



Zhengzhou Gas Company Limited*

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

Stock code: 8099



* for identification purpose only

First Quarterly Report **2007**





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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 RMB245,653,000 and RMB40,212,000 respectively, representing respective increases of approximately 32.36% and 26.57% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB173,076,000, representing an increase of approximately 35.32% over the corresponding period of last year.
- Revenue derived from gas pipeline construction aggregated to approximately RMB71,641,000 for the Relevant Period, representing an increase of approximately 23.63% 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 RMB0.0321, representing an increase of approximately 26.57% as compared with approximately RMB0.0254 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 2007 (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 ended 31 March 2007 (the "Relevant Period") and comparative figures of the corresponding period of 2006 as follows:

	Notes	Three months ended 31 March	
		2007 RMB'000	2006 RMB'000
Revenue	3	245,653	185,597
Cost of sales		(160,115)	(127,197)
Gross profit		85,538	58,400
Other revenue		443	375
Selling and distribution expenses		(7,201)	(7,237)
Administrative expenses		(15,415)	(10,926)
Other expenses		(2,643)	(29)
Profit from operating activities		60,722	40,583
Finance costs		–	–
Profit before income tax		60,722	40,583
Income tax	4	(20,416)	(2,647)
Profit for the period		40,306	37,936
Attributable to:			
Equity holders of the Company		40,212	31,770
Minority interests		94	6,166
		40,306	37,936
Earnings per share			
– Basic (RMB Yuan)	5	0.0321	0.0254



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. ("Zhengzhou Gas Group"), which is incorporated in the PRC.

2. CHANGE IN ACCOUNTING POLICIES

During the Relevant Period, the calculation of tax provision of Zhengzhou Gas Engineering Co., Ltd. ("Engineering Company"), a subsidiary of the Company, has been modified. Engineering Company has received a document from the relevant tax authority, pursuant to which the enterprise income tax of the Engineering Company for the entire year ended 31 December 2007 should be levied on the basis of its accounting profit multiplied by the applicable income tax rate of 33%. For the year ended 31 December 2006, as approved by the relevant tax authority, the enterprise income tax of the Engineering Company was levied on the basis of 12% of its total revenue multiplied by the applicable income tax rate of 33%.

Save as disclosed above, the accounting policies of the Group essentially remain unchanged as compared with those disclosed in the annual report for the year ended 31 December 2006.



3. REVENUE

An analysis of the Group's revenue for the three months ended 31 March 2007 together with the comparative figures for the corresponding period in 2006 is as follows:

Revenue

	Three months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
Natural gas	173,076	127,898
Gas appliances and pressure control equipment	1,904	1,219
Gas pipeline		
– Gas pipeline construction	71,641	57,946
– Gas pipeline repairs and maintenance services	1,488	449
Others	13	10
	248,122	187,522
Less: Business tax and government surcharges	(2,469)	(1,925)
Revenue	245,653	185,597

4. TAX

No provision for Hong Kong tax has been made as none of the Group's income was arising in or 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	
	2007	2006
	RMB'000	RMB'000
Provision for income tax in respect of profit for the period:		
– Current	19,895	2,578
– Deferred	521	69
	20,416	2,647
Tax expenses for the period	20,416	2,647

During the Relevant Period, the income tax expense of the Group was RMB20,416,000, representing an increase of 671.29% as compared with RMB2,647,000 for the corresponding period last year. The major reason for the increase was that Engineering Company has to determine its taxable profit based on its accounting profit instead of 12% of the revenue as for the corresponding period of last year. Accordingly, Engineering Company has to make an additional provision of RMB15,856,000 for tax expense.



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 RMB40,212,000 (corresponding period in 2006 was approximately RMB31,770,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2006 was 1,251,500,000 shares).

Diluted earnings per share for the three months ended 31 March 2006 and 31 March 2007 have not been calculated as no diluting events existed during those periods.

6. RESERVES

Changes in reserves for the three months ended 31 March 2007 together with the comparative figures for the corresponding period in 2006 are as follows:

	Share premium <i>RMB'000</i>	Reserve arising from acquisition of minority interest <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>	Undistributed profit <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 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
As at 1 January 2007	101,026	28,150	111,158	–	29,952	171,790	442,076
Dividend paid for 2006	–	–	–	–	–	(35,668)	(35,668)
Transferred from retained earnings	–	–	–	–	11,504	(11,504)	–
Profit for the period	–	–	–	–	–	40,212	40,212
As at 31 March 2007	101,026	28,150	111,158	–	41,456	164,830	446,620



DIVIDEND

On 13 March 2007, the Directors recommended the payment of a final dividend of RMB0.0285 per ordinary share, totalling approximately RMB35,668,000, in respect of the year ended 31 December 2006 to shareholders of the Company whose names appear in the register of members of the Company on 18 May 2007 (The final dividend for 2005 paid in 2006: RMB0.0138 per ordinary share, totalling approximately RMB17,271,000.) 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 2007.

The Directors do not recommend the payment of dividend for the three months ended 31 March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

During the three months ended 31 March 2007, the Group recorded a total revenue of approximately RMB245,653,000 and a gross profit of approximately RMB85,538,000, representing an increase in total revenue and gross profit of approximately 32.36% and 46.47% over the corresponding period of last year respectively, which was primarily attributed to the increase in the total sales of natural gas and the satisfactory growth in revenue from natural gas pipeline construction projects.

During the Relevant Period, the overall gross profit margin of the Group was approximately 34.82%, representing an increase of approximately 3.35% as compared with approximately 31.47% of the corresponding period of last year. The increase of gross profit margin was primarily due to: (1) the gross profit margin of the sales of natural gas increased to approximately 19.10% in the Relevant Period from approximately 14.37% of the corresponding period of last year as a result of the increase in selling price of natural gas for industrial and commercial users from August of last year; (2) the gross profit margin of pipeline construction projects increased to approximately 80.74% in the Relevant Period from approximately 75.49% of the corresponding period of last year.



During the Relevant Period, the selling and distribution expenses of the Group were approximately RMB 7,201,000, representing a decrease of approximately 0.50% from 7,237,000 of the corresponding period of last year, mainly due to the decrease of pipeline maintenance fees. During the Relevant Period, the administrative expenses of the Group were approximately RMB15,415,000, representing an increase of approximately 41.09% from RMB10,926,000 of the corresponding period of last year, mainly due to the significant increase in salary and provision for incentive fund.

Income tax expenses of the Group for the Relevant Period were approximately RMB20,416,000, representing an increase of approximately 671.29% from approximately RMB2,647,000 in the corresponding period of last year. This was mainly due to the fact that the Engineering Company has to determine its taxable profit based on its accounting profit instead of 12% of the revenue as for the corresponding period of last year. As a result, the Engineering Company was required to make an additional provision for tax expenses of RMB15,856,000 in the Relevant Period.

During the Relevant Period, the other expenses of the Group were approximately RMB2,643,000, representing an increase of approximately 9,013.79% from approximately RMB29,000 in the corresponding period of last year, primarily due to the increase of other expenses arising from the migration to the Main Board.

During the Relevant Period, the net profit attributable to shareholders of the Company were approximately RMB40,212,000, representing an increase of approximately 26.57% from approximately RMB31,770,000.

Sale of piped natural gas

The revenue attributed to the sale of piped natural gas for the Relevant Period amounted to approximately RMB173,076,000, representing an increase of approximately 35.32% from approximately RMB127,898,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 97,645,000 m³, representing an increase of approximately 19.80% as compared with approximately 81,509,000 m³ for the corresponding period of last year. Natural gas consumption by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year are stated as follows:

	Three months ended 31 March				
	2007	As a percentage of total gas consumption	2006	As a percentage of total gas consumption	Increase %
Natural Gas					
total gas consumption (approximately '000 m ³)	97,645		81,509		19.80%
including:					
residential users	34,551	35.38%	34,424	42.23%	0.37%
commercial users	36,687	37.57%	29,698	36.44%	23.53%
industrial users	17,327	17.74%	11,587	14.22%	49.54%
vehicular users	9,080	9.30%	5,800	7.12%	56.55%

During the Relevant Period, as the Group obtained sufficient supply of natural gas under the support of PetroChina and Sinopec, the Group did not have to suspend gas supply to vehicular users and set limit on gas consumption to commercial and industrial users as the corresponding period of last year. Therefore, natural gas consumption by industrial, commercial and vehicular users recorded significant increase of 49.54%, 23.53% and 56.55% respectively. Due to relatively warmer weather during the Relevant Period, natural gas consumption by residential users increased only 0.37%, which approximates that of the corresponding period of last year.

As at 31 March 2007, the Group has 650,434 residential users, representing an increase of 21,373 users as compared with 629,061 residential users as at 31 December 2006; 1,505 commercial users, representing an increase of 72 users as compared with 1,433 commercial users as at 31 December 2006; 54 industrial users, representing an increase of 3 users as compared with 51 industrial users as at 31 December 2006, and 5,964 vehicular users, representing a net decrease of 271 users as compared with 6,235 vehicular users as at 31 December 2006, mainly due to the shift of some buses to refuel gas in the refueling stations established by Zhengzhou Bus Company.



During the Relevant Period, the Group purchased approximately 84,306,000 m³ and 26,319,000 m³ of natural gas from “Project of Transmitting Natural Gas through the West to the East Pipelines” and Zhongyuan Oilfield respectively, representing approximately 74.37% and 23.22% of the total purchase of natural gas respectively.

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 RMB1,904,000.

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 RMB71,641,000, representing the connection of natural gas supply for 21,963 residential users and 29 commercial users, or an increase of approximately 23.63% as compared with approximately RMB57,946,000 for the corresponding period of last year. The average fee for connection of natural gas supply for each residential user was approximately RMB3,126 while that for each commercial user was approximately RMB103,076. 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 RMB1,488,000, representing an increase of approximately 231.40% as compared with approximately RMB449,000 for the corresponding period of last year. Such increase was mainly due to the satisfactory growth of revenue from outdoor renovation projects. However, the Group did not charge any repair fees on its customers as it was still waiting for the result from the relevant authorities in relation to the modification of pricing mechanism for the natural gas pipeline repair and maintenance services. Therefore, a loss of approximately RMB3,922,000 was recorded in such business.



Future Prospect

The Chinese government is currently implementing the policy of “The Rise of Central China”. 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.

In respect of the development of industrial and commercial users, the Group will strategically develop those users who have balanced gas consumption throughout the year such as restaurants and hotels, so as to boost up the sales of natural gas even in the summer slump period and better balance the whole-year sales of natural gas of the Group.

In respect of the vehicular gas business, the Group plans to build more natural gas refueling stations to further improve the vehicular gas supply network, so as to shorten the waiting time for gas refueling and continuously enhance customer services to attract more potential vehicular users to natural gas as fuel.

CONNECTED TRANSACTIONS

(1) Property Purchase Agreement

On 20 March 2007, the Company entered into a property purchase agreement (the “Property Purchase Agreement”) with Zhengzhou Gas Group, the controlling shareholder of the Company holding an approximately 43.2% equity interest in the Company’s registered capital, for the acquisition from the Zhengzhou Gas Group of the Property Assets (as defined below) for an aggregate consideration of RMB17.00 million (equivalent to approximately HK\$17.00 million) to be satisfied by cash from internal resources of the Group. The consideration to be paid by the Company for the Property Assets pursuant to the Property Purchase Agreement was determined after arm’s length negotiations between the Company and the Zhengzhou Gas Group with reference to the valuation of the Property Assets by CB Richard Ellis Limited, an independent valuer.



The property assets proposed to be acquired by the Company (the “Property Assets”) mainly comprise the following two properties:

- (a) the land use rights in respect of a parcel of land with a total site area of approximately 5,631 sq.m. located at the junction of Dongming Road West and Zhengbian Road South, Guancheng District, Zhengzhou City and certain buildings erected thereon which include a 5-storey office building and two single storey warehouses with a total gross floor area of approximately 2,138.74 sq.m; and
- (b) the land use rights in respect of a parcel of land with a total site area of approximately 10,554.1 sq.m. located at the junction of Xisanhuan Road West and Laozhengmi Road West, Zhongyuan District, Zhengzhou City and certain buildings erected thereon which include a single storey warehouse and 1/F of a 2-storey warehouse with a total gross floor area of approximately 1,306.02 sq.m.

As the Company is principally engaged in the sale of piped natural gas to residential, commercial and industrial customers and the provision of gas pipeline construction services and the sale of gas appliances, the gas station and the office buildings are important assets to the Company. Taking into account the consideration of the acquisition of the Property Assets, and the positive impact of the acquisition of Property Assets on the Group’s future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the Property Purchase Agreement are fair and reasonable and on normal commercial terms and in the interest of the shareholders of the Company as a whole.

As announced by the Company on 8 September 2006, the Company and Zhengzhou Gas Group also entered into two land purchase agreements (the “Land Purchase Agreements”) on 26 July 2006 and 8 September 2006 respectively, pursuant to which the Company agreed to purchase three parcels of land for an aggregate consideration for RMB5.48 million (equivalent to approximately HK\$5.48 million). Pursuant to Rule 20.25 of the GEM Listing Rules, the transactions under the Property Purchase Agreement and the Land Purchase Agreements constitute a series of transactions and accordingly the amounts of consideration respectively payable under the Property Purchase Agreement and the Land Purchase Agreements are liable to be aggregated and together constitute connected transactions subject to the independent shareholders’ approval requirements set out in Chapter 20 of the GEM Listing Rules. As the Land Purchase Agreements have already been approved by the independent shareholders of the Company on 22 November 2006, only the Property Purchase Agreement will be subject to approval from the independent shareholders of the Company at its special general meeting to be held on 18 May 2007.



(2) Continuing Connected Transaction

Background

The Company currently leases several parcels of land located at Feng Qing Road West, Bei Huan Road South; Cui Zhuang Road East; Ru He Road North, Hua Shan Road West, all in Zhengzhou City, from Zhengzhou Gas Group under three land use rights lease agreements (the "Land Use Rights Lease Agreements") dated 16 January 2002 (as supplemented by a supplemental agreement dated 30 September 2002). In May 2005, the Company and Zhengzhou Gas Group agreed to adjust the annual rental under the Land Use Rights Lease Agreements.

On 26 May 2005, the Company and Zhengzhou Gas Group entered into a new land use rights lease agreement (the "New Land Use Rights Lease Agreement"), pursuant to which Zhengzhou Gas Group agreed to lease to the Company the land use rights in relation to the land located at Jing Guang Nan Xi Road, Nan San Huan Bei, Er Qi District, Zhengzhou, Henan Province.

On 26 July 2006 and 8 September 2006 respectively, the Company has entered into the Land Purchase Agreements with Zhengzhou Gas Group to purchase three parcels of land from Zhengzhou Gas Group which originally formed part of the leased land under the Land Use Rights Lease Agreements. As a result of the above purchase, the land area leased to the Company by Zhengzhou Gas Group under the Land Use Rights Lease Agreements was reduced.

Second Supplemental Agreement

On 4 January 2007, the Company has entered into a second supplemental agreement (the "Second Supplemental Agreement") with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to reduce the annual rental under the Land Use Rights Lease Agreements, as a result of the reduction of the area of land leased under the Land Use Rights Lease Agreements after the acquisition from Zhengzhou Gas Group of part of the land by the Company pursuant to the Land Purchase Agreements.

After the acquisition of the land by the Company from Zhengzhou Gas Group pursuant to the Land Purchase Agreements, the leased land area under the Land Use Rights Lease Agreements had been reduced. It is fair and reasonable that the annual rental be reduced proportionally with reference to the reduction in the leased land area. The Directors, including the independent non-executive Directors, believe that the terms of the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.



Upon the entering into of the Second Supplemental Agreement, the adjusted aggregate annual caps for annual rental under the Land Use Rights Lease Agreements for the two years ending 31 December 2008 are RMB1,297,110 (approximately HK\$1,297,110) and RMB1,394,393.25 (approximately HK\$1,394,393.25) respectively.

Pursuant to Rule 20.25 of the GEM Listing Rules, the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement constitute a series of transactions and accordingly the adjusted annual rentals under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the annual rental under the New Land Use Rights Lease Agreement are liable to be aggregated. As a result, the aggregate annual rental under both the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement for the two years ending 31 December 2008 are RMB1,414,136 (approximately HK\$1,414,136) and RMB1,520,196.2 (approximately HK\$1,520,196.2) respectively.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2007, 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 (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 been taken 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

So far as the Directors are aware, as at 31 March 2007, the persons (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 of the Company 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 were as follows:

Name	Capacity/ Nature of interest	Number of H shares held in the Company	Approximate % of beneficial interests in H shares of the Company	Number of domestic shares held in the Company	Approximate % of beneficial interests in domestic shares of the Company	Approximate % of beneficial interests in the total registered share capital of the Company
Zhengzhou Gas Group	Beneficial owner	–	–	540,415,098 (L) (Note 3)	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (鄭州啟元投資諮詢有限公司) (Note 1)	Beneficial owner	–	–	115,500,000 (L) (Note 3)	16.48%	9.23%
Li Keqing (李克清) (Note 2)	Corporate	–	–	115,500,000 (L) (Note 3)	16.48%	9.23%
Guo Wenjun (郭文君) (Note 2)	Family	–	–	115,500,000 (L) (Note 3)	16.48%	9.23%
Daiwa SB Investments (HK) Limited	Investment manager	33,000,000 (L) (Note 3)	5.99%	–	–	2.63%
Emirates International Investment Company LLC	Beneficial owner	97,000,000 (L) (Note 3)	17.62%	–	–	7.75%

Notes:

- As at 31 March 2007, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (“Zhengzhou Qiyuan”) held 115,500,000 domestic shares in the Company (the “Domestic Shares”), representing approximately 16.48% of the beneficial interest in the 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 2007, each of Li Keqing and his spouse, Guo Wenjun, was deemed to have an interest in 115,500,000 Domestic Shares as they were together interested in the entire 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.
3. "L" denotes a long position in such shares.

So far as the Directors are aware, as at 31 March 2007, the persons (not being a Director or supervisor or chief executive of the Company) or companies who 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 (other than the Company) were as follows:

Name of subsidiary of the Company	Name of shareholder	Nominal value of registered and paid-up capital of the subsidiary held	Approximate % of shareholding in the subsidiary
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司) (Note 1)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB23,500,000 (L) (Note 2)	78.33%

Notes:

1. On 1 July 2006, the Company and the Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會) (the "Labour Union Committee") entered into an equity transfer agreement whereby the beneficial interests in 16.5% of the registered capital of Zhengzhou Gas Engineering and Construction Co., Ltd. (the "Engineering Company") were transferred from the Labour Union Committee to the Company. On 7 August 2006, the registration of such transfer with the relevant registration authority was completed. With effect from 7 August 2006, the Company was interested in the entire registered capital of the Engineering Company and indirectly interested in the entire registered capital of Dengfeng Zhengran Gas Co., Ltd.
2. "L" denotes a long position in such shares.



Save as disclosed above, as at 31 March 2007, 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 of the Company 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 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 2007, none of the Directors or supervisors of the Company was granted options to subscribe for H Shares of the Company. As at 31 March 2007, 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 such period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

None of the Company or any of its subsidiaries had 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 2007.

AUDIT COMMITTEE

The Company established an audit committee on 30 September 2002 with terms of reference re-adopted on 29 March 2007 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, 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.

During the Relevant Period, the audit committee held two meetings and reviewed the unaudited consolidated results of the Group for the three months ended 31 March 2007.

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 2007.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2007, 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 with 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.

POST BALANCE SHEET EVENTS

On 11 May 2007, the Engineering Company, a wholly-owned subsidiary of the Company, has received a document from the relevant tax authority, pursuant to which the enterprise income tax of the Engineering Company for the year ending 31 December 2007 should be levied on the basis of its accounting profit multiplied by the applicable income tax rate of 33%. For the year ended 31 December 2006, as approved by the relevant tax authority, the enterprise income tax of the Engineering Company was levied on the basis of 12% of its total revenue multiplied by the applicable income tax rate of 33%.

Sufficient provision has been made in the income tax expense of the Group during the Relevant Period in order to reflect the event mentioned above.

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 Jinliu (李金陸) and Mr. Li Yantong (李燕同); (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), Ms. Yu Shulian (余恕蓮) and Mr. Wong Ping (王平).

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

14 May 2007
Zhengzhou, the PRC