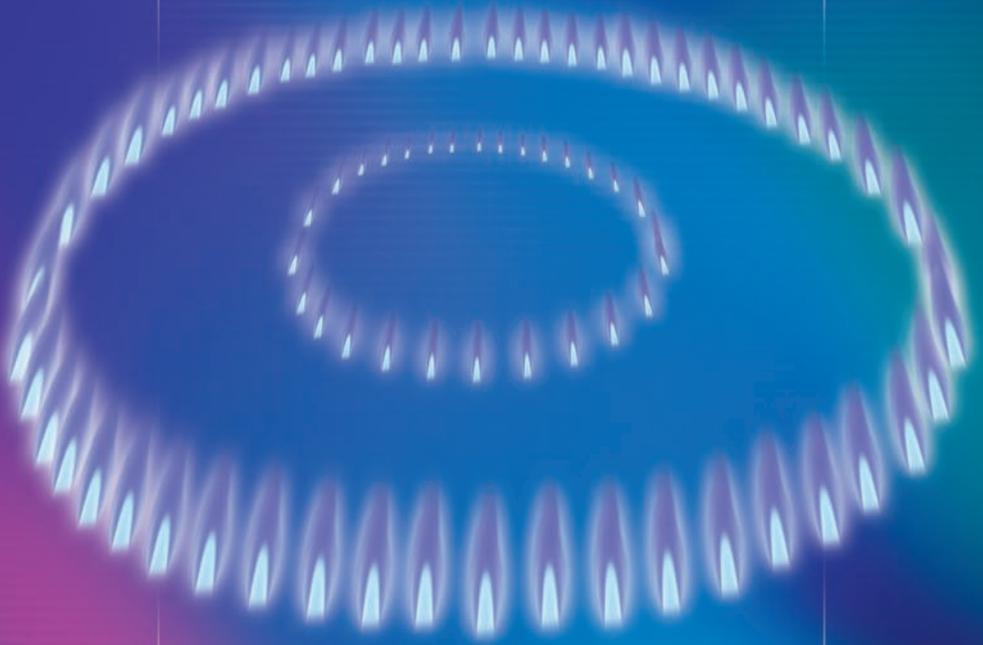


# Zhengzhou Gas



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

**Third Quarterly Report 2006**

\* for identification purpose only

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

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*This report, for which the directors (the “Directors”) of Zhengzhou Gas Company Limited (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 RMB520,593,000 and RMB86,526,000 respectively, representing respective increases of approximately 20.61% and 23.23% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB343,376,000, representing an increase of approximately 18.48% over the corresponding period of last year, which was primarily attributed to the increase in the gas consumption of residential, industrial, and commercial users.
- Revenue derived from gas pipeline construction aggregated to approximately RMB174,998,000 for the Relevant Period, representing an increase of approximately 53.66% over the corresponding period of last year, which was primarily attributed to the satisfactory growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period was approximately RMB0.0691, representing an increase of approximately RMB0.0130 as compared with approximately RMB0.0561 for the corresponding period of last year.
- The Directors do not recommend the payment of any interim dividend for the Relevant Period.

## CONSOLIDATED RESULTS FOR THE THIRD QUARTER OF 2006 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2006 (the "Relevant Period") and comparative figures of the corresponding periods of 2005 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	3	<b>161,104</b>	124,164	<b>520,593</b>	431,624
Cost of sales		<b>(106,372)</b>	(77,918)	<b>(345,427)</b>	(280,629)
Gross profit		<b>54,732</b>	46,246	<b>175,166</b>	150,995
Other revenue		<b>1,406</b>	569	<b>2,771</b>	1,699
Selling and distribution costs		<b>(9,008)</b>	(6,312)	<b>(22,903)</b>	(17,948)
Administrative costs		<b>(17,606)</b>	(17,939)	<b>(49,041)</b>	(42,795)
Other operating costs		<b>(745)</b>	(78)	<b>(4,434)</b>	(254)
Profit from operating activities		<b>28,779</b>	22,486	<b>101,559</b>	91,697
Finance costs		-	-	-	-
Profit before income tax		<b>28,779</b>	22,486	<b>101,559</b>	91,697
Income tax	4	<b>121</b>	(756)	<b>(2,167)</b>	(9,500)
Profit for the period		<b>28,900</b>	21,730	<b>99,392</b>	82,197
Attributable to:					
Equity holders of the Company		<b>28,777</b>	17,755	<b>86,526</b>	70,213
Minority interests		<b>123</b>	3,975	<b>12,866</b>	11,984
		<b>28,900</b>	21,730	<b>99,392</b>	82,197
Earnings per share					
- Basic (RMB Yuan)	5	<b>0.0230</b>	0.0142	<b>0.0691</b>	0.0561

NOTES:

**1. BASIS OF CONSOLIDATION AND PRESENTATION**

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

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

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

The Group is principally engaged in the sale of piped natural gas, gas appliances and pressure control equipment, and the provision of gas pipeline construction services. The Directors consider 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 accounting policies during the Relevant Period.

**3. REVENUE**

An analysis of the Group's revenue for the three months and nine months ended 30 September 2006 together with the comparative figures for the corresponding periods in 2005 is as follows:

**Revenue**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Natural gas	<b>111,058</b>	84,488	<b>343,376</b>	289,816
LPG	–	–	–	3,217
Gas appliances and pressure control equipment	<b>2,181</b>	871	<b>4,341</b>	4,089
Gas pipeline				
– Gas pipeline construction	<b>47,802</b>	34,339	<b>174,998</b>	113,886
– Gas pipeline repairs and maintenance services	<b>1,697</b>	6,240	<b>3,759</b>	25,537
Others	<b>9</b>	10	<b>29</b>	38
	<b>162,747</b>	125,948	<b>526,503</b>	436,583
Less: Business tax and government surcharges	<b>(1,643)</b>	(1,784)	<b>(5,910)</b>	(4,959)
Revenue	<b>161,104</b>	124,164	<b>520,593</b>	431,624

#### 4. TAX

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to provision for corporate income tax at a rate of 33% of their taxable profits. During the Relevant Period, 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 12% of its revenue for corporate income tax computation for the nine months ended 30 September 2006 (2005:10%). The taxable profits calculated thereon were lower than the taxable profits determined with reference to its accounting profits.

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Provision for income tax in respect of profit for the period:				
– Current	<b>1,647</b>	484	<b>7,500</b>	5,250
– Deferred	<b>(1,768)</b>	272	<b>(5,333)</b>	4,250
Tax expenses for the period	<b>(121)</b>	756	<b>2,167</b>	9,500

The income tax expenses for three months ended 30 September 2006 recorded a credit balance as provisions made by the Group in respect of certain expenses such as audit expense, board migration expenses, bonus fund, etc., have created deferred tax assets, leading to a downward adjustment of income tax expenses.

#### 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 RMB86,526,000 (corresponding period in 2005: approximately RMB70,213,000) 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 nine months ended 30 September 2005 and 30 September 2006 have not been calculated as no diluting events existed during those periods.

## 6. RESERVES

Changes in reserves for the nine months ended 30 September 2006 together with the comparative figures for the corresponding periods in 2005 are as follows:

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Undistributed profit <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2005	101,026	25,483	23,265	12,752	–	83,810	246,336
Dividend paid for 2004						(20,024)	(20,024)
Transferred from retained earnings				7,153		(7,153)	–
Profit for the period						52,458	52,458
As at 30 June 2005	101,026	25,483	23,265	19,905	–	109,091	278,769
Profit for the period						17,755	17,755
As at 30 September 2005	101,026	25,483	23,265	19,905	–	126,846	296,524
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		11,803		10,047		(21,850)	–
Profit for the period						57,749	57,749
As at 30 June 2006	101,026	55,367	43,564	29,952	–	130,281	360,190
Recognition of gain from acquisition of minority interest of a subsidiary					27,385		27,385
Profit for the period						28,777	28,777
As at 30 September 2006	101,026	55,367	43,564	29,952	27,385	159,058	416,352

During the Relevant Period, the Company spent a consideration of RMB9,900,000 to increase 16.5% equity interest in Zhengzhou Gas Engineering and Construction Company Limited (the "Engineering Company"). As at 1 July 2006, the acquisition day, the net assets of the Engineering Company represented such equity interest of 16.5% was approximately RMB37,285,000, which exceeded the cost of acquisition by approximately RMB27,385,000. The Company recognized such difference of approximately RMB27,385,000 as capital reserve.

## **DIVIDEND**

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2006.

## **CONNECTED TRANSACTIONS**

### **(1) Acquisition of 16.5% Equity Interest of the Engineering Company**

On 1 July 2006, the Company entered into the equity transfer agreement with the Zhengzhou Gas Group Labour Union Committee (the "Labour Union Committee"), a connected person of the Company by virtue of its being a substantial shareholder (as defined in the GEM Listing Rules) of a subsidiary of the Company. Pursuant to the equity transfer agreement, the Company agreed to acquire from the Labour Union Committee its 16.5% equity interest in the Engineering Company (the "Acquisition") for a consideration of RMB9.90 million (equivalent to approximately HK\$9.52 million) (the "Consideration"). The Consideration would be satisfied in cash through the Company's internal resources and cash flow from its operating activities. Upon completion of the Acquisition, the Company would increase its equity interest in the Engineering Company from 83.50% to 100.00% and the Engineering Company would become a direct wholly-owned subsidiary of the Company.

The Directors believe that, the Acquisition enabled the Company to strengthen its control over the Engineering Company's management and operations. Furthermore, after the Acquisition, the Engineering Company will become a direct wholly-owned subsidiary of the Company and the Labour Union Committees' share of the Engineering Company's profit and loss and net assets will be eliminated, thereby resulting in a substantial decrease in minority interest in both the Company's consolidated profit and loss account and net assets. In view of the favourable terms (including the Consideration) for the Acquisition and the positive financial impact on the Group's future financial results, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition pursuant to the equity transfer agreement are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As at 30 September 2006, the transaction regarding the Acquisition had been completed.

## **(2) Acquisition of Liquefied Petroleum Gas ("LPG") Assets and Land Assets**

### *LPG Assets Purchase Agreement*

On 8 September, 2006, the Company entered into the LPG assets purchase agreement with Zhengzhou Gas Group LPG Company Limited (the "LPG Company"). The LPG Company is owned as to 48% by Zhengzhou Gas Group Company Limited ("Zhengzhou Gas Group"), the controlling shareholder of the Company. Accordingly, the LPG Company is an associate of a connected person of the Company. Pursuant to the LPG assets purchase agreement, the Company had conditionally agreed to acquire a parcel of land and certain gas storage structures, real estates and equipments erected on the land for the purposes of storage of LPG (the "LPG Assets") from the LPG Company for an aggregate consideration of approximately RMB63.24 million (equivalent to approximately HK\$60.81 million). The consideration will be satisfied by cash from internal resources of the Group.

In order to accommodate the increasing demand for natural gas from the Group's existing and potential customers, the Directors believe that it is essential for the Group to further expand its natural gas storage facilities in the near future. Currently the storage capacity of the Group is 200,000 m<sup>3</sup>. After the acquisition of the LPG Assets, the storage capacity of the Group will increase to 2,400,000 m<sup>3</sup>. As such, the Directors consider that the LPG Assets Acquisition provides an opportunity for the Company to expand its storage capacity within a relatively short period of time (when compared with constructing the Group's own natural gas facilities) which may improve the Group's capacity to maintain stable supply of natural gas to users in Zhengzhou City.

Taking into account the consideration of the acquisition of the LPG Assets, and the positive impact of the LPG Assets acquisition on the Group's future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the LPG assets purchase agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### *Land Purchase Agreements*

The Company entered into the Land Purchase Agreement 1 on 26 July 2006 for the acquisition from Zhengzhou Gas Group a parcel of land located at the junction of Juyuan Road East and Hongtu Road South in Zhengzhou (the "Land Asset 1") for a consideration of RMB577,000 (equivalent to approximately HK\$554,808), which will be satisfied by cash from internal resources of the Company.

The Company entered into the Land Purchase Agreement 2 on 8 September 2006 for the acquisition from Zhengzhou Gas Group two parcels of lands, one located at the junction of Fengqing Road West and Guihua Road in Zhengzhou, while the other parcel of land located at the junction of Ruhe Road North and Huashan Road West (the "Land Asset 2") for a consideration of RMB4,900,000 (equivalent to approximately HK\$4,710,000), which will be satisfied by cash from internal resources of the Company.

One of the Company's operations is the sale of piped natural gas to vehicular users through gas refueling stations (the "Gas Stations") and accordingly the Gas Stations are important assets of the Company. On each parcel of the Land Asset 1 and Land Asset 2 ("Land Assets") covered by the Land Purchase Agreement 1 and Land Purchase Agreement 2 ("Land Purchase Agreements"), there was constructed one of the Company's Gas Stations. In order to obtain the titles of such Gas Stations, the Company has to possess the land use rights of the Land Assets. Taking into account the considerations for the acquisition of the Land Assets and its positive impact on the Group's future operation, the Directors (including the independent non-executive directors) is of the opinion that the terms of the Land Purchase Agreements are fair and reasonable, and in the interest of the Company and its shareholders as a whole.

As two of the relevant percentage ratios (as defined in the GEM Listing Rules, other than profits ratio) in relation to the acquisitions of LPG assets and Land Assets are more than 2.5% and the total consideration exceeds HK\$10,000,000, the above acquisitions constitute a connected transaction and are subject to the reporting, announcement and independent shareholders' approval requirements.

The Company has decided to hold an extraordinary general meeting on 22 November 2006 for the independent shareholders to vote on the connected transactions in relation to the acquisitions of above LPG Assets and Land Assets.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

#### *General*

During the nine months ended 30 September 2006, the Group recorded a total revenue of approximately RMB520,593,000 and a gross profit of approximately RMB175,166,000, representing an increase in total revenue of approximately 20.61% over the corresponding period of last year, which was primarily attributable to the increase in sales of natural gas and the satisfactory growth in natural gas pipeline construction projects for residential users.

During the Relevant Period, the overall gross profit margin of the Group was approximately 33.65%, representing a squeeze of approximately 1.33% as compared with 34.98% for the corresponding period of last year. During the Relevant Period, the gross profit margins of businesses such as gas pipeline construction business and pipeline maintenance and repair business decreased as compared with those of the corresponding period of last year. Due to the increase of average construction costs per user and the recognition of certain low-gross-profit-margin construction projects, the gross profit margin of gas pipeline construction business decreased from 75.18% for the nine months ended 30 September 2005 to 68.46% during the Relevant Period. In addition, as relevant authorities in Zhengzhou are considering the application made by the Group concerning the increase of selling price of natural gas for residential users, and the repair fee of RMB48 charged on each user annually by the Group constitutes one of the factors to be taken into consideration by the authorities in determining the granting of the approval of such application, therefore, the Group will not charge the residential users for such repair fee before the release of the decision of the authorities. Accordingly, a negative gross profit margin of 326.87% was recorded in respect of pipeline maintenance and repair business, which contributed to the decrease of overall profit margin. On the other hand, the gas pipeline construction business recorded satisfactory revenue increase despite decrease in gross profit margin. The proportion of revenue from this sector to the total revenue increased from approximately 26.09% in the first nine months period of last year to approximately 33.24% 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 of the abovementioned businesses.

During the Relevant Period, administrative expenses amounted to approximately RMB49,041,000, representing an increase of approximately 14.60% as compared with approximately RMB42,795,000 for the corresponding period of last year. The main reason was due to the increase of intermediaries fee and bonus fund.

Income tax expenses of the Group for the Relevant Period were approximately RMB2,167,000, representing a decrease of approximately 77.19% as compared with approximately RMB9,500,000 for the corresponding period of last year. Such decrease was mainly attributed to the fact that the revenue increase of the Group during the Relevant Period was mainly derived from the pipeline construction business which was operated by Zhengzhou Gas Engineering and Construction Co., Ltd., a subsidiary of the Company, which was subject to enterprise income taxes based on 12% of its revenue as approved by the local tax authorities during the Relevant Period. Assessable profits calculated in this manner was lower than that determined based on the accounting profits. Moreover, as provisions made by the Group in respect of its application for migration to the main board of the Stock Exchange and certain expenses have created deferred tax assets, a deduction to the tax expenses amounted to RMB5,333,000 was recorded.

During the relevant period, the profit attributable to the Company's shareholders was approximately RMB86,526,000, representing an increase of 23.23% as compared with approximately RMB70,213,000 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 RMB343,376,000, representing an increase of 18.48% from approximately RMB289,816,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 202,402,000 m<sup>3</sup>, representing an increase of approximately 10.34% as compared with approximately 183,440,000 m<sup>3</sup> for the corresponding period of last year. Natural gas consumption by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year are stated as follows:

	Nine months ended 30 September				Increase %
	2006	2005	As a percentage of total gas consumption	As a percentage of total gas consumption	
<b>Natural Gas</b>					
Total gas consumption (approximately '000 m <sup>3</sup> )	<b>202,402</b>	183,440			10.34%
Including:					
Residential users	<b>72,875</b>	62,137	<b>36.01%</b>	33.87%	17.28%
Commercial users	<b>58,802</b>	51,131	<b>29.05%</b>	27.87%	15.00%
Industrial users	<b>39,225</b>	36,132	<b>19.38%</b>	19.70%	8.56%
Vehicular users	<b>31,500</b>	34,040	<b>15.56%</b>	18.56%	-7.46%

During the Relevant Period, there was tight gas supply in Zhengzhou. In order to ensure the daily life of Zhengzhou citizens remained unaffected, the Group suspended the supply of gas to vehicular users, 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, all types of users (other than residential users) recorded only slight increase or even decrease in gas consumption. Gas consumption of commercial users during the Relevant Period was approximately 58,802,000 m<sup>3</sup>, representing an increase of approximately 15.00% as compared with that of the corresponding period of last year; gas consumption of industrial users during the Relevant Period was approximately 39,225,000 m<sup>3</sup>, representing only a slight increase of approximately 8.56% as compared with that of the corresponding period of last year; gas consumption of vehicular users during the Relevant Period was approximately 31,500,000 m<sup>3</sup>, representing a decrease of approximately 7.46% as compared with that of the corresponding period of last year.

As at 30 September 2006, the Group has 615,019 residential users, representing an increase of 46,529 users as compared with 568,490 residential users as at 31 December 2005; 1,368 commercial users, representing an increase of 154 users as compared with 1,214 commercial users as at 31 December 2005, and 50 industrial users, representing an increase of 2 users as compared with 48 industrial users as at 31 December 2005, and 6,114 vehicular users, representing an increase of 592 users as compared with 5,522 vehicular users as at 31 December 2005. The number of vehicular users decreased by 326 users as compared with 6,440 vehicular users as at 30 June 2006, which was mainly due to the shift of some bus users to refuel gas in the refueling stations established by Zhengzhou Bus Company.

On 9 August 2006, the Group had obtained an approval from the Zhengzhou Commodity Price Bureau for upward adjustments of the selling prices of natural gas to commercial and industrial users so as to minimise the adverse impact of the rise in costs on the profits of this year. The selling price of natural gas to commercial users was adjusted upward from RMB2.00/m<sup>3</sup> to RMB2.40/m<sup>3</sup>; and the selling price of natural gas to industrial users was adjusted upward from RMB1.80/m<sup>3</sup> to RMB2.10/m<sup>3</sup>. Such adjustments applied to gas consumption volume of commercial and industrial users metered on or after 15 August 2006. During the Relevant Period, the Group recorded an additional revenue of RMB4,173,000 due to the above adjustment of the selling prices of natural gas.

During the Relevant Period, the Group purchased 154,374,000 m<sup>3</sup> natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", representing approximately 71.07% of the total gas purchase of the Group. Purchase price had increased from RMB1.20/m<sup>3</sup> to RMB1.24/m<sup>3</sup> starting from 1 February 2006. In addition, the Group also purchased a total of 59,415,000 m<sup>3</sup> natural gas from Zhongyuan Oilfield which is owned by Sinopec, representing approximately 27.35% of the total gas purchase of the Group.

#### *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 who would be converted to natural gas users. The Group had no intention to resume its 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 users in Zhengzhou. For the Relevant Period, revenue from sale of gas appliances and pressure control equipment amounted to approximately RMB4,341,000.

### *Natural gas pipeline construction services*

During the Relevant Period, the Group's revenue derived from the provision of natural gas pipeline construction services amounted to approximately RMB174,998,000, relating to the connection of natural gas supply for 50,380 residential users and 105 commercial users, representing an increase of approximately 53.66% as compared with approximately RMB113,886,000 for the corresponding period of last year. The average fee for connection of natural gas supply for each residential user was approximately RMB3,010.42 while that for each commercial user was approximately RMB106,718.19. 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 RMB3,759,000, representing a decrease of approximately 85.28% as compared with approximately RMB25,537,000 for the corresponding period of last year. Such significant decrease was mainly due to the fact that no repair and maintenance fees from users had been collected by the Group pending the decision of the relevant authorities regarding the revision of repair and maintenance fees 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 Western 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<sup>2</sup> (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 zones, high-tech park, economic and technological development zones, to attract

investments from large industrial and commercial enterprises 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 favorable policy, the Group believes that its business will have ample room for growth in the next decade.

The Group expects that in 2006, the supply of natural gas in Zhengzhou will still be tight. 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 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 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 one to two natural gas refueling stations to further improve the vehicular gas supply network. In addition, the Group raised the price of vehicular gas from RMB2.6/m<sup>3</sup> as at the beginning of 2006 to RMB3/m<sup>3</sup> in several intervals during the Relevant Period.

## **OTHER INFORMATION**

### **DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OR DEBENTURES**

As at 30 September 2006, none of the Directors, supervisors or chief executives of the Company or their respective associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, 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 required standard of dealings by directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

## DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 September 2006, 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 member of the Group (excluding the Company) were as follows:

### Long positions in the shares

Name	Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in the total registered share capital of the Company	
					of beneficial interests in Domestic Shares	interest in 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 (李克清) (note 2)	Corporate	–	–	115,500,000	16.48%	9.23%
Guo Wenjun (郭文君) (note 2)	Family	–	–	115,500,000	16.48%	9.23%
Daiwa SB Investments (HK) Limited (大和佳銀投信投資顧問(香港)有限公司)	Investment manager	33,000,000	5.99%	–	–	2.63%
Value Partners Limited (惠理基金管理公司)	Investment manager	34,590,000	6.28%	–	–	2.76%
Cheah Cheng Hye (謝清海) (note 3)	Corporate	34,590,000	6.28%	–	–	2.76%
Emirates International Investment Company LLC	Beneficial owner	97,000,000	17.61%	–	–	7.75%

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
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB3,500,000	35.00%

*Notes:*

- As at 30 September 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.
- As at 30 September 2006, each of Li Keqing and Guo Wenjun (his spouse) 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 held by each of Li Keqing and Guo Wenjun represented only 9.23% of the total registered share capital of the Company.
- According to the individual substantial shareholder notice provided by Mr. Cheah Cheng Hye, Mr. Cheah Cheng Hye is interested in approximately 32.77% in the registered capital of Value Partners Limited, therefore is a controlling shareholder of Value Partners Limited. As at 30 September 2006, Value Partners Limited held 34,590,000 H Shares of the Company, representing approximately 6.28% of the beneficial interest in H Shares, therefore Mr. Cheah Cheng Hye was deemed to be interested in 34,590,000 H Shares in the Company as at 30 September 2006. However, pursuant to the GEM Listing Rules, Mr. Cheah Cheng Hye was not a substantial shareholder of the Company because the H Shares held by him represented only 2.76% 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 member of the Company (other than the Company).

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

Save as disclosed above, during the nine months ended 30 September 2006, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 September 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 30 September 2006.

## **AUDIT COMMITTEE**

The Company established an audit committee on 30 September 2002 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 three meetings and reviewed the unaudited consolidated results of the Group for the nine months ended 30 September 2006.

## **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 nine months ended 30 September 2006.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

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 as set out in Rules 5.48 to 5.67 of the GEM Listing Rules regarding securities transactions by the Directors throughout the nine months ended 30 September 2006.

## 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 Company.

## DIRECTORS

As at the date of this report, the members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會), Mr. Li Yantong (李燕同), 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); and (iii) the independent non-executive Directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮).

By order of the Board

**Zhengzhou Gas Company Limited**

**Yan Guoqi**

*Chairman*

13 November 2006  
Zhengzhou, the PRC