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: 3928

Interim Report 2007

* for identification purpose only

FINANCIAL HIGHLIGHTS

- During the Relevant Period, unaudited consolidated revenue of the Group and profit attributable to shareholders of the Company amounted to approximately RMB441,770,000 and RMB72,006,000 respectively, representing respective increases of approximately 22.89% and 24.69% over the corresponding period of last year.

- Sales of piped natural gas for the Relevant Period amounted to approximately RMB298,438,000, representing an increase of approximately 28.46% over the corresponding period of last year.

- Revenue derived from gas pipeline construction aggregated to approximately RMB143,491,000 for the Relevant Period, representing an increase of approximately 12.81% 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 RMB0.058, representing an increase of approximately RMB0.012 as compared with approximately RMB0.046 for the corresponding period of last year.

- The Directors do not recommend the payment of any dividend for the Relevant Period.

FINANCIAL STATEMENTS

The board of directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to present to its shareholders the unaudited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 (the "Relevant Period") and comparative figures of the corresponding period of 2006 as follows:

Condensed Consolidated Income Statement

		For the six months ended 30 June	
		2007	2006
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**441,770**	359,489
Cost of sales		**(275,085)**	(239,055)
Gross profit		**166,685**	120,434
Other income	*4*	**1,149**	1,365
Selling and distribution costs		**(15,788)**	(13,895)
Administrative expenses		**(35,455)**	(31,435)
Other expenses		**(7,781)**	(3,689)
Profit before income tax	*5*	**108,810**	72,780
Income tax expense	*6*	**(36,152)**	(2,288)
Profit for the period		**72,658**	70,492
Attributable to:			
Equity holders of the Company		**72,006**	57,749
Minority interests		**652**	12,743
		72,658	70,492
Dividends	*7*	**35,668**	17,271
Earnings per share attributable to ordinary equity holders of the Company			
– Basic and diluted *(RMB Yuan)*	*8*	**0.058**	0.046

Condensed Consolidated Balance Sheet

	Notes	**30 June 2007 RMB'000 (Unaudited)**	31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**509,176**	424,422
Construction in progress	*10*	**93,413**	163,602
Land lease prepayments	*11*	**57,838**	25,676
Available-for-sale investment		**50**	50
Deferred tax assets	*12*	**12,297**	8,514
Total non-current assets		**672,774**	622,264
CURRENT ASSETS			
Cash and cash equivalents		**204,263**	177,496
Restricted cash deposits		**16,000**	16,000
Trade receivables	*13*	**59,924**	95,131
Inventories		**4,745**	4,639
Construction contract work in progress	*16*	**774**	1,417
Prepayments, deposits and other receivables	*14*	**17,983**	28,577
Due form fellow subsidiaries		**214**	136
Total current assets		**303,903**	323,396
CURRENT LIABILITIES			
Trade payables	*15*	**59,083**	65,291
Advance payments received	*16*	**200,193**	209,382
Accrued liabilities and other payables	*17*	**72,128**	92,325
Tax payable		**15,797**	6,887
Dividends payable		**19,974**	–
Due to the holding company		**2,222**	–
Due to fellow subsidiaries		**198**	947
Total current liabilities		**369,595**	374,832
NET CURRENT LIABILITIES		**(65,692)**	(51,436)
NET ASSETS		**607,082**	570,828

Condensed Consolidated Balance Sheet (Continued)

	Notes	**30 June 2007** *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	*18*	**125,150**	125,150
Reserves		**478,414**	442,076
		603,564	567,226
Minority interests		**3,518**	3,602
Total equity		**607,082**	570,828

Condensed Consolidated Statement of Changes in Equity

	Notes	For the six months ended 30 June **2007** *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Share capital			
Issued and fully paid share capital			
Ordinary shares of RMB0.10 each			
At beginning and end of period	*18*	**125,150**	125,150
Reserves			
Share premium account			
At beginning and end of period		**101,026**	101,026
Statutory surplus reserve			
At beginning of period		**111,158**	43,564
Transferred from retained earnings		**–**	11,803
At end of period		**111,158**	55,367
Statutory public welfare fund			
At beginning and end of period		**–**	43,564
General surplus reserve			
At beginning of period		**29,952**	19,905
Transferred from retained earnings		**11,504**	10,047
At end of period		**41,456**	29,952
Reserve arising from acquisition of a minority interest			
At beginning and end of period		**28,150**	–
Retained earnings			
At beginning of period		**171,790**	111,653
Profit for the period		**72,006**	57,749
Transferred to statutory surplus reserve		**–**	(11,803)
Transferred to general surplus reserve		**(11,504)**	(10,047)
Dividend paid		**(35,668)**	(17,271)
At end of period		**196,624**	130,281
Total reserves		**478,414**	360,190
Minority interests			
At beginning of period		**3,602**	27,945
Profit for the period		**652**	12,743
Dividend paid		**(736)**	–
At end of period		**3,518**	40,690
Total equity		**607,082**	526,028

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**138,101**	105,505
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(94,905)**	(71,083)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(16,429)**	(7,599)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**26,767**	26,823
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**177,496**	184,892
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**204,263**	211,715
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and bank balances	**220,263**	231,715
Less: Restricted cash deposits	**16,000**	20,000
Cash and cash equivalent	**204,263**	211,715

Notes to Financial Statements

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 29 October 2002. On 29 June 2007, the Company's H shares have been migrated to the Main Board of the Stock Exchange.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of repairs and maintenance of gas pipelines services. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements have been prepared under the historical cost convention in accordance with International Accounting Standards 34 "Interim Financial Reporting" and applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006.

Significant accounting policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of new standards and interpretations, noted below. Adoption of these standards and interpretations did not have any material effect on the financial position or performance of the Group.

Impact of new and revised international financial reporting standards ("IFRSs")

The following new and revised IFRSs affect the Group and are adopted for the first time for the current period's interim financial statements.

IAS 1 Amendment *Capital Disclosures*

The Group adopted IAS 1 Amendment as of 1 January 2007, which requires an entity to disclose about qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 *Financial Instruments: Disclosures*

The Group adopted IFRS 7 as of 1 January 2007, which requires disclosures that enable users of the financial statements to evaluate the significance of an entity's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRIC – Int 8 *Scope of IFRS 2*

The Group adopted IFRIC – Int 8 as of 1 January 2007, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

IFRIC – Int 9 *Reassessment of Embedded Derivatives*

The Group adopted IFRIC – Int 9 as of 1 January 2007, which requires that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC – Int 10 *Interim Financial Reporting and Impairment*

The Group adopted IFRIC – Int 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

Impact of issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 8	Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
IFRIC – Int 11	Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
IFRIC – Int 12	Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
IFRIC – Int 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)
IAS 23 (revised)	Borrowing costs (effective for accounting periods beginning on or after 1 January 2009)

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will supersede IAS 14 *Segment Reporting*.

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

3. SEGMENTAL INFORMATION

For management purpose, the Group currently organises its operations into two business segments, namely sales of natural gas and other related products and gas pipeline construction. The principal activities of the business segments are as follows:

Sales of natural gas and related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of repairs and maintenance of gas pipeline services
Gas pipeline construction	Construction of gas pipelines

No geographical segment analysis is shown as the Group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

The Group's operation by business segment is as follows:

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Period ended 30 June 2007 (unaudited)				
Segment revenue				
Sales to external customers	302,940	138,830	–	441,770
Intersegment sales	7,236	12,030	(19,266)	–
Total	310,176	150,860	(19,266)	441,770
Segment results	41,954	109,210	(1,938)	149,226
Other income				1,021
Unallocated corporate expense				(41,437)
Finance costs				–
Profit before taxation				108,810
Income tax expense				(36,152)
Profit for the period				72,658

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Period ended 30 June 2006 (unaudited)				
Segment revenue				
Sales to external customers	236,477	123,012	–	359,489
Intersegment sales	1,212	–	(1,212)	–
Total	237,689	123,012	(1,212)	359,489
Segment results	20,874	86,009	(343)	106,540
Other income				1,365
Unallocated corporate expense				(35,125)
Finance costs				–
Profit before taxation				72,780
Income tax expense				(2,288)
Profit for the period				70,492

Total segment assets

The following table compares total segment assets as at 30 June 2007 and as at the date of the last annual financial statements (31 December 2006).

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Sales of natural gas and related products	**878,356**	828,540
Gas pipeline construction	**86,024**	108,606
Segment assets	**964,380**	937,146
Other unallocated assets	**12,297**	8,514
Total consolidated assets	**976,677**	945,660

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	For the six months ended 30 June	
	2007 *RMB'000* **(Unaudited)**	2006 *RMB'000* (Unaudited)
Natural gas	**298,438**	232,318
Gas appliances	**1,777**	1,310
Pressure control equipment	**1,236**	850
Gas pipelines:		
– Construction of gas pipelines	**143,491**	127,196
– Repairs and maintenance of gas pipelines	**1,576**	2,062
Others	**24**	20
	446,542	363,756
Less: Business tax and government surcharges	**(4,772)**	(4,267)
Revenue	**441,770**	359,489
Interest income from bank balances	**707**	1,129
Rental income	**125**	–
Others	**317**	236
Other income	**1,149**	1,365
Total revenue and other income	**442,919**	360,854

5. PROFIT BEFORE INCOME TAX

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

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Staff costs (including directors', supervisors' and senior executives' emoluments):		
Retirement benefits		
– Defined contribution fund	**3,677**	3,441
Accommodation benefits		
– Defined contribution fund	**2,396**	1,027
Salaries and other staff costs	**24,607**	20,700
Total staff costs	**30,680**	25,168
Operating lease rentals in respect of:		
Land and buildings	**5,059**	5,412
Equipment	**2,479**	2,908
Trademarks	**390**	382
Total operating lease rentals	**7,928**	8,702
Costs of inventories recognised as an expense	**271,071**	237,925
Auditors' remuneration	**950**	590
Depreciation of property, plant and equipment	**14,578**	12,206
Amortisation of land lease prepayments	**542**	201
Write-down of inventories	**1,093**	–
Gain on disposal of items of property, plant and equipment	**(134)**	–

6. INCOME TAX EXPENSE

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at a rate of 33% of their taxable profits. Prior to 2007, as approved by the Zhongyuan District Local Tax Bureau annually, the taxable profit of Zhengzhou Gas Engineering and Construction Co., Ltd., ("ZGEC" or the "Engineering Company") a PRC subsidiary of the Company, was based on 10% to 12% of its revenue for corporate income tax filing purposes. The taxable profits calculated thereon were lower than the taxable profits determined with the reference to its accounting profits. From 1 January 2007, taxable profit of ZGEC is determined based on its accounting profit and relevant tax adjustments rather than 12% of the revenue.

Major components of the Group's income tax expense for the periods are as follows:

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current		
– charge for the period	**39,934**	5,853
Deferred		
– relates to recognition and reversal of temporary differences	**(3,782)**	(3,565)
Total tax charge for the period	**36,152**	2,288

7. DIVIDENDS

(a) Dividends attributable to the interim period

The Board of the Directors do not propose an interim dividend for the six months ended 30 June 2007.

(b) Dividends attributable to the previous financial year, declared and paid during the interim period

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of financial year ended 31 December 2006 of RMB0.0285 per share (2005: RMB0.0138 per share):		
Declared during the interim period	**35,668**	17,271
Paid during the interim period	**15,694**	17,271

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share amount for the six months ended 30 June 2007 is computed by dividing the profit attributable to equity holders of the Company of approximately RMB72,006,000 (six months ended 30 June 2006: approximately RMB57,749,000) by the weighted average number of 1,251,500,000 ordinary shares (six months ended 30 June 2006: 1,251,500,000 ordinary shares) in issue during the period ended 30 June 2007.

Diluted earnings per share amounts for the periods ended 30 June 2007 and 2006 have not been calculated as no diluting events existed during those periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, the Group acquired property, plant and equipment with a cost of RMB99,339,000 (six months ended 30 June 2006: RMB40,154,000). No property, plant and equipment were acquired through a business combination.

Assets with net book value of RMB7,000 were disposed by the Group during the six months ended 30 June 2007 (six months ended 30 June 2006: Nil), resulting in a net gain on disposal of RMB134,000 (six months ended 30 June 2006: Nil).

10. CONSTRUCTION IN PROGRESS

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of period/year	**163,602**	83,837
Additions	**19,371**	155,054
Transferred to property, plant and equipment	**(89,560)**	(73,326)
Write off	**–**	(1,963)
At end of period/year	**93,413**	163,602

11. LAND LEASE PREPAYMENTS

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
At beginning of period/year	**26,144**	17,444
Additions	**33,675**	9,103
Amortisation charged for the period/year	**(542)**	(403)
At end of period/year	**59,277**	26,144
Current portion included in prepayments, deposits and other receivables	**(1,439)**	(468)
Non-current portion	**57,838**	25,676

12. DEFERRED TAX ASSETS

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Deferred tax assets:		
– Accrued expenses not deductible until payments are made	**8,877**	6,514
– Taxable advances from customers and others	**3,420**	2,000
	12,297	8,514

13. TRADE RECEIVABLES

Trade receivables at nominal value of RMB1,505,000 as at 30 June 2007 (2006: RMB1,505,000) were impaired and fully provided for. There is no movement of the provision for impairment of receivables during the period.

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Within 30 days	**43,907**	87,371
Between 31 days and 90 days	**10,149**	6,703
Between 91 days and 180 days	**4,703**	957
Between 181 days and 365 days	**1,255**	192
Over 365 days	**1,415**	1,413
	61,429	96,636
Less: Impairment of trade receivables	**(1,505)**	(1,505)
	59,924	95,131

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Prepayments	15,063	27,212
Deposits	7	270
Retentions held by customers for contract work	1,455	–
Sundry debtors	1,458	1,095
	17,983	28,577

The prepayments, deposits and other receivables are unsecured and interest-free.

15. TRADE PAYABLES

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

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Within 30 days	35,727	29,267
Between 31 days and 90 days	9,828	6,309
Between 91 days and 180 days	3,766	2,860
Between 181 days and 365 days	5,192	23,885
Over 365 days	4,570	2,970
	59,083	65,291

The above balances are unsecured, interest-free and are generally on 7 to 90 days terms.

16. CONSTRUCTION CONTRACT WORK IN PROGRESS/ADVANCE PAYMENTS RECEIVED

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Construction contract work in progress		
Contract costs incurred to date	774	1,417
Advance payments received		
Progress payments received	230,089	239,879
Less: Contract costs incurred to date	(29,896)	(30,497)
	200,193	209,382

17. ACCRUED LIABILITIES AND OTHER PAYABLES

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Advances from customers	**38,922**	54,293
Other payables	**11,744**	19,796
Accruals	**11,041**	2,588
Payroll payables	**10,421**	15,648
	72,128	92,325

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

18. SHARE CAPITAL

	Six months ended 30 June 2007 (Unaudited)		Year ended 31 December 2006 (Audited)	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***RMB'000***	*'000*	*RMB'000*
Registered	**1,251,500**	**125,150**	1,251,500	125,150
Issued and fully paid:				
Domestic Shares of RMB0.10 each	**700,840**	**70,084**	700,840	70,084
H Shares of RMB0.10 each	**550,660**	**55,066**	550,660	55,066
	1,251,500	**125,150**	1,251,500	125,150

The Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars among, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. The Domestic Shares, on the other hand, may only be subscribed for by, and traded among legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the Domestic Shares are to be paid by the Company in RMB.

Save for the above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the Domestic Shares and the H Shares rank pari passu with each other in all aspects.

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

19. RELATED PARTY TRANSACTIONS

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

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

Name of related parties	Nature of transactions	For the six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (c))*	**4,523**	4,676
	Trademark fees *(note (d))*	**390**	382
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Group's leased equipment and land and buildings *(note (e))*	**473**	473
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchase of land use rights and buildings *(note (g))*	**17,000**	–
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment *(note (f))*	**21,860**	–

Notes:

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

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

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

(d) On 29 September 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement 1"). Pursuant to the trademark licence agreement 1, Zhengzhou Gas Group Co., Ltd. agreed to grant to the Group the right to use two of its trademarks at a fee of RMB750,000 per annum for the period from 1 August 2004 to 31 July 2007. This agreement was subsequently terminated by both companies on 31 March 2006.

On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into another trademark licence agreement (the "trademark licence agreement 2"). Pursuant to the trademark licence agreement 2, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use two of its trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

In the opinion of the directors, these transactions were carried out based on normal commercial terms and in accordance with the terms of the underlying agreements.

(e) On 15 June 2003, the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. entered into an property management services agreement with Zhengzhou Zhengran Property Management Co., Ltd. According to the agreement, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the Group's leased equipment and land buildings at an aggregated fee of RMB946,000 per annum.

(f) On 8 September 2006, the Company entered into an LPG assets purchase agreement with Zhengzhou Gas Group LPG Co., Ltd. (the "LPG Company"). The LPG Company is owned as to 44% by Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), the controlling shareholder of the Company. Pursuant to the LPG assets purchase agreement, the Company has conditionally agreed to acquire a parcel of land and certain gas storage structures, real estate and equipment erected on the land (the "LPG Assets") from the LPG Company for an aggregate consideration of approximately RMB63.24 million. The consideration of RMB63.24 million was determined after arm's length negotiation between the Company and LPG Company with reference to the valuation of an independent valuer. The main purpose of the acquisition of the LPG assets is to increase the Group's natural gas storage capacity.

The Company has completed partial of the acquisition of LPG Assets of RMB21,860,000 in the six months ended 30 June 2007. As at 30 June 2007, together with the acquisition of LPG Assets of RMB35,385,000 completed in last financial year ended 31 December 2006, the Company has completed acquisition of LPG Assets of RMB57,245,000.

(g) On 20 March 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd to acquire two parcels of land situated at the junction of Dongming Road West and Zhengbian Road South and the junction of Xisanhuan Road West and Laozhengmi Road West, respectively, for an aggregate consideration of RMB11,404,000 and certain buildings erected on them for a consideration of RMB5,596,000.

As at 30 June 2007, the acquisition of the two parcels of land had been completed.

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

(ii) Compensation of key management personnel of the Group:

	30 June 2007	30 June 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**2,049**	1,995
Retirement benefits	**55**	60
Total compensation paid to key management personnel	**2,104**	2,055

(iii) Transactions with other State-Owned Enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During the Relevant Periods, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-Owned Enterprises are conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-Owned Enterprises. The directors have confirmed that these transactions are carried out on terms similar to those that would be entered into with non-State-Owned Enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises are fair and reasonable.

Having due regard to the substance of the relationship, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

20. COMMITMENTS

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Capital commitments		
In respect of property, plant and equipment:		
Authorised, but not contracted for	**14,630**	19,124
Contracted, but not provided for	**12,179**	34,598
	26,809	53,722

Operating lease commitments

As lessee

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Within one year	**10,148**	14,633
In the second to fifth years, inclusive	**23,592**	26,050
Over five years	**9,728**	10,377
	43,468	51,060

The Group has entered into commercial leases on certain of land and buildings and pipeline equipment under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to fifteen years, and those for pipeline equipment are for terms ranging about five years. There are no purchase options and escalation clauses included in the contracts. The Group is given priority in renewing the lease of land and buildings and pipeline equipment upon expiring of the lease term at the terms and conditions agreed by both parties. There are no restrictions placed upon the lessee when entering into these leases

21. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

23. APPROVAL OF THE INTERIM FINANCIAL STATEMENT

The interim financial statements were approved and authorised for issue by the Board on 28 August 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

General

During the Relevant Period, the Group recorded a total revenue of approximately RMB441,770,000 and a gross profit of approximately RMB166,685,000, representing an increase in total revenue and gross profit of approximately 22.89% and 38.40% over the corresponding period of last year respectively, which was primarily attributed to the increase of sales of natural gas and the satisfactory growth in natural gas pipeline construction projects.

During the Relevant Period, the overall gross profit margin of the Group was approximately 37.73%, representing an increase of approximately 4.23% as compared with approximately 33.50% 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 22.51% in the Relevant Period from approximately 17.72% 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 78.52% in the Relevant Period from approximately 70.91% of the corresponding period of last year.

During the Relevant Period, the selling and distribution expenses of the Group were approximately RMB15,788,000, representing an increase of approximately 13.62% from RMB13,895,000 of the corresponding period of last year, mainly due to the increase in salary and welfare. During the Relevant Period, the administrative expenses of the Group were approximately RMB35,455,000, representing an increase of approximately 12.79% from RMB31,435,000 of the corresponding period of last year, mainly due to the increase in salary and provision for incentive fund.

During the Relevant Period, the other expenses of the Group were approximately RMB7,781,000, representing an increase of approximately 110.92% from approximately RMB3,689,000 in the corresponding period of last year, primarily due to the increase of expenses arising from the migration of listing of H shares of the Company from the Growth Enterprise Market ("GEM") of the Stock Exchange to the main board of the Stock Exchange ("Main Board").

Income tax expenses of the Group for the Relevant Period were approximately RMB36,152,000, representing an increase of approximately 1,480.07% from approximately RMB2,288,000 in the corresponding period of last year. This was mainly due to the fact that as approved by the relevant tax authority, the Engineering Company has determined its enterprise income tax payable for the year ending 31 December 2007 based on its accounting profit instead of 12% of its total revenue as for the last financial year ended 31 December 2006. Based on its accounting profit, the income tax expense for the Engineering Company arrived at RMB35,513,588 in the Relevant Period, which was higher than the income tax expense calculated in reference to 12% of the total revenue.

During the Relevant Period, the net profit attributable to shareholders of the Company was approximately RMB72,006,000, representing an increase of approximately 24.69% from approximately RMB57,749,000.

Sale of piped natural gas

The revenue attributed to the sale of piped natural gas for the Relevant Period amounted to approximately RMB298,438,000, representing an increase of 28.46% from approximately RMB232,318,000 for the corresponding period of last year. During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 167,088,000 m^3, representing an increase of approximately 17.18% as compared with approximately 142,590,000 m^3 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:

	For the six months ended 30 June				
	2007		2006		
	Total gas consumption	**As a percentage of total gas consumption**	Total gas consumption	As a percentage of total gas consumption	Increase/ Decrease %
Natural Gas Consumption (approximately '000 m^3)	**167,088**		142,590		17.18%
Including					
residential users	**61,233**	**36.65%**	54,980	38.56%	11.37%
commercial users	**53,853**	**32.23%**	43,880	30.77%	22.73%
industrial users	**31,800**	**19.03%**	25,370	17.79%	25.34%
vehicular users	**20,202**	**12.09%**	18,360	12.88%	10.03%

The Relevant Period witnessed the resumption of growth momentum for all kinds of natural gas markets from the shortage of natural gas for the corresponding period of last year. As the Group obtained sufficient supply of natural gas under the support of PetroChina and Sinopec, it 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. Natural gas consumption by residential, commercial, industrial and vehicular users recorded an increase of 11.37%, 22.73%, 25.34% and 10.03% respectively.

As at 30 June 2007, the Group has 666,548 residential users, representing an increase of 37,487 users as compared with 629,061 residential users as at 31 December 2006; 1,564 commercial users, representing an increase of 131 users as compared with 1,433 commercial users as at 31 December 2006; 55 industrial users, representing an increase of 4 users as compared with 51 industrial users as at 31 December 2006.

As at 30 June 2007, the Group has 6,048 vehicular users, representing a net decrease of 187 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 the bus operator. During the Relevant Period, the revenue from the sales of natural gas attributed to buses approximately RMB5,432,000, representing a decrease of approximately 49.96% as compared with RMB10,855,000 for the corresponding period of last year.

During the Relevant Period, the Group purchased approximately 128,560,000 m^3 and 45,393,000 m^3 of natural gas from "Project of Transmitting Natural Gas through the West to the East Pipelines" and Zhongyuan Oilfield respectively, representing approximately 71.07% and 25.09% 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 RMB3,013,000.

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 RMB143,491,000, representing the connection of natural gas supply for 42,113 residential users and 65 commercial users, or an increase of approximately 12.81% as compared with approximately RMB127,196,000 for the corresponding period of last year. The average fee for connection of natural gas supply for each residential user was approximately RMB3,143 while that for each commercial user was approximately RMB115,692. 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 RMB1,576,000, representing a decrease of approximately 23.57% as compared with approximately RMB2,062,000 for the corresponding period of last year. Such decrease was mainly due to the reduction of revenue from outdoor renovation projects.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was approximately 16.30%, which was slightly higher than the 16.06% recorded for the corresponding period of last year. Although the significant increase in the income tax expense has a negative effect on the net profit margin of the Group, the increase in gross profit margin for the sale of natural gas and the provision for pipelines construction services has partly offset such negative impact on the net profit margin of the Group.

Average return to shareholders for the Relevant Period, based on the profit attributable to shareholders of the Company divided by the average of equity attributable to shareholders of the Company at the beginning and at the end of the Relevant Period, was 12.30%, which was close to that of 12.42% of the corresponding period of last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group relies on cash generated from its internal operation and bank balances or cash in hand to meet its requirements of capital expenditure and operations. The Directors are of the view that, in the long run, the Group will generate liquidity from its business operation and may consider making use of further equity finances or bank loans when necessary.

As at 30 June 2007, the Group had no outstanding interest-bearing bank borrowings.

Net current liabilities

As at 30 June 2007, the Group had net current liabilities of approximately RMB65,692,000 (31 December 2006: net current liabilities of approximately RMB51,436,000). However, there was an advanced payment received of approximately RMB200,193,000 in the current liabilities, which was unrecognized income, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB134,501,000 after deducting such advanced payment received.

Working capital

As at 30 June 2007, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB204,263,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity interest to liabilities ratio

As at 30 June 2007, equity interest to liabilities ratio (being total equity interest over total liabilities and expressed in percentage) of the Group was approximately 164.26% which was higher than that of approximately 152.29% as at 31 December 2006, which indicated that, with over half of the assets were being financed by shareholders' equities, the Group had ample room for external borrowings.

Foreign currency risk

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

Contingent liability and pledged assets

As at 30 June 2007, the Group had no significant contingent liability or any asset under pledge.

Employees and remuneration policy

There is no significant change in the Group's employees and remuneration policy compared to that disclosed in the annual report for the year ended 31 December 2006.

Future prospect

On 29 June 2007, the H shares of the Company were successfully listed on the main board of the Stock Exchange by the way of introduction which will further strengthen its financing ability in the capital market.

In order to implementing the policy of "The Rise of Central China", Zhegnzhou is accelerating its city construction. The development plans such as the establishment of the Zheng East New District, the development of Zhengzhou-Kaifeng properties zone and the reclamation of the old areas of Zhengzhou City shall make Zhengzhou one of the regional hubs in China with massive population flow, logistics activities and capital flow. Backed up by such favourable projects, 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. The Group expects that the growth of industrial and commercial gas businesses will be stable.

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. Nevertheless, the vehicular gas business will only have a steady growth as some buses shifted to refuel gas at refueling station operated by the operator of the buses.

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

As at 30 June 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 "Model Code for 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 the latest practicable date, 24 August 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%
Emirates International Investment Company LLC	Beneficial owner	49,300,000 (L) *(Note 3)*	8.95%	–	–	3.94%

Notes:

1. As at 24 August 2007, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") held 115,500,000 domestic shares of 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 approximately 9.23% of the total registered share capital of the Company.

2. As at 24 August 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 24 August 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 of 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. As the Company was interested in the entire registered share capital of Zhengzhou Gas Engineering and Construction Co., Ltd. (the "Engineering Company") effective from 7 August 2006, it was interested in the entire registered share capital of Dengfeng Zhengran Gas Co., Ltd. ("Dengfeng Zhengran"), through both the beneficial interest in Engineering Company as to 78.33% and its direct beneficial interest in Dengfeng Zhengran as to the remaining 21.67%.

2. "L" denotes a long position in such shares.

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 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 six months ended 30 June 2007, none of the Directors or supervisors of the Company was granted options to subscribe for H Shares of the Company. As at 30 June 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 Relevant Period.

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 the 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 three meetings and reviewed the unaudited consolidated results of the Group for the six months ended 30 June 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 Appendix 14 to the Listing Rules for the six months ended 30 June 2007.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

During the six months ended 30 June 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 Appendix 10 to the 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.

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 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

28 August 2007
Zhengzhou, the PRC

* *for identification purpose only*