputy head of management committee of the Zhengzhou High and New Technology Industrial Development Zone from 1994 to 1995, the deputy chief commandant of construction command of the new Zhengzhou Airport from 1995 to 1997, the deputy head of the Zhengzhou Municipal Transport Bureau form 1997 to 1998 and the chairman of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Chang was appointed as a supervisor of the Company in October 2005.

Ms. Niu Minghua (牛鳴華), aged 48, a supervisor of the Company and a political engineer. She has successively worked as the deputy head of general office and the general party branch secretary of Zhengzhou Municipal Gas Company Limited, the head of general office and general party branch secretary of Zhengzhou Gas Group, and she has been a member of the Party Committee, the chairlady of the Labour Union Committee, the staff director, the secretary to the disciplinary committee of the party and head of supervision office of the Company. She was appointed as an executive Director in August 2002 to October 2005. Ms. Niu Minghua is currently the secretary to the disciplinary committee of the party of the Company and the head of the working division of the party committee of Zhengzhou Gas Group. She is also a supervisor of Zhengzhou Zhengran Pressure Control Technology Company Limited. Mr. Niu was appointed as a supervisor of the Company in October 2005.

Profiles of Directors, Supervisors and Senior Management

Mr. Li Zizheng (李自正), aged 41, a supervisor of the Company and an accountant. He has successively served as the deputy head of the finance office of Zhengzhou Municipal Natural Gas General Company and Zhengzhou Municipal Gas Company Limited, the head of the finance office of Zhengzhou Municipal Gas Company Limited, the head of finance department and general accountant of the Zhengzhou Gas Group. Mr. Li is also a director of Zhengzhou Gas Estate Development Company Limited, a subsidiary of Zhengzhou Gas Group and a director of Commercial Bank of Zhengzhou. Mr. Li was appointed as a supervisor of the Company in October 2005.

Mr. Ding Ping (丁平), aged 42, a supervisor of the Company and a political engineer. He was head of the coordination division, branch secretary of cylinder testing section and organization and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company which was a subsidiary of Zhengzhou Municipal Gas Company Limited. He was appointed chairman of the supervisory committee of the Company in December 2000. Having retired as chairman of the supervisory committee, he remained as one of its supervisors. Mr. Ding is also the head of general office of Zhengzhou Gas Group.

Ms. Zhou Weihua (周衛華), aged 36, a supervisor of the Company and the head of Human Resources Department of the Company. She is a member of the Eleventh Session of Youth Federation of Zhengzhou, director of the Youth Volunteers Federation of Zhengzhou and an accountant. She was secretary of regiment branch and deputy head of customer management office of Zhengzhou Municipal Natural Gas Company, secretary of regiment committee and organisation and promotion office of Zhengzhou Municipal Gas Company Limited, the head of the working division of the Chinese Communist Party Committee, a secretary of the regiment committee and a secretary of the general branch committee of Zhengzhou Gas Group. Ms. Zhou was appointed as a supervisor of the Company in December 2000.

Mr. Yang Guirong (楊桂榮), aged 43, a supervisor of the Company and a senior accountant, has successively been the deputy head of finance division under the finance office and head of production division of Henan Province Electricity Supply Bureau, and the deputy head of the finance office of Henan Province Electricity Supply Bureau. He is currently the head of the financial department of Electric Power Of Henan, a supervisor of Nanyang Yahekou Electricity Company Limited. Mr. Yang was appointed as a supervisor of the Company in October 2005.

Mr. Cai Yuming (蔡玉明), aged 45, a supervisor of the Company and a securities investment consultant. He has successively been a deputy general manager of Zhengzhou Municipal Government Bond Center, a general manager of Zhengzhou Municipal Trust Investment Company, a vice president of Zhengzhou Branch of Guangzhou Development Bank, and a deputy general manager of China Eagle Securities Company Limited. Mr. Cai currently is a Counselor of Shenzhen Guanghua Printing Company, a subsidiary of China Banknote Printing and Minting Corporation. Mr. Cai was appointed as a supervisor of the Company in October 2005.

Profiles of Directors, Supervisors and Senior Management

Qualified Accountant

Mr. Wong Cheuk Lam (黃焯琳), aged 37, qualified accountant and company secretary of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan, Sakura Asia Finance Limited and BOC International Limited. Mr. Wong has over ten years of experience in accounting and finance. He is a member of the Hong Kong Institute of Certified Practicing Accountants and CPA Australia.

Senior Management

Mr. Hao Ganjun (郝幹軍), aged 53, deputy general manager of the Company and a senior consultant. He was head of corporate management office of Zhengzhou Municipal Natural Gas Corporation and assistant to general manager of Zhengzhou Municipal Gas Company Limited from 1997 to 2000. In December 2000, Mr. Hao was appointed as a deputy general manager of the Company.

Mr. Liu Daoshuan (劉道栓), aged 40, deputy general manager of the Company and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Coal Gas Company, deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited and chief engineer of the Company from 1992 to 2002. In August 2002, Mr. Liu was appointed as a deputy general manager of the Company.

Ms. Qiao Hong (喬紅), aged 38, chief accountant of the Company. She was the deputy head of the accounting department of Zhengzhou Municipal Coal Gas Project Preparation Division, deputy head of finance office of Zhengzhou Municipal Gas Company Limited and head of securities investment division of Zhengzhou Gas Group. She was appointed as the chief accountant of the Company in October 2005.

Mr. Huang Biao (黃飆), aged 37, chief economist of the Company and an engineer. He was deputy head of sales management station of Zhengzhou Municipal Natural Gas Corporation, deputy manager of No. 1 Engineering Company, deputy head of sales office of Zhengzhou Municipal Gas Company Limited, and chief economist of the Company. Mr. Huang was appointed as the chief engineer of the Company in August 2004.

Mr. Suo Caifa (索才法), aged 48, assistant to the general manager of the Company and senior engineer. He was head of the No. 4 construction department of the No. 9 building company of Linzhou, Henan Province, head of building and construction department and deputy manager of Zhengzhou Water Construction Company, general manager of Zhengzhou Gas Real Estate Development Company Limited and general manager of Zhengzhou Gas Construction and Building Company Limited. Mr. Suo was appointed as an assistant to the general manager of the Company in August 2002.

Mr. Zhao Ruibao (趙瑞保), aged 39, secretary to the Board, chief engineer of the Company and a senior engineer. He was technician and section head of Zhengzhou Municipal Gas Company, deputy head of Zhengzhou Gas Company Limited, manager of the No. 1 natural gas branch company of the Company, assistant to general manager, deputy chief engineer and chief engineer of the Company. In August 2004, Mr. Zhao was appointed as an assistant to the general manager of the Company.

Profiles of Directors, Supervisors and Senior Management

Ms. Geng Tongmin (耿同敏), aged 39, a deputy general manager and senior engineer of the Company. Ms. Geng consecutively held offices as a deputy director of Planning Design Institute, a deputy director of Design Scientific Research Institute and a deputy chief engineer of Zhengzhou Municipal Natural Gas Corporation, a deputy chief engineer and chief engineer of Zhengzhou Gas Group. Ms. Geng held office as a deputy general manager of the Company in August 2004.

Mr. Li Wei Min (李為民), aged 38, is the chief economist of the Company. He graduated from Harbin Engineering University in July 1988, major in City Gas Study. He has successively served in the central control office and security office of Zhengzhou Municipal Natural Gas Corporation since August 1988. He was the deputy head of the technology and equipment office of Zhengzhou Municipal Natural Gas Corporation in 1996 and the general manager of Zhengzhou Gas Group LPG Company Limited in 2003. He was appointed as the chief economist of the Company in October 2005.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

Principal Activities

The principal activities of the Company and its subsidiaries are the sale of natural gas, pressure control equipment and gas appliances to customers and the construction of gas pipelines and the provision of repairs and maintenance of gas pipeline services.

There were no significant changes in the nature of the Group's principal activities during the year.

Segment Information

The principal activities of the Group are the sale of natural gas, pressure control equipment and gas appliances to consumers and the construction of gas pipelines and the provision of repairs and maintenance of gas pipelines services. Gas appliances, pressure control equipment and gas pipelines are for the conveyance of natural gas. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment. The principal assets employed by the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segment analysis by business and geographical segments are provided.

Results and Dividends

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 77.

The Directors recommend the payment of a final dividend of RMB0.0138 per ordinary share in respect of the year ended 31 December 2005 to shareholders whose names appear in the register of members of the Company on 18 May 2006. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2005. Further details of the dividends are set out in note 9 to the financial statements.

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's issue of H shares at the time of its listing on the GEM of the Stock Exchange on 29 October 2002, after deduction of net proceeds from the sale of 50,060,000 H Shares and related issue expenses, amounted to approximately RMB118,897,000.

Details of the use of proceeds from the Company's initial public offering are set out under paragraphs headed Use of Proceeds from Initial Public Offering Section of the annual report.

Report of the Directors

Summary Financial Information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis set out in the note below is as follows:

RESULTS

	For the year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**620,478**	470,386	356,869	282,154	224,523
Cost of sales	**(410,876)**	(300,643)	(229,145)	(181,535)	(155,573)
Gross profit	**209,602**	169,743	127,724	100,619	68,950
Other income	**2,334**	1,144	925	523	3,064
Selling and distribution costs	**(26,860)**	(16,822)	(11,331)	(16,326)	(13,761)
Administrative costs	**(58,002)**	(47,157)	(38,153)	(27,964)	(18,665)
Other operating costs	**(764)**	(8,186)	(708)	(47)	(293)
Profit from operating activities	**126,310**	98,722	78,457	56,805	39,295
Finance costs	**–**	–	–	(567)	(3,237)
Profit before income tax	**126,310**	98,722	78,457	56,238	36,058
Income tax expenses	**(16,560)**	(23,813)	(22,003)	(18,301)	(12,151)
Profit for the year	**109,750**	74,909	56,454	37,937	23,907
Attributable to:					
Equity holders of the Company	**93,400**	65,211	52,937	37,324	23,936
Minority interests	**16,350**	9,698	3,517	613	(29)
	109,750	74,909	56,454	37,937	23,907
Dividends	**20,024**	5,507	18,184	10,407	–
Earnings per share attributable to ordinary equity holders of the Company – Basic and diluted (RMB Yuan)	**0.075**	0.052	0.042	0.044	0.032

Report of the Directors

ASSETS, LIABILITIES AND MINORITY INTERESTS

	For the year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**750,572**	615,510	502,399	439,742	276,129
Total liabilities	**277,765**	224,244	177,437	157,975	140,943
Minority interests	**27,945**	19,780	13,180	4,738	3,971
Net assets	**472,807**	391,266	324,962	281,767	135,186

Note: The consolidated results and financial positions of the Group for the year ended 31 December 2001 have been extracted from the prospectus (the "Prospectus") issued by the Company dated 22 October 2002. The consolidated results and financial positions of the Group for the years ended 31 December 2002, 2003 and 2004 have been extracted from the 2002, 2003 and 2004's annual reports of the Company, while those for the year ended 31 December 2005 were prepared based on the consolidated income statement as set out on page 44 of the financial statements. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Construction in Progress

Details of movements in the property, plant and equipment and construction in progress of the Company and the Group during the year are set out in notes 13 and 15 to the financial statements, respectively.

Share Capital

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2005.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 47 and 48 of the financial statements, respectively.

Distributable Reserves

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB67,677,000, of which approximately RMB17,271,000 has been proposed as a final dividend for the year and approximately RMB10,047,000 has been proposed to be transferred to the general surplus reserve. In addition, the Company's share premium account, in the amount of RMB101,026,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

During the year ended 31 December 2005, the revenue attributable to the five largest customers accounted for less than 30% of the Group's total revenue for the year. Accordingly, a corresponding analysis of major customers is not presented.

Purchases from the Group's five largest suppliers accounted for approximately 87% (2004: 88%) of the total purchases and purchases from the largest supplier included therein amounted to 57% (2004: 58%).

None of the directors and supervisors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers and customers.

Report of the Directors

Directors and Supervisors

The directors and supervisors of the Company during the year were:

Executive Directors

Mr. Yan Guoqi	(Chairman)
Mr. Song Jinhui	
Mr. Li Yantong	(appointed on 17 October 2005)
Mr. Li Jinliu	(appointed on 17 October 2005)
Ms. Niu Minghua	(retired on 17 October 2005)

Non-executive Directors

Mr. Zhang Wushan	
Mr. Yang Degu	(appointed on 17 October 2005)
Ms. Bao Hongwei	(appointed on 17 October 2005)
Mr. Wang Yuheng	(retired on 17 October 2005)
Mr. Li Keqing	(retired on 17 October 2005)
Mr. Zhang Chaoyi	(retired on 17 October 2005)
Mr. Li Zhenguo	(retired on 17 October 2005)
Mr. Chang Zongxian	(retired on 17 October 2005)

Independent Non-executive Directors

Mr. Zhang Yichun
Mr. Liu Jianwen
Ms. Yu Shulian

Supervisors

Mr. Chang Zongxian	(appointed on 17 October 2005)
Mr. Niu Minghua	(appointed on 17 October 2005)
Mr. Li Zizheng	(appointed on 17 October 2005)
Mr. Ding Ping	
Ms. Zhou Weihua	
Mr. Cai Yuming	(appointed on 17 October 2005)
Mr. Yang Guirong	(appointed on 17 October 2005)
Ms. Yang Qing	(retired on 17 October 2005)
Mr. Gao Mingshun	(retired on 17 October 2005)
Ms. Wang Xiaoxing	(retired on 17 October 2005)

In accordance with articles 100 and 122 of the Company's articles of association, the directors and supervisors of the Company are appointed for a period of three years and are subject to re-election on the expiry of their appointments.

Report of the Directors

Directors', Supervisors' and Senior Management's Biographies

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out under the Profile of Directors, Supervisors and Senior Management Section of the annual report.

Confirmation of Independence by Independent Non-executive Directors

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

Directors' and Supervisors' Service Contracts

Each of the directors and supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective director and supervisor for a term of three years.

None of the directors or supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Supervisors' Remuneration

Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee of the Company and approved by the board of directors of the Company with reference to the directors' and supervisors' duties, responsibilities and performance and the results of the Group.

Directors' and Supervisors' Interests in Contracts

None of the directors or supervisors of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Directors' and Supervisors' Rights to Acquire Shares

At no time during the year ended 31 December 2005 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or supervisor or their respective spouse or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in any other body corporate.

Directors' and Supervisors' Interests in a Competing Business

During the year and up to the date of this report, none of the directors or supervisors of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Report of the Directors

Directors', Supervisors' and Chief Executive's Interests in Shares and Underlying Shares or Debentures

As at 31 December 2005, none of the directors, supervisors or chief executives of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Code of Conduct regarding Securities Transactions by Directors of Listed Issuers" to be notified to the Company and the Stock Exchange.

Disclosures under the SFO and Substantial Shareholders

As at 31 December 2005, so far as the Directors are aware, the person (not being a director or supervisor or chief executive of the Company) or companies who had equity interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which will be required pursuant to section 336 of the SFO to be recorded in the register of the Company or who was/were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group (other than the Company) was/were as follows:

Long positions in ordinary shares of the Company

Name	Capacity/ Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % of beneficial interest in the total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd. (鄭州燃氣集團有限公司)	Beneficial owner	–	–	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. *(note (1))* (鄭州啟元投資諮詢有限公司)	Beneficial owner	–	–	115,500,000	16.48%	9.23%
Li Keqing *(note (2))* (李克清)	Corporate	–	–	115,500,000	16.48%	9.23%
Guo Wenjun *(note (2))* (郭文君)	Family	–	–	115,500,000	16.48%	9.23%

Report of the Directors

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

Name	Capacity/ Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % of beneficial interest in the total registered share capital of the Company
Daiwa SB Investments (HK) Limited (大和住銀投信投資顧問（香港）有限公司)	Beneficial owner	49,100,000	8.92%	–	–	3.92%
Atlantis Investment Management Ltd. (西京投資管理有限公司)	Beneficial owner	61,500,000	11.17%	–	–	4.91%
Emirates International Investment Co., LLC	Beneficial owner	100,000,000	18.16%	–	–	7.99%

Name of subsidiary of the Company which has any shareholders, other than the Company, which held 10% or more interests in any classes of share capital of such subsidiary	Name of shareholder	Nominal value of registered and paid-up capital of the subsidiary held	Approximate % of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會)	RMB6,600,000	16.50%
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB3,500,000	35%

Notes:

(1) As at 31 December 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 interest in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.

(2) As at 31 December 2005, each of Li Keqing and his spouse, Guo Wenjun was deemed to have an interest in 115,500,000 Domestic Shares of the Company as they were together interested in 40% of the registered capital of Zhengzhou Qiyuan, which held 115,500,000 Domestic Shares. However, pursuant to the GEM Listing Rules, each of Li Keqing and Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares in which each of Li Keqing and Guo Wenjun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

Report of the Directors

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

Save as disclosed above, the Directors were not aware of any other person (not being a director or supervisor or chief executive of the Company) who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any members of the Group. (other than the Company)

Directors' and Supervisors' Rights to Acquire H Shares

Save as disclosed above, during the year ended 31 December 2005, none of the directors or supervisors or chief executive of the Company was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2005, none of the directors or supervisors or chief executive nor their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

Connected Transactions

Details of the Group's connected transactions during the year ended 31 December 2005 are included in note 29 to the financial statements.

I Continuing Connected Transactions

(a) Land Use Rights Agreements

On 16 January 2002, the Company and its controlling shareholder, Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), entered into four land use rights lease agreements (the "Land Use Rights Agreements") whereby the Company leased from Zhengzhou Gas Group the land use rights on four pieces of land for operational use for the period from 16 January 2002 to 31 December 2019 with an option of renewal (subject to the laws and regulations then applicable in the PRC) exercisable by the Company for another 18 years and a further option of renewal (subject to the laws and regulations applicable in the PRC) exercisable by the Company for another 15 years.

Pursuant to a memorandum relating to the adjustment of the annual rentals referred to in the Land Use Rights Lease Agreements, the Company and Zhengzhou Gas Group had agreed to adjust the annual rentals, with effect from 1 June 2005, with reference to aggregate fair market rentals of RMB1,427,970 per annum as appraised by a professional independent valuer as at 29 April 2005.

On 26 May 2005, the Company and Zhengzhou Gas Group entered into a new 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 rights on another piece of land 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 per annum.

Report of the Directors

Connected Transactions *(continued)*

I Continuing Connected Transactions *(continued)*

(a) Land Use Rights Agreements (continued)

The lease arrangements under the Land Use Rights Lease Agreements and the New Land Use Right Lease Agreement are continuing connected transactions for the Company. As the afore-mentioned transactions are similar in nature and are entered into by the Company with the same connected person, for the purpose of Rules 20.25 to 20.27 of the GEM Listing Rules, such transactions should be aggregated. Accordingly, pursuant to Rule 20.35(2) of the GEM Listing Rules, the aggregate annual cap for the transactions under the Land Use Rights Lease Agreements and the New Land Use Right Lease Agreement was fixed at RMB1,544,996.

(b) Property Lease Agreements

On 5 November 2004, the Group and Zhengzhou Gas Group entered into three property lease agreements (the "Property Lease Agreements") pursuant to which Zhengzhou Gas Group as landlord had agreed to lease the occupation rights in certain properties to the Group as tenant for office and operational uses for a duration of three years commencing from 1 November 2004 to 31 October 2007 (with an option to renew exercisable by the Group) at respective rentals of RMB3,931,563, RMB720,311.5 and RMB3,156,024 per annum.

The arrangements under the Property Lease Agreements are continuing connected transactions for the Company. Under Rule 20.25 of the GEM Listing Rules, the annual rentals under the Property Lease Agreements should be aggregated. Accordingly, pursuant to Rule 20.35(2) of the GEM Listing Rules, the aggregate annual cap for the transactions under the Property Lease Agreements was fixed at RMB7,807,899.

With respect to the continuing connected transactions as set out above, the independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that, during the year ended 31 December 2005, such transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than those available to or from independent third parties; and

(3) in accordance with the Property Lease Agreements, the Land Use Rights Lease Agreements and the New Land Use Right Lease Agreement governing the relevant transactions.

Report of the Directors

Connected Transactions *(continued)*

I Continuing Connected Transactions *(continued)*

(b) Property Lease Agreements (continued)

Ernst & Young, the auditors of the Company, had also provided a letter to the board of directors of the Company, with a copy provided to the Stock Exchange on 13 March 2006, confirming that during the year ended 31 December 2005 the above continuing connected transactions were:

(1) approved by the board of directors of the Company;

(2) entered into in accordance with the Property Lease Agreements, the Land Use Rights Lease Agreements and the New Land Use Right Agreement governing the relevant transactions; and

(3) within the relevant caps applicable to such transactions as disclosed in previous announcements.

II Connected Transaction

(a) Equipment Sale and Purchase Agreement

On 23 September 2005, the Company and Zhengzhou Gas Group, entered into the Equipment Sale and Purchase Agreement, pursuant to which the Company agreed to purchase certain equipment for its operational use at a consideration of RMB2,622,000 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 as appraised by a professional independent valuer as at 30 June 2005.

(b) Gas Meters Sale and Purchase Agreement

On 23 September 2005, the Company and Zhengran Gas Appliances Company Limited ("Zhengran Gas Appliances"), a subsidiary of Zhengzhou Gas Group, entered into the Gas Meters Sale and Purchase Agreement, pursuant to which the Company agreed to purchase Gas Meters from Zhengran Gas Appliances at a consideration of RMB1,731,803 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 were 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.

Board Practices and Procedures

In the opinion of the Directors, the Company has complied with the requirements of board practices and procedures as set out in the code provisions of the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the accounting period covered by the annual report.

Report of the Directors

Code of Conduct Regarding Securities Transactions by Directors

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

Sponsor's/Compliance Adviser's Interests

The sponsor agreement dated 21 October 2002 entered into between the Company and South China Capital Limited, expired on 31 December 2004. The Company did not appoint any sponsor or compliance adviser (as defined in Rule 6A.01 of the GEM Listing Rules) thereafter.

Competing Interests

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

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

Audit Committee

The Company established an audit committee on 30 September 2002 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duty of the audit committee is to review the financial reporting process and internal control systems of the Group.

The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive Directors, and Mr. Zhang Wushan, a non-executive Director. Ms. Yu Shulian is the chairperson of the audit committee.

The audit committee held four formal meetings during the year ended 31 December 2005. The audited results of the Group for the year ended 31 December 2005 have been reviewed by the audit committee.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in the GEM Listing Rules during the year ended 31 December 2005.

Report of the Directors

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

Statement of No Change in Auditors

The Board confirms that there has been no change in the auditors of the Company in any of the preceding three years from the year ended 31 December 2005.

Auditors

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

Directors

As at the date of this report, the members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閆國起) (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 (佘恕蓮).

BY ORDER OF THE BOARD

Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
13 March 2006

Corporate Governance Report

Overview

Corporate governance has always been a key concern of the Company. The Company believes that the improvement of corporate governance not only can help monitor and regulate its business activities effectively, but also can attract more institutional investors to invest in the Company, and thus shareholders' value will be enhanced.

The Code on Corporate Governance Practices

The Company has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix XV to the GEM Listing Rules throughout 2005, and established formal and transparent procedures so as to protect and maximize shareholders' interests.

Securities Transactions by Directors

The interests in the Company's securities held by the Directors as at 31 December 2005 and the extent of compliance with the Model Code have been disclosed in the Report of Directors of this Annual Report.

The Company has adopted a code of conduct (the "Code") regarding securities transactions by the Directors on terms no less exacting than the required standards as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the relevant provisions of the Code during the year 2005.

The Board

Composition of the Board

The Board of the Company comprises of ten Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Song Jinhui (General Manager), Mr. Li Yantong and Mr. Li Jinliu; (ii) non-executive Directors: Mr. Zhang Wushan, Mr. Yang Degu and Ms. Bao Hongwei; and (iii) independent non-executive Directors: Mr. Liu Jianwen, Mr. Zhang Yichun and Ms. Yu Shulian. Biographical details of the directors and their relationship are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report.

Biographical details of the Chairman and other Directors have been set out in the section "Profiles of Directors, Supervisors and Senior Management". The Directors all have sufficient requisite experience essential for them to perform their duties efficiently.

The Company has appointed three independent non-executive Directors, at least one has appropriate accounting expertise, who can help the management to formulate the Group's development strategies, ensure the Board prepares its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintains appropriate systems to protect the interests of the Company and its shareholders. The Board has received the annual confirmation in respect of their independence from each of the independent non-executive Directors, and believes that their independence is in compliance with the GEM Listing Rules as at the date of the Company's 2005 annual report.

Corporate Governance Report

The Board *(continued)*

Operation of the Board

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions and disposals, annual budget, annual, interim and quarterly results, recommendations on the appointment or re-election of directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

Before each board meeting, the Directors are provided with a detailed agenda, sufficient relevant information and a reasonable notice period by the Company, so as to enable the Directors to attend the board meeting and make appropriate decision in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of a board meeting. If the material interest of any Director or his/her associate is involved in any resolution of the board meeting, such Director must give up his/her voting right and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as directors. The Directors may seek independent professional advice, if it is deemed necessary, at the Company's expenses. In addition, all Directors may have unrestricted access to the senior management of the Company.

In 2005, the Board held a total of 8 meetings. The attendance record of each Director is set out below:

Names of directors	Attendance	Number of board meetings held during the term of directorship in 2005	Attendance rate	Remarks
Executive Directors				
Mr. Yan Guoqi	8	8	100%	Re-elected on 17 October 2005
Mr. Song Jinhui	8	8	100%	Re-elected on 17 October 2005
Ms. Niu Minghua	5	5	100%	Retired on 17 October 2005
Mr. Li Yantong	3	3	100%	Appointed on 17 October 2005
Mr. Li Jinliu	3	3	100%	Appointed on 17 October 2005

Corporate Governance Report

The Board *(continued)*

Operation of the Board *(continued)*

Names of directors	Attendance	Number of board meetings held during the term of directorship in 2005	Attendance rate	Remarks
Non-executive Directors				
Mr. Chang Zongxian	5	5	100%	Retired on 17 October 2005
Mr. Zhang Wushan	8	8	100%	Re-elected on 17 October 2005
Mr. Li Keqing	0	5	0%	Retired on 17 October 2005
Mr. Zhang Chaoyi	1	5	20%	Retired on 17 October 2005
Mr. Li Zhenguo	2	5	40%	Retired on 17 October 2005
Mr. Wang Yuheng	0	5	0%	Retired on 17 October 2005
Ms. Bao Hongwei	2	3	67%	Appointed on 17 October 2005
Mr. Yang Degu	3	3	100%	Appointed on 17 October 2005
Independent Non-executive Directors				
Mr. Zhang Yichun	8	8	100%	Re-elected on 17 October 2005
Mr. Liu Jianwen	7	8	88%	Re-elected on 17 October 2005
Ms. Yu Shulian	7	8	88%	Re-elected on 17 October 2005

The Board has established subordinate committees, namely, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee, which are responsible for supervising and controlling respective different aspects of the Company. Each committee has its own terms of reference which clearly defines its authority and duties.

Audit Committee

The Company established its Audit Committee on 30 September 2002 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control system of the Company and provide recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Zhang Wushan, a non-executive Director; Mr. Zhang Yichun and Ms. Yu Shulian, both independent non-executive Directors. Ms. Yu Shulian is the chairman of the Audit Committee.

Corporate Governance Report

Audit Committee *(continued)*

In 2005, the Audit Committee held a total of four meetings, at which it reviewed, together with the senior management and the internal and external auditors of the Company, the internal and independent audit results, the accounting principles and practices adopted by the Group, the listing and other relevant regulations, and discussed the audit and internal control system, risk management and financial reporting matters (such as recommending the Board to approve the quarterly, interim and annual results for 2005).

The Audit Committee reports to the Board after each meeting and suggests the matters which need close attention of the Board, and reports any matter which it considers an action or improvement is needed and makes relevant recommendations.

The attendance record of each committee member is set out below:

Names of directors	Attendance	Number of committee meetings held during 2005	Attendance rate	Remarks
Ms. Yu Shulian *(independent non-executive Director)*	4	4	100%	
Mr. Zhang Yichun *(independent non-executive Director)*	4	4	100%	
Mr. Zhang Chaoyi *(non-executive Director)*	1	3	33%	Retired on 17 October 2005
Mr. Zhang Wushan *(non-executive Director)*	1	1	100%	Appointed on 17 October 2005

Remuneration and Appraisal Committee

The Company established its Remuneration and Appraisal Committee in 2002, which is mainly responsible for providing recommendations to the Board in relation to the remuneration policies and structure of the Board and the senior management.

The Remuneration and Appraisal Committee comprises five members. The Chairman of the Committee is Mr. Zhang Yichun, an independent non-executive Director, and the other members are Mr. Yan Guoqi, Mr. Song Jinhui, Mr. Liu Jianwen and Ms. Yu Shulian, most of them are independent non-executive Directors.

In 2005, the Remuneration and Appraisal Committee held a total of two meetings at which recommendations were made to the Board in respect of the remuneration of new directors and supervisors, and it also reviewed the incentive bonus given to the Directors and management in 2005. The Committee concluded that the amount of the incentive bonus given to the Directors and management in 2005 was reasonable after taking into account the overall financial performance of the Company and performance of each Director and member of the senior management.

Corporate Governance Report

Remuneration and Appraisal Committee *(continued)*

The attendance record of the Remuneration and Appraisal Committee is set out below:

Names of directors	Attendance	Number of committee meetings held during 2005	Attendance rate	Remarks
Mr. Zhang Yichun *(independent non-executive Director)*	2	2	100%	
Mr. Liu Jianwen *(independent non-executive Director)*	2	2	100%	
Mr. Yan Guoqi *(executive Director)*	2	2	100%	
Mr. Song Jinhui *(executive Director)*	2	2	100%	
Ms. Yu Shulian *(independent non-executive Director)*	1	1	100%	Appointed on 17 October 2005

Nomination Committee

The Nomination Committee of the Company was established in 2002. It is mainly responsible for making recommendations to the Board in relation to appointment of Directors and senior management.

The Nomination Committee comprises four members. The Chairman of the Committee is Mr. Liu Jianwen, an independent non-executive Director, and the other members are Mr. Yan Guoqi, Mr. Zhang Yichun and Ms. Yu Shulian, most of them are independent non-executive Directors.

The Nomination Committee held a total of two meetings in 2005, mainly for the purpose of nominating new Directors and senior management according to criteria such as educational background, working experience and the talent needed by the Company.

The attendance record of the Nomination Committee is set out below:

Names of directors	Attendance	Number of committee meetings held during 2005	Attendance rate	Remarks
Mr. Yan Guoqi *(executive Director)*	2	2	100%	
Mr. Chang Zongxian *(non-executive Director)*	2	2	100%	Retired on 17 October 2005
Ms. Yu Shulian *(independent non-executive Director)*	2	2	100%	
Mr. Liu Jianwen *(independent non-executive Director)*	2	2	100%	
Mr. Zhang Yichun *(independent non-executive Director)*	2	2	100%	

Corporate Governance Report

Chairman and General Manager

The posts of Chairman and General Manager were held by different persons during the year ended 31 December 2005. Mr. Yan Guoqi served as a Director and the Chairman of the Board, and Mr. Song Jinhui served as an Executive Director and the General Manager. The separation of the roles and functions of the Chairman and the General Manager ensures a clear distinction in the Chairman's responsibility to manage the Board and the General Manager's responsibility to manage the Company's business activities.

Term of the Directors

The Directors (including independent non-executive Directors) of the Company have a term of three years, and are subject to re-election according to the Articles of Association of the Company.

Remuneration of the Auditors

For the year ended 31 December 2005, the Audit Committee of the Company had reviewed the performance of Messrs. Ernst & Young ("Ernst & Young") as the auditors of the Company and proposed to re-appoint Ernst & Young as the auditors. For the year ended 31 December 2005, the Company had paid auditing fees of approximately RMB1,196,000 (2004: approximately RMB1,070,000) to Ernst & Young. Ernst & Young had not provided non-auditing services to the Company during the year.

Responsibility of Preparation of the Accounts

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2005, the Directors are not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the financial statements of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Report of the Auditors in this annual report.

Internal Control Systems

The Directors has conducted a review of the internal control systems of the Company periodically in order to ensure its effectiveness. The Directors consider that the Company has implemented a series of procedures for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining accounting records properly and ensuring the reliability of financial information. Meanwhile, the Directors are aware that there is still room for the Company to improve control on its operations, compliance monitoring and risk management. During the Relevant Period, the Company has established an internal audit department to strengthen its internal control.

Investor Relations

The Company will meet with its shareholders and respond to their enquiries in the Annual General Meeting. In addition, the Company communicates with media reporters, securities analysts, funds managers and investors on a regular basis and responds to their inquiries, so as to give them a clear picture of the Company's achievements in its business, management and the other aspects.

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Zhengzhou Gas Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 44 to 77 which have been prepared in accordance with International Financial Reporting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
13 March 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Revenue	5	**620,478**	470,386
Cost of sales		**(410,876)**	(300,643)
Gross profit		**209,602**	169,743
Other income	5	**2,334**	1,144
Selling and distribution costs		**(26,860)**	(16,822)
Administrative expenses		**(58,002)**	(47,157)
Other expenses		**(764)**	(8,186)
Profit from operating activities		**126,310**	98,722
Finance costs		**–**	–
Profit before income tax	6	**126,310**	98,722
Income tax expenses	8	**(16,560)**	(23,813)
Profit for the year		**109,750**	74,909
Attributable to:			
Equity holders of the Company		**93,400**	65,211
Minority interests		**16,350**	9,698
		109,750	74,909
Dividends	9	**20,024**	5,507
Earnings per share attributable to ordinary equity holders of the Company			
– Basic and diluted (RMB)	10	**0.075**	0.052

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

Balance Sheets

31 December 2005

		Group		Company	
		2005	2004	**2005**	2004
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Interests in subsidiaries	*12*	**–**	–	**42,450**	42,450
Long term investment	*14*	**200**	200	**200**	200
Property, plant and equipment	*13*	**366,077**	300,947	**365,559**	293,762
Construction in progress	*15*	**91,225**	101,977	**73,318**	83,110
Land use rights	*16*	**10,056**	7,005	**10,056**	7,005
Deferred tax assets	*17*	**3,228**	2,641	**1,833**	2,641
Total non-current assets		**470,786**	412,770	**493,416**	429,168
Current assets					
Cash and cash equivalents		**184,892**	112,410	**99,880**	55,625
Trade receivables	*18*	**74,348**	71,022	**67,358**	70,095
Inventories	*19*	**3,886**	3,940	**673**	1,614
Construction contract work in progress	*22*	**911**	359	**–**	–
Prepayments, deposits and sundry debtors	*20*	**15,638**	15,009	**7,972**	8,522
Due from fellow subsidiaries	*26*	**111**	–	**111**	–
Total current assets		**279,786**	202,740	**175,994**	135,856
TOTAL ASSETS		**750,572**	615,510	**669,410**	565,024
Current liabilities					
Trade payables	*21*	**41,554**	31,008	**19,091**	19,232
Advance payments received	*22*	**162,207**	138,958	**4,450**	10,105
Accrued liabilities and other payables	*23*	**64,089**	27,300	**59,717**	25,993
Tax payable		**6,938**	10,968	**5,524**	10,044
Due to the holding company	*24*	**2,877**	15,155	**2,877**	15,155
Due to subsidiaries	*25*	**–**	–	**207,124**	150,867
Due to fellow subsidiaries	*26*	**100**	855	**100**	855
Total current liabilities		**277,765**	224,244	**298,883**	232,251
NET CURRENT ASSETS/(LIABILITIES)		**2,021**	(21,504)	**(122,889)**	(96,395)
NET ASSETS		**472,807**	391,266	**370,527**	332,773
EQUITY					
Equity attributable to equity holders of the Company					
Share capital	*27*	**125,150**	125,150	**125,150**	125,150
Reserves	*28*	**319,712**	246,336	**245,377**	207,623
		444,862	371,486	**370,527**	332,773
Minority interests		**27,945**	19,780	**–**	–
Total equity		**472,807**	391,266	**370,527**	332,773

Yan Guoqi
Chairman

Song Jinhui
Director

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

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Cash flows from operating activities		
Profit before income tax	**126,310**	98,722
Adjustments for:		
Depreciation of property, plant and equipment	**22,637**	16,307
Amortisation of land use rights	**279**	211
Provision for impairment losses of property, plant and equipment	**334**	6,488
Loss on disposal of property, plant and equipment	**–**	62
Interest income from bank balances	**(1,206)**	(596)
Reversal of provision for bad and doubtful debts	**–**	(192)
Operating profit before working capital changes	**148,354**	121,002
Increase in trade receivables	**(3,326)**	(31,014)
Decrease/(increase) in inventories	**54**	(2,706)
(Increase)/decrease in construction contract work in progress	**(552)**	1,649
Increase in prepayments, deposits and other receivables	**(629)**	(311)
Increase in amounts due from fellow subsidiaries	**(111)**	–
Increase in trade payables	**10,546**	12,440
Increase in advance payments received	**23,249**	50,000
Increase in accrued liabilities and other payables	**36,789**	3,588
Decrease in an amount due to holding company	**(12,278)**	(18,787)
(Decrease)/increase in amounts due to fellow subsidiaries	**(755)**	295
Cash generated from operations	**201,341**	136,156
Income tax paid	**(21,177)**	(25,917)
Net cash inflow from operating activities	**180,164**	110,239
Cash flows from investing activities		
Interest income from bank balances	**1,206**	596
Proceeds from disposal of property, plant and equipment	**424**	2,019
Additions to property, plant and equipment and construction in progress	**(81,103)**	(107,100)
Net cash outflow from investing activities	**(79,473)**	(104,485)
Cash flows from financing activities		
Dividends paid	**(28,209)**	(8,605)
Net cash outflow from financing activities	**(28,209)**	(8,605)
Net increase/(decrease) in cash and cash equivalents	**72,482**	(2,851)
Cash and cash equivalents at beginning of year	**112,410**	115,261
Cash and cash equivalents at end of year	**184,892**	112,410
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**184,892**	112,410

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

Statements of Changes in Equity

Year ended 31 December 2005

Group

		Year ended 31 December 2005 Attributable to			Year ended 31 December 2004 Attributable to		
	Notes	Equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000	Equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
SHARE CAPITAL							
Issued and fully paid capital	27						
Ordinary shares of RMB0.10 each							
At beginning and end of year		**125,150**	**–**	**125,150**	125,150	–	125,150
RESERVES							
Share premium account							
At beginning and end of year		**101,026**	**–**	**101,026**	101,026	–	101,026
Statutory surplus reserve	28 (a)						
At beginning of year		**25,483**	**1,383**	**26,866**	13,797	413	14,210
Transferred from retained earnings		**18,081**	**1,635**	**19,716**	11,686	970	12,656
At end of year		**43,564**	**3,018**	**46,582**	25,483	1,383	26,866
Statutory public welfare fund	28 (b)						
At beginning of year		**23,265**	**945**	**24,210**	13,797	413	14,210
Transferred from retained earnings		**20,299**	**2,073**	**22,372**	9,468	532	10,000
At end of year		**43,564**	**3,018**	**46,582**	23,265	945	24,210
General surplus reserve	28 (c)						
At beginning of year		**12,752**	**207**	**12,959**	6,180	31	6,211
Transferred from retained earnings		**7,153**	**–**	**7,153**	6,572	176	6,748
At end of year		**19,905**	**207**	**20,112**	12,752	207	12,959
Retained earnings	28 (d)						
At beginning of year		**83,810**	**8,195**	**92,005**	51,832	3,273	55,105
Net profit for the year		**93,400**	**16,350**	**109,750**	65,211	9,698	74,909
Transferred to statutory surplus reserve		**(18,081)**	**(1,635)**	**(19,716)**	(11,686)	(970)	(12,656)
Transferred to statutory public welfare fund		**(20,299)**	**(2,073)**	**(22,372)**	(9,468)	(532)	(10,000)
Transferred to general surplus reserve		**(7,153)**	**–**	**(7,153)**	(6,572)	(176)	(6,748)
Dividends paid		**(20,024)**	**(8,185)**	**(28,209)**	(5,507)	(3,098)	(8,605)
At end of year		**111,653**	**12,652**	**124,305**	83,810	8,195	92,005
Total reserves		**319,712**	**18,895**	**338,607**	246,336	10,730	257,066
Minority interests in the capital of subsidiaries							
At beginning and end of year		**–**	**9,050**	**9,050**	–	9,050	9,050
Total equity		**444,862**	**27,945**	**472,807**	371,486	19,780	391,266

Continued/...

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

Statements of Changes in Equity

Year ended 31 December 2005

Company

	Notes	**2005** **RMB'000**	2004 RMB'000
SHARE CAPITAL			
Issued and fully paid capital	27		
Ordinary shares of RMB0.10 each			
At beginning and end of year		**125,150**	125,150
RESERVES			
Share premium account			
At beginning and end of year		**101,026**	101,026
Statutory surplus reserve	28 (a)		
At beginning of year		**18,860**	11,707
Transferred from retained earnings		**10,047**	7,153
At end of year		**28,907**	18,860
Statutory public welfare fund	28 (b)		
At beginning of year		**18,860**	11,707
Transferred from retained earnings		**10,047**	7,153
At end of year		**28,907**	18,860
General surplus reserve	28 (c)		
At beginning of year		**11,707**	6,025
Transferred from retained earnings		**7,153**	5,682
At end of year		**18,860**	11,707
Retained earnings	28 (d)		
At beginning of year		**57,170**	39,403
Net profit for the year		**57,778**	43,262
Transferred to statutory surplus reserve		**(10,047)**	(7,153)
Transferred to statutory public welfare fund		**(10,047)**	(7,153)
Transferred to general surplus reserve		**(7,153)**	(5,682)
Dividends paid		**(20,024)**	(5,507)
At end of year		**67,677**	57,170
Reserves		**245,377**	207,623
Total equity		**370,527**	332,773

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

Notes to Financial Statements

31 December 2005

1. Corporation information

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 29 October 2002.

The Company and its subsidiaries are principally engaged in the sale of natural gas, pressure control equipment and gas appliances and the construction of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the ultimate holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is incorporated in the PRC.

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"). They have been prepared on the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The results of subsidiaries established or dissolved during the year are consolidated from or to their effective dates of establishment or dissolution. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interests represent the interests not held by the Group in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

31 December 2005

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

Impact of Issued But Not Yet Effective International Financial Reporting Standards (IFRSs)

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these IFRSs are effective for annual periods beginning on or after 1 January 2006:

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC -Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

Subsidiaries

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

In the Company's financial statements, interests in subsidiaries are stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Long term investment

The group's investment in an unlisted company held on a long term basis is stated at cost less any impairment losses. The Group assesses at each balance sheet date whether there is any objective evidence that the investment is impaired.

Notes to Financial Statements

31 December 2005

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sale of natural gas, pressure control equipment and gas appliances

– Revenue is recognised when the significant risks and rewards of ownership have been passed to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Construction of gas pipelines

– Revenue is recognised upon completion of pipeline construction, which according to industry practice in the region coincides with the "fire ignition ceremony".

Interest income

– Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Rental income

– Revenue is recognised on a time proportion basis over the lease terms.

Dividend income

– Revenue is recognised when the shareholders' right to receive payment has been established.

Repairs and maintenance services

– Revenue is recognised when the services are rendered.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Notes to Financial Statements

31 December 2005

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

Property, plant and equipment *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	25 years
Machinery and equipment	12-28 years
Gas pipelines	22-25 years
Office equipment	8 years
Motor vehicles	8 years
Computer software	3 years

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where their carrying values exceed these recoverable amounts, assets are written down to their recoverable amounts.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Land use rights

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

Construction in progress

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction and is stated at cost less any impairment losses, and is not depreciated. The construction period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing. Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use.

Impairment of assets

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

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

Notes to Financial Statements

31 December 2005

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

Impairment of assets *(continued)*

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

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

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

Inventories

Inventories, including construction materials, consumables and spare parts, are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition are calculated using the weighted average method.

Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Construction contract work in progress and revenue recognition

Short term construction contract work in progress represents construction of gas pipelines work in progress, which is stated at cost less foreseeable losses and progress payments received and receivable.

Where progress payments received and receivable on contracts exceed the costs incurred to date less foreseeable losses, the surplus is shown in the balance sheet as advance payments received.

Revenue in respect of construction of gas pipelines is recognised upon completion of pipeline construction, which according to industry practice in the region coincides with the “fire ignition ceremony”.

Trade and other receivables

Trade receivables, which generally have terms ranging from 30 to 60 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms ranging from 7 to 30 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to the holding company and fellow subsidiaries are recognised and carried at cost.

Notes to Financial Statements

31 December 2005

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

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to the income statement as incurred.

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Foreign currency transactions

The Group's financial records are maintained and the financial statements are stated in Renminbi.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

Notes to Financial Statements

31 December 2005

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

31 December 2005

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

Cash and cash equivalents

Cash on hand and at banks are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value and have a short maturity of generally within three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and deposits at banks.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3. Significant accounting judgements and estimations

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The following judgements have the most significant effect on the amounts recognised in the financial statements.

Notes to Financial Statements

31 December 2005

3. Significant accounting judgements and estimations *(continued)*

(a) Estimation of foreseeable losses in respect of construction works

For construction works, the Group's management estimates the amount of foreseeable losses based on the management budgets prepared for the construction works. Construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges, estimated labour costs and costs of materials are prepared by the management on the basis of quotations from time to time provided by the major suppliers/vendors involved and the experience of the management.

(b) Deferred tax assets

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(c) Provision for bad and doubtful debts

Provision for bad and doubtful debts is made based on assessment of the recoverability of trade receivables. The identification of bad and doubtful debts requires management judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/ write-back in the period in which such estimate has been changed.

(d) Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Sales of natural gas to prepaid residential gas users

The Group recognises the revenue for the prepayment made by residential gas users using IC cards ("IC card users") upon consumption of natural gas by the IC card users.

The Group's management estimates the consumption of natural gas by IC card users with reference to the average consumption volume of the average meter-reading residential users. The actual consumption could deviate from those estimates. The total sales of natural gas to IC cards users for the year ended 31 December 2005 amounted to RMB41,757,000 (2004: RMB25,366,000).

Notes to Financial Statements

31 December 2005

4. Segment information

The principal activities of the Group are the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of repairs and maintenance of gas pipelines services. Gas appliances, pressure control equipment and gas pipelines are for the conveyance of natural gas. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment. The principal assets employed by the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segment analysis by business and geographical segments is provided.

5. Revenue and other income

	Notes	**2005** **RMB'000**	2004 RMB'000
Natural gas		**413,606**	300,699
Gas appliances		**4,091**	5,825
Pressure control equipment		**3,414**	3,912
LPG	*(a)*	**3,216**	–
Gas pipelines:			
Construction of gas pipelines		**168,049**	133,060
Repairs and maintenance of gas pipelines		**35,721**	32,114
Others		**50**	288
		628,147	475,898
Less: Business tax and government surcharges		**(7,669)**	(5,512)
Revenue		**620,478**	470,386
Interest income from bank balances		**1,206**	596
Rental income		**120**	280
Government grants	*(b)*	**300**	–
Dividend income from a long term investment		**28**	–
Others		**680**	268
Other income		**2,334**	1,144
Total revenue		**622,812**	471,530

Notes:

(a) The Directors confirmed that 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 the LPG gas users of the holding company until the conversion from LPG system to natural gas system was completed, upon which the Group would take over those gas users.

(b) The Company received government grants in respect of its contribution and development in Zhengzhou City.

There are no unfulfilled conditions or contingencies attaching to these grants.

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6. Profit before income tax

The Group's profit before income tax is arrived at after charging/ (crediting):

	2005 *RMB'000*	2004 *RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 7):		
Retirement benefits		
– defined contribution fund	**6,324**	6,224
Accommodation benefits		
– defined contribution fund	**2,001**	1,753
Salaries and other staff costs	**44,246**	38,079
Total staff costs	**52,571**	46,056
Operating lease rentals in respect of:		
Land and buildings	**5,324**	5,396
Equipment	**12,133**	1,922
Trademarks	**946**	313
Total operating lease rentals	**18,403**	7,631
Costs of inventories recognised as an expense	**333,913**	174,631
Auditors' remuneration	**1,196**	1,070
Depreciation of property, plant and equipment	**22,637**	16,307
Amortisation of land use rights	**279**	211
Provision for impairment losses of property, plant and equipment	**334**	6,488
Loss on disposal of property, plant and equipment	**–**	62
Reversal of provision for bad and doubtful debts	**–**	(192)

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

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

	2005 RMB'000	2004 RMB'000
Fees:		
– Executive directors	–	–
– Non-executive directors	257	228
	257	228
Other emoluments for executive and non-executive directors:		
– Basic salaries and other benefits	447	471
– Bonuses paid and payable	908	253
– Pension scheme contributions	31	25
	1,386	749
	1,643	977
Executive directors:		
– Yan Guoqi	260	158
– Song Jinhui	241	167
– Li Yantong	86	–
– Li Jinliu	85	–
Supervisors:		
– Chang Zongxian	151	–
– Niu Minghua	120	107
– Li Zizheng	66	–
– Ding Ping	124	115
– Zhou Weihua	70	42
– Yang Qing	–	106
– Gao Mingshun	25	30
– Wang Xiaoxing	20	24
Non-executive directors:		
– Zhang Wushan	–	–
– Yang Degu	82	–
– Bao Hongwei	85	–
– Wang Yuheng	–	–
– Li Keqing	25	30
– Zhang Chaoyi	20	24
– Li Zhenguo	20	24
Independent non-executive directors:		
– Zhang Yichun	50	50
– Liu Jianwen	50	50
– Yu Shulian	50	50
Independent supervisors:		
– Cai Yuming	13	–
– Yang Guirong	–	–
Total	1,643	977

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

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

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

During the year ended 31 December 2005, the five highest paid individuals of the Group included four (2004: two) directors. They were Yan Guoqi, Song Jinhui, Li Yantong and Yang Degu. Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2004: three) non-director, highest paid employees for the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries and other benefits	**253**	425
Bonuses paid and payable	**56**	135
Pension scheme contributions	**12**	10
	321	570

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

During the year ended 31 December 2005, no emoluments were paid by the Group to the directors or the other non-director, highest paid employees, as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. Income tax expenses

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at a rate of 33% of their taxable profits. In 2005, as approved by Zhongyuan District Local Tax Bureau annually, the taxable profit of Zhengzhou Gas Engineering and Construction Co., Ltd., a PRC subsidiary of the Company, was based on 10% of its revenue for corporate income tax filing purposes. The taxable profits calculated thereon were lower than the taxable profits determined with the reference to its accounting profits.

Major components of the Group's income tax expenses for the year ended 31 December 2005 are as follows:

	2005	2004
	RMB'000	*RMB'000*
Group:		
Current		
– charge for the year	**17,444**	25,074
– (overprovision)/underprovision in prior years	**(297)**	114
Deferred *(note 17)*	**(587)**	(1,375)
Total tax charge for the year	**16,560**	23,813

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8. Income tax expenses *(continued)*

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

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**126,310**	98,722
Tax at the applicable tax rate of 33%	**41,682**	32,578
Tax effect of:		
– non-deductible expenses	**1,020**	1,703
– taxable advance from customers	**105**	1,622
– non-taxable profit of a subsidiary	**(27,039)**	(14,745)
– (overprovision)/underprovision in prior years	**(297)**	114
– unrealised profit	**1,089**	2,541
Tax expenses	**16,560**	23,813

9. Dividends

	2005	2004
	RMB'000	*RMB'000*
Declared and paid during the year:		
– Final dividend pertaining to 2004 – RMB0.016 per ordinary share (2003: RMB0.0044)	**20,024**	5,507
Proposed for payment in 2006:		
– Final dividend pertaining to 2005 – RMB0.0138 per ordinary share (2004: RMB0.016)	**17,271**	20,024

The proposed final dividend pertaining to 2005 for payment in 2006 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2005.

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC accounting principles and financial regulations (collectively as "PRC GAAP"). These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

In accordance with the articles of association of the Company, the reserve available for distribution is based on the lower of the Group's profits determined under PRC GAAP and those under IFRSs.

Notes to Financial Statements

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10. Earnings per share

Basic earnings per share for the year ended 31 December 2005 is computed by dividing net profit attributable to equity holders of the Company of approximately RMB93,400,000 (2004: approximately RMB65,211,000) by the weighted average number of 1,251,500,000 ordinary shares (2004: 1,251,500,000 ordinary shares) in issue during the year ended 31 December 2005.

11. Retirement benefits and accommodation benefits

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 23% (2004: 23%) of the previous year's average basic salaries within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries and their employees are each required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for such contributions to the accommodation fund.

12. Interests in subsidiaries

	Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted investments, at cost	**42,450**	42,450

Notes to Financial Statements

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12. Interests in subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations/ date of incorporation	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Group 2005	2004	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (a))*	PRC 19 June 2002	RMB40,000,000	**83.5%**	83.5%	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (b))*	PRC 14 November 2003	RMB5,000,000	**51%**	51%	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. *(note (c))*	PRC 17 February 2004	RMB10,000,000	**94.2%**	94.2%	Sale of natural gas and gas appliances and the provision of natural gas installation and maintenance

Notes:

(a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and the Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. The Zhengzhou Gas Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC, and is accountable to the Labour Union Member Meeting which represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., the holding company of the Company.

(b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.

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

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13. Property, plant and equipment

Group:

	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2005	17,047	148,813	210,564	7,525	20,003	3,788	407,740
Additions	9	2,449	–	2,475	3,441	303	8,677
Transferred from construction in progress *(note 15)*	3,641	15,316	59,549	668	–	674	79,848
Disposals	–	(464)	–	–	–	–	(464)
At 31 December 2005	20,697	166,114	270,113	10,668	23,444	4,765	495,801
Accumulated depreciation and provision for impairment losses:							
At 1 January 2005	1,233	41,325	56,528	1,799	5,530	378	106,793
Depreciation charge for the year	629	7,662	10,418	968	2,158	802	22,637
Impairment losses provided for the year	334	–	–	–	–	–	334
Disposals	–	(40)	–	–	–	–	(40)
At 31 December 2005	2,196	48,947	66,946	2,767	7,688	1,180	129,724
Net carrying amount:							
At 31 December 2005	18,501	117,167	203,167	7,901	15,756	3,585	366,077
At 31 December 2004	15,814	107,488	154,036	5,726	14,473	3,410	300,947

Notes to Financial Statements

31 December 2005

13. Property, plant and equipment *(continued)*

Company:

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Gas pipelines *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2005	17,047	133,574	223,230	6,731	13,247	3,763	397,592
Additions	9	1,391	–	2,279	2,906	303	6,888
Transferred from construction in progress *(note 15)*	3,641	14,972	67,168	670	–	674	87,125
Disposals	–	(464)	–	–	–	–	(464)
At 31 December 2005	20,697	149,473	290,398	9,680	16,153	4,740	491,141
Accumulated depreciation and provision for impairment losses:							
At 1 January 2005	1,233	39,770	56,799	1,645	4,026	357	103,830
Depreciation charge for the year	629	6,710	11,074	867	1,380	798	21,458
Impairment losses provided for the year	334	–	–	–	–	–	334
Disposals	–	(40)	–	–	–	–	(40)
At 31 December 2005	2,196	46,440	67,873	2,512	5,406	1,155	125,582
Net carrying amount:							
At 31 December 2005	18,501	103,033	222,525	7,168	10,747	3,585	365,559
At 31 December 2004	15,814	93,804	166,431	5,086	9,221	3,406	293,762

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14. Long term investment

	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**200**	200

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

15. Construction in progress

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**101,977**	123,962	**83,110**	116,869
Additions	**72,426**	77,871	**80,663**	74,626
Transferred to land use rights *(note 16)*	**(3,330)**	(2,529)	**(3,330)**	(2,529)
Transferred to property, plant and equipment *(note 13)*	**(79,848)**	(97,327)	**(87,125)**	(105,856)
At end of year	**91,225**	101,977	**73,318**	83,110

16. Land use rights

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**7,005**	4,687	**7,005**	4,687
Transferred from construction in progress *(note 15)*	**3,330**	2,529	**3,330**	2,529
Amortisation charged for the year	**(279)**	(211)	**(279)**	(211)
At end of year	**10,056**	7,005	**10,056**	7,005

17. Deferred tax assets

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Accrued expenses not deductible until payments are made	**1,366**	1,019	**1,366**	1,019
– Taxable advances from customers and others	**1,862**	1,622	**467**	1,622
	3,228	2,641	**1,833**	2,641

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18. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the due date, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**69,299**	63,796	**62,933**	63,757
Between 31 days and 90 days	**4,117**	6,986	**4,117**	6,098
Between 91 days and 180 days	**234**	325	**234**	325
Between 181 days and 365 days	**389**	72	**334**	72
Over 365 days	**1,582**	1,116	**1,013**	1,116
	75,621	72,295	**68,631**	71,368
Less: Provision for bad and doubtful debts	**(1,273)**	(1,273)	**(1,273)**	(1,273)
	74,348	71,022	**67,358**	70,095

The above balances are unsecured, interest-free and are generally on 30 to 60 days' terms. The Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

19. Inventories

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction materials	**3,886**	3,940	**673**	1,614

20. Prepayments, deposits and sundry debtors

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**14,608**	13,645	**7,196**	7,559
Deposits	**139**	144	**5**	10
Sundry debtors	**891**	1,220	**771**	953
	15,638	15,009	**7,972**	8,522

The above balances are unsecured and interest-free.

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21. Trade payables

An aged analysis of the trade payables as at the balance sheet date, based on the due date, is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**33,666**	20,341	**15,346**	14,318
Between 31 days and 90 days	**2,710**	5,524	**623**	689
Between 91 days and 180 days	**791**	3,225	**781**	2,610
Between 181 days and 365 days	**2,251**	376	**388**	190
Over 365 days	**2,136**	1,542	**1,953**	1,425
	41,554	31,008	**19,091**	19,232

The above balances are unsecured, interest-free and are generally on 7 to 30 days' terms.

22. Construction contract work in progress/advance payments received

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	**911**	359	**–**	–

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance payments received				
Progress payments received	**210,089**	180,683	**5,022**	10,921
Less: Contract costs incurred to date	**(47,882)**	(41,725)	**(572)**	(816)
	162,207	138,958	**4,450**	10,105

23. Accrued liabilities and other payables

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**40,840**	10,539	**39,111**	10,500
Other payables	**19,212**	15,738	**16,569**	14,456
Accruals	**1,086**	1,023	**1,086**	1,037
Payroll payables	**2,951**	–	**2,951**	–
	64,089	27,300	**59,717**	25,993

Other payables and accruals are unsecured, interest-free and have no fixed terms of repayment.

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24. Due to the holding company

The amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

25. Due to subsidiaries

	2005	2004
	RMB'000	*RMB'000*
Zhengzhou Gas Engineering and Construction Co., Ltd.	**207,043**	147,819
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	**81**	3,048
	207,124	150,867

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

26. Due from/(to) fellow subsidiaries

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

27. Share capital

	2005		2004	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***RMB'000***	*'000*	*RMB'000*
Registered	**1,251,500**	**125,150**	1,251,500	125,150
Issued and fully paid:				
Domestic Shares of RMB0.10 each	**700,840**	**70,084**	700,840	70,084
H Shares of RMB0.10 each	**550,660**	**55,066**	550,660	55,066
	1,251,500	**125,150**	1,251,500	125,150

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

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28. Reserves

(a) Statutory Surplus Reserve ("SSR")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to allocate 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of the registered capital of the Company and its subsidiaries. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) Statutory Public Welfare Fund ("PWF")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to transfer 5% to 10% of their profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the PWF which is a non-distributable reserve other than in the event of liquidation of the Company and its subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiaries.

When the PWF is utilised, an amount equal to the lower of the Cost of the Assets and the balance of the PWF is transferred from the PWF to the General Surplus Reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company and its subsidiaries are not required to transfer their profit after tax to PWF.

(c) General Surplus Reserve ("GSR")

In addition to the above statutory reserves which are required by the Company Law of the PRC and respective articles of association of the Company and its subsidiaries, the equity holders of the Company resolved on 18 May 2005 to transfer approximately RMB7,153,000 from the Company's retained earnings as at 31 December 2004 to the GSR.

(d) Distributable reserves

As set out in note 9 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Group's profits determined under PRC GAAP and those under IFRSs.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfers to the SSR and PWF as set out above.

As at 31 December 2005, the Company's reserves available for distribution were approximately RMB67,677,000 (2004: RMB57,170,000), of which approximately RMB17,271,000 has been proposed as a final dividend for the year and approximately RMB10,047,000 has been proposed to be transferred to the GSR.

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29. Related party transactions

(i) Transactions with the Group's fellow subsidiaries and the holding company

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

Name of related parties	Nature of transactions	**2005** **RMB'000**	2004 RMB'000
Group			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**9,993**	4,706
	Trademarks fee *(note (e))*	**750**	313
	Purchases of equipment and natural gas distribution pipelines *(note (f))*	**2,622**	19,700
	Operating lease of plant and equipment to the related company *(note (g))*	**120**	–
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Group's leased equipment and land and buildings *(note (h))*	**967**	946
Zhengzhou Zhengran Gas Equipment Co., Ltd. *(note (b))*	Purchases of property, plant and equipment from the related company *(note (i))*	**–**	233
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Purchases of gas meters from the related company *(note (i))*	**1,732**	765
	Provision of gas meters repairment services by the related company *(note (i))*	**210**	137
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Operating lease of plant and equipment to the related company *(note (g))*	–	280
	Provision of installation services to the related company *(note (i))*	–	323

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29. Related party transactions *(continued)*

(i) Transactions with the Group's fellow subsidiaries and the holding company *(continued)*

Name of related parties	Nature of transactions	2005 RMB'000	2004 RMB'000
Company			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**9,209**	4,542
	Trademarks fee *(note (e))*	**750**	313
	Purchases of equipment and natural gas distribution pipelines *(note (f))*	**2,622**	19,700
	Operating lease of plant and equipment to the related company *(note (g))*	**120**	–
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Company's leased equipment and land and buildings *(note (h))*	**809**	790
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Purchases of gas meters from the related company *(note (i))*	**1,732**	765
	Provision of gas meters repairment services by the related company *(note (i))*	**210**	137
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Operating lease of plant and equipment to the related company *(note (g))*	**–**	280
	Provision of installation services to the related company *(note (i))*	**–**	323
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (c))*	Provision of construction services by the related company *(note (j))*	**34,070**	23,210
	Advances from the related company *(note (k))*	**207,043**	147,819
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (c))*	Purchases of construction materials from the related company *(note (i))*	**1,108**	5,016

Notes to Financial Statements

31 December 2005

29. Related party transactions *(continued)*

(i) Transactions with the Group's fellow subsidiaries and the holding company *(continued)*

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Zhengzhou Zhengran Property Management Co., Ltd., Zhengzhou Zhengran Gas Equipment Co., Ltd., Zhengzhou Zhengran Gas Appliances Co., Ltd., and Zhengzhou Gas Group LPG Co., Ltd. are fellow subsidiaries of the Company.

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

(d) In accordance with the property lease agreements, the land use rights lease agreements, the equipment lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment and land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were carried out based on normal commercial terms and determined by agreement of parties based on the valuation of an independent appraiser.

(e) On 20 May 2003, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement 1"). Pursuant to the trademark licence agreement 1, Zhengzhou Gas Group Co., Ltd. agreed to grant a right to the Group for the use of two of its trademarks free of charge for the period from 16 July 2001 to 15 July 2004.

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

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

On 29 September 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into another trademark licence agreement (the "trademark licence agreement 2"). Pursuant to the trademark licence agreement 2, Zhengzhou Gas Group Co., Ltd. agreed to grant the right to the Group for the use of two of its trademarks at a trademark fee of RMB750,000 per annum for the period from 1 August 2004 to 31 July 2007. In the opinion of the directors, these transactions were carried out based on normal commercial terms and in accordance with the terms of the underlying agreements.

(f) On 30 March 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired equipment and natural gas distribution pipelines amounting to RMB19,700,000 from Zhengzhou Gas Group Co., Ltd.

On 23 September 2005, the Company and Zhengzhou Gas Group Co., Ltd. entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired equipment amounting to RMB2,622,000 from Zhengzhou Gas Group Co., Ltd.

These transactions were carried out based on normal commercial terms and the purchase consideration was determined by agreement of parties.

Notes to Financial Statements

31 December 2005

29. Related party transactions *(continued)*

(i) Transactions with the Group's fellow subsidiaries and the holding company *(continued)*

Notes: (continued)

(g) In accordance with a lease agreement entered into between the Company and Zhengzhou Gas Group LPG Co., Ltd. on 15 December 2003, the Company leased plant and equipment with a net book value of RMB7,104,000 as at 31 December 2004 (2003: RMB7,530,000) to Zhengzhou Gas Group LPG Co., Ltd. for an annual rental of RMB280,000 for a fixed period from 1 April 2003 to 31 December 2004.

In accordance with a lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd. on 27 April 2005, the Company leased plant and equipment with a net book value of RMB7,019,000 as at 31 December 2005 to Zhengzhou Gas Group Co., Ltd. for an annual rental of RMB240,000 for a fixed period from 1 May 2005 to 31 December 2006. The lease contract was terminated on 31 October 2005 in accordance with the agreement entered into between the two parties on 27 September 2005.

These transactions were carried out based on normal commercial terms and determined by agreement of the parties.

(h) In accordance with the property management services agreement entered into between the Company and Zhengzhou Zhengran Property Management Co., Ltd. dated 15 June 2003, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the Group's leased equipment and land and buildings to the Group.

(i) These transactions were carried out based on normal commercial terms and determined by agreement of the parties.

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

(k) The advances from Zhengzhou Gas Engineering and Construction Co., Ltd. are unsecured, interest-free and have no fixed terms of repayment as set out in note 25.

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum (2004: 5.76% per annum) for the year ended 31 December 2005, the Company would have borne interest expense, net of tax, of approximately RMB9,536,000 (2004: RMB2,754,000) for the year ended 31 December 2005.

In the opinion of the Directors, the above transactions were conducted in the ordinary course of business.

(ii) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). In 2005, the Group had transactions with State-owned Enterprises including, but not limited to, provision of construction services, operating lease of equipment, land and buildings, purchases of gas meters and use of trademarks. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the other State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosures.

Notes to Financial Statements

31 December 2005

30. Commitments

	2005	2004
	RMB'000	*RMB'000*
Capital commitments		
In respect of property, plant and equipment:		
Authorised, but not contracted for	**6,371**	27,051
Contracted, but not provided for	**3,488**	14,066
	9,859	41,117

Operating lease commitments

As lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of equipment, land and buildings falling due as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**16,312**	16,130
In the second to fifth years, inclusive	**18,773**	26,317
Over five years	**14,102**	14,640
	49,187	57,087

31. Contingent liabilities

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

32. Financial instruments

Financial risk management objectives and policies

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

Business risk

Natural gas, the major raw material sourced by the Group, accounted for approximately 83% of the total purchase for the year ended 31 December 2005 (2004: approximately 79%). The Group purchased most of its natural gas from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co., Ltd. The Group's purchases from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co., Ltd. accounted for approximately 21% and 49%, respectively, of the total cost of sales of the Group for the year ended 31 December 2005 (2004: approximately 19% and 53%).

Foreign currency risk

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

Notes to Financial Statements

31 December 2005

32. Financial instruments *(continued)*

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group does not have significant credit risk as credit given to any individual or entity is not significant.

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risk exposure

The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at 31 December 2005 in relation to each class of the recognised financial assets is the carrying amount of those assets as indicated on the balance sheet.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group sells its products to a diversity of consumers, thereby mitigating any significant concentrations of credit risk.

33. Post balance sheet events

The following significant events took place subsequent to 31 December 2005:

(a) Subsequent to 31 December 2005, the directors proposed a final dividend of RMB0.0138 per ordinary share, totalling approximately RMB17,271,000, pertaining to 2005 for payment in 2006. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2005.

(b) Subsequent to 31 December 2005, the directors proposed to transfer 10%, totalling approximately RMB10,047,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2005 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2005.

34. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 13 March 2006.

Notice of Annual General Meeting

31 December 2005

NOTICE IS HEREBY GIVEN THAT the annual general meeting of Zhengzhou Gas Company Limited* (the "Company") will be held at Samost Hotel, Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on Thursday, 18 May 2006 at 9:00 a.m., for the following purposes:

1. to consider and approve the audited financial statements of the Company and the report of the board of directors (the "Board") and the auditors of the Company for the year ended 31 December 2005;
2. to consider and approve the report of the supervisors of the Company for the year ended 31 December 2005;
3. to consider and approve a final dividend of RMB0.0138 per share for the year ended 31 December 2005. The proposed dividend will be payable on 14 June 2006 to shareholders whose names appear in the register of members of the Company on 18 May 2006;
4. to consider and approve the authorization of the board of directors to fix the remunerations of independent directors, directors and supervisors of the Company;
5. to consider and approve the reappointment of Ernst & Young as the auditors of the Company for the year 2006 and to authorise the Board to fix their remuneration;
6. to consider and approve the annual budget and final accounts of the Company; and
7. to consider and approve the business directions and investment plans of the Company.

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

Zhengzhou, the PRC
13 March 2006

Principal place of business in Hong Kong:
Room 908, Hutchison House
10 Harcourt Road, Central
Hong Kong

Registered Office in the PRC:
352 Longhai Road West
Zhengzhou, Henan Province
PRC 450006

Notes:

(i) Any shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy needs not be a member of the Company. A form of proxy for use at the meeting is hereby enclosed. In the case of joint holders of a share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the meeting either in person or by proxy, the vote of the joint holder whose name appears first in the register of members of the Company shall be accepted to the exclusion of the other joint holder(s).

(ii) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the registrar of the H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of holders of the H Shares) and the Company's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC (in respect of the Domestic Shares), not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

(iii) The register of members of the Company will be closed from 19 April 2006 to 18 May 2006 (both days inclusive). All properly completed H Shares transfer forms accompanied by the relevant share certificates must be lodged with the registrar of the H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 18 April 2006, for registration.

(iv) Holders of the Domestic Shares and the H Shares whose names appear in the register of members on 18 May 2006 are entitled to attend and vote at the meeting.

(v) Holders of the Domestic Shares and the H Shares who intend to attend the meeting shall complete and deposit or post or fax (fax no: (86) 371-6889 0488) the enclosed reply slip to the Company's registered address at 352 Longhai Road West, Zhengzhou City, Henan Province, the PRC on or before 29 April 2006.

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

(vii) Pursuant to Article 77 of the Articles of Association, a poll may be demanded by the following persons:

(1) chairman of the meeting;

(2) at least two shareholders entitled to vote in person or by proxy; or

(3) one or more shareholders representing in aggregate 10% or more of all Shares carrying the right to vote at the meeting present in person or by proxy.