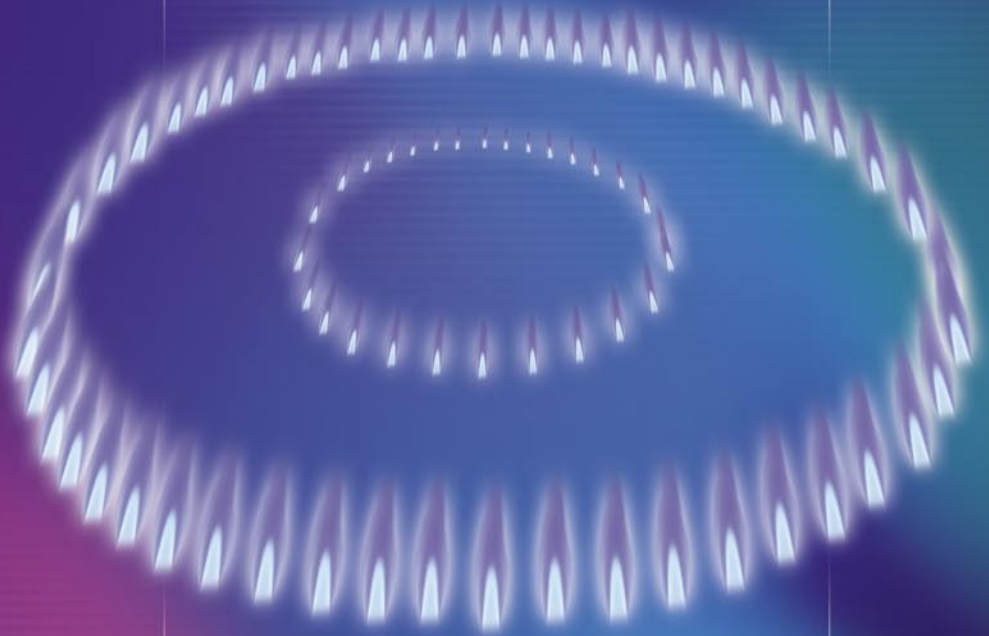


Zhengzhou Gas



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

(a joint stock limited company incorporated in the People's Republic of China)
stock code : 8099

First Quarterly Report 2006

* for identification purpose only

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

FINANCIAL HIGHLIGHTS

- During the Relevant Period, unaudited consolidated revenue of the Group and profit attributable to shareholders of the Company amounted to approximately RMB185,597,000 and RMB31,770,000 respectively, representing respective increases of approximately 5.98% and 16.86% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB127,898,000, representing a decrease of approximately 0.74% over the corresponding period of last year.
- Revenue derived from gas pipeline construction aggregated to approximately RMB57,946,000 for the Relevant Period, representing an increase of approximately 68.41% over the corresponding period of last year, which was primarily attributed to satisfactory growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0254, representing an increase of approximately 16.86% as compared with approximately RMB0.0217 for the corresponding period of last year.
- The Directors do not recommend the payment of any dividend for the Relevant Period.

CONSOLIDATED RESULTS FOR THE FIRST QUARTER OF 2006 (UNAUDITED)

The board of Directors (the "Board") of Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31 March 2006 (the "Relevant Period") and comparative figures of the corresponding period of 2005 as follows:

	Notes	Three months ended 31 March	
		2006 RMB'000	2005 RMB'000
Revenue	3	185,597	175,123
Cost of sales		(127,197)	(119,195)
Gross profit		58,400	55,928
Other revenue		375	83
Selling and distribution costs		(7,237)	(5,653)
Administrative costs		(10,926)	(13,264)
Other operating costs		(29)	(50)
Profit from operating activities		40,583	37,044
Finance costs		-	-
Profit before income tax		40,583	37,044
Income tax expenses	4	(2,647)	(6,694)
Profit for the period		37,936	30,350
Attributable to:			
Equity holders of the Company		31,770	27,186
Minority interests		6,166	3,164
		37,936	30,350
Earnings per share			
- Basic (RMB Yuan)	5	0.0254	0.0217

Notes:

1. BASIS OF CONSOLIDATION AND PRESENTATION

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

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

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

2. SIGNIFICANT CHANGE IN ACCOUNTING POLICIES

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

3. REVENUE

An analysis of the Group's revenue for the three months ended 31 March 2006 together with the comparative figures for the corresponding period in 2005 is as follows:

Revenue

	Three months ended	
	31 March	
	2006	2005
	RMB'000	RMB'000
Natural gas	127,898	128,848
LPG	–	3,217
Gas appliances and pressure control equipment	1,219	1,665
Gas pipeline		
– Gas pipeline construction	57,946	34,407
– Gas pipeline repairs and maintenance services	449	8,316
Others	10	23
	187,522	176,476
less: Business tax and government surcharges	(1,925)	(1,353)
Revenue	185,597	175,123

4. TAX

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

	Three months ended	
	31 March	
	2006	2005
	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:		
– Current	2,578	1,153
– Deferred	69	5,541
Tax expenses for the period	2,647	6,694

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of the Company of approximately RMB31,770,000 (corresponding period in 2005: approximately RMB27,186,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2005 was 1,251,500,000 shares) .

Diluted earnings per share for the three months ended 31 March 2005 and 2006 have not been calculated as no diluting events existed during those periods.

6. RESERVES

The changes in reserves for the three months ended 31 March 2006 together with the comparative figures for the corresponding period in 2005 are as follows:

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Undistributed profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005	101,026	25,483	23,265	12,752	83,810	246,336
Dividend paid for 2004	-	-	-	-	(20,024)	(20,024)
Transferred from retained earnings	-	-	-	7,153	(7,153)	-
Profit for the period	-	-	-	-	27,186	27,186
As at 31 March 2005	101,026	25,483	23,265	19,905	83,819	253,498
As at 1 January 2006	101,026	43,564	43,564	19,905	111,653	319,712
Dividend paid for 2005	-	-	-	-	(17,271)	(17,271)
Transferred from retained earnings	-	-	-	10,047	(10,047)	-
Profit for the period	-	-	-	-	31,770	31,770
As at 31 March 2006	101,026	43,564	43,564	29,952	116,105	334,211

DIVIDEND

On 13 March 2006, the Directors recommended the payment of a final dividend of RMB0.0138 per ordinary share, totaling approximately RMB17,271,000, 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 final dividend for 2004 paid in 2005: RMB0.016 per ordinary share, totaling approximately RMB20,024,000.) This proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 18 May 2006.

The Directors do not recommend the payment of dividend for the three months ended 31 March 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

During the three months ended 31 March 2006, the Group recorded a total revenue of approximately RMB185,597,000 and a gross profit of approximately RMB58,400,000, representing an increase in total revenue and gross profit of approximately 5.98% and 4.42% over the corresponding period of last year respectively, which was primarily attributed to the satisfactory growth in natural gas pipeline construction projects for residential users.

Following the issue of notice regarding the decision on reforming the mechanism for formulating factory production price of natural gas by the National Development and Reform Commission ("NDRC"), the Group's costs of natural gas have increased. However, the overall gross profit margin of the Group during the Relevant Period was approximately 31.47%, similar to that of approximately 31.94% of the corresponding period of last year. The overall gross profit margin could be maintained mainly due to the increase in the proportion of revenue from pipeline network construction, which generated a higher gross profit margin, in the total revenue, from approximately 19.5% in the corresponding period of last year to approximately 30.9% during the Relevant Period. Such growth has partly offset the negative impact on overall gross profit margin as a result of a squeeze of gross profit margin from selling of natural gas.

During the Relevant Period, administrative expenses amounted to approximately RMB10,926,000, representing a decrease of 17.63% as compared with approximately RMB13,264,000 for the corresponding period of last year. The main reason was due to less provision for staff related remuneration.

Income tax expenses of the Group for the Relevant Period were approximately RMB2,647,000, which was in compliance with the relevant PRC tax laws and regulations.

Profit attributable to shareholders of the Company for the Relevant Period was approximately RMB31,770,000, representing an increase of approximately 16.86% from approximately RMB27,186,000 for the corresponding period of last year.

Sale of piped natural gas

The revenue attributed to the sale of piped natural gas for the Relevant Period amounted to approximately RMB127,898,000, representing a decrease of approximately 0.74% from approximately RMB128,848,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 81,509,000m³, representing an increase of approximately 4.77% as compared with approximately 77,798,000m³ for the corresponding period of last year. Natural gas consumption by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year are stated as follows:

	Three months ended 31 March				Increase %
	2006		2005		
	Gas consumption	As a percentage of total gas consumption	Gas consumption	As a percentage of total gas consumption	
Natural Gas					
total gas consumption (approximately '000 m ³)	81,509		77,798		4.77%
including:					
residential users	34,424	42.23%	27,128	34.87%	26.89%
commercial users	29,698	36.44%	28,364	36.46%	4.70%
industrial users	11,587	14.22%	12,806	16.46%	-9.52%
vehicular users	5,800	7.12%	9,500	12.21%	-38.95%

During the Relevant Period, there was insufficient gas supply in Zhengzhou. In order to ensure the daily life of the citizens in Zhengzhou remained unaffected, the Group has ceased to supply gas to vehicular users since the end of November 2005, which was subsequently resumed on 14 February 2006, and set limit on gas supply to both commercial and industrial users. As a result of such measures, gas consumption of commercial users only recorded a slight increase of approximately 4.70% during the Relevant Period as compared with that of the corresponding period of last year, while gas consumption of industrial and vehicular users even recorded a decrease of approximately 9.52% and 38.95% respectively as compared with that of the corresponding period of last year.

As at 31 March 2006, the Group has 580,012 residential users, representing an increase of 11,522 users as compared with 568,490 residential users as at 31 December 2005; 1,244 commercial users representing an increase of 30 users as compared with 1,214 commercial users as at 31 December 2005, and 48 industrial users, same as 31 December 2005, and 5,767 vehicular users, representing an increase of 245 users as compared with 5,522 industrial users as at 31 December 2005.

During the Relevant Period, the Group purchased 68,463,000m³ natural gas from "Project of Transmitting Natural Gas through the West to the East Pipelines". Purchase price had increased from RMB1.20/m³ to RMB1.24/m³ starting from 1 February 2006.

Sales of liquefied petroleum gas

In the Relevant Period, the Group did not generate any revenue from sale of liquefied petroleum gas ("LPG"). Revenue from LPG sales as recorded during the corresponding period of last year was due to a temporary arrangement, under which the Group had to provide LPG to some LPG users which would be converted to natural gas users. The Group had no intention to resume its discontinued LPG business (discontinued since April 2003).

Sales of gas appliances and pressure control equipment

The Group also engages in sales of gas appliances and pressure control equipment. The gas appliances available for 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. In relation to pressure control equipment for natural gas manufactured by the Group, the main targets for marketing are other natural gas suppliers and residential users. For the Relevant Period, revenue from sale of gas appliances and pressure control equipment amounted to approximately RMB1,219,000.

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 RMB57,946,000, representing the connection of natural gas supply for 18,044 residential users and 35 commercial users, or an increase of approximately 68.41% as compared with approximately RMB34,407,000 for the corresponding period of last year. 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 RMB83,652. The increase was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users.

In addition, the Group also collects fees from users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB449,000, representing a decrease of approximately 94.60% as compared with approximately RMB8,316,000 for the corresponding period of last year. Such decrease was mainly due to the fact that the Group has not collected repair and maintenance fees from users pending for the decision of the relevant authorities regarding the amendment to the fee collection mechanism.

Future Prospect

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 km². (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 its business will have ample room for growth in the next decade.

Following the issue of a notice regarding the decision on reforming the mechanism for formulating factory production price of natural gas by NDRC, the costs of natural gas have increased. The Group is now seeking an approval from the Zhengzhou Municipal Government for adjusting the selling prices of natural gas to all kinds of its users so as to minimise the adverse impact of the rise in costs, on the profits.

The Group expects that in 2006, the supply of natural gas in Zhengzhou will still be in a stringent position. Encountering the insufficient supply of gas, 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. The Group had 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 that the above measures can soothe the imbalance of supply and demand of natural gas in Zhengzhou during the year of 2006.

In respect of the vehicular gas business, the Group plans to build another two or three natural gas refueling stations to further improve the vehicular gas supply network. In addition, the Group raised the price of vehicular gas from the current RMB2.6 per m³ to RMB2.8 per m³ on 29 March 2006.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OR DEBENTURES

As at 31 March 2006, 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 Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (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 March 2006, 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%
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 March 2006, 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 March 2006, 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, representing about 16.48% of the 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.

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' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the three months ended 31 March 2006, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 March 2006, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities during the period from 29 October 2002 (i.e. the date on which the H Shares of the Company were listed on GEM) to 31 March 2006.

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 functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive Directors of the Company, and Mr. Zhang Wushan, a non-executive Director. Ms. Yu Shulian is the chairperson of the audit committee.

During the Relevant Period, the audit committee held two meetings and reviewed the unaudited consolidated results of the Group for the Relevant Period.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practices as set out in the GEM Listing Rules for the three months ended 31 March 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

COMPETING INTERESTS

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

DIRECTORS

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), Mr. Li Jinliu (李金陸); (ii) the non-executive Directors, namely, Mr. Zhang Wushan (張武山), Mr. Yang Degu (楊德固), Ms. Bao Hongwei (鮑紅偉); (iii) the independent non-executive Directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮).

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

11 May 2006, Zhengzhou, PRC

* for identification purpose only