Zhengzhou Gas Company Limited*

Stock Code: 3928

Annual Report 2007

* for identification purpose only

Contents

Corporate Information

(As at 26 March 2008)

Directors

Executive Directors

Mr. Yan Guoqi (閆國起), *(Chairman)*
Mr. Li Jinlu (李金陸)
Mr. Li Hongwei (李紅衛)

Non-executive Directors

Mr. Song Jinhui (宋金會)
Mr. Zhang Wushan (張武山)
Mr. Ding Ping (丁平)
Mr. Hao Ganjun (郝幹軍)

Independent Non-executive Directors

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

Supervisors

Ms. Bao Hongwei (鮑紅偉)
Mr. Chen Kun (陳鯤)
Ms. Zhao Ruibao (趙瑞保)
Ms. Niu Minghua (牛鳴華)
Ms. Wang Xiaohua (王曉華)
Mr. Cai Yuming (蔡玉明)
Mr. Yang Guirong (楊桂榮)

Audit Committee

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

Company Secretary

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

Compliance Officer

Mr. Yan Guoqi

Qualified Accountant

Mr. Wong Cheuk Lam,
CPA, CPA Australia

Authorised Representatives

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

Registered Office and Principal Place of Business in PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

Principal Place of Business in Hong Kong

Room 908, 9th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

Legal Adviser to the Company

As to Hong Kong law:
Arculli Fong & Ng, Solicitors
(in association with King and Wood, PRC Lawyers)
908, Hutchison House
10 Harcourt Road, Central
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Zhengzhou Commercial Bank
Zhongyuan Branch
Zhongyuan Hotel
No. 200, Tongbo Road
Zhengzhou City
Henan Province
PRC

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

Stock Code

3928

Website

www.hnzzgas.com

Financial Highlights

Financial Statistics

For the year ended 31 December

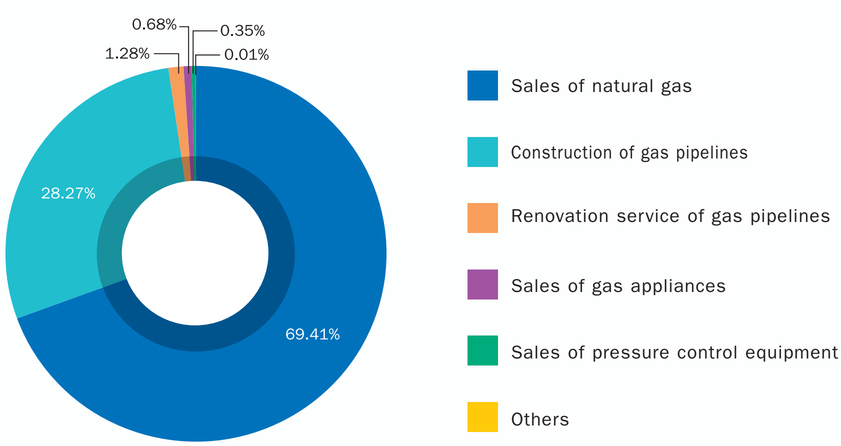
	2007 (RMB'000)	2006 (RMB'000)	2005 (RMB'000)	2004 (RMB'000)	2003 (RMB'000)
Revenue	**862,161**	731,637	620,478	470,386	356,869
Profit before taxation	**196,405**	135,170	126,310	98,722	78,457
Net profit attributable to the equity holders of the Company	**128,462**	111,485	93,400	65,211	52,937
Earnings per share (RMB Yuan) (Basic)	**0.103**	0.089	0.075	0.052	0.042

REVENUE AND NET PROFIT

RMB'000

REVENUE BREAKDOWN

(For the year ended 31 December 2007)



Chairman's Statement

Mr. Yan Guoqi
Chairman

To all shareholders,

During 2007, Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") captured the opportunities arisen from the policy of "The Rise of Central China" and the establishment of the Zhengzhou-Kaifeng property zone for the rapid development of the Group. It made quick responses to the new situation brought about by the restructuring of the natural gas market and the rapid economic development of Zhengzhou City. In the meanwhile, it formulated strategies to accelerate development and explored core businesses in new areas. It also advanced to a higher platform of the capital market, set up a professional management mechanism and broke a record in safe and steady provision of natural gas. Hereby, we would like to review the operating results for the previous year and future prospects with all shareholders.

Performance Review

During the year ended 31 December 2007 (the "Year" or the "Relevant Period"), the natural gas sold by the Group amounted to 330 million m^3, representing an increase of 16.74% over the corresponding period of last year. There were a total of 76,000 newly developed residential users, representing an increase of 12.09% over the corresponding period of last year. The net assets reached RMB660 million, representing an increase of 16.34% over the corresponding period of last year. The total assets of the Group reached RMB1.1 billion, representing an increase of 16.90% over the corresponding period of last year. The turnover amounted to approximately RMB860 million and profit attributable to shareholders amounted to approximately RMB128 million, representing an increase of 17.84% and 15.23% over the corresponding period of last year respectively. The earnings per share amounted to RMB0.103, reflecting the outstanding performance of the Group.

In consideration of the favourable operating results, the board of directors of the Company (the "Board") is pleased to propose the payment of a dividend of RMB0.0242 to shareholders so that they can receive satisfactory returns.

Chairman's Statement

Corporate Strategies and Management

1. Clear Development Strategies and Accelerated Regional Expansion

During 2007, the Group formulated the strategies for active development of neighbour natural gas markets. With the opportunities arisen by the development plan of the Zhengzhou-Kaifeng property zone implemented in Henan Province, accompanied by the experience obtained from the Zhengzhou market, it cooperated actively with relevant government departments to complete the layout design of ancillary natural gas pipelines for the Zhengzhou-Kaifeng property zone and thus succeeded in entering the natural gas market of the Zhengzhou-Kaifeng property zone by obtaining the concession right for the zone as a start for future development.

The Group adopted the strategy of supplying natural gas to the industrial users in Zhongmou area in order to enter the Zhongmou market. On the other hand, at present, the refueling stations within Dengfeng City have been put into operation while the construction of those within Xinzheng City is proceeding. In respect of user development, the Group seized the opportunities arisen by the rapid development of the Zhengzhou real estate market and establishment of Zhengdong New District to develop a total of 76,000 residential users during the year, which was a historical record. At the same time, it developed some large industrial users.

In order to expand the operation scale of the Company and realise cross-area operation, the Group is concerned about the possibility of entering the natural gas markets in other cities within the province. After in-depth research and study of the target market of Pingdingshan City, Henan Province, the Group succeeded to acquire 27% equity interest in Pingdingshan City Gas Corporation at RMB30.5 million by auction in the beginning of 2008 and became its second largest shareholder.

2. Mounting on the Capital Market Platform and Enhancing Corporate Governance

During the first half of 2007, the Group further enhanced efforts in maintaining the standards of corporate governance. After the listing approval by the Hong Kong Stock Exchange and China Securities Regulatory Commission, the corporate governance, operational management and other aspects of the Group were improved and enhanced, and thus the operation of the Company became more regulated. On 29 June 2007, the Group succeeded to migrate from the GEM Board to the Main Board of the Stock Exchange. Through listing on the Main Board in Hong Kong, the Group mounted on the wider financing platform, laying the solid foundation of rapid development through both domestic and foreign capital markets.

Chairman's Statement

3. Opening up Natural Gas Channels and Enlarging the Natural Gas Supply Scale

Under the continuously tense supply of natural gas throughout the country, the shortfall of natural gas in Zhengzhou City for 2007 amounted to 80 million m^3, which was the biggest shortfall and the severest supply status in history. The Company devised a natural gas source organising proposal and established strategically cooperative relationship with several natural gas suppliers. It purchased natural gas of 355 million m^3 during the year, which satisfied the natural gas needs of over 700,000 users of different kinds in Zhengzhou City.

During the Year, the high pressure natural gas project of the Group established in the outer ring area of Zhengzhou City was completed. A circular natural gas pipeline network was formed, which substantially increased the natural gas storage and distribution ability of the Company as well as optimised the overall transmission capacity of Zhengzhou City. Through guaranteed supply of natural gas and infrastructure establishment, the Group accomplished the target of non-stop and supply without setting limit during the winter which was the peak consumption period, and set a new record of the highest and most steady natural gas supply for Zhengzhou City over the years.

4. Enhancing Professional Management and Uprising the Management Level

The Group made organizational and business modifications and formulated a new mechanism for enhancing the professional functional management. It applied computer technologies to promote sharing of corporate information, and enhanced professional monitoring and control in respect of measurement devices, transmission loss control and other factors. In order to enhance operating efficiency, it reinforced supervision by monitoring the service quality along the workflow in an objective and fair manner. It set up management departments including finance, audit, purchase and storage based on the principle of separation of powers among related positions. It merged fundamental production units, decreased the number of management levels, unified management policies and set up a comprehensive natural gas supply and transmission system. The professional management augmented the management efficiency and boosted the standard of services.

In addition, the Group reinforced internal control, human resources, finance and safety management. Regarding internal control, the Group fully implemented the internal control system (Phase 1) within the Group, which brought about key contribution to regulate workflow and avoid risks. In terms of human resources, it implemented an incentive mechanism based on responsibilities and targets, and determined remunerations for different positions systematically. It also established a performance-based assessment system and capitalised the management efficiency of human resources to a full extent, which produced sound results. For finance management, the Group put comprehensive budget management into practice. By means of the strict approval procedure on expenses, it effectively controlled expenses and thus the expense management ability was reinforced. During the year, the Group strengthened efforts in safety management and fully implemented safety protection measures. On an accumulation basis, the pipelines inspected amounted to approximately 43,000 kilometres, and a total of six big-scale safety examinations were organised. The reform and improvement rate reached 100%, realising the target of no incidents of production safety during the whole year.

Chairman's Statement

Future Development

In 2008, the Group will actively seize the best timing for the development of the domestic securities market and proceed with the A Share listing plan step by step, so as to raise capital for the construction project of natural gas pipelines and prepare for the future development of multi-natural gas resource supply ability of the Group.

The Company will capture the opportunities arisen by the second pipeline of the "Project of Transmitting Natural Gas through the West to the East Pipelines". In 2008, it will aggressively coordinate in the signing of letters of intent with natural gas suppliers like Petrochina regarding natural gas supply and strive to obtain the targeted natural gas supply from the second pipeline, laying the foundation of natural gas resource supply for the Company from 2010 onwards.

In addition, the Group will capitalise the opportunities arisen from the establishment of natural gas pipelines. Based in Zhengzhou, it will expand to the boundary cities, explore the natural gas market outside and strive to develop the vehicular natural gas market. At the same time, it will continue to focus on the development of industrial and commercial users in Zhengzhou, and expand the natural gas supply scale.

The Group will proceed with natural gas price adjustment for residential users and reform the natural gas pricing mechanism according to the upstream natural gas price situation and the natural gas utilisation policy of the state.

In order to completely solve the problem of natural gas shortage for the future development of Zhengzhou, the Group planned to invest in the establishment of Zhengzhou-Jiaozuo natural gas pipelines so that the natural gas supply capacity can increase by 500 million to 1 billion m^3 per year.

On behalf of the Board, I wish to express my heartfelt appreciation to our shareholders who have been supporting the Group. The Board will try its best to strive for the best returns for all shareholders. Moreover, the Board expressed sincere gratitude to more than 1,000 diligent and responsible employees for their contribution to the development of the Group. I hereby wish that the Group would develop and grow satisfactorily, and reach another milestone of Zhengzhou Gas together with all shareholders and employees.

Zhengzhou Gas Company Limited
Yan Guoqi
Chairman

26 March 2008

Management Discussion and Analysis

Mr. Li Jinlu
Vice-chairman and General Manager

Performance review

The following analysis should be read in conjunction with the audited financial statements and relevant sections in this annual report.

The Group is principally engaged in the sales of piped natural gas and gas appliances to residential, commercial, industrial and vehicular users, sales of pressure control equipments and provision of gas pipeline construction services. Analysis of the revenue of products and services (see Table 1), the number of users of natural gas (see Table 2) and gas consumption (see Table 3) as at 31 December 2006 and 2007 are set out below:

Table 1 Revenue

	As at 31 December				
	2007		2006		
	Revenue *(RMB'000)*	**As % of Revenue**	Revenue *(RMB'000)*	As % of Revenue	Growth
Natural gas	**604,610**	**69.41%**	498,729	67.23%	21.23%
Gas appliances	**5,898**	**0.68%**	4,018	0.54%	46.79%
Pressure control equipments	**3,070**	**0.35%**	2,962	0.40%	3.65%
Gas pipelines					
– Construction of gas pipelines	**246,227**	**28.27%**	222,800	30.04%	10.51%
– Renovation of gas pipelines	**11,163**	**1.28%**	13,241	1.78%	(15.69%)
Others	**55**	**0.01%**	43	0.01%	27.91%
	871,023	**100.00%**	741,793	100.00%	17.42%
Less: Business tax and government surcharges	**(8,862)**		(10,156)		
Total	**862,161**		731,637		17.84%

Management Discussion and Analysis

Performance review (continued)

Table 2 Number of users of natural gas

	As at 31 December		
	2007	2006	Growth
Residential users	**705,067**	629,016	12.09%
Commercial users	**1,681**	1,433	17.31%
Industrial users	**58**	51	13.73%
Vehicular users	**6,702**	6,235	7.49%
Total:	**713,508**	636,735	12.06%

Table 3 Gas consumption

	As at 31 December				
	2007		2006		
	Gas consumption	**As % of total gas consumption**	Gas consumption	As % of total gas consumption	Growth
Natural gas					
Total gas consumption (in approximate '000 m^3)	**334,158**		286,236		16.74%
of which					
residential users	**114,195**	**34.18%**	100,749	35.20%	13.35%
commercial users	**110,949**	**33.20%**	88,621	30.96%	25.19%
industrial users	**65,129**	**19.49%**	55,973	19.55%	16.36%
vehicular users	**43,885**	**13.13%**	40,893	14.29%	7.32%

General

For the year ended 31 December 2007, the Group recorded a total revenue of approximately RMB862,161,000 and a gross profit of approximately RMB298,599,000. The total revenue increased by 17.84% as compared with the corresponding period of last year mainly due to the satisfactory increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction. In addition, the upward price adjustment of commercial and industrial gas in August 2006 which was fully reflected in 2007 was also a reason for the increase in total revenue.

During the Relevant Period, the total gross profit margin of the Group was approximately 34.63%, representing an increase as compared with the approximately 33.03% of the corresponding period of last year. This was attributable to the increase in the gross profit margin of the pipeline construction business from 70.00% in 2006 to 79.04% in the Relevant Period.

Management Discussion and Analysis

Performance review (continued)

During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB35,338,000 and RMB60,963,000 respectively, representing an increase of approximately 6.14% and a decrease of 8.10% respectively as compared with the corresponding period of last year. The increase in selling and distribution costs was mainly due to the increase in staff costs and depreciation expenses as a result of the expansion of the scale of operation. The decrease in administrative costs was mainly due to the charging of certain staff costs, such as housing fund contributions, pension funds and medical insurance, to costs of sale.

Other expenses of the Group amounted to approximately RMB10,092,000, which was chiefly ascribable to the intermediary fee in relation to the Company's migration of its listing status from the GEM board to the main board of the Stock Exchange.

Income tax expenses of the Group for the Relevant Period were approximately RMB66,722,000, representing an increase of approximately 601.38% from approximately RMB9,513,000 in the corresponding period of last year. This was mainly due to the fact that as approved by the relevant tax authority, Zhengzhou Gas Engineering and Construction Co., Ltd. ("Engineering Company"), a subsidiary of the Company, has determined its enterprise income tax payable for the year ended 31 December 2007 based on its accounting profit instead of 12% of its total revenue as for the financial year ended 31 December 2006. Based on its accounting profit, the income tax expense for the Engineering Company arrived at RMB61,462,000 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 RMB128,462,000, representing an increase of approximately 15.23% from approximately RMB111,485,000 for the corresponding period of last year.

Sales of piped natural gas

The revenue attributed to the sales of piped natural gas for the Relevant Period amounted to approximately RMB604,610,000, representing an increase of 21.23% from approximately RMB498,729,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 334,158,000 m^3, representing an increase of approximately 16.74% as compared with approximately 286,236,000 m^3 for the corresponding period of last year.

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 by commercial and industrial users as the corresponding period of last year. Natural gas consumption by residential, commercial and industrial users recorded a satisfactory increase of 13.35%, 25.19% and 16.36% respectively. Among different kinds of users, the increase in natural gas consumption by commercial users was relatively significant. This was attributable to the reflection of the natural gas consumption by the commercial users developed during 2006 to the Year, and the prospering of the food and beverage industry, where most of our commercial users come from.

Management Discussion and Analysis

Performance review (continued)

Sales of piped natural gas (continued)

As at 31 December 2007, the Group has 705,067 residential users, representing an increase of 76,051 users as compared with 629,016 residential users as at 31 December 2006; 1,681 commercial users, representing an increase of 248 users as compared with 1,433 commercial users as at 31 December 2006; 58 industrial users, representing an increase of 7 users as compared with 51 industrial users as at 31 December 2006; and 6,702 vehicular users, representing an increase of 467 users as compared with 6,235 vehicular users as at 31 December 2006. The lingering increase in the number of vehicular users was mainly due to the shift of some bus users to refuel gas in the refueling stations established by Zhengzhou Bus Co., Ltd.

During the Relevant Period, the Group purchased approximately 253,775,000 m^3 of natural gas through the "Project of Transmitting Natural Gas through the West to the East Pipelines", accounting for approximately 71.55% of the total volume of gas purchased by the Group; approximately 66,926,000 m^3 of natural gas from Zhongyuan Oilfield of Sinopec, accounting for approximately 18.87% of the total volume of gas purchased by the Group; and approximately 26,563,000 m^3 of natural gas from Sinopec's Huabei Oil Branch, accounting for approximately 7.49% of the total volume of gas purchased by the Group. Since the costs of the new gas resources of the Group were higher, the average cost for gas purchases raised from approximately RMB1.2598/m^3 in 2006 to approximately RMB1.2851/m^3 in the Year.

Sales of gas appliances and pressure control equipments

The Group is also engaged in sales of gas appliances and pressure control equipments. The gas appliances available for sales mainly 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 equipments, the main targets for marketing are natural gas users in Zhengzhou and other natural gas suppliers. For the Relevant Period, revenue from sales of gas appliances and pressure control equipments amounted to approximately RMB5,898,000 and RMB3,070,000 respectively.

Natural gas pipeline construction services

For the Relevant Period, the Group's revenue derived from provision of natural gas pipeline construction services amounted to approximately RMB246,227,000, representing the connection of natural gas supply for 71,162 residential users and 124 commercial users. The average fee for connection of natural gas supply for each residential user was approximately RMB3,160 while that for each commercial user was approximately RMB128,943, or an increase of approximately 10.51% as compared with the total revenue of approximately RMB222,800,000 for the corresponding period of last year. The increase was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. Furthermore, the Group also received revenue from other construction projects amounting to approximately RMB5,361,000.

Management Discussion and Analysis

Performance review (continued)

Natural gas pipeline construction services (continued)

Effective from 1 October 2007, the natural gas pipeline construction fees (including construction fees for urban pipeline network, and courtyard and indoor works construction) charged to residential users by the Group have been changed from a fixed amount to a rate of RMB22/m^2 and a fee based on the scale of works according to the national project fee standard stipulated by the state. As the Group recognises revenues after completion of pipeline construction projects, the implementation of the new fee model for natural gas pipeline construction has not been reflected in the results for the Year. The directors of the Company have evaluated the potential financial impact of the implementation of the new fee model for natural gas pipeline construction to the Group, and considered that this would not bring any material impact on the overall financial conditions of the Group.

In addition, the Group also collected fees from users for providing gas pipeline renovation services. During the Relevant Period, such fees amounted to approximately RMB11,163,000, representing a decrease of 15.69% as compared with approximately RMB13,241,000 for the corresponding period of last year.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was 14.90% which was lower than 15.24% recorded for the corresponding period of last year. The increase was mainly attributable to the substantial increase of income tax by 601.38%.

In addition, 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 approximately 20.94% which represented a decrease from that of 22.03% of the corresponding period of last year. This was primarily attributable to the increase of income tax, which resulted in the percentage increase of the net profit of the Year less than that of last year.

Liquidity, financial resources and capital structure

Borrowings and banking facilities

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

As at 31 December 2007, the Group had no outstanding interest-bearing bank borrowings.

Management Discussion and Analysis

Liquidity, financial resources and capital structure (continued)

Net current liabilities

As at 31 December 2007, the Group had net current liabilities of approximately RMB40,908,000 (31 December 2006: net current liabilities of approximately RMB51,436,000). There was an advanced payment received of approximately RMB255,710,000 in the current liabilities, which was unrecognized revenue, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB214,802,000 after deducting such advanced payment received.

Working capital

As at 31 December 2007, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB219,091,000.

Equity to liabilities ratio

As at 31 December 2007, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 150.46%, which was lower than that of approximately 152.29% as at 31 December 2006. The current liabilities level of the Group indicated that, with over half of the assets being financed by its shareholders, the Group had stable financial position.

Commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipments. As at 31 December 2007, the Group had commitments of approximately RMB435,120,000, of which approximately RMB376,313,000 was for the contracts of pipeline network construction and equipment purchases, and the balance of approximately RMB58,807,000 was for operating lease commitments.

Foreign exchange risk

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

Contingent liabilities and pledged assets

As at 31 December 2007, the Group had no significant contingent liability or any asset under pledge.

Management Discussion and Analysis

Liquidity, financial resources and capital structure (continued)

Employees and remuneration policy

Human resources

An analysis of the Group's employees by functions as at 31 December 2007 and 2006 is as follows:

	As at 31 December	
	2007	2006
Management and administration	**249**	198
Finance	**38**	42
Sales and marketing	**220**	222
Safety maintenance and technical upgrading	**180**	139
Purchases and supplies	**17**	14
Engineering and installation	**164**	220
Repairs, maintenance and testing	**280**	361
Others	**389**	322
Total	**1,537**	1,518

As at 31 December 2007, the Group had 1,537 employees, an addition of 19 employees as compared with 1,518 employees in the corresponding period of last year.

The salaries of the Group's employees are determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year would be paid by the Group to reward their contributions to the Group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB76,460,000, representing an increase of 16.11% compared with the total staff costs of approximately RMB65,854,000 for the corresponding period of last year.

Material acquisitions and disposals of subsidiaries and associated companies

In 2007 and the corresponding period of last year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

Material investment and contingent liabilities

As at 31 December 2007, the Group had no material investment, and likewise as at 31 December 2006.

Charge on assets

As at 31 December 2007 and 2006, the assets of the Group were not under any charge.

Management Discussion and Analysis

Prospects

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 further strengthened its financing ability in the capital market.

In order to implement the policy of “The Rise of Central China”, Zhegnzhou is accelerating its city construction. Development plans such as the establishment of the Zheng East New District, the development of Zhengzhou-Kaifeng property zone (“Zhengzhou-Kaifeng Property Zone”) and the reclamation of the old areas of Zhengzhou City shall make Zhengzhou one of the regional hubs in the PRC with massive population flow, logistics activities and capital flow. On 28 February 2008, the Company officially acquired the piped natural gas licence for Zhengzhou-Kaifeng Property Zone (excluding the western area of Kaifeng) for a term of 30 years. With such favourable project, the Group believes that its business will have ample room for growth in the next decade.

In respect of external investments, on 6 March 2008, the Company acquired a 27% equity interest in Pingdingshan City Gas Corporation (“Pingdingshan Gas”) from the State-owned Assets Supervision and Administration Commission of the People’s Government of Pingdingshan City. Acquisition of the 27% equity interest in Pingdingshan Gas is the first step of investment in areas beyond Zhengzhou. The Group will strive to identify appropriate projects for investment in order to enhance the profitability of the Group.

In respect of the development of industrial and commercial users, the Group will strategically develop commercial users who have balanced gas consumption throughout the year such as restaurants and hotels, and larger industrial users, so as to boost up the sales of natural gas even in the summer slump period. The Group expects that there will be satisfactory growth for the industrial and commercial gas businesses.

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 use natural gas as fuel. Nevertheless, it is expected that the vehicular gas business will only record steady growth as many buses shifted to refuel gas at refueling stations operated by bus operators.

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Yan Guoqi (閆國起), aged 53, Chairman, an executive Director and compliance officer. He is a representative of the 12th Session of the National People's Congress of Zhengzhou City, a representative of the 11th Session of the National People's Congress of Henan Province, head of the Urban Gas Association of Henan Province and a senior engineer. He was deputy head of a water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company (鄭州市自來水公司) from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation (鄭州市天然氣總公司) from 1997 to 1998, deputy chairman and deputy general manager of Zhengzhou Municipal Gas Company Limited (鄭州市燃氣有限公司) from 1998 to 2000, and deputy chairman and general manager of Zhengzhou Gas Group (鄭州燃氣集團) since 2000. Mr. Yan was appointed as the Chairman of the Company in 2001. In October 2007, he was appointed as the Chairman, party secretary and general manager of Zhengzhou Gas Group.

Mr. Li Jinlu (李金陸), aged 41, deputy chairman, an executive Director, general manager and a senior engineer. He was head of pipeline network of Zhengzhou Municipal Natural Gas Corporation, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. Mr. Li was the chief economist of Zhengzhou Gas Group from December 2000 to August 2002 and a director of Zhengzhou Gas Group from 2002 to January 2007. Mr. Li had been the deputy general manager and executive deputy general manager of the Company from December 2000 to 2007. Mr. Li was the chairman of Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司) and Dengfeng Zhengran Gas Company Limited (登封鄭燃燃氣有限公司), both being subsidiaries of the Company. In October 2005, he was appointed as executive Director of the Company and, in October 2007, he was appointed as the deputy party secretary of Zhengzhou Gas Group.

Mr. Li Hongwei (李紅衛), aged 37, deputy chairman, executive Director and standing deputy general manager of the Company, committee member of the Youth Federation of Zhengzhou. Mr. Li holds a master degree in economics and is a doctorate student in economics. He has been the business head of corporate management office of Zhengzhou Municipal Water Company, deputy chief economist of Zhengzhou Municipal Gas Company Limited, head of general office of Zhengzhou Gas Group and secretary to the Board of Directors of the Company. From December 2005 to October 2007, Mr. Li was appointed as assistant president of Launch Tech Company Limited. In October 2007, Mr. Li was appointed as director of Zhengzhou Gas Group, and also acted as director of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited (all being subsidiaries of the Company). In January 2008, Mr. Li was appointed as Director of the Company.

Profiles of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Song Jinhui (宋金會), aged 54, a non-executive Director and a senior engineer. Mr. Song is a member of the 11th Chinese People's Political Consultative and a representative of the 12th Session of the National People's Congress of Zhongyuan District of Zhengzhou City. He was deputy head of the general office of Zhengzhou Municipal Coal Gas Company (鄭州市煤氣公司) from 1983 to 1986. He was head of safety and technology department and sales and services outlets, deputy general manager of Zhengzhou Municipal Natural Gas Corporation, deputy general manager of Zhengzhou Municipal Gas Company Limited and general manager of the Company from 1986 to 2007. He has been the deputy chairman of Zhengzhou Gas Group since December 2000.

Mr. Zhang Wushan (張武山), aged 52, a non-executive Director and a senior engineer. He was the head of storage and distribution station and the measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997. He was chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and chairman of Zhengzhou Gas Real Estate Development Company Limited (鄭州燃氣房地產開發有限公司) since 1998. He is currently a director and standing deputy general manager of Zhengzhou Gas Group. Mr. Zhang was appointed as a non-executive Director of the Company in December 2000.

Mr. Ding Ping (丁平), aged 44, chairman of the labour union, a non-executive Director and a political engineer. Mr. Ding was branch secretary of iron cylinder testing section and organisation and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. Mr. Ding is also the deputy party secretary and the head of general office of the Company. He was chairman of the supervisory committee of the Company from December 2000 to 2005. He was appointed as a Director of the Company in January 2008.

Mr. Hao Ganjun (郝幹軍), aged 55, an economist. He was head of corporate management office of Zhengzhou Municipal Natural Gas Corporation and assistant to general manager of Zhengzhou Municipal Gas Company Limited from 1997 to 2000. In August 2003, he was appointed as the deputy officer of the Corporate Management Committee of China Gas Association. Mr. Hao was deputy general manager of the Company from December 2000 to October 2007. He was appointed as assistant to the Chairman and secretary to the Board of Zhengzhou Gas Group in October 2007. Mr. Hao was appointed as a Director of the Company in January 2008.

Profiles of Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. Zhang Yichun (張亦春), aged 74, an honorary doctor of Hong Kong Academy of Science and an independent non-executive Director of the Company. Since August 1960, he was a lecturer of the economics department, associate professor and deputy head of the finance and fiscal department of the economics faculty, professor, supervisor of doctoral candidates and department head of the finance and fiscal department, professor, supervisor of doctoral candidates and faculty head of the economics faculty, and professor, supervisor of doctoral candidates and head of the fiscal research institute, all of Xiamen University. In addition, Mr. Zhang is an independent non-executive director of Shanghai Met (Group) Corporation (上海望春花股份有限公司), 上海富城證券經紀公司, Baoying Fund Management Co., Ltd. (寶盈基金管理公司), Everbright Prumerica Fund Management Company Limited (光大保德信基金管理公司) and Fujian Zhonghe Company Limited (福建眾和股份有限公司), and an external supervisor of Industrial Bank Company Limited (興業銀行股份有限公司). Mr. Zhang was currently the head of the Financial Research Centre of Xiamen University, an independent non-executive director of Xiamen Eagle Group Co., Ltd. (廈門雄震集團股份公司) and the Company, and an independent non-executive director of Shanghai CiFi Company Limited (上海旭輝股份有限公司) and CNFOL.COM Company Limited (福建中金在線網絡股份有限公司), both being unlisted companies.

Mr. Liu Jianwen (劉劍文), aged 48, an independent non-executive Directory. Mr. Liu holds a doctor degree in jurisprudence. He is presently a professor of Beijing University and a supervisor of doctoral candidates, officer of Peking University Fiscal Law Research Center, an arbitrator of China International Economic and Trade Arbitration Commission. He is also the president of China Institute for Fiscal and Tax Law Education Research and president of International Texas Longhorn Association (ITLA). Mr. Liu also acted as the leader of the drafting team of the Basic Law for Taxation of the People's Republic of China - a project entrusted by the Finance and Economy Working Committee of National People's Congress, consultant of the drafting team of the Law for Fiscal Transfer Payment of the People's Republic of China - a project entrusted by the Budget Working Committee of the Standing Committee of National People's Congress, consultant of the drafting team of the Law for State Assets of the People's Republic of China of National People's Congress and the chief expert in China side of the State Administration of Taxation on "the World Bank debt project - Research on Taxation Law System Reform and Consummation after China's entry to WTO". He was appointed as an independent non-executive Director of the Company in April 2002. Mr. Liu is also the independent non-executive directors of Zhejiang Hailiang Co., Ltd (浙江海亮股份有限公司), a company listed in Mainland China (stock code: 002203) and Shangdong Jicheng Co., Ltd (山東積成股份有限公司).

Ms. Yu Shulian (余恕蓮), aged 54, an independent non-executive Director. She is a professor of accounting and a supervisor of doctoral candidates of the External Economics and Trade University and a PRC non-practising accountant registered with the Association of Registered Accountants of the PRC. She was appointed as an independent non-executive Director of the Company in April 2002. Ms. Yu is also the independent non-executive directors of Shenyang Siasun Robot & Automation Company Limited (瀋陽新松機器人自動化股份有限公司), Qinhuangdao Port Co. Ltd (秦皇島港股份有限公司) and Wuxi Double Elephant Micro Fibre Material Ltd (無錫雙象超纖材料股份有限公司), non-listed companies. She was an independent non-executive director of Create Technology & Science Co., Ltd., a company listed on the Shenzhen Stock Exchange, from 2004 to 31 August 2006.

Mr. Wong Ping (王平), aged 47, an independent non-executive Director. He graduated from Henan University of Television Broadcast majoring in commercial corporate management. Mr. Wong has extensive experience in corporate management and finance. He was formerly an assistant manager of Henan Zhouhou District Price Bargaining Company (河南省周口地區議價公司), a manager of general business department of Henan Province Foreign Trade of Commodity Development Company (河南省外貿商品開發公司), a deputy general manager of Henan Imports and Exports Company of China National Cereals, Oils and Foodstuffs Corporation (中糧河南進出口公司) and is currently a deputy general manager of Henan Zhengzhou Rongyuan Shopping Plaza Company Limited (河南鄭州融元購物廣場有限公司).

Profiles of Directors, Supervisors and Senior Management

Supervisors

Ms. Bao Hongwei (鮑紅偉), aged 49, chairman of the supervisory committee and deputy party secretary. From 1997 to 2000, Ms. Bao was the deputy head and head of the Zhengzhou City Natural Gas Company's General Manager's Office, and head of the Human Resources Department of Zhengzhou City Municipal Gas Company Limited. From 2000 to 2007, Ms. Bao was the chairperson of the Company's labour union and the Chairman of the Zhengzhou Zhengran Property Management Company Limited (鄭州燃氣物業管理有限公司). She is currently deputy party secretary, secretary for the disciplinary committee and chairman of the supervisory committee of Zhengzhou Gas Group. Ms. Bao was appointed as chairman of the supervisory committee of the Company in January 2008.

Mr. Chen Kun (陳鯤), aged 43, a Supervisor and a senior engineer with a doctorate degree in engineering. Mr. Chen was previously an engineer of 河南冶金規劃設計研究院 and 中南市政設計院. Mr. Chen was appointed as the deputy general manager of Zhengzhou Gas Group and the chairman of Zhengran Gas Design Development Company Limited in May 2003 and February 2007 respectively.

Mr. Zhao Ruibao (趙瑞保), aged 41, a Supervisor and a senior engineer. He was appointed as the manager of the natural gas sales branch of the Company in 2000. From 2002 to 2005, he served as deputy chief engineer, chief engineer, assistant to general manager and secretary to the Board of the Company. In October 2007, Mr. Zhao acted as the assistant to the general manager of Zhengran Gas Group. He was appointed as a Supervisor of the Company in January 2008.

Ms. Niu Minghua (牛鳴華), aged 50, a Supervisor. Ms. Niu was subsequently general branch secretary of the party committee and deputy office head of Zhengzhou Municipal Gas Company Limited, chairman of the labor union and secretary of the disciplinary committee of the Company, and general branch secretary of the party committee and executive head of the party committee of Zhengzhou Gas Group. Ms. Niu served as an executive Director of the Company from August 2002 to October 2005. Ms. Niu is currently deputy secretary of the disciplinary committee of Zhengzhou Gas Group.

Ms. Wang Xiaohua (王曉華), aged 44, a Supervisor, the head of the audit and supervision department of the Company and an accountant. From October 2000 to October 2007, Ms. Wang has worked successively been the deputy head and head of the finance and investment department of Zhengzhou Gas Group, and the head of the financial and securities department of Zhengzhou Gas Company Limited. In October 2007, she was appointed as the head of the audit and monitoring department of the Company. She is also the chairperson of the supervisory committees of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited. and Zhengzhou Zhengran Pressure Control Technology Company (all being subsidiaries of the Company). She was appointed as a Supervisor of the Company in January 2008.

Mr. Yang Guirong (楊桂榮), aged 45, a Supervisor and a senior accountant. He has successively been the deputy head of finance division under the finance office and head of production division of Henan Province Electricity Supply Bureau (河南省電力局), and the deputy head of the finance office of Henan Province Electricity Supply Bureau. He is currently the head of the financial department of Electric Power of Henan (河南省電力公司), a supervisor of Nanyang Yahekou Electricity Company Limited (南陽鴨河口發電有限責任公司) and Henan Yuneng Holdings Company Limited (河南豫能控股有限公司). Mr. Yang was appointed as a Supervisor of the Company in October 2005.

Mr. Cai Yuming (蔡玉明), aged 47, a Supervisor, a master graduate in business management and a senior economist. He was previously the general manager of Zhengzhou Municipal Trust Investment Company (鄭州信託投資公司), a vice president of Zhengzhou Branch of Guangdong Development Bank and the deputy general manager of China Eagle Securities Company Limited (大鵬證券有限責任公司). He is currently the deputy general manager of Shenzhen Guanghua Printing Co., Ltd. (深圳光華印制有限公司). Mr. Cai was appointed as a Supervisor of the Company in October 2005.

Profiles of Directors, Supervisors and Senior Management

Senior Management

Mr. Liu Daoshuan (劉道栓), aged 42, deputy general manager and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Coal Gas Company and deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited from 1992 to 2000. In December 2000, Mr. Liu was appointed as the chief engineer of the Company. He was appointed as the Company's deputy general manager in August 2002. He was chairman of Zhengzhou Zhengran Pressure Control Technology Company, and a director of Zhengzhou Gas Engineering and Construction Company Limited. He was appointed as a director of Zhengzhou Gas Group in October 2007.

Mr. Li Zizheng (李自正), aged 43, the chief accountant. From 1998 onwards, Mr. Li was deputy head of the finance department of Zhengzhou City Natural Gas Company Limited, deputy head and head of the finance department of Zhengzhou Municipal Gas Company Limited, head of the finance and investment department and the chief accountant of Zhengzhou Gas Group, and the financial controller of the Company. Mr. Li was the chief financial officer of the Company from October 2005 to October 2007. In October 2007, Mr. Li was appointed as the chief accountant of the Company, and a director of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited, all being the subsidiaries of the Company. Mr. Li is currently a director of Zhengzhou Gas Estate Development Company Limited and Commercial Bank of Zhengzhou.

Ms. Geng Tongmin (耿同敏), aged 41, deputy general manager, chief engineer and a senior engineer. Ms. Geng consecutively held offices as a deputy director of the Design Scientific Research Institute, a deputy chief engineer and chief engineer of Zhengzhou Gas Group and deputy chairman of Henan Province Zhong Yuan Natural Gas Heat Engineering Supervising Company Limited (河南省中原燃氣熱力工程監理有限公司). Ms. Geng was appointed as a deputy general manager of the Company and a deputy general manager and chief engineer of the Company in August 2004 and October 2007 respectively.

Mr. Sun Xianzhong (孫獻忠), aged 39, secretary of the Board of the Company. Mr. Sun was the head of operation division, officer and property management manager of Zhengzhou High Land City Construction Development Company, Zhengzhou High and Innovative Technology Development Zone. He joined the Company in 2000 and was the Company's previous securities investment deputy division head, Hong Kong branch officer and securities investment division head. Mr. Sun was an assistant to the general manager of the Company from March 2006 to October 2007.

Ms. Shang Yuqiu (尚玉秋), aged 40, chief economist and senior economist. From September 1997 to October 2003, Ms. Shang consecutively held offices as the deputy head of the corporate management office of Zhengzhou Gas Company Limited, and the deputy head of the corporate management department and the deputy chief economist of Zhengzhou Gas Group. From October 2003 to June 2007, she worked successively as the head of the operation management department of the Company and the secretary of the Second Branch of Natural Gas Company. From June 2007 to October 2007, she was the chief economist of Nanyang Zhengran Gas Co., Ltd. (南陽鄭燃燃氣有限公司). In October 2007, Ms. Shang was appointed as the chief economist of the Company and a Supervisor of Dengfeng Zhengran Gas Company Limited.

Profiles of Directors, Supervisors and Senior Management

Mr. Huang Biao (黃飈), aged 39, assistant to general manager and a senior engineer. He was deputy manager of No.1 Engineering Company of Zhengzhou Municipal Natural Gas Corporation and deputy head of sales office of Zhengzhou Municipal Gas Company Limited from 1993 to 2000. Mr. Huang was the chief economist and chief engineer of the Company from 2000 to 2007. In October 2007, he was appointed as an assistant to the general manager of the Company, and as a director of Zhengzhou Gas Engineering and Construction Company Limited, a subsidiary of the Company.

Mr. Li Weimin (李為民), aged 40, is an assistant to the general manager and a senior engineer. He was the deputy head of the technology and equipment office of Zhengzhou Municipal Natural Gas Corporation in 1997 and the general manager of Zhengzhou Gas Group LPG Co., Ltd. in 2003. He was appointed as the chief economist of the Company in October 2005. In October 2007, he was appointed as the assistant to the general manager of the Company, and the chairman of Dengfeng Zhengran Gas Company Limited, a subsidiary of the Company.

Mr. Shi Shufang (司書方), aged 51, is an assistant to the general manager with college degree and an assistant economist. Mr. Shi was the deputy head and head of Factory No. 2 of Xinhua (新華二廠) from 1981 to 1987; the head of gas station and business division of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1998; the head of business division of Zhengzhou Municipal Gas Company Limited from 1998 to 2000; and the manager of second branch of the Company's Natural Gas Company from 2000 to 2007. Mr. Shi was appointed as the assistant to general manager and the manager of the natural gas sales branch of the Company in October 2007.

Mr. Huo Wencai (霍文才), aged 44, assistant to the general manager. He was transferred from the Chinese People's Armed Police Forces to the enterprise administration department of the former Zhengzhou Municipal Gas Company Limited in August 1998. From October 2000 to August 2002, Mr. Huo was the head of the secretary office of Zhengzhou Gas Company Limited. Mr. Huo was the manager of first branch of Zhengzhou Gas Company Limited's Natural Gas Company from August 2002 to October 2007. Mr. Huo was appointed as the assistant to general manager of the Company and the chairman of Zhengzhou Gas Engineering and Construction Company Limited in October 2007.

Qualified Accountant and Company Secretary

Mr. Wong Cheuk Lam, Raymond (黃焯琳), aged 39, is the full-time qualified accountant, company secretary and chief financial officer of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan (Sakura Asia Finance Limited) and Bank of China International Company Limited. Mr. Wong has over ten years of experience in accounting and finance. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Wong was appointed as the chief financial officer and financial controller of the Company in July 2005 and October 2007 respectively.

Report of the Directors

The directors of the Company (the "Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

Principal activities

The principal activities of the Company and its subsidiaries are the sales of natural gas, pressure control equipments and gas appliances to customers and construction of gas pipelines and the provision of renovation services of gas pipelines to local customers.

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

Segment information

The segment information of the Group during the Year is set out in note 4 to the financial statements. No geographical segment analysis is shown as the Group's operating business is mainly carried out in Zhengzhou, Henan Province, the PRC.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 92.

The Directors recommended the payment of a final dividend of RMB0.0242 per ordinary share in respect of the year ended 31 December 2007 to shareholders whose names appear in the register of members of the Company on 26 May 2008. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007. Further details of the dividends are set out in note 10 to the financial statements.

Report of the Directors

Summary financial information

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

RESULTS

	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**862,161**	731,637	620,478	470,386	356,869
Cost of sales	**(563,562)**	(489,986)	(410,876)	(300,643)	(229,145)
Gross profit	**298,599**	241,651	209,602	169,743	127,724
Other income and gains	**4,199**	3,555	2,334	1,144	925
Selling and distribution costs	**(35,338)**	(33,294)	(26,860)	(16,822)	(11,331)
Administrative expenses	**(60,963)**	(66,335)	(53,880)	(47,157)	(38,153)
Other expenses	**(10,092)**	(10,407)	(4,886)	(8,186)	(708)
Profit before tax	**196,405**	135,170	126,310	98,722	78,457
Income tax expense	**(66,722)**	(9,513)	(16,560)	(23,813)	(22,003)
Profit for the year	**129,683**	125,657	109,750	74,909	56,454
Attributable to:					
Equity holders of the Company	**128,462**	111,485	93,400	65,211	52,937
Minority interests	**1,221**	14,172	16,350	9,698	3,517
	129,683	125,657	109,750	74,909	56,454
Dividends					
Proposed final dividend	**30,286**	35,668	17,271	20,024	5,507
Earnings per share attributable to ordinary equity holders of the Company					
– **Basic** (RMB Yuan)	**0.103**	0.089	0.075	0.052	0.042

Report of the Directors

Summary financial information (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,105,482**	945,660	750,572	615,510	502,399
Total liabilities	**441,374**	374,832	277,765	224,244	177,437
Minority interests	**4,088**	3,602	27,945	19,780	13,180
Net assets	**664,108**	570,828	472,807	391,266	324,962

Note: The consolidated results and financial position of the Group for the years ended 31 December 2003, 2004, 2005 and 2006 have been extracted from the 2003, 2004, 2005 and 2006's annual reports of the Company, while those for the year ended 31 December 2007 were prepared based on the consolidated income statement as set out on page 43 of the financial statements. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in notes 14 to the financial statements, respectively.

Share capital

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2007.

Pre-emptive rights

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

Purchase, sale or redemption of securities

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

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 45 and 46 of the financial statements, respectively.

Report of the Directors

Distributable reserves

As at 31 December 2007, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB233,777,000, of which approximately RMB30,286,000 has been proposed as a final dividend for the Year and approximately RMB10,126,000 has been proposed to be transferred to the general surplus reserve. In addition, the Company's share premium account, in the amount of RMB101,026,000, may be distributed in the form of bonus shares.

Major customers and suppliers

During the year ended 31 December 2007, the revenue attributable to the five largest customers accounted for less than 30% of the Group's total revenue for the year. Accordingly, a corresponding analysis of major customers is not presented.

Purchases from the Group's five largest suppliers accounted for approximately 76% (2006: 82%) of the total purchases and purchases from the largest supplier included therein amounted to 52% (2006: 55%).

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

Connected transactions

The details of the connected transactions of the Group during the year ended 31 December 2007 are set out in Note 29 to the financial statements.

Ernst & Young, the auditors of the Company, confirmed to the board of directors of the Company that during the year ended 31 December 2007 the continuing connected transactions of the Company were:

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

(2) entered into in accordance with the property lease agreements, the land use rights lease agreements and the new land use rights agreement governing the relevant transactions; and

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

Report of the Directors

Directors and supervisors

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

Executive Directors:

Mr. Yan Guoqi (Chairman)	
Mr. Song Jinhui	(re-designated on 26 March 2008 to non–executive director)
Mr. Li Yantong	(resigned on 25 January 2008)
Mr. Li Jinlu	
Mr. Li Hongwei	(appointed on 25 January 2008)

Non-executive Directors:

Mr. Song Jinhui	(re-designated on 26 March 2008 to non–executive director)
Mr. Yang Degu	(resigned on 25 January 2008)
Mr. Zhang Wushan	
Ms. Bao Hongwei	(resigned on 25 January 2008)
Mr. Ding Ping	(appointed on 25 January 2008)
Mr. Hao Ganjun	(appointed on 25 January 2008)

Independent non-executive Directors:

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

Supervisors:

Mr. Chang Zongxian	(resigned on 25 January 2008)
Ms. Bao Hongwei	(appointed on 25 January 2008)
Mr. Ding Ping	(resigned on 25 January 2008)
Mr. Chen Kun	
Mr. Zhao Ruibao	(appointed on 25 January 2008)
Ms. Niu Minghua	
Ms. Zhou Weihua	(resigned on 25 January 2008)
Ms. Wang Xiaohua	(appointed on 25 January 2008)

Independent supervisors:

Mr. Cai Yuming
Mr. Yang Guirong

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

Report of the Directors

Profiles of directors', supervisors' and senior management

Profiles of the Directors, supervisors and senior management of the Company are set out under the Profiles of Directors, Supervisors and Senior Management section of the annual report.

Confirmation of independence by independent non-executive Directors

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

Directors' and supervisors' service contracts

Each of the Directors and supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment or re-election of the respective Director and supervisor for a term of three years.

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

Directors' and supervisors' remuneration

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

Directors' and supervisors' interests in contracts

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

Directors' and supervisors' rights to acquire shares

At no time during the year ended 31 December 2007 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or supervisor or their respective spouse or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire such rights in any other body corporate.

Interests of Directors and supervisors in competing businesses

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

Report of the Directors

Directors', supervisors' and chief executive's interests in shares and underlying shares or debentures

As at 31 December 2007, none of the Directors, supervisors or chief executives of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code regarding Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Disclosures under the SFO and substantial shareholders

As at 31 December 2007, so far as the Directors of the Company are aware, the person (not being a Director or supervisor or chief executive of the Company) or companies who had 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 the Company or any of its associated corporations were as follows:

Long positions in ordinary shares of the Company:

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

Report of the Directors

Disclosures under the SFO and substantial shareholders (continued)

Name 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 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)	RMB23,500,000	78%

Notes:

(1) As at 31 December 2007, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") held 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the Main Board Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.

(2) As at 31 December 2007, each of Li Keqing and his spouse, Guo Wenjun, was deemed to have an interest in 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interests in Domestic Shares, as they were together interested in 100% of the registered capital of Zhengzhou Qiyuan, which held 115,500,000 Domestic Shares. However, pursuant to the Main Board Listing Rules, each of Li Keqing and Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares in which each of Li Keqing and Guo Wenjun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

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

Report of the Directors

Directors' and supervisors' rights to acquire H Shares

Save as disclosed above, during the year ended 31 December 2007, none of the Directors or supervisors or chief executive of the Company was granted options to subscribe for H Shares of the Company. During the year ended 31 December 2007, none of the directors or supervisors or chief executive or their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

Board practices and procedures

In the opinion of the Directors, the Company has complied with the requirements of board practices and procedures as set out in the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the Year.

Code of conduct regarding securities transactions by Directors

During the Year, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

Compliance adviser's interests

Pursuant to Rule 3A.19 of the Listing Rules, the Company appointed SBI E2-Capital Partners Limited (formerly SBI Crosby Limited) as its compliance adviser on 29 June 2007, in order to assist the Group in complying with the Listing Rules, applicable laws, regulations, codes and guidelines of Hong Kong and provide relevant advice. The appointment period will commence on 29 June 2007 (the listing date) and end 31 December 2007, and the financial results for the full financial year immediately thereafter shall comply with Rule 13.46 of the Listing Rules. As referred to in the Company's announcement on 22 November 2007, following the completion of the restructuring of the SBI E2-Capital Group, SBI Crosby Limited (now renamed as "SBI E2-Capital Partners Limited") became a wholly-owned subsidiary of the SBI E2-Capital Group, withdrew its sponsorship license and transferred its sponsorship credentials to its fellow subsidiary namely SBI E2-Capital (H.K.) Limited ("SBI E2-Capital HK").

On 21 November 2007, the Company entered into a transfer agreement with SBI E2-Capital Partners Limited and SBI E2-Capital HK (the "Transfer Agreement"). Pursuant to the Transfer Agreement, SBI E2-Capital Partners Limited ceased to be the compliance adviser of the Company and the Company thereby appointed SBI E2-Capital HK as the compliance adviser of the Company, and accordingly the compliance adviser role and responsibilities of SBI E2-Capital Partners Limited were assumed by SBI E2-Capital HK.

SBI E2-Capital HK confirmed that it held no direct or indirect interests in the Company during the Relevant Period.

Report of the Directors

Competing interests

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

Sufficiency of public float

According to the publicly available information of the Company and as the Directors of the Company are aware, the Directors confirmed that the Company compiled the requirement of maintenance of the public float.

Audit committee

The Company established an audit committee on 30 September 2002 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duty of the audit committee is to review the financial reporting process and internal control systems of the Group.

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

The audit committee held four formal meetings during the year ended 31 December 2007. The audited results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in the Listing Rules during the year ended 31 December 2007.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

Statement of no change in auditors

The Board confirms that there has been no change in the auditors of the Company in any of the preceding three years from the year ended 31 December 2007.

Report of the Directors

Auditors

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

BY ORDER OF THE BOARD
Zhengzhou Gas Company Limited

Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
26 March 2008

Report of the Independent Directors Committee

In order to improve the management of conflicts of interests of the Group, the board of directors of the Company established this committee during the Year. Comprising all of the independent non-executive Directors, the committee is responsible for reviewing the transactions where conflicts of interests may arise between the Group and its connected persons (including the Zhengzhou Gas Group (the holding company of the Company) and its associates), and making decisions on behalf of the Board in respect of the transactions contemplated. In addition, the committee makes decisions on behalf of the Board to exercise the investment option granted by the Zhengzhou Gas Group to the Company according to the agreement setting out the non-competition undertaking and investment option.

Connected transactions

Details of the Group's connected transactions during the year ended 31 December 2007 are included in note 29 to the financial statements. During the year ended 31 December 2007, the committee has reviewed the following connected transactions between the Group and the Zhengzhou Gas Group:

(a) Property purchase agreement

On 20 March 2007, the Company and the Zhengzhou Gas Group entered into a property purchase agreement pursuant to which the Zhengzhou Gas Group had agreed to sell two properties to the Company for a consideration of RMB17,000,000. The consideration was determined with reference to the independent valuation.

The first property comprised the land use rights in respect of a parcel of land with a 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. The second property comprised 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 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.

Pursuant to Rule 20.25 of the GEM Listing Rules, the amounts of consideration under the property purchase agreement and the transactions under similar purchase agreements of the Group dated 26 July 2006 and 8 September 2006 were liable to be aggregated. The aggregate consideration amounted to RMB22,477,000. Since the aggregate consideration was more than 2.5% of the relevant percentage ratios (except the profits ratio, as defined in the GEM Listing Rules) and HK$10,000,000, the property purchase agreement was subject to the reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 20 of the GEM Listing Rules. The independent shareholders of the Company approved the transactions under the property purchase agreement at the extraordinary general meeting convened on 18 May 2007.

Note:

Since the Company was still listed on the GEM of the Stock Exchange when the property purchase agreement was executed, the above transaction was subject to the GEM Listing Rules.

Report of the Independent Directors Committee

Connected transactions (continued)

(b) Property lease agreements

New property lease agreement

On 13 February 2007, the Group and the Zhengzhou Gas Group, the controlling shareholder of the Company, entered into a property lease agreement pursuant to which the Zhengzhou Gas Group as the landlord had agreed to lease the occupation rights in the premises situated at No. 75 Kexue Avenue, Hi-Tech Development District, Zhengzhou to the Group as a tenant for office and industrial uses for a duration of three years commencing from 1 March 2007 to 28 February 2010 (with an option to renew exercisable by the Group) at an aggregate rental of RMB162,978.72 per annum.

Renewed property lease agreement

On 5 November 2007 when the existing property lease agreement expired, the Group and the Zhengzhou Gas Group entered into a renewed property lease agreement pursuant to which the Zhengzhou Gas Group as the landlord had agreed to lease the renewed occupation rights in the properties with a total gross floor area of 20,945.86 sq.m. to the Group for a duration of three years commencing from 1 November 2007 to 31 October 2010 (with an option to renew exercisable by the Group) at the aggregate rental of RMB8,389,642.80 per annum.

Under Rule 14A.25 of the Listing Rules, the lease arrangements under the renewed property lease agreement and the new property lease agreement were regarded as a series of continuing connected transactions. Accordingly, the annual rentals under the renewed property lease agreement and the new property lease agreement should be aggregated.

Pursuant to Rule 14A.35(2) of the Listing Rules, for each of the four years ended 31 December 2010, the annual cap of the renewed property lease agreement and the new property lease agreement is RMB8,552,621.52, which was determined with reference to the market rates valued by CB Richard Ellis Limited, an independent valuer.

(c) The second supplemental agreement

On 4 January 2007, the Company has entered into the second supplemental agreement (the "Second Supplemental Agreement") with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to reduce the current annual rental of land uses rights leased under the existing land use rights lease agreements, as a result of the reduction of the area of land leased under the existing land use rights lease agreements after the acquisition of certain land assets which originally formed parts of the leased land under the existing land use rights lease agreements. The total annual rental under the existing land use rights lease agreements as supplemented by the Second Supplemental Agreement was RMB1,297,109.

The total rental under the existing land use rights lease agreements as supplemented by the Second Supplemental Agreement and a new land use rights lease agreement dated 26 May 2005 amounted to RMB1,414,136.

Report of the Independent Directors Committee

Connected transactions (continued)

In respect of the above continuing connected transactions, the committee has reviewed the above transactions and confirmed that, during the year ended 31 December 2007, such transactions were entered into:

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

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

(3) in accordance with the property lease agreements, the land use rights lease agreements and the new land use rights lease agreement governing the relevant transactions.

Non-competition undertaking and investment option

During the Relevant Period, the committee is not aware of the existence of any transactions in relation to the agreement of non-competition undertaking and investment option dated 16 April 2006 between the Company and the Zhengzhou Gas Group.

As at the date of this report, the committee comprises independent non-executive Directors including:

Prof. Liu Jianwen (Chairman)
Prof. Zhang Yichun
Prof. Yu Shulian
Mr. Wong Ping

26 March 2008

Corporate Governance Report

The Company has always endeavoured to strengthen its corporate governance. Through strengthening the functions of committees under the Board and promoting the formation of internal control systems, the Company has incorporated the core value of corporate governance, such as adopting an open, reasonable and restrictive decision-making process and taking into account the Company's and the shareholders' interests as a whole in the process of decision-making etc., into the Company's daily operation.

Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during 2007.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules so that securities transactions by the Directors of the Company have to be carried out according to the Model Code. Having made specific enquiries to all Directors, all the Directors confirmed that they had complied with the relevant provisions of the Model Code during 2007.

The interests in the Company's securities held by the Directors as at 31 December 2007 and the extent of compliance with the Model Code have been disclosed in the Report of Directors of this annual report.

The Board

Composition of the Board

During 2007, the Board of the Company comprises the following Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Song Jinhui, Mr. Li Yantong and Mr. Li Jinlu; (ii) non-executive Directors: Mr. Zhang Wushan, Mr. Yang Degu and Ms. Bao Hongwei; and (iii) independent non-executive Directors: Mr. Liu Jianwen, Mr. Zhang Yichun, Ms. Yu Shulian and Mr. Wong Ping. Biographical details of the current Directors and their relationships are set out in the section "Profiles of Directors and Senior Management" of this annual report.

Biographical details of the Chairman and other Directors of the Company are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report. All of the Executive Directors of the Company have sufficient requisite experience essential for them to perform their duties efficiently.

The Company has appointed four independent non-executive Directors, at least one of them has appropriate accounting expertise, who can help the management to formulate the Group's development strategies, ensure the Board preparing its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintaining appropriate systems to protect the interests of shareholders and the Company. The Board has received the annual written confirmation in respect of their independence from each of the independent non-executive Directors, and believes that their independence is in compliance with the Listing Rules as at the date of the Company's 2007 annual report.

Corporate Governance Report

The Board (continued)

Operation of the Board

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

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

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

In 2007, the Board held a total of 9 meetings. The attendance record of each Director is set out below:

Directors	Attendance	Number of board meetings held in 2007	Attendance rate	Remarks
Executive Directors				
Yan Guoqi	9	9	100%	
Song Jinhui	9	9	100%	
Li Yantong	9	9	100%	
Li Jinlu	9	9	100%	
Non-executive Directors				
Zhang Wushan	9	9	100%	
Bao Hongwei	9	9	100%	
Yang Degu	9	9	100%	
Independent Non-executive Directors				
Zhang Yichun	9	9	100%	
Liu Jianwen	9	9	100%	
Yu Shulian	9	9	100%	
Wong Ping	9	9	100%	

Corporate Governance Report

The Board (continued)

Operation of the Board (continued)

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

Audit Committee

The Company established its Audit Committee on 30 September 2002 with terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control system of the Company and providing recommendations to the Board.

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

In 2007, the Audit Committee held a total of four meetings, at which it reviewed, together with the senior management and the internal and external auditors of the Company, the internal and independent audit results, the accounting principles and practices adopted by the Group, the listing and other relevant regulations, and discussed the audit and internal control system, and financial reporting matters (such as recommending the Board to approve the interim and annual results for 2007).

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

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

Names of directors	Attendance	Number of committee meetings held during 2007	Attendance rate	Remarks
Yu Shulian	4	4	100%	
Zhang Yichun	4	4	100%	
Zhang Wushan	4	4	100%	

Corporate Governance Report

Remuneration and Appraisal Committee

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

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

In 2007, the Remuneration and Appraisal Committee held one meeting. At the meeting, the Committee reviewed the incentive bonus given to the Directors and senior management in 2007. The Committee concluded that the amount of the incentive bonus given to the Directors and management in 2007 was reasonable after taking into account the overall financial performance of the Company and individual performance of each Director and member of the senior management.

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

Names of directors	**Attendance**	**Number of committee meetings held during 2007**	**Attendance rate**
Zhang Yichun	1	1	100%
Liu Jianwen	1	1	100%
Yan Guoqi	1	1	100%
Song Jinhui	1	1	100%
Yu Shulian	1	1	100%

Nomination Committee

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

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

The Nomination Committee held one meeting in 2007, for the purpose of nominating new Directors and senior management of the Company mainly based on criteria such as educational background, working experience and the talent needed by the Company. The Committee had proposed to the Board the nomination of three new Directors and 12 members of the senior management.

Corporate Governance Report

Nomination Committee (continued)

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

Names of directors	Attendance	Number of committee meetings held during 2007	Attendance rate	Remarks
Yan Guoqi	1	1	100%	
Yu Shulian	1	1	100%	
Liu Jianwen	1	1	100%	
Zhang Yichun	1	1	100%	

Chairman and General Manager

During the year ended 31 December 2007, the posts of Chairman and General Manager have been held by different persons. The separation of the roles and functions of the Chairman and the General Manager ensures a clear distinction in the Chairman's responsibility to manage the Board and the General Manager's responsibility to manage the Company's business activities.

Term of the Directors

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

Remuneration of the Auditors

For the year ended 31 December 2007, the Audit Committee of the Company had reviewed the performance of Messrs. Ernst & Young ("Ernst & Young") as the auditors of the Company and proposed to re-appoint Ernst & Young as the auditors. For the year ended 31 December 2007, the Company had paid auditing fees of approximately RMB1,770,000 (2006: approximately RMB1,462,000) to Ernst & Young.

Responsibility of Preparation of the Accounts

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2007, the Directors are not aware of any material uncertain events or circumstances which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors of the Company have prepared the accounts of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Report of the Auditors in this annual report.

Corporate Governance Report

Internal Control Systems

The Board of the Company conducts a review of the internal control systems of the Company every year in order to ensure their effectiveness and review its efficiency. The Board assesses the effectiveness of the internal control systems based on five criteria, including environment monitoring, risk assessment, activity supervision, information and communication, and continuous assessment of the procedures of the internal control systems. The Directors consider that the Company has implemented a series of procedures for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining accounting records properly and ensuring the reliability of financial information.

In order to establish sound internal control systems, the Company commenced to implement 17 internal control systems and standardised the work flow regarding different aspects such as finance, operation and legal requirements during the year. In addition, the Company further strengthened its internal audit control. During the year, the audit and control department completed more than 10 audit reports, and submitted various audit control proposals to the Company.

Investor Relations

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

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Zhengzhou Gas Company Limited set out on pages 43 to 92, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
26 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**862,161**	731,637
Cost of sales		**(563,562)**	(489,986)
Gross profit		**298,599**	241,651
Other income and gains	5	**4,199**	3,555
Selling and distribution costs		**(35,338)**	(33,294)
Administrative expenses		**(60,963)**	(66,335)
Other expenses		**(10,092)**	(10,407)
PROFIT BEFORE TAX	6	**196,405**	135,170
Income tax expense	8	**(66,722)**	(9,513)
PROFIT FOR THE YEAR		**129,683**	125,657
Attributable to:			
Equity holders of the Company		**128,462**	111,485
Minority interests		**1,221**	14,172
		129,683	125,657
DIVIDENDS	10		
Proposed final		**30,286**	35,668
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic			
– For profit for the year (RMB Yuan)		**0.103**	0.089

Balance Sheets

31 December 2007

	Notes	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
NON-CURRENT ASSETS					
Investments in subsidiaries	13	**–**	–	**52,350**	52,350
Property, plant and equipment	14	**632,477**	595,412	**625,864**	590,103
Available-for-sale investment	15	**–**	50	**–**	50
Land lease prepayments	16	**66,697**	18,288	**62,001**	18,288
Deferred tax assets	17	**5,842**	8,514	**4,218**	6,731
Total non-current assets		**705,016**	622,264	**744,433**	667,522
CURRENT ASSETS					
Cash and cash equivalents	23	**219,091**	177,496	**34,703**	105,819
Restricted cash deposits		**19,200**	16,000	**19,200**	16,000
Trade and notes receivables	18	**116,993**	95,131	**110,946**	93,277
Inventories	19	**6,186**	4,639	**4,036**	2,097
Construction contract work in progress	22	**1,515**	1,417	**–**	–
Prepayments, deposits and other receivables	20	**37,364**	28,577	**27,143**	15,068
Due from the holding company		**21**	–	**21**	–
Due from a subsidiary	25	**–**	–	**–**	3,000
Due from fellow subsidiaries	26	**96**	136	**52**	136
Total current assets		**400,466**	323,396	**196,101**	235,397
TOTAL ASSETS		**1,105,482**	945,660	**940,534**	902,919
CURRENT LIABILITIES					
Trade payables	21	**64,491**	65,291	**39,148**	26,155
Advance payments received	22	**255,710**	209,382	**9,722**	6,566
Accrued liabilities and other payables	24	**94,947**	92,325	**91,163**	85,146
Tax payable		**20,480**	6,887	**927**	2,067
Due to subsidiaries	25	**–**	–	**214,020**	267,826
Due to fellow subsidiaries	26	**5,746**	947	**5,746**	947
Total current liabilities		**441,374**	374,832	**360,726**	388,707
NET CURRENT LIABILITIES		**(40,908)**	(51,436)	**(164,625)**	(153,310)
NET ASSETS		**664,108**	570,828	**579,808**	514,212
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	27	**125,150**	125,150	**125,150**	125,150
Reserves	28	**534,870**	442,076	**454,658**	389,062
		660,020	567,226	**579,808**	514,212
Minority interests		**4,088**	3,602	**–**	–
Total equity		**664,108**	570,828	**579,808**	514,212

Yan Guoqi
Chairman

Li Jinlu
Director

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

Group

	Note	Attributable to equity holders of the Company								Minority interests	Total equity
		Issued capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained earnings	Reserve arising from acquisition of a minority interest	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 27)		(note 28(a))	(note 28(b))	(note 28(c))	(note 28(d))				
At 1 January 2006		125,150	101,026	43,564	43,564	19,905	111,653	–	444,862	27,945	472,807
Profit for the year		–	–	–	–	–	111,485	–	111,485	14,172	125,657
Acquisition of a minority interest		–	–	–	–	–	–	28,150	28,150	(38,049)	(9,899)
Dividends paid		–	–	–	–	–	(17,271)	–	(17,271)	–	(17,271)
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	(466)	(466)
Transfer from statutory public welfare fund to statutory surplus reserve		–	–	43,564	(43,564)	–	–	–	–	–	–
Appropriation to statutory reserves		–	–	24,030	–	10,047	(34,077)	–	–	–	–
At 31 December 2006		125,150	101,026	111,158	–	29,952	171,790	28,150	567,226	3,602	570,828
At 1 January 2007		**125,150**	**101,026**	**111,158**	**–**	**29,952**	**171,790**	**28,150**	**567,226**	**3,602**	**570,828**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**128,462**	**–**	**128,462**	**1,221**	**129,683**
Dividends paid	10	**–**	**–**	**–**	**–**	**–**	**(35,668)**	**–**	**(35,668)**	**–**	**(35,668)**
Dividends paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(735)**	**(735)**
Appropriation to statutory reserves		**–**	**–**	**10,126**	**–**	**11,504**	**(21,630)**	**–**	**–**	**–**	**–**
At 31 December 2007		**125,150**	**101,026***	**121,284***	**–**	**41,456***	**242,954***	**28,150***	**660,020**	**4,088**	**664,108**

* These reserve accounts comprise the consolidated reserves of RMB534,870,000 (2006: RMB442,076,000) in the consolidated balance sheet.

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

Statement of Changes in Equity

Year ended 31 December 2007

Company

	Note	Issued capital RMB'000 (note 27)	Share premium account RMB'000	Statutory surplus reserve RMB'000 (note 28(a))	Statutory public welfare fund RMB'000 (note 28(b))	General surplus reserve RMB'000 (note 28(c))	Retained earnings RMB'000 (note 28(d))	Total equity RMB'000
At 1 January 2006		125,150	101,026	28,907	28,907	18,860	67,677	370,527
Profit for the year		–	–	–	–	–	160,956	160,956
Dividends paid		–	–	–	–	–	(17,271)	(17,271)
Transfer from statutory public welfare fund to statutory surplus reserve		–	–	28,907	(28,907)	–	–	–
Appropriation to statutory reserves		–	–	11,504	–	10,047	(21,551)	–
At 31 December 2006		125,150	101,026	69,318	–	28,907	189,811	514,212
At 1 January 2007		**125,150**	**101,026**	**69,318**	**–**	**28,907**	**189,811**	**514,212**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**101,264**	**101,264**
Dividends paid	10	**–**	**–**	**–**	**–**	**–**	**(35,668)**	**(35,668)**
Appropriation to statutory reserves		**–**	**–**	**10,126**	**–**	**11,504**	**(21,630)**	**–**
At 31 December 2007		**125,150**	**101,026***	**79,444***	**–**	**40,411***	**233,777***	**579,808**

* These reserve accounts comprise the company reserves of RMB454,658,000 (2006: RMB389,062,000) in the company balance sheet.

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

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Profit before income tax		**196,405**	135,170
Adjustments for:			
Depreciation of items of property, plant and equipment		**30,179**	26,112
Amortisation of land lease prepayments		**1,535**	403
Impairment of items of property, plant and equipment		**–**	586
(Gain)/loss on disposal of items of property, plant and equipment		**(113)**	1,181
Gain on disposal of an available-for-sale investment		**(13)**	–
Dividend income from an available-for-sale investment		**(10)**	–
Interest income from bank balances		**(2,624)**	(2,096)
Impairment of trade receivables		**262**	232
Write-down of inventories		**1,195**	655
Write-off of construction in progress		**–**	1,963
Operation profit before working capital changes		**226,816**	164,206
Increase in trade receivables		**(22,124)**	(21,015)
Increase in inventories		**(2,742)**	(1,408)
Increase in construction contract work in progress		**(98)**	(506)
Increase in prepayments, deposits and other receivables		**(7,675)**	(12,471)
Increase in an amount due from the holding company		**(21)**	–
Increase in amounts due from fellow subsidiaries		**40**	(25)
Increase in restricted cash deposits		**(3,200)**	(16,000)
Increase in trade payables		**15,946**	2,621
Increase in advance payments received		**46,328**	47,175
(Decrease)/increase in accrued liabilities and other payables		**(6,315)**	28,236
Decrease in an amount due to the holding company		**–**	(2,877)
Increase in amounts due to fellow subsidiaries		**4,799**	847
Cash generated from operations		**251,754**	188,783
Income tax paid		**(50,457)**	(14,850)
Net cash inflow from operating activities		**201,297**	173,933
Cash flows from investing activities			
Interest income from bank balances		**2,624**	2,096
Proceeds from disposal of items of property, plant and equipment		**745**	678
Dividend from an available-for-sale investment		**10**	–
Proceeds from disposal of an available-for-sale investment		**63**	150
Acquisitions of property, plant and equipment, construction in progress and land lease prepayments		**(126,741)**	(156,616)
Acquisition of a minority interest		**–**	(9,900)
Net cash outflow from investing activities		**(123,299)**	(163,592)
Cash flows from financing activities			
Dividends paid		**(35,668)**	(17,271)
Dividends paid to minority shareholders		**(735)**	(466)
Net cash outflow from financing activities		**(36,403)**	(17,737)
Net increase/(decrease) in cash and cash equivalents		**41,595**	(7,396)
Cash and cash equivalents at beginning of year		**177,496**	184,892
Cash and cash equivalents at end of year		**219,091**	177,496
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**238,291**	193,496
Less: Restricted cash deposits		**(19,200)**	(16,000)
Cash and cash equivalents	23	**219,091**	177,496

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Notes to Financial Statements

31 December 2007

1. Corporation information

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

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

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment properties, certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Notes to Financial Statements

31 December 2007

2.2 Impact of new and revised International Financial Reporting Standards ("IFRSs")

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

IFRS 7	*Financial Instruments: Disclosures*
IAS 1 Amendment	*Capital Disclosures*
IFRIC 8	*Scope of IFRS 2*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

(c) IFRIC 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred.

(d) IFRIC 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements impact on the financial position or results of operations of the Group.

(e) IFRIC 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2007

2.3 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.

IAS 1 (Revised)	Presentation of Financial Statements [1]
IFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations [1]
IFRS 3 (Revised)	Business Combination [5]
IFRS 8	Operating Segments [1]
IAS 23 (Revised)	Borrowing Costs [1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions [2]
IFRIC 12	Service Concession Arrangements [4]
IFRIC 13	Customer Loyalty Programmes [3]
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2009

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard will affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and in making reference to these two statements within a complete set of financial statements.

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by IFRS 3 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2007

2.3 Impact of issued but not yet effective IFRSs (continued)

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed.

IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements.

IFRIC 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. The Group generally obtains operating rights for its service concession arrangements without any consideration, and owns the residual interest in the infrastructure relating to service concession arrangements at the end of the concession period. The directors are still in the process in assessing the applicability of the IFRIC 12 to the Group.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, IFRIC 13 and IFRIC 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. While pending the assessment of applicability of the IFRIC 12 to the Group, so far, it has concluded that while the adoption of IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Revenue recognition

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

Sale of natural gas, pressure control equipment and gas appliances
Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(i) Natural gas – based on gas consumption derived from metre readings;

(ii) Pressure control equipment and gas appliances sales – upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and titles have passed.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Construction of gas pipelines

Revenue in respect of the construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of the pipelines to the Company's existing gas pipeline network, which, according to industry practice in the region, coincides with the "fire ignition ceremony". The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and acceptable to users. Upon the fire ignition ceremony, significant risk and rewards of ownership will be transferred to the customers and the economic benefits associated with the contracts will be passed to the Company. The average time required for the Company to complete a gas pipeline construction project is approximately one to three months.

Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a time proportion basis over the lease terms.

Dividend income

Revenue is recognised when the Group's right to receive payment has been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any impairment losses.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.40% – 3.84%
Machinery and equipment	3.43% – 8.00%
Gas pipelines	4.00%
Office equipment	9.60% – 32.00%
Motor vehicles	8.00% – 32.00%
Computer software	20.00%
Leasehold improvement	Over the shorter of the lease terms and 20.00%

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

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

Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, employee benefits assets, financial assets, investment properties and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets other than goodwill (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investment and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” above. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Investment and other financial assets (continued)

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis, and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and an amount due to the subsidiaries and fellow subsidiaries are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the Company's income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Inventories

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

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

Construction contract work in progress

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

Revenue in respect of the construction of gas pipelines is recognised upon the completion of pipeline construction as further explained in the accounting policy for revenue recognition for the construction of gas pipelines above.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

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

Cash and cash equivalents

Cash on hand and at banks are carried at cost.

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

Other employee benefits

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

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

Notes to Financial Statements

31 December 2007

2.4 Summary of significant accounting policies (continued)

Government grants

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

3. Significant accounting estimates

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

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

Notes to Financial Statements

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3. Significant accounting estimates (continued)

Estimation uncertainty (continued)

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2007 was RMB5,842,000 (2006: RMB8,514,000). Further details are given in note 17 to the financial statements.

(c) Impairment of trade receivables

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

(d) Useful lives of property, plant and equipment

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

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

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

The Group's management estimates the consumption of natural gas by IC card users with reference to the average consumption volume of normal metre-reading residential users. The actual consumption could deviate from those estimates. The total sales of natural gas to IC cards users for the year ended 31 December 2007 amounted to RMB49,518,000 (2006: RMB45,376,000).

Notes to Financial Statements

31 December 2007

4. Segment information

For management purposes, 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:

Sale of natural gas and other related products	Sale of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipelines renovation work
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 operations analysed by business segment are as follows:

	Sales of natural gas and other related products RMB'000	Gas pipeline construction RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended 31 December 2007				
Segment revenue				
Sales to external customers	624,360	237,801	–	862,161
Intersegment sales	9,993	7,906	(17,899)	–
Total	634,353	245,707	(17,899)	862,161
Segment results	77,127	185,857	(1,180)	261,804
Other income and gains				4,199
Unallocated corporate expenses				(69,598)
Profit before income tax				196,405
Income tax expense				(66,722)
Profit for the year				129,683
Assets and liabilities				
Total assets	910,962	437,175	(242,655)	1,105,482
Total liabilities	363,715	292,430	(214,771)	441,374
Other segment information				
Depreciation of property, plant and equipment	29,478	1,974	(1,273)	30,179
Capital expenditure	295,741	9,694	(8,662)	296,773
Impairment of trade receivables	262	–	–	262
Other non-cash expense	2,730	–	–	2,730
Other non-cash revenue	(526)	–	–	(526)

Notes to Financial Statements

31 December 2007

4. Segment information (continued)

The Group's operations analysed by business segment are as follows: (continued)

	Sales of natural gas and other related products RMB'000	Gas pipeline construction RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended 31 December 2006				
Segment revenue				
Sales to external customers	518,493	213,144	–	731,637
Intersegment sales	5,492	70,870	(76,362)	–
Total	523,985	284,014	(76,362)	731,637
Segment results	59,854	155,036	(8,967)	205,923
Other income and gains				3,350
Unallocated corporate expenses				(74,103)
Profit before income tax				135,170
Income tax expense				(9,513)
Profit for the year				125,657
Assets and liabilities				
Total assets	871,353	378,041	(303,734)	945,660
Total liabilities	394,601	257,420	(277,189)	374,832
Other segment information				
Depreciation of property, plant and equipment	24,898	2,001	(787)	26,112
Capital expenditure	264,357	10,222	(23,250)	251,329
Impairment of trade receivables	232	–	–	232
Impairment of property, plant and equipment	586	–	–	586
Other non-cash expense	4,202	–	–	4,202

Notes to Financial Statements

31 December 2007

5. Revenue and other income and gains

	Note	2007 RMB'000	2006 RMB'000
Natural gas		**604,610**	498,729
Gas appliances		**5,898**	4,018
Pressure control equipment		**3,070**	2,962
Gas pipelines:			
Construction of gas pipelines		**246,227**	222,800
Provision of renovation work		**11,163**	13,241
Others		**55**	43
		871,023	741,793
Less: Business tax and government surcharges		**(8,862)**	(10,156)
Revenue		**862,161**	731,637
Interest income from bank balances		**2,624**	2,096
Rental income		**300**	287
Government grants	(a)	**–**	403
Dividend income from an available-for-sale investment		**23**	35
Others		**1,252**	734
Other income and gains		**4,199**	3,555
		866,360	735,192

Note:

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

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

Notes to Financial Statements

31 December 2007

6. Profit before income tax

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

	2007 RMB'000	2006 RMB'000
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 7):		
Wages and salaries	**66,086**	57,855
Retirement benefits		
– Defined contribution fund	**7,903**	6,985
Accommodation benefits		
– Defined contribution fund	**4,793**	2,089
Less: Amount capitalised	**(2,322)**	(1,075)
Net staff costs	**76,460**	65,854
Operating lease rentals in respect of:		
Land and buildings	**9,119**	11,594
Equipment	**4,959**	4,959
Trademarks	**780**	773
Total operating lease rentals	**14,858**	17,326
Costs of inventories recognised as an expense	**490,602**	412,004
Auditors' remuneration	**1,770**	1,180
Depreciation of items of property, plant and equipment	**30,179**	26,112
Amortisation of land lease prepayments	**1,535**	403
Impairment of items of property, plant and equipment	**–**	586
(Gain)/loss on disposal of items of property, plant and equipment	**(113)**	1,181
Write-down of inventories	**1,195**	655
Write-off of construction in progress	**–**	1,963
Impairment of trade receivables	**262**	232

Notes to Financial Statements

31 December 2007

7. Directors' and supervisors' emoluments

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 **RMB'000**	2006 RMB'000
Mr. Zhang Yichun	**50**	50
Mr. Liu Jianwen	**50**	50
Ms. Yu Shulian	**50**	50
Mr. Wong Ping	**70**	–
	220	150

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and non-executive directors

	Fees RMB'000	**Salaries, allowances and benefits in kind** RMB'000	**Performance related bonuses** RMB'000	**Pension scheme contributions** RMB'000	**Total remuneration** RMB'000
2007					
Executive directors:					
Mr. Yan Guoqi	**–**	**196**	**196**	**6**	**398**
Mr. Song Jinhui	**–**	**187**	**118**	**6**	**311**
Mr. Li Yantong	**–**	**70**	**10**	**4**	**84**
Mr. Li Jinlu	**–**	**163**	**118**	**5**	**286**
	–	**616**	**442**	**21**	**1,079**
Non-executive directors:					
Mr. Yang Degu	**133**	**–**	**83**	**6**	**222**
Ms. Bao Hongwei	**139**	**–**	**108**	**5**	**252**
Mr. Zhang Wushan	**–**	**–**	**–**	**–**	**–**
	272	**–**	**191**	**11**	**474**
	272	**616**	**633**	**32**	**1,553**
2006					
Executive directors:					
Mr. Yan Guoqi	–	103	370	6	479
Mr. Song Jinhui	–	103	173	6	282
Mr. Li Yantong	–	88	94	6	188
Mr. Li Jinlu	–	87	100	5	192
	–	381	737	23	1,141
Non-executive directors:					
Mr. Yang Degu	88	–	86	6	180
Ms. Bao Hongwei	87	–	97	5	189
Mr. Zhang Wushan	–	–	–	–	–
	175	–	183	11	369
	175	381	920	34	1,510

Notes to Financial Statements

31 December 2007

7. Directors' and supervisors' emoluments (continued)

(c) Supervisors and independent supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2007					
Supervisors:					
Mr. Chang Zongxian	**–**	**–**	**–**	**–**	**–**
Mr. Ding Ping	**–**	**107**	**76**	**5**	**188**
Mr. Chen Kun	**–**	**–**	**–**	**–**	**–**
Ms. Niu Minghua	**–**	**99**	**65**	**4**	**168**
Ms. Zhou Weihua	**–**	**–**	**–**	**–**	**–**
	–	**206**	**141**	**9**	**356**
Independent supervisors:					
Mr. Cai Yuming	**50**	**–**	**–**	**–**	**50**
Mr. Yang Guirong	**50**	**–**	**–**	**–**	**50**
	100	**–**	**–**	**–**	**100**
	100	**206**	**141**	**9**	**456**
2006					
Supervisors:					
Mr. Chang Zongxian	–	–	175	–	175
Mr. Ding Ping	–	64	71	6	141
Mr. Chen Kun	–	–	–	–	–
Mr. Li Zizheng	–	28	20	2	50
Ms. Niu Minghua	–	62	70	5	137
Ms. Zhou Weihua	–	34	38	4	76
	–	188	374	17	579
Independent supervisors:					
Mr. Cai Yuming	50	–	–	–	50
Mr. Yang Guirong	50	–	–	–	50
	100	–	–	–	100
	100	188	374	17	679

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

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7. Directors' and supervisors' emoluments (continued)

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

During the year ended 31 December 2007, the five highest paid individuals of the Group included four (2006: four) directors. They were Yan Guoqi, Song Jinhui, Li Jinlu and Bao Hongwei. Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and other benefits	**579**	334
Bonuses paid and payable	**57**	58
Retirement benefits	**12**	12
	648	404

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

During the year ended 31 December 2007, no emoluments were paid by the Group to the directors or the other non-director, highest paid employees as an inducement to join or upon joining the Group, or as a compensation for loss of office.

8. 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 year 2007, as approved by the Zhongyuan District Local Tax Bureau annually, the taxable profit of Zhengzhou Gas Engineering and Construction Co., Ltd. ("ZGEC"), a PRC subsidiary of the Company, was based on 12% of its revenue for corporate income tax filing purpose. The taxable profits calculated at that rate were lower than the taxable profits determined with the reference to its accounting profit. From 1 January 2007, taxable profit of ZGEC is determined based on its accounting profit and relevant tax adjustments rather than the rate of 12% of the revenue.

Major components of the Group's income tax expense for the year ended 31 December 2007 are as follows:

	2007 RMB'000	2006 RMB'000
Current		
Charge for the year	**63,765**	14,758
Underprovision in prior years	**285**	41
Deferred (note 17)	**2,672**	(5,286)
Total tax charge for the year	**66,722**	9,513

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8. Income tax expense (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007	2006
	RMB'000	RMB'000
Profit before income tax	**196,405**	135,170
Tax at the applicable tax rate of 33%	**64,813**	44,606
Tax effect of:		
Non-deductible expenses	**174**	1,234
Non-taxable profits	**(63)**	(39,250)
Unrecognised tax losses	**–**	311
Tax losses utilised from previous years	**(153)**	–
Underprovision in prior years	**285**	41
Unrealised profits	**77**	2,571
Effect on statutory tax rate change	**1,821**	–
Reversal of temporary difference not recognised	**(232)**	–
Tax charge at the Group's effective tax rate	**66,722**	9,513

9. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of RMB101,264,000 (2006: RMB160,956,000) which has been dealt with in the financial statements of the Group.

10. Dividends

	2007	2006
	RMB'000	RMB'000
Proposed final – RMB0.0242 per ordinary share (2006: RMB0.0285)	**30,286**	35,668

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

For dividend purpose, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC General accepted Accounting Principles (collectively as "PRC GAAP"). These profits may differ from these that are reflected in this report which is prepared in accordance with IFRSs.

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

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11. Earnings per share attributable to ordinary equity holders of the Company

The basic earnings per share amount for the year ended 31 December 2007 is computed by dividing the profit attributable to equity holders of the Company of approximately RMB128,462,000 (2006: approximately RMB111,485,000) by the weighted average number of ordinary shares in issue during the year of 1,251,500,000 (2006: 1,251,500,000).

12. Retirement benefits and accommodation benefits

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount according to the geographical area of their last employment on their retirement date. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 21% (2006: 21%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries are required to make contributions which are at 12% (2006: 10%) of previous year's basic salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for such contributions to the accommodation fund.

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13. Investments in subsidiaries

	Company	
	2007	2006
	RMB'000	RMB'000
Unlisted investments, at cost	**52,350**	52,350

Particulars of the Company's subsidiaries are as follows:

Name of company	Place of registration and operations/date of registration	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC/Mainland China 19 June 2002	RMB40,000,000	100	–	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (b))	PRC/Mainland China 14 November 2003	RMB5,000,000	51	–	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. (note (c))	PRC/Mainland China 17 February 2004	RMB30,000,000	22	78	Sale of natural gas and gas appliances and construction of gas pipelines

Notes:

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

On 1 July 2006, the Zhengzhou Gas Group Labour Union Committee disposed of all its shareholding in Zhengzhou Gas Engineering and Construction Co., Ltd. to the Company.

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

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

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14. Property, plant and equipment

Group

31 December 2007	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2007:	**26,524**	**187,477**	**308,016**	**13,170**	**27,239**	**5,355**	**–**	**170,990**	**738,771**
Additions	**8,601**	**2,000**	**1,071**	**1,000**	**751**	**332**	**532**	**53,589**	**67,876**
Transferred from construction in progress	**13,787**	**63,724**	**95,489**	**1,913**	**6,254**	**753**	**–**	**(181,920)**	**–**
Disposals	**–**	**–**	**(1,381)**	**–**	**(313)**	**–**	**–**	**–**	**(1,694)**
At 31 December 2007	**48,912**	**253,201**	**403,195**	**16,083**	**33,931**	**6,440**	**532**	**42,659**	**804,953**
Accumulated depreciation and provision for impairment losses									
At 1 January 2007:	**2,765**	**47,580**	**76,893**	**3,861**	**10,144**	**2,116**	**–**	**–**	**143,359**
Depreciation charge for the year	**1,021**	**10,114**	**13,294**	**1,547**	**3,091**	**1,053**	**59**	**–**	**30,179**
Disposals	**–**	**–**	**(756)**	**–**	**(306)**	**–**	**–**	**–**	**(1,062)**
At 31 December 2007	**3,786**	**57,694**	**89,431**	**5,408**	**12,929**	**3,169**	**59**	**–**	**172,476**
Net carrying amount:									
At 31 December 2007	**45,126**	**195,507**	**313,764**	**10,675**	**21,002**	**3,271**	**473**	**42,659**	**632,477**
At 31 December 2006	23,759	139,897	231,123	9,309	17,095	3,239	–	170,990	595,412

31 December 2006	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2006:	20,697	166,114	270,113	10,668	23,444	4,765	–	91,225	587,026
Additions	369	5,919	60	2,800	4,034	394	–	155,054	168,630
Transferred from construction in progress	6,122	26,393	40,615	–	–	196	–	(73,326)	–
Disposals	(664)	(10,949)	(2,772)	(298)	(239)	–	–	(1,963)	(16,885)
At 31 December 2006	26,524	187,477	308,016	13,170	27,239	5,355	–	170,990	738,771
Accumulated depreciation and provision for impairment losses									
At 1 January 2006:	2,196	48,947	66,946	2,767	7,688	1,180	–	–	129,724
Depreciation charge for the year	849	8,587	11,882	1,302	2,556	936	–	–	26,112
Impairment losses provided for the year	384	34	–	39	129	–	–	–	586
Disposals	(664)	(9,988)	(1,935)	(247)	(229)	–	–	–	(13,063)
At 31 December 2006	2,765	47,580	76,893	3,861	10,144	2,116	–	–	143,359
Net carrying amount:									
At 31 December 2006	23,759	139,897	231,123	9,309	17,095	3,239	–	170,990	595,412
At 31 December 2005	18,501	117,167	203,167	7,901	15,756	3,585	–	91,225	457,302

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14. Property, plant and equipment (continued)

Company

31 December 2007	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2007:	**20,294**	**169,274**	**325,355**	**12,061**	**19,947**	**5,330**	**–**	**175,692**	**727,953**
Additions	**8,478**	**1,050**	**484**	**951**	**751**	**329**	**532**	**52,596**	**65,171**
Transferred from construction in progress	**14,899**	**62,684**	**98,014**	**1,913**	**6,254**	**753**	**–**	**(184,517)**	**–**
Disposals	**–**	**–**	**(1,381)**	**–**	**(313)**	**–**	**–**	**–**	**(1,694)**
At 31 December 2007	**43,671**	**233,008**	**422,472**	**14,925**	**26,639**	**6,412**	**532**	**43,771**	**791,430**
Accumulated depreciation and provision for impairment losses									
At 1 January 2007:	**2,646**	**44,189**	**78,338**	**3,483**	**7,103**	**2,091**	**–**	**–**	**137,850**
Depreciation charge for the year	**913**	**8,987**	**14,252**	**1,411**	**2,103**	**1,053**	**59**	**–**	**28,778**
Disposals	**–**	**–**	**(756)**	**–**	**(306)**	**–**	**–**	**–**	**(1,062)**
At 31 December 2007	**3,559**	**53,176**	**91,834**	**4,894**	**8,900**	**3,144**	**59**	**–**	**165,566**
Net carrying amount:									
At 31 December 2007	**40,112**	**179,832**	**330,638**	**10,031**	**17,739**	**3,268**	**473**	**43,771**	**625,864**
At 31 December 2006	17,648	125,085	247,017	8,578	12,844	3,239	–	175,692	590,103

31 December 2006	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2006:	20,697	149,473	290,398	9,680	16,153	4,740	–	73,318	564,459
Additions	261	4,801	60	2,679	4,033	394	–	167,724	179,952
Transferred from construction in progress	–	25,522	37,669	–	–	196	–	(63,387)	–
Disposals	(664)	(10,522)	(2,772)	(298)	(239)	–	–	(1,963)	(16,458)
At 31 December 2006	20,294	169,274	325,355	12,061	19,947	5,330	–	175,692	727,953
Accumulated depreciation and provision for impairment losses									
At 1 January 2006:	2,196	46,440	67,873	2,512	5,406	1,155	–	–	125,582
Depreciation charge for the year	730	7,501	12,400	1,179	1,797	936	–	–	24,543
Impairment losses provided for the year	384	34	–	39	129	–	–	–	586
Disposals	(664)	(9,786)	(1,935)	(247)	(229)	–	–	–	(12,861)
At 31 December 2006	2,646	44,189	78,338	3,483	7,103	2,091	–	–	137,850
Net carrying amount:									
At 31 December 2007	17,648	125,085	247,017	8,578	12,844	3,239	–	175,692	590,103
At 31 December 2006	18,501	103,033	222,525	7,168	10,747	3,585	–	73,318	438,877

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15. Available-for-sale investment

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Unlisted equity investment, at cost	**–**	50

As at 31 December 2006, the Group's unlisted equity investment, held on a long term basis, represented the Company's 1.87% equity interest in an unlisted company registered in the PRC with limited liability.

16. Land lease prepayments

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**18,756**	10,056	**18,756**	10,056
Additions	**51,056**	9,103	**46,133**	9,103
Amortisation charged for the year	**(1,535)**	(403)	**(1,406)**	(403)
At 31 December	**68,277**	18,756	**63,483**	18,756
Current portion included in prepayments, deposits and other receivables	**(1,580)**	(468)	**(1,482)**	(468)
Non-current portion	**66,697**	18,288	**62,001**	18,288

The land lease prepayments represent payments for medium term leases of land situated in Mainland China.

As at 31 December 2007, the Group is in process of applying for the land certificate, with net book value of RMB3,043,000.

17. Deferred tax assets

Group

	Provision for impairment losses RMB'000	Non-deductible staff costs RMB'000	Recognised of unrealised profit RMB'000	Non-deductible unpaid accrued expenses RMB'000	Advances from customers ageing more than one year and others RMB'000	Total RMB'000
At 1 January 2007	490	5,170	1,783	854	217	8,514
Deferred tax credited/(charged) to the income statement during the year (note 8)	511	(2,483)	(159)	(516)	(25)	(2,672)
At 31 December 2007	1,001	2,687	1,624	338	192	5,842

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17. Deferred tax assets (continued)

Group

	Provision for impairment losses RMB'000	Non-deductible staff costs RMB'000	Recognised of unrealised profit RMB'000	Non-deductible unpaid accrued expenses RMB'000	Advances from customers ageing more than one year and others RMB'000	Total RMB'000
At 1 January 2006	–	1,008	1,395	358	467	3,228
Deferred tax credited/(charged) to the income statement during the year (note 8)	490	4,162	388	496	(250)	5,286
At 31 December 2006	490	5,170	1,783	854	217	8,514

Company

	Provision for impairment losses RMB'000	**Non-deductible staff costs RMB'000**	**Non-deductible unpaid accrued expenses RMB'000**	**Advances from customers ageing more than one year RMB'000**	**Total RMB'000**
At 1 January 2007	**490**	**5,170**	**854**	**217**	**6,731**
Deferred tax credited/(charged) to the income statement during the year	**511**	**(2,483)**	**(516)**	**(25)**	**(2,513)**
At 31 December 2007	**1,001**	**2,687**	**338**	**192**	**4,218**

Company

	Provision for impairment losses RMB'000	Non-deductible staff costs RMB'000	Non-deductible unpaid accrued expenses RMB'000	Advances from customers ageing more than one year RMB'000	Total RMB'000
At 1 January 2006	–	1,008	358	467	1,833
Deferred tax credited/(charged) to the income statement during the year	490	4,162	496	(250)	4,898
At 31 December 2006	490	5,170	854	217	6,731

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18. Trade and notes receivables

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**110,869**	96,636	**106,722**	94,782
Notes receivables	**7,891**	–	**5,991**	–
Impairment	**(1,767)**	(1,505)	**(1,767)**	(1,505)
	116,993	95,131	**110,946**	93,277

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and notes receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**97,999**	87,371	**95,930**	85,649
1 to 3months	**9,052**	6,570	**8,733**	6,554
3 to 6 months	**7,566**	938	**5,265**	925
6 to 12 months	**1,788**	157	**860**	140
Over 12 months	**588**	95	**158**	9
	116,993	95,131	**110,946**	93,277

The movement in provision for impairment of trade receivables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,505**	1,273	**1,505**	1,273
Impairment losses recognised (note 6)	**262**	232	**262**	232
At 31 December	**1,767**	1,505	**1,767**	1,505

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,276,000 (2006: RMB1,244,000) with a carrying amount of RMB1,276,000 (2006: RMB1,244,000). The individually impaired trade receivables relate to customers that are in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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18. Trade and notes receivables (continued)

The aged analysis of the trade and notes receivables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**105,959**	85,678	**101,921**	85,678
Less than 1 month past due	**6,845**	7,313	**6,215**	5,592
1 to 3 months past due	**1,491**	1,591	**1,471**	1,576
3 to 6 months past due	**496**	403	**496**	390
6 to 12 moths past due	**1,768**	114	**839**	41
Over 12 months past due	**434**	32	**4**	–
	116,993	95,131	**110,946**	93,277

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

19. Inventories

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Natural gas, at net realisable value	**2,491**	1,211	**2,491**	1,211
Construction materials and pressure control equipment, at net realisable value	**3,695**	3,428	**1,545**	886
	6,186	4,639	**4,036**	2,097

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB1,195,000 (2006: RMB655,000) and RMB1,195,000 (2006: RMB667,000), respectively.

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20. Prepayments, deposits and other receivables

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**34,747**	27,212	**24,938**	14,160
Deposits	**1,502**	270	**1,500**	5
Other receivables	**1,115**	1,095	**705**	903
	37,364	28,577	**27,143**	15,068

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. Trade payables

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**49,121**	29,267	**30,007**	20,609
1 to 3 months	**4,033**	6,309	**1,900**	2,471
3 to 6 months	**2,937**	2,860	**1,143**	1,314
6 to 12 months	**4,286**	23,885	**4,275**	404
Over 12 months	**4,114**	2,970	**1,823**	1,357
	64,491	65,291	**39,148**	26,155

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

22. Construction contract work in progress/advance payments received

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction contract work in progress				
Contract costs incurred to date	**1,515**	1,417	**–**	–
Advance payments received				
Progress payments received	**288,360**	239,879	**10,076**	7,713
Less: Contract costs incurred to date	**(32,650)**	(30,497)	**(354)**	(1,147)
	255,710	209,382	**9,722**	6,566

As at 31 December 2007, retention held by customers for contract works included in trade receivables amounted to approximately RMB1,439,000 (2006: Nil).

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23. Cash and cash equivalents and restricted cash deposits

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**238,291**	193,496	**53,903**	121,819
Less: Restricted cash deposits	**(19,200)**	(16,000)	**(19,200)**	(16,000)
Cash and cash equivalents	**219,091**	177,496	**34,703**	105,819

At the balance sheet date, the cash and bank balances of the Group denominated in Hong Kong dollars ("HK$") amounted to HK$927 (2006: HK$1,012).

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the restricted cash deposits approximate to their fair values.

24. Accrued liabilities and other payables

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**52,259**	54,293	**51,941**	53,709
Other payables	**27,278**	19,796	**23,826**	14,595
Accruals	**1,350**	2,588	**1,350**	2,588
Payroll payables	**14,060**	15,648	**14,046**	14,254
	94,947	92,325	**91,163**	85,146

Accrued liabilities and other payables are unsecured, interest-free and have no fixed terms of repayment.

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25. Due from/to subsidiaries

	Notes	2007 RMB'000	2006 RMB'000
Due from a subsidiary:			
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		–	3,000
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
– Entrusted loans	(a)	**100,000**	150,000
– Construction fee payables	(b)	**109,148**	114,555
		209,148	264,555
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		**4,872**	3,271
		214,020	267,826

Notes:

(a) Entrusted loans represent borrowings from Zhengzhou Gas Engineering and Construction Co., Ltd. via a financial institution. The unsecured entrusted loans bear interest at a rate of 6.39% (2006: 5.022%) per annum and are repayable on 27 April 2008. Further details are contained in note 29 to the financial statements.

(b) The balances arise from the provision of construction services by the subsidiary to the Company. These balances are unsecured, interest-free and have no fixed terms of repayment.

26. Due from/to fellow subsidiaries

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

27. Issued capital

	Group and Company			
	2007		2006	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Registered	**1,251,500**	**125,150**	1,251,500	125,150

	2007		2006	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
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

Notes to Financial Statements

31 December 2007

27. Issued capital (continued)

The Domestic Shares and H Shares are both ordinary shares in the issued capital of the Company. The Domestic Shares are not currently listed on any stock exchange. 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 foregoing 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 was no movement of the Company's ordinary issued capital during the year.

28. Reserves

(a) Statutory Surplus Reserve (the "SSR")

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

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

In accordance with the Company Law of the PRC prior to 1 January 2006 and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries was required to transfer 5% to 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the PWF which was a non-distributable reserve other than in the event of liquidation. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiaries.

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

According to the revised Company Law of the PRC effective 1 January 2006, the Company and its subsidiaries are no longer required to transfer their profit after tax to the PWF. As allowed by the revised Company Law of the PRC, the Company and its subsidiaries have transferred the PWF balance to SSR.

(c) General Surplus Reserve (the "GSR")

In addition to the statutory surplus reserves which is required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the equity holders of the Company resolved on 13 March 2007 to transfer approximately RMB11,504,000 from the Company's retained earnings as at 31 December 2006 to the GSR.

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31 December 2007

28. Reserves (continued)

(d) Retained earnings

As set out in note 10 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

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

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

As at 31 December 2007, the Company's reserves available for distribution were approximately RMB233,777,000 (2006: RMB189,811,000), of which approximately RMB30,286,000 has been proposed as a final dividend for the year and approximately RMB10,126,000 has been proposed to be transferred to the GSR.

29. Related party transactions

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

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

Name of related parties	Nature of transactions	2007 RMB'000	2006 RMB'000
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment, land and buildings from the related company *(note (d))*	**8,930**	9,353
	Trademark fees *(note (e))*	**780**	773
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, land and buildings *(note (f))*	**946**	951
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchase of land and buildings *(note (g))*	**17,000**	5,477
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment and land *(note (h))*	**27,606**	35,385
Zhengzhou Gas Group Labour Union Committee	Acquisition of an equity interest	**–**	9,900
NanYang Zhengran Natural Gas Co., Ltd. *(note (b))*	Provision of construction services to the related company *(note (i))*	**884**	–

Notes to Financial Statements

31 December 2007

29. Related party transactions (continued)

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

Name of related parties	Nature of transactions	2007 RMB'000	2006 RMB'000
Company			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment, land and buildings from the related company *(note (d))*	**8,296**	8,633
	Trademark fees *(note (e))*	**780**	773
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Company's leased equipment, land and buildings *(note (f))*	**790**	792
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (c))*	Provision of construction services by the related company *(note (i))*	**7,567**	19,155
	Advances from the related company *(note (j))*	**109,148**	114,555
	Entrusted loans from the related company *(note (k))*	**100,000**	150,000
	Interest expense to the related company *(note (k))*	**8,535**	6,075
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (c))*	Purchases of construction materials from the related company *(note (l))*	**8,092**	4,047
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchases of land and buildings *(note (g))*	**17,000**	5,477
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment *(note (h))*	**27,606**	35,385
Zhengzhou Gas Group Labour Union Committee	Acquisition of an equity interest	**–**	9,900

Notes to Financial Statements

31 December 2007

29. Related party transactions (continued)

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

Notes:

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

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

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

(d) In accordance with the property lease agreements, the land 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 determined by agreement of parties based on the valuation of an independent appraiser.

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

These transactions were carried out in accordance with the terms of the underlying agreements.

(f) On 26 July 2006, the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. entered into an property management service 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 leased equipment, land and buildings at the fee of RMB790,000 and RMB156,000 per annum, respectively.

(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 Xianhuan Road West and Laozhengmi Road West, respectively, at an aggregate consideration of RMB11,401,000 and certain buildings erected there at a consideration of RMB5,599,000.

As at 31 December 2007, the acquisition of the two parcels of land had been completed. These transactions were carried out based on normal commercial terms and the transacted prices were based on the valuation of independent appraiser.

(h) On 8 September 2006, the Company entered into an LPG asset 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 asset 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 at an aggregate consideration of approximately RMB63.24 million. Pursuant to another supplementary contract entered between the Company and the LPG Company, the actual purchase amount arrived at approximately RMB62.99 million. The consideration 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 the whole acquisition of LPG Assets as at 31 December 2007.

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

Notes to Financial Statements

31 December 2007

29. Related party transactions (continued)

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

Notes: (continued)

(j) Apart from the entrusted loans advanced by Zhengzhou Gas Engineering and Construction Co., Ltd. as set out in note 25, all advances from Zhengzhou Gas Engineering and Construction Co., Ltd. are unsecured, interest-free and have no fixed terms of repayment.

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate quoted by the People's Bank of China of approximately 7.47% per annum (2006: 6.12% per annum) for the year ended 31 December 2007, the Company would have borne interest expense, net of tax, of approximately RMB6,136,000 (2006: RMB5,599,000) for the year ended 31 December 2007.

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

(k) On 25 April 2007, the Company entered into a renewed agreement with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright Bank Zhongyuan Branch ("Everbright") for an entrusted loan of RMB50,000,000 at an interest rate of 6.57% per annum, including bank commission charge at a rate of 0.1% per annum. The repayment was made by the Company on 25 October 2007.

On 28 April 2007, a new entrusted loan agreement was entered into between the Company, Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright. Pursuant to the agreement, Zhengzhou Gas Engineering and Construction Co., Ltd. made a new entrusted loan with an amount of RMB100,000,000 to the Company through Everbright at an interest rate of 6.39% per annum, including bank commission charge at a rate of 0.1% per annum.

The directors of the Company are of the opinion that the above transactions with Zhengzhou Gas Engineering and Construction Co., Ltd. were carried out based on normal commercial terms in the ordinary course of business and were fair and reasonable.

(l) These transactions were carried out based on the agreement of both parties.

The transactions were conducted by both parties based on the negotiation by reference to market price.

Notes to Financial Statements

31 December 2007

29. Related party transactions (continued)

(ii) Compensation of key management personnel of the Group

	2007 RMB'000	2006 RMB'000
Short term employee benefits	**4,435**	3,990
Retirement benefits	**109**	119
Total compensation paid to key management personnel	**4,544**	4,109

Further details of directors' remuneration are included in note 7 to the financial statements.

(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 years ended 31 December 2007 and 2006, 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 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 relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

Notes to Financial Statements

31 December 2007

30. Commitments

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital commitments				
In respect of property, plant and equipment:				
Authorised, but not contracted for	**364,534**	19,124	**364,534**	20,976
Contracted, but not provided for	**11,779**	34,598	**11,670**	34,593
	376,313	53,722	**376,204**	55,569

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:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**15,694**	14,633	**15,157**	13,877
In the second to fifth years, inclusive	**34,771**	26,050	**33,894**	26,050
Over five years	**8,342**	10,377	**8,342**	10,377
	58,807	51,060	**57,393**	50,304

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

31. Contingent liabilities

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

Notes to Financial Statements

31 December 2007

32. Financial instruments by category

Group

Financial assets

	2007 Loans and receivables RMB'000	2007 Available-for-sale financial assets RMB'000	2007 Total RMB'000	2006 Loans and receivables RMB'000	2006 Available-for-sale financial assets RMB'000	2006 Total RMB'000
Available-for-sale investment (note 15)	**–**	**–**	**–**	–	50	50
Cash and cash equivalents (note 23)	**219,091**	**–**	**219,091**	177,496	–	177,496
Trade and notes receivables (note 18)	**116,993**	**–**	**116,993**	95,131	–	95,131
Due from the holding company	**21**	**–**	**21**	–	–	–
Due from fellow subsidiaries (note 26)	**96**	**–**	**96**	136	–	136
Financial assets included in prepayments, deposits and other receivables (note 20)	**1,115**	**–**	**1,115**	1,095	–	1,095
	337,316	**–**	**337,316**	273,858	50	273,908

Financial liabilities

	2007 Financial liabilities at amortised cost RMB'000	2006 Financial liabilities at amortised cost RMB'000
Trade payables (note 21)	**64,491**	65,291
Due to fellow subsidiaries (note 26)	**5,746**	947
Financial liabilities included in accrued liabilities and other payables (note 24)	**27,278**	19,796
	97,515	86,034

Notes to Financial Statements

31 December 2007

32. Financial instruments by category (continued)

Company

Financial assets

	2007 Loans and receivables RMB'000	2007 Available-for-sale financial assets RMB'000	2007 Total RMB'000	2006 Loans and receivables RMB'000	2006 Available-for-sale financial assets RMB'000	2006 Total RMB'000
Interests in subsidiaries (note 13)	**52,350**	**–**	**52,350**	52,350	–	52,350
Trade and notes receivables (note 18)	**110,946**	**–**	**110,946**	93,277	–	93,277
Cash and cash equivalents (note 23)	**34,703**	**–**	**34,703**	105,819	–	105,819
Available-for-sale investment (note 15)	**–**	**–**	**–**	–	50	50
Due from the holding company	**21**	**–**	**21**	–	–	–
Due from a subsidiary (note 25)	**–**	**–**	**–**	3,000	–	3,000
Due from fellow subsidiaries (note 26)	**52**	**–**	**52**	136	–	136
Financial assets included in prepayments, deposits and other receivables (note 20)	**705**	**–**	**705**	903	–	903
	198,777	**–**	**198,777**	255,485	50	255,535

Financial liabilities

	2007 Financial liabilities at amortised cost RMB'000	2006 Financial liabilities at amortised cost RMB'000
Trade payables (note 21)	**39,148**	26,155
Due to subsidiaries (note 25)	**214,020**	267,826
Due to fellow subsidiaries (note 26)	**5,746**	947
Financial liabilities included in accrued liabilities and other payables (note 24)	**23,826**	14,595
	282,740	309,523

33. Financial risk management objectives and policies

The Group's principal financial liabilities are trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

Interest rate risk

The Group has no interest-bearing loans and liabilities, and has little exposure to market risk for changes in interest rate.

Foreign currency risk

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

Notes to Financial Statements

31 December 2007

33. Financial risk management objectives and policies (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investment, amounts due from the holding company and fellow subsidiaries and other receivables.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 18 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007					
	On demand RMB'000	**Less than 90 days RMB'000**	**91 to 180 days RMB'000**	**181 to 365 days RMB'000**	**Over 365 days RMB'000**	**Total RMB'000**
Trade payables	**59,757**	**4,734**	**–**	**–**	**–**	**64,491**
Other payables	**7,475**	**12,118**	**962**	**4,658**	**4,078**	**29,291**
Due to fellow subsidiaries	**–**	**–**	**–**	**5,746**	**–**	**5,746**
	67,232	**16,852**	**962**	**10,404**	**4,078**	**99,528**

	2006					
	On demand RMB'000	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Trade payables	55,019	10,272	–	–	–	65,291
Other payables	911	16,810	2,056	37	3,969	23,783
Due to fellow subsidiaries	–	–	947	–	–	947
	55,930	27,082	3,003	37	3,969	90,021

Notes to Financial Statements

31 December 2007

33. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Company

	2007					
	On demand RMB'000	**Less than 90 days RMB'000**	**91 to 180 days RMB'000**	**181 to 365 days RMB'000**	**Over 365 days RMB'000**	**Total RMB'000**
Trade payables	**34,414**	**4,734**	**–**	**–**	**–**	**39,148**
Other payables	**6,476**	**11,919**	**861**	**4,167**	**4,078**	**27,501**
Due to subsidiaries	**–**	**–**	**100,000**	**4,871**	**109,149**	**214,020**
Due to fellow subsidiaries	**–**	**–**	**–**	**5,746**	**–**	**5,746**
	40,890	**16,653**	**100,861**	**14,784**	**113,227**	**286,415**

	2006					
	On demand RMB'000	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Trade payables	15,883	10,272	–	–	–	26,155
Other payables	911	13,898	2,056	37	3,969	20,871
Due to subsidiaries	–	3,271	150,000	–	114,555	267,826
Due to fellow subsidiaries	–	–	947	–	–	947
	16,794	27,441	153,003	37	118,524	315,799

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholder value.

The capital structure of the Group comprised share capital and reserves. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006. As at 31 December 2007 and 2006, the details of the capital structures of the Group are as follows:

	2007 RMB'000	2006 RMB'000
Issued capital	**125,150**	125,150
Reserves	**534,870**	442,076
Total capital	**660,020**	567,226

Notes to Financial Statements

31 December 2007

34. Other significant event

On 24 September 2007, pursuant to the "Method on Collection of Urban Infrastructure Facility Fee of Zhengzhou City" issued by the Zhengzhou Municipal Government, the Group will cease to collect gas pipelines network construction fee from gas users with effective from 1 October 2007. On 6 March 2008, the Henan Province Development and Reform Commission has approved the proposal set forth in the "Letter relating to the issues of natural gas pipeline construction fee of Zhengzhou" dated 4 March 2008 by the Zhengzhou Municipal Government, whereby, the collection of gas pipeline network construction fee by the Group was replaced by an infrastructure facility fee (the "Facility Fee") with effective from 1 October 2007. Under the new fee model, the Group charges a Facility Fee at a standard rate of RMB22 per square meter based on the floor area and a national project standard fee as stipulated by the authorities for each newly connected residential user.

The directors of the Company have assessed the potential financial impact arising from implementation of Facility Fee to the Group and the directors are of the opinion that the implementation of Facility Fee above would not have a significant impact to the financial positions and operating results of the Group.

35. Post balance sheet events

The following significant events took place subsequent to 31 December 2007:

(a) Subsequent to 31 December 2007, the directors proposed a final dividend of RMB0.0242 per ordinary share, totalling approximately RMB30,286,000 pertaining to 2007 for payment in 2008. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

(b) Subsequent to 31 December 2007, the directors proposed to transfer 10%, totalling approximately RMB10,126,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2007 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

(c) On 28 February 2008, the Company and the Administrative Commission of Zhengbian Industrial Zone (the "Zhengbian Administrative Commission") entered into a formal concession agreement (the "Concession Agreement"). Pursuant to the Concession Agreement, the Zhengbian Administrative Commission granted the Company a concession for the provision of piped natural gas in the Zhengbian Industrial Zone (excluding Bianxi) for a term of thirty years from 1 March 2008 to 1 March 2038 at nil consideration. In return, pursuant to the Concession Agreement, the Company shall be responsible for the investment and construction of gas pipelines and the provision of natural gas to users in accordance with the annual development plans of the Zhengbian Industrial Zone.

(d) On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission ("Pingdingshan SASAC"), pursuant to which the Company has agreed to purchase and Pingdingshan SASAC has agreed to sell 27% equity interest of Pingdingshan Gas at an aggregate cash consideration of RMB 30.5 million. Pingdingshan Gas is a company that supplies fuel gas, natural gas and liquefied gas for the gas users in Pingdingshan City.

    The completion of the acquisition of Pingdingshan Gas is depending on the completion of the equity transfer procedures and approval from the relevant authorities.

36. Comparative figures

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

37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2008.