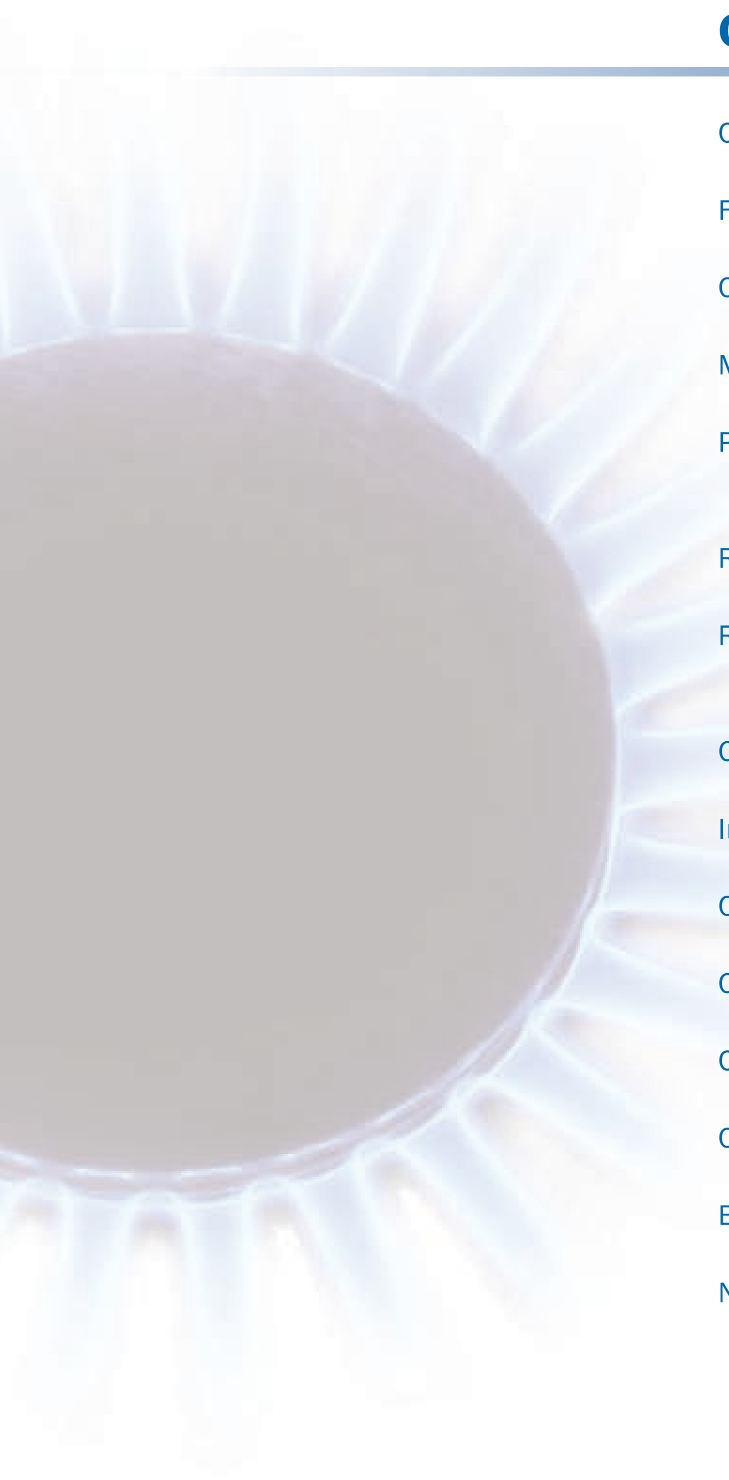
Zhengzhou Gas Company Limited*

Stock Code: 3928

Annual Report 2008

* for identification purpose only



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Corporate Information

(As at 17 March 2009)

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)
Mr. 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

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)
9th Floor, 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

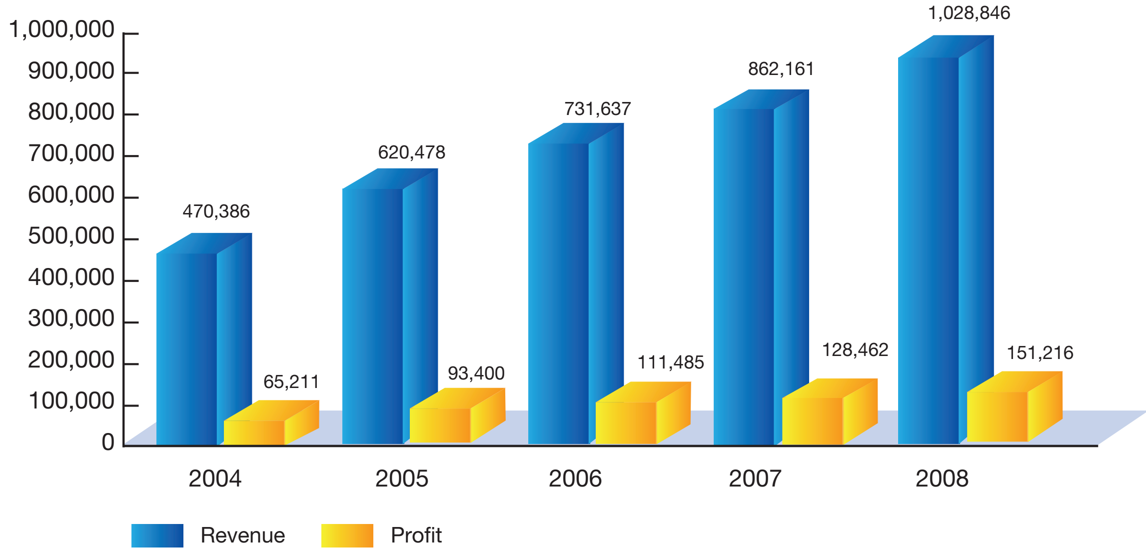
Financial Statistics

For the year ended 31 December

	2008 (RMB'000)	2007 (RMB'000)	2006 (RMB'000)	2005 (RMB'000)	2004 (RMB'000)
Revenue	**1,028,846**	862,161	731,637	620,478	470,386
Profit before taxation	**203,696**	196,405	135,170	126,310	98,722
Profit attributable to the equity holders of the Company	**151,216**	128,462	111,485	93,400	65,211
Earnings per share (RMB Yuan) (Basic)	**0.121**	0.103	0.089	0.075	0.052

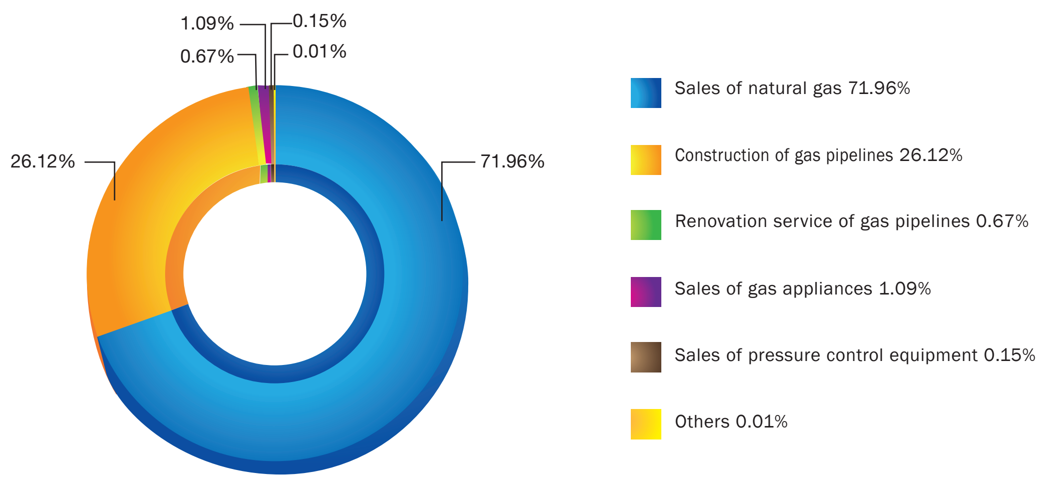
REVENUE AND PROFIT

RMB'000



REVENUE BREAKDOWN

(For the year ended 31 December 2008)



Chairman's Statement

Dear shareholders,

The year 2008 is of special significance for Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectively the "Group"), in which we took on a scientific development approach and tackled the challenges of economic downturn. Since the listing of the Company's H shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the year 2008, we have recorded seven consecutive years of profit growth, with our assets size constantly expanding, gas supply and transmission capability steadily enhancing and management proficiency consistently improving. In 2008, the Group set a more determined and challenging strategic target, i.e. to become a gas group which is the "Largest in Henan and First Class in China". I would like to take this opportunity to review the operating results for the past year and present to you the new strategic target of the Group.

Mr. Yan Guoqi
Chairman

Performance Review

In 2008, the Group introduced a number of effective measures and strategies aiming at boosting its operating performance, including arduously procuring gas sources to guarantee reliable gas supply, refining our gas pricing system to improve operating conditions, driving forward the listing of A shares, exploring the market to expand our operation scale and pushing on managerial and technical innovation to increase our core competitive edge. All of these measures and strategies were awarded with encouraging operating results.

For the year ended 31 December 2008 (the "Year" or the "Relevant Period"), the Group realised total sales of 390 million m^3 of natural gas and developed 74,626 new users, representing an increase of 18.11% and 10.46% respectively as compared with the corresponding period of last year. Net assets and total assets of the Group reached RMB780 million and RMB1.37 billion, representing an increase of 18.18% and 24.37% respectively as compared with the corresponding period of last year. The turnover and profit attributable to shareholders amounted to RMB1.03 billion and RMB151 million, representing an impressive increase of 19.33% and 17.71% respectively as compared with the corresponding period of last year, with earnings per share reaching RMB0.121.

In view of the encouraging operating results, the board of directors of the Company (the "Board") has resolved to distribute a final dividend of RMB0.0104 per share and a conditional special dividend of RMB0.08 to our shareholders so as to share with them our golden harvest of the Year.

Chairman's Statement

Corporate Development and Management

The Strategic Target of Being the " Largest in Henan and First Class in China"

For being the "Largest in Henan", we referred to the scale of operation and our target is to be the number one gas group among local operators in terms of number of customers, gas volume purchased and sold, total assets and gas storage capacity. For being the "First Class in China", we referred to the productivity and management proficiency and our target is to stand out from its competitors in China by achieving excellence in terms of operational efficiency, regulatory system, human resources, managerial innovation and corporate culture. In order to be the "Largest in Henan", we must first increase the gas sources available to us, further exploit the market, increase our capital and improve our services. In order to be the "First Class in China", we must resort to reforms and corporate governance.

I. Try Our Best to Increase Gas Sources to Fuel Our Future Expansion

One of the biggest obstacles holding us back from reaching our strategic goals is the insufficiency of natural gas supply. In 2008, there was a nation-wide natural gas shortage, which resulted, for the first time, in tight gas supply in Zhengzhou in summer. In order to alleviate the disparity between the supply and demand of natural gas in Zhengzhou, the Company negotiated with the upper-stream suppliers for additional natural gas supply over the agreed quota. Sinopec Zhongyuan Oilfield agreed to supply 80,000 m^3 of natural gas to Zhengzhou each day in winter, which is 30,000 m^3 more than that in the same period of the previous year. PetroChina also once again delivered 85 million m^3 of natural gas to Zhengzhou in excess of the related contract volume. With these collaborative efforts of all parties, the Company made it through the relentless 2008 and at the same time, set a new record of stable gas supply.

In the long run, the Group considered that the Phase II of West to East Pipelines Project and the coal bed methane in Shanxi Province would provide sufficient gas supply for the future business expansion of the Group.

II. Expand Operation Region in order to Realise Strategic Objects

According to our "the Largest in Henan and First Class in China" strategic target, the Company needs to explore new markets, and achieve breakthroughs in regional operation and development.

Chairman's Statement

Corporate Development and Management (continued)

In February 2008, the Company entered into a 30-year concession right agreement for piped gas supply ("Concession Agreement") with Administrative Commission of Zhengbian Industrial Zone. Pursuant to the Concession Agreement, the Company obtained the concession right for a new operating region with its area equivalent to the existing constructed area in Zhengzhou City. In March, the Company made a successful bid for 27% state-owned equity interest in Pingdingshan Gas Limited Liabilities Company (re-organized from Pingdingshan Gas Corporation) at a purchase price of RMB30,500,000, and became its second largest shareholder. In December, the Company entered into a formal gas supply agreement with Zhengzhou Aerial Port Zone Management Committee for a term of 30 years. Zhengzhou Gas Engineering and Construction Co., Ltd, a subsidiary of the Company, started to operate pipeline corrosive-proof processing business in Hebi, Zhengzhou, Luoyang and Jincheng. Currently, the Group's strategy is to expand its business network to the peripheral area from Zhengzhou, and look for investment projects outside Zhengzhou City.

III. Drive forward the Listing of A Shares, Increase Capital and Expand Operating Scale

In order to realise the aforementioned object of expanding gas supply scale and increasing transmission and distribution capability, massive investment in infrastructure, such as construction of natural gas pipelines, is necessary. The Group's planned infrastructure construction projects include Bo Oi – Zhengzhou Natural Gas Pipeline, Gas High Pressure Circular Pipeline in Zhengzhou City, construction of additional gas stations, and acquisition of coal gas pipeline assets in Zhengzhou, and total required capital for investment exceeds RMB670 million. After considering the interests of our shareholders as a whole and the Group's future development, the Company decided to finance the above projects by the proceeds to be obtained from the listing of its A shares. On 20 June 2008, the Company made a formal listing application to China Securities Regulatory Commission. The case was officially accepted and now the listing program is in progress. We look forward to witnessing the successful listing of A shares so that we can promptly apply the funds raised to the above projects. It is expected that we will enter a new development phase with the enlarged operating scale.

IV Improve Operating Environment, Maintain Sustainable Development

In 2008, the Company coordinated relevant government departments to promulgate the government policies relating to the consolidation of natural gas construction fees into city facilities fees and its corresponding standards, methods and scope. Those efforts guaranteed the continuity and stability of our charge policies for pipeline construction projects. Meanwhile, the Company took on the task of price adjustments and held a hearing for price adjustment on 18 November 2008. On 1 February 2009, the new price policy came into effect, which increased residential and commercial gas prices and thus enhanced the Company's profitability. In the long run, the Company will pursue a link mechanism for purchase costs and selling prices, with a view to making natural gas prices more reasonable, thereby striking a better balance between gas supply and demand.

Chairman's Statement

Corporate Development and Management (continued)

V. Focus on Safety, Improve Service

The Group has committed to emphasize safety issues in gas supply and adopted "Safety affects public livelihood" as one of our creeds. During the Year, the Company investigated and treated a number of problems with serious potential risks, such as suspension of high-pressure pipes, illegal occupation of pipes, gas leak, breakdown of equipments, irregular gas pressure, etc. 1,449 problems with potential risks were identified during the Year and 97.8% of which were fixed. In addition, the Company also strengthened its emergency response to hazards. During the Year, we eliminated 255 hazards, achieving a success rate and in-time rate of 100%. On the other hand, we also strengthened basic management for safety, implemented the reward and penalty rules, and issued the administrative measures for safe operation of pipelines. Thanks to the effective safety management and control system, there was no serious industrial accident during the Year.

To improve service standard, the Group focused on delivering service in an innovative way and examining the service quality. The Group's staff actively visited our gas users and helped them on gas use issues. In addition, the Company also closely monitored the service quality of our front line service units and tightened inspection of operation agents and construction sites. During the Year, a total of 133,800 calls from customers through our service hotlines were handled. According to the results of users' satisfaction survey, our customers' satisfaction rate reached 98.6% in 2008.

VI. Achieve Innovation, Enhance Our Competitiveness

In 2008, for the purpose of establishing a modern enterprise system, the Group continuously raise the management proficiency. The Company undertook a management specification drive and embarked on the standardization of work process during the Year. A total of 157 new or amended codes were made in respect of technology, management and job standards. As a result, functions and duties are clearly defined, workflows are rationalized and standards are formalized. Regarding the reform of remuneration system, "piecework wage system" was adopted for gas refill workers in the vehicular gas business. As a result, per capita average monthly refilling volume increased from 20,000 m^3 to 27,000 m^3. In respect of transmission loss control, the supervision and management over specific functional units was enhanced and "Rules for the Management of Transmission Loss" were formulated. In addition, Zhengzhou Gas Engineering and Construction Company Limited, a subsidiary of the Company, succeeded in obtaining the Licenses for the Installation of GA1 and GC1 Pressure Pipelines issued by the General Administration of Quality Supervision, Inspection and Quarantine and became the only engineering and construction enterprise in the civil work sector of Zhengzhou holding the license for all categories of pressure pipelines including GA, GB and GC.

The Group introduced new management initiatives in order to increase revenue and cut cost. To promote information technology, the Group successfully developed the IC card gas refilling system, leading to a 25% increase in per capita labor productivity, and a cost saving of over RMB700,000 for the Year. The "One card for each vehicle" system was introduced, which effectively reduced fuel cost by more than RMB200,000 per year. Under the tense supply condition of natural gas, the Group arranged to have some of the gas supplies liquefied so that it can store up some gas at a relatively lower cost. This natural gas liquefaction technology reduced the cost of the Company by approximately RMB1,400,000 for the Year.

Chairman's Statement

Corporate Development and Management (continued)

In addition, the Group pushed for technology innovation so that productivity can be increased. To ensure the safe operation of pipeline network, digital management and GPS positioning technology are used and warning signs on the sites were erected. All these serve to increase accuracy in positioning the pipelines while reducing the exposure to external damages. The major potential risks in the natural gas supply and transmission system were treated through the renovation of Zhao Jia Zhuang processing station, Long Hu CNG unloading station and low pressure areas, thus eliminating the safety hazards. Five modifications to the production system for gas refilling stations were made, including the emergency cut-off valve system and pull-off valve of the gas refilling machine, in order to ensure the safe operation of equipment.

VII. Enhancing Corporate Governance and Standardizing Corporate Management

The Board, through its committees such as audit committee, nomination committee, remuneration and appraisal committee, continued to strengthen its accountability. In addition, the Company tried its best to ensure independent decision-making of the Board. On the basis of restriction of voting by directors with conflict of interests on connected transactions, the independent board committee of the Company has been conferred the power to make final decision on connected transactions.

In addition, the Group step up efforts in the area of auditing, control and inspection. 26 internal audit reports and management proposals were put forward by internal auditing and control department. Problems were identified and 213 recommendations on management were proposed, therefore rectifications were made in time, and risks were reduced and controlled to the minimum.

Chairman's Statement

Corporate Development and Management (continued)

Looking Forward

In the coming year, the Group will face historic opportunities brought along with the development plan of the Zhengzhou-Kaifeng industrial zone, the construction of Zhengzhou aerial port area, the reorganization of natural gas market, the development of Zheng East New District, the issue of A shares by the Company, the construction of the branch line of the second pipeline of the "West to the East Pipelines". In the meantime, the Group will also face the severe challenges posed by the world economic downturn, the turbulence in the financial market, the uncertain market conditions as well as the shortage of natural gas supply.

With these opportunities and challenges, the Company will further its various reforms, refine its management and ensure safe gas supply in order to strengthen the overall core competitiveness of the Company. The Company will also secure gas sources, expand its operating scale and geographical coverage so as to achieve economies of scale. At the same time, the Company is determined to seize investment opportunities and issue A shares at an opportune time with an aim to promote its brand image and enhance corporate value. It is believed that the above moves will substantially contribute to the sustained development of the Group and the pursuit of maximum return for its shareholders.

Lastly, on behalf of the Board, I wish to express my heartfelt appreciation to our shareholders and the community who give persisting supports to the Company, and to the devoted professional institutions and diligent professionals for their contribution to the Company. I also extend my sincere gratitude to the enterprising management team and to the hardworking and dedicated staff.

Zhengzhou Gas Company Limited
Yan Guoqi
Chairman

17 March 2009

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 consolidated 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 2008 and 2007 are set out below:

Table 1 Revenue

	As at 31 December				
	2008		2007		
	Revenue *(RMB'000)*	**As % of Revenue**	Revenue *(RMB'000)*	As % of Revenue	**Growth %**
Natural gas	**747,413**	**71.96%**	604,610	69.41%	23.62%
Gas appliances	**11,348**	**1.09%**	5,898	0.68%	92.40%
Pressure control equipments	**1,530**	**0.15%**	3,070	0.35%	-50.16%
Gas pipelines					
– Connection and construction	**271,339**	**26.12%**	246,227	28.27%	10.20%
– Provision of renovation work	**7,008**	**0.67%**	11,163	1.28%	-37.22%
Others	**86**	**0.01%**	55	0.01%	56.36%
	1,038,724	**100.00%**	871,023	100.00%	19.25%
Less: Business tax and government surcharges	**(9,878)**		(8,862)		
Total	**1,028,846**		862,161		19.33%

Management Discussion and Analysis

Performance review (continued)

Table 2 Number of users of natural gas

	As at 31 December		
	2008	2007	**Growth %**
Residential users	**777,836**	705,067	10.32%
Commercial users	**2,016**	1,681	19.93%
Industrial users	**66**	58	13.79%
Vehicular users	**8,216**	6,702	22.59%
Total:	**788,134**	713,508	10.46%

Table 3 Gas consumption

	As at 31 December				
	2008		2007		
	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)	**394,665**		334,158		18.11%
of which					
residential users	**139,084**	**35.24%**	114,195	34.18%	21.80%
commercial users	**125,682**	**31.85%**	110,949	33.20%	13.28%
industrial users	**69,915**	**17.71%**	65,129	19.49%	7.35%
vehicular users	**59,984**	**15.20%**	43,885	13.13%	36.68%

General

For the year ended 31 December 2008, the Group recorded a total revenue of approximately RMB1,028,846,000 and a gross profit of approximately RMB311,807,000. The total revenue increased by 19.33% 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.

Management Discussion and Analysis

Performance review (continued)

General (continued)

During the Relevant Period, the overall gross profit margin of the Group was approximately 30.31%, representing a decrease of approximately 4.32 percentage points as compared with approximately 34.63% of the corresponding period of last year. The decrease of gross profit margin was primarily due to the fact that the gross profit margin of the sales of natural gas decreased to approximately 12.66% in the Relevant Period from approximately 17.03% of the corresponding period of last year as a result of higher costs for gas purchases. In addition, the proportion of income derived from pipeline construction (which has the highest gross profit margin) in total revenue decreased to 26.12% in the Relevant Period from 28.27% of the corresponding period of last year, which also led to the decrease of the overall gross profit margin.

During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB41,082,000 and RMB67,502,000 respectively, representing an increase of approximately 16.25% and 10.73% respectively as compared with the corresponding period of last year. The increase in selling and distribution costs was mainly due to the increase in depreciation expenses and maintenance costs as a result of the expansion of the scale of operation. The increase in administrative costs was mainly due to the increase in pension funds, medical insurance and lease payments.

Other expenses of the Group amounted to approximately RMB5,714,000, which was chiefly ascribable to the fees incurred for the proposed issue of A shares.

Income tax expenses of the Group for the Relevant Period were approximately RMB51,528,000, representing a decrease of approximately 22.77% from approximately RMB66,722,000 in the corresponding period of last year. This was mainly due to the reduction in the PRC's enterprise income tax rate to 25% from 33% of last year.

During the Relevant Period, the net profit attributable to shareholders of the Company was approximately RMB151,216,000, representing an increase of approximately 17.71% from approximately RMB128,462,000 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 RMB747,413,000, representing an increase of 23.62% as compared with approximately RMB604,610,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 394,665,000 m^3, representing an increase of approximately 18.11% as compared with approximately 334,158,000 m^3 for the corresponding period of last year.

During the Relevant Period, the stable supply of natural gas in Zhengzhou led to a general increase in gas consumption by all types of gas users. Gas consumption by residential, commercial, industrial and vehicular users was up 21.80%, 13.28%, 7.35% and 36.68%, respectively. Among which, the increase in residential and commercial users remained stable; while the gas consumption by industrial users was impacted by the global financial tsunami, as a result of which some users have reduced or ceased production, which in turn caused a substantial slowdown in gas consumption; and the significant increase in vehicular gas business was mainly attributed to the comparable price advantage for natural gas over petrol.

Management Discussion and Analysis

Performance review (continued)

Sales of piped natural gas (continued)

As at 31 December 2008, the Group has 777,836 residential users, representing an increase of 72,769 users as compared with 705,067 residential users as at 31 December 2007; 2,016 commercial users, representing an increase of 335 users as compared with 1,681 commercial users as at 31 December 2007; 66 industrial users, representing an increase of 8 users as compared with 58 industrial users as at 31 December 2007; 8,216 vehicular users, representing an increase of 1,514 users as compared with 6,702 vehicular users as at 31 December 2007.

During the Relevant Period, the Group purchased approximately 285,239,000 m^3, 86,266,000 m^3 and 32,239,000 m^3 of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", the Ordos Gasfield and Zhongyuan Oilfield respectively, representing respectively approximately 68.50%, 20.72% and 7.74% of the Group's total purchases of natural gas. Ordos Gasfield has replaced Zhongyuan Oilfield as the Group's second largest gas source. During the Relevant Period, the Group's cost for gas purchases kept climbing, and the average cost for gas purchases rose from approximately RMB1.2851/m^3 in 2007 to approximately RMB1.3348/m^3 in the Year.

Acquisition and Investment

On 29 April 2008, the Company entered into the Assets Transfer Agreement with the Zhengzhou Coal Gas Project Preparatory Office (the "Coal Gas Project Preparatory Office", an organization under the Zhengzhou Municipal Government), pursuant to which the Company has agreed to purchase and the Coal Gas Project Preparatory Office has agreed to sell its coal gas assets for an aggregate consideration of RMB120,500,000, which was determined after arm's length negotiations between the Company and the Coal Gas Project Preparatory Office with reference to the valuation provided by CB Richard Ellis Company Limited. The amount of consideration is the same as the professional valuation set out in the valuation report and will be satisfied in cash. The consideration will be financed by the proceeds derived from the issue of A shares.

The acquisition constitutes a discloseable transaction as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as certain ratios (including the asset ratio, the revenue ratio and the consideration ratio as defined in Chapter 14 of the Listing Rules) calculated according to Chapter 14 of the Listing Rules are higher than 5% but lower than 25%. The details of such acquisition are set out in the circular of the Company dated 21 May 2008.

In respect of external investments, on 6 March 2008, the Company paid a consideration of RMB30,500,000 for the 27% of equity interest in Pingdingshan Gas Limited Liabilities Company ("Pingdingshan Gas", re-organized from Pingdingshan Gas Corporation) 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 the Group to invest in areas beyond the administrative zone of Zhengzhou. The Group will strive to identify appropriate projects for investment in order to enhance the profitability of the Group.

Management Discussion and Analysis

Performance review (continued)

Sales of gas appliances and pressure control equipment

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 equipment, 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 equipment amounted to approximately RMB11,348,000 and RMB1,530,000 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 RMB271,339,000 which increased approximately 10.20% as compared with the total revenue of approximately RMB246,227,000 for the corresponding period of last year, representing the connection of natural gas supply for 80,028 residential users and 200 commercial users. The average fee for connection of natural gas supply for each residential user was approximately RMB3,062 while that for each commercial user was approximately RMB104,613. 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 RMB5,225,000.

In addition, the Group also collected fees from users for providing gas pipeline renovation services. During the Relevant Period, such fees amounted to approximately RMB7,008,000, representing a decrease of 37.22% as compared with approximately RMB11,163,000 for the corresponding period of last year. The decrease was mainly attributable to the decline in the number of outdoor gas pipeline renovation projects.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was 14.70% which was lower than 14.90% recorded for the corresponding period of last year. The decrease was mainly due to the shrinkage in total gross profit margin. The analysis of decrease in gross profit margin is set out in the section headed "General" of the Management Discussion and Analysis.

In addition, average return to shareholders of the Company 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 20.99% which is approximately equal to that of 20.94% of the corresponding period of last year.

Management Discussion and Analysis

Liquidity, financial resources and capital structure

Borrowings and banking facilities

The Group currently finances its capital expenditure and operations mainly by internally generated funds, bank loans 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 2008, the Group had interest-bearing bank borrowings of RMB40,000,000, which bear interest rates ranging from 4.8% to 5%.

Net current liabilities

As at 31 December 2008, the Group had net current liabilities of approximately RMB34,624,000 (31 December 2007: net current liabilities of approximately RMB40,908,000). There was an advanced payment received of approximately RMB356,468,000 in the current liabilities, which was deferred revenue, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB391,092,000 after deducting such advanced payment received.

Working capital

As at 31 December 2008, the Group had cash and bank balances of approximately RMB368,169,000.

Equity to liabilities ratio

As at 31 December 2008, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 133.01%, which was lower than that of approximately 150.46% as at 31 December 2007, mainly due to the increase of the Group's bank borrowings.

Commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou City, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipments. As at 31 December 2008, the Group had commitments of approximately RMB646,846,000, mainly pertinent to contracts of pipeline network construction and equipment purchases. The management of the Company believes that such expenditure can be defrayed by revenue generated from operations, further equity finance or bank loans.

Management Discussion and Analysis

Liquidity, financial resources and capital structure (continued)

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 2008, the Group had no significant contingent liabilities or any asset under pledge.

Employees and remuneration policy

Human resources

An analysis of the Group's employees by functions as at 31 December 2008 and 2007 is as follows:

	As at 31 December	
	2008	2007
Management and administration	**348**	249
Finance	**39**	38
Sales and marketing	**196**	220
Safety maintenance and technical upgrading	**196**	180
Purchases and supplies	**17**	17
Engineering and installation	**115**	164
Repairs, maintenance and testing	**295**	280
Others	**348**	389
Total	**1,554**	1,537

As at 31 December 2008, the Group had 1,554 employees, an addition of 17 employees as compared with 1,537 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, etc. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB94,099,000, representing an increase of 23.07% as compared with that of approximately RMB76,460,000 for the corresponding period of last year.

Management Discussion and Analysis

Liquidity, financial resources and capital structure (continued)

Material acquisitions and disposals of subsidiaries and associated companies

In 2008 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 2008, the Group had no material investment, and likewise as at 31 December 2007.

Charge on assets

As at 31 December 2008 and 2007, the assets of the Group were not under any charge.

Prospects

Issue of A shares will help expanding operating scale

To facilitate the Group's development and rapidly expand its operating scale, the Board resolved and the shareholders of the Company approved that the Company to apply to the China Securities Regulatory Commission for the issue of up to 42,000,000 A Shares of RMB1.00 each or 420,000,000 A Shares of RMB0.10 each to the PRC public and institutional investors and to the Shenzhen Stock Exchange for the listing of the A Shares on the Shenzhen Stock Exchange. The proceeds raised thereby will be used for the construction of Bo Oi – Zhengzhou Natural Gas Pipeline, Zhengzhou High Pressure Circular Gas Pipelines and three natural gas stations as well as for the acquisition of coal gas assets. For details of the Group's proposed issue of A Share, please refer to the Company's circular dated 10 April 2008. The documents in relation to the listing application of A Shares were submitted to China Securities Regulatory Commission in June 2008, and the case was officially accepted.

Raising sales price will help increasing revenue

The Group will raise the sales price of natural gas for the residential and commercial users according to the gas meter readings from 1 March 2009. The sales price of natural gas for the residential users in Zhengzhou City who consume 50 m^3 of natural gas or less each month will be increased from RMB1.6/m^3 to RMB1.9/m^3. For those who consume more than 50 m^3 each month, the charges for the excessive portion of more than 50 m^3 will be raised from RMB1.6/m^3 to RMB2.2/m^3. The sales price of natural gas for the commercial users in Zhengzhou City will be increased from RMB2.4/m^3 to RMB2.8/m^3, while the price for the industrial users will remain unchanged. The increase of sales price of natural gas for residential and commercial users will have a positive effect on the Company's revenue from sales of piped natural gas in 2009.

Management Discussion and Analysis

Prospects (continued)

Prospect of expanding customer base

In order to implement the policy of "The Rise of Central China", Zhengzhou City 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"), the aerial port zone and the reconstruction of urban villages in Zhengzhou City shall make Zhengzhou one of the regional hubs in the PRC with massive population flow, logistics activities and capital flow. According to the plans of the Zhengzhou Municipal Government, all the 143 urban villages in the Zhengzhou City will be reconstructed by stages. The reconstruction of these urban villages will involve 100,000 mu of land and 300,000 ordinary residents. According to the 2008-2012 housing plan of Zhengzhou City, the number of residential users will keep growing steadily.

In the development of commercial users, with the acceleration of investment and construction of Zhengzhou-Kaifeng Property Zone and the aerial port zone, new opportunities will be created for the development of our natural gas business. With the increase in the number of commercial users in these two areas, it is expected that the gas consumption by the commercial users will increase steadily. Besides, we believe that the use of natural gas in central air-conditioning will probably bring us some new commercial users.

During the Relevant Period, there was a decrease in consumption by certain industrial users due to the economic crisis. However, there will be new industrial users of our natural gas with the completion of Zhengzhou Textile Industrial Park and expansion of Mazhai Industrial Park. Zhengzhou Textile Industrial Park is a key strategic project of the Zhengzhou Municipal Government aiming to further develop Zhengzhou's textile industry. The industrial park is designed to cover 12.56 square kilometres. 25 enterprises have so far moved in with another 18 enterprises having their compounds under construction. With a total planned development area of 11.8 square kilometers, Mazhai Industrial Park is one of the major industrial zones of Zhengzhou City. As at the end of 2008, more than 300 enterprises have moved in the park, which mainly engage in machine manufacturing, food processing and environmental friendly building materials business. In view of the development of the above industrial parks, the Group expects that the development of our industrial users and gas sales will remain stable.

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

Profiles of Directors, Supervisors and Senior Management

Directors (Note)

Executive Directors

Mr. Yan Guoqi (閆國起), aged 54, Chairman, an executive Director and compliance officer. He is 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 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 42, deputy chairman, an executive Director, general manager and a senior engineer. He is a representative of the 13th Session of the National People's Congress of Zhengzhou City, 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 has been the vice chairman of the Company since 26 March 2008.

Mr. Li Hongwei (李紅衛), aged 38, 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 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 since 1999. 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 a director of Zhengzhou Gas Group, and also acted as 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 subsidiaries of the Company). In January 2008, Mr. Li was appointed as Director of the Company. Mr. Li has been the deputy chairman of the Company since 26 March 2008 and the vice chairman of Pingdingshan Gas Limited Liabilities Company (平頂山燃氣有限責任公司) since 12 August 2008.

Note: "Director(s)" mentioned in this annual report refers to the director(s) of the Company.

Profiles of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Song Jinhui (宋金會), aged 55, a non-executive Director and a senior engineer. Mr. Song is a representative of the 14th 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 53, a non-executive Director and a senior engineer. He was the head of storage and distribution station, chief dispatcher and the head of 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 in December 2000.

Mr. Ding Ping (丁平), aged 45, chairman of the labour union, a non-executive Director and a political engineer. Mr. Ding was branch party 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 of the Company and the head of general office of Zhengzhou Gas Group. He was chairman of the supervisory committee and a supervisor of the Company from December 2000 to January 2008. Mr. Ding has been the chairman of the labour union committee and a Director of Zhengzhou Gas Group since October 2007. He was appointed as a non-executive Director in January 2008.

Mr. Hao Ganjun (郝幹軍), aged 56, an economist and a non-executive Director. 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 non-executive Director in January 2008.

Profiles of Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. Zhang Yichun (張亦春), aged 75, an honorary doctor of Hong Kong Academy of Science and an independent non-executive Director. 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), Xiamen Eagle Group Co., Ltd. (廈門雄震集團股份公司) 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 Shenzhen Minsheng Royal Fund Management Co., Ltd. (深圳民生加銀基金管理有限公司) 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. Zhang was appointed as an independent non-executive Director in May 2001.

Mr. Liu Jianwen (劉劍文), aged 49, an independent non-executive Director. 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 the Institute for Fiscal and Tax Law Research under China Law Society and president of International Tax Law Research Association. 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 of the People's Republic of China on the State-Owned Assets of Enterprises 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". 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), Shangdong Jicheng Electronics Co., Ltd. (山東積成電子股份有限公司) and Beijing Beilu Pharmaceutical Company Limited (北京北陸藥業股份有限公司). Mr. Liu was appointed as an independent non-executive Director in April 2002.

Ms. Yu Shulian (余恕蓮), aged 55, 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. 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), Zibo Qixiang Tengda Chemical Co., Ltd. (淄博齊翔騰達化工股份有限公司) 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. Ms. Yu was appointed as an independent non-executive Director in April 2002.

Mr. Wong Ping (王平), aged 48, 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). Mr. Wong was appointed as an independent non-executive Director in November 2006.

Profiles of Directors, Supervisors and Senior Management

Supervisors (Note)

Ms. Bao Hongwei (鮑紅偉), aged 50, chairman of the supervisory committee, discipline secretary and deputy party secretary as well as a member of the 12th Session of the National People's Congress Committee of Zhengzhou City and a member of the 7th Session of the National People's Congress Committee of Zhongyuan District, Zhengzhou City. 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. Ms. Bao was the chairperson of the Company's labour union and chairperson of the labour union of Zhengzhou Gas Group since 2000. She is currently deputy party secretary, secretary for the disciplinary committee of Zhengzhou Gas Group and chairperson of Zhengzhou Zhengran Property Management Company Limited (鄭州燃氣物業管理有限公司) and a supervisor of Zhengzhou Gas Estate Development Company Limited. Ms. Bao was appointed as a Supervisor (on behalf of the staff) and chairperson of the supervisory committee of the Company in January 2008.

Mr. Chen Kun (陳鯤), aged 44, a Supervisor and a senior engineer with a doctorate degree in engineering. Mr. Chen was previously an engineer of Henan Research Institute of Metallurgical Planning and Design (河南冶金規劃設計研究院) and Institute of Urban Utilities Design of Chung Nan City (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 42, 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. He was appointed as a Supervisor in January 2008.

Ms. Niu Minghua (牛鳴華), aged 51, 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, general branch secretary of the party committee and executive head of the party committee and deputy secretary of the disciplinary committee of Zhengzhou Gas Group. Ms. Niu served as an executive Director of the Company from August 2002 to October 2005.

Ms. Wang Xiaohua (王曉華), aged 45, 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 the Company. In October 2007, she was appointed as the head of the audit 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., Zhengzhou Zhengran Pressure Control Technology Company and a supervisor of Zhengzhou Aerial Port Area Gas Company Limited. Ms. Wang is also a supervisor of Nanyang Zhengran Gas Co., Ltd. (南陽鄭燃燃氣有限公司) and a director of Zhengzhou Gas Design Development Co., Ltd. (鄭燃燃氣設計開發有限公司) (all being subsidiaries of Zhengzhou Gas Group). She was appointed as a Supervisor in January 2008.

Mr. Yang Guirong (楊桂榮), aged 46, 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 in October 2005.

Mr. Cai Yuming (蔡玉明), aged 48, 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 in October 2005.

Note: "Supervisor(s)" mentioned in this annual report refers to the supervisor(s) of the Company.

Profiles of Directors, Supervisors and Senior Management

Senior Management

Mr. Liu Daoshuan (劉道栓), aged 43, 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 is 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 44, 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 also a director of Zhengzhou Gas Estate Development Company Limited and Commercial Bank of Zhengzhou and chairman of the supervisory committee of Nanyang Zhengran Gas Co., Ltd..

Ms. Geng Tongmin (耿同敏), aged 42, 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 40, 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 41, 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 the Company, 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. She is currently also a supervisor of Dengfeng Zhengran Gas Company Limited, a director of Nanyang Zhengran Gas Co., Ltd., Zhengzhou Gas Design Development Co., Ltd. and the Zhengzhou Aerial Port Area Gas Company Limited (鄭州航空港區燃氣有限公司).

Profiles of Directors, Supervisors and Senior Management

Mr. Huang Biao (黃飈), aged 40, 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. Huang was appointed as a director of Pingdingshan Gas Limited Liabilities Company in August 2008.

Mr. Li Weimin (李為民), aged 41, 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 52, deputy general manager. 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. Shi has been deputy general manager of the Company and chairman of the Zhengzhou Aerial Port Area Gas Company Limited since March 2009.

Mr. Huo Wencai (霍文才), aged 45, 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 the Company. 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.

Company Secretary

Mr. Wong Cheuk Lam, Raymond (黃焯琳), aged 40, is the 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 twelve 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 Board presents its report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 repairs and maintenance 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 108.

The Directors recommended the payment of a final dividend of RMB0.0104 per ordinary share in respect of the year ended 31 December 2008 and conditional special dividend of RMB0.08 per ordinary share to shareholders whose names appear in the register of members of the Company on 22 April 2009. The proposed final dividend and conditional special dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008. Further details of the proposed final dividend and conditional special dividend are set out in note 11 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

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,028,846**	862,161	731,637	620,478	470,386
Cost of sales	**(717,039)**	(563,562)	(489,986)	(410,876)	(300,643)
Gross profit	**311,807**	298,599	241,651	209,602	169,743
Other income and gains	**6,187**	4,199	3,555	2,334	1,144
Selling and distribution costs	**(41,082)**	(35,338)	(33,294)	(26,860)	(16,822)
Administrative expenses	**(67,502)**	(60,963)	(66,335)	(53,880)	(47,157)
Other expenses	**(5,714)**	(10,092)	(10,407)	(4,886)	(8,186)
Profit before tax	**203,696**	196,405	135,170	126,310	98,722
Tax	**(51,528)**	(66,722)	(9,513)	(16,560)	(23,813)
Profit for the year	**152,168**	129,683	125,657	109,750	74,909
Attributable to:					
Equity holders of the Company	**151,216**	128,462	111,485	93,400	65,211
Minority interests	**952**	1,221	14,172	16,350	9,698
	152,168	129,683	125,657	109,750	74,909
Dividends:					
Proposed final	**13,016**	30,286	35,668	17,271	20,024
Proposed conditional special dividend	**100,120**	–	–	–	–
Earnings per share attributable to ordinary equity holders of the Company					
Basic					
– **Profit for the year** (RMB Yuan)	**0.121**	0.103	0.089	0.075	0.052

Report of the Directors

Summary financial information (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,374,925**	1,105,482	945,660	750,572	615,510
Total liabilities	**590,062**	441,374	374,832	277,765	224,244
Minority interests	**3,913**	4,088	3,602	27,945	19,780
Net assets	**784,863**	664,108	570,828	472,807	391,266

Note: The consolidated results and financial position of the Group for the years ended 31 December 2004, 2005, 2006 and 2007 have been extracted from the 2004, 2005, 2006 and 2007's annual reports of the Company, while those for the year ended 31 December 2008 were prepared based on the consolidated income statement as set out on page 45 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 note 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 2008.

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.

Report of the Directors

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 page 47 of the financial statements, respectively.

Distributable reserves

As at 31 December 2008, 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 RMB310,443,000, of which approximately RMB13,016,000 has been proposed as a final dividend for the Year, approximately RMB100,120,000 has been proposed as special dividend and approximately RMB13,009,000 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.

Charitable donation

The Company made a charitable donation in the Year for Sichuan earthquake relief in the amount of RMB200,000.

Major customers and suppliers

During the year ended 31 December 2008, 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 89% (2007: 76%) of the total purchases and purchases from the largest supplier included therein amounted to 54% (2007: 52%).

None of the Directors and Supervisors 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 2008 are set out in Note 34 to the financial statements.

Ernst & Young, the auditors of the Company, confirmed to the Board that during the year ended 31 December 2008 the continuing connected transactions of the Company were:

(1) approved by the Board;

(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 during the year were:

Executive Directors:

Mr. Yan Guoqi (Chairman)
Mr. Li Jinlu
Mr. Li Hongwei

Non-executive Directors:

Mr. Song Jinhui
Mr. Zhang Wushan
Mr. Ding Ping
Mr. Hao Ganjun

Independent non-executive Directors:

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

Supervisors:

Ms. Bao Hongwei
Mr. Chen Kun
Mr. Zhao Ruibao
Ms. Niu Minghua
Ms. Wang Xiaohua

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 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 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 fixed by the Board under the authorization of the shareholders at general meetings. Other emoluments are determined by the remuneration committee of the Company and approved by the Board 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 had a material interest, either directly or indirectly, 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 or debentures

At no time during the year ended 31 December 2008 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 spouses 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 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 had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing rules.

Report of the Directors

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

As at 31 December 2008, none of the Directors, Supervisors or chief executives of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571), 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 2008, so far as the Directors are aware, the person (not being a Director or Supervisor or chief executive of the Company) or companies who had 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%
Beijing Crystal Stone Investment Company Limited *(note 2)* (北京水晶岩投資管理有限公司)	Corporate	–	–	115,500,000	16.48%	9.23%
Liu Liang Kun *(note 3)* (劉良昆)	Corporate	–	–	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 2008, 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 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 2008, Beijing Crystal Stone Investment Company Limited ("Beijing Crystal Stone") 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 it was interested in 37.39% of the registered capital of Zhengzhou Qiyuan, which held 115,500,000 Domestic Shares. However, pursuant to the Listing Rules, Beijing Crystal Stone was not a substantial shareholder of the Company because the Domestic Shares in which Beijing Crystal Stone was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

(3) As at 31 December 2008, Mr. Liu Liangkun 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 he was interested in 33.75% of the registered capital of Beijing Crystal Stone, which was deemed to have an interest of 115,500,000 Domestic Shares. However, pursuant to the Listing Rules, Mr. Liu Liangkun was not a substantial shareholder of the Company because the Domestic Shares in which Mr. Liu Liangkun 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 2008, 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 2008, 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 (the "Code") 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 (H.K.) Limited as its compliance adviser during the Relevant Period. SBI E2-Capital (H.K.) Limited confirmed that it held no direct or indirect interests in the Company during the Relevant Period.

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 are aware, the Directors confirmed that the Company compiled the requirement of maintenance of the public float.

Report of the Directors

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 five formal meetings during the year ended 31 December 2008. The audited results of the Group for the year ended 31 December 2008 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 during the year ended 31 December 2008.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 37 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 2008.

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
17 March 2009

Report of the Independent Board Committee

In order to improve the management of conflicts of interests of the Group, the Board 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 Company Limited ("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 2008 are included in note 34 to the financial statements. During the year ended 31 December 2008, the committee has reviewed the following connected transactions between the Group and the Zhengzhou Gas Group:

Land use right agreements

Currently, the Company leases several plots of land from Zhengzhou Gas Group under the land use rights lease agreements dated 16 January 2002 as supplemented by the First and the Second Supplemental Agreements dated 30 September 2002 and 4 January 2007 respectively ("Land Use Rights Lease Agreements"), and the new land use rights lease agreement dated 26 May 2005 ("New Land Use Rights Lease Agreement").

On 6 June 2008, the Company entered into the Third Supplemental Agreement with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to adjust the annual rentals of the land use rights leased to the Company under the Land Use Rights Lease Agreements as a result of the acquisition of the land assets by the Company pursuant to the Acquisition Agreement entered into between the Company as purchaser and Zhengzhou Gas Group as vendor dated 30 November 2007 for the purchase of the land assets and other assets and regular rental review.

Zhengzhou Gas Group is the controlling shareholder of the Company, holding an approximately 43.18% equity interest in the Company's registered share capital. By virtue of Zhengzhou Gas Group's equity interest in the Company, Zhengzhou Gas Group is considered connected to the Company under the Listing Rules. As a result, the transactions under the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement should be treated as continuing connected transactions.

Further, the Company and Zhengzhou Gas Group also entered into the New Land Use Rights Lease Agreement (Renewal) on 6 June 2008, pursuant to which Zhengzhou Gas Group agreed to continue to lease to the Company the land use right in relation to the land located at No. 108, Jingguang Road South, Er Qi District, Zhengzhou City, Henan Province for a period commencing from 1 June 2008 to 31 May 2011 and such term is renewable subject to the agreement by the parties thereto. The annual rental under the New Land Use Rights Lease Agreement (Renewal) is RMB92,738.4 (approximately HK$104,238). Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the renewed property lease agreements ("Renewed Property Lease Agreements") dated 5 November 2007, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) constitute a series of transactions and accordingly the annual rentals under the Renewed Property Lease Agreement, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) are liable to be aggregated.

Report of the Independent Board Committee

Connected transactions (continued)

Pursuant to Rule 14A.34(1) of the Listing Rules, each of the percentage ratios (other than the profits ratio) as calculated based on the aggregate rentals under the Renewed Property Lease Agreements, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement, and the New Land Use Rights Lease Agreement (Renewal) is less than 2.5% on an annual basis. Therefore, no independent Shareholders' approval is required, and the transactions are only subject to reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules. The details of such transactions are set out in the announcement of the Company dated 11 June 2008.

In respect of the above continuing connected transactions, the committee has reviewed the above transactions and confirmed that, during the year ended 31 December 2008, 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:

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

17 March 2009

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. The Company believes that the improvement of corporate governance level and the establishment of the accountability-based corporate culture will help to maximize its shareholders' interests.

Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during 2008.

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 2008.

The interests in the Company's securities held by the Directors as at 31 December 2008 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 2008, the Board comprises the following Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Li Jinlu and Mr. Li Hongwei; (ii) non-executive Directors: Mr. Song Jinhui, Mr. Zhang Wushan, Mr. Ding Ping and Mr. Hao Ganjun; and (iii) independent non-executive Directors: Mr. Liu Jianwen, Mr. Zhang Yichun, Ms. Yu Shulian and Mr. Wong Ping.

Biographical details of the Chairman of the Board and other Directors are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report. All of the executive Directors 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 2008 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 the 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 the 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 2008, the Board held a total of 11 meetings. The attendance record of each Director is set out below:

Directors	Attendance	Number of board meetings held in 2008	Attendance rate
Executive Directors			
Yan Guoqi	11	11	100%
Li Jinlu	11	11	100%
Li Hongwei	11	11	100%
Non-executive Directors			
Song Jinhui	11	11	100%
Zhang Wushan	11	11	100%
Ding Ping	11	11	100%
Hao Ganjun	11	11	100%
Independent Non-executive Directors			
Zhang Yichun	11	11	100%
Liu Jianwen	11	11	100%
Yu Shulian	11	11	100%
Wong Ping	11	11	100%

Corporate Governance Report

The Board has established subordinate committees in relation to corporate governance, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Independent Board 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 are independent non-executive Directors. Ms. Yu Shulian is the chairperson of the Audit Committee.

In 2008, the Audit Committee held a total of five 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 2008). The Audit Committee also approved the "Management System for Outsourcing Non-Audit Services", which further ensured the independence of external auditors who are engaged to audit the Company's accounts.

The Audit Committee reports to the Board after each meeting and suggests matters which need close attention of the Board, and reports any matters 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 2008	Attendance rate
Yu Shulian	5	5	100%
Zhang Yichun	5	5	100%
Zhang Wushan	5	5	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 2008, 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 2008. The Committee concluded that the amount of the incentive bonus given to each Director and senior management in 2008 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 2008**	**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 2008, 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 assessed the candidates for members of a new session of the Board and formed an opinion on such nomination.

Corporate Governance Report

Nomination Committee (continued)

The attendance record of each Nomination Committee member is set out below:

Names of Directors	Attendance	Number of committee meetings held during 2008	Attendance rate
Yan Guoqi	1	1	100%
Yu Shulian	1	1	100%
Liu Jianwen	1	1	100%
Zhang Yichun	1	1	100%

Independent Board Committee

The Company established an independent board committee (the "Independent Board Committee") in 2007, which is mainly responsible for reviewing the transactions between the Group and its connected persons (including Zhengzhou Gas Group and its associates) which may give rise to a conflict of interest, and making decisions on behalf of the Board in relation to the proposed transactions between the Group and its connected persons and associates which may give rise to a conflict of interest. The committee also makes decisions on behalf of the Board in relation to the exercise of the investment option.

The Independent Board Committee comprises four members. The Chairman of the Committee is Mr. Liu Jianwen, an independent non-executive Director, and the other members are Mr. Zhang Yichun, Ms. Yu Shulian and Mr. Wang Ping, all of them are independent non-executive Directors.

The Independent Board Committee held one meeting in 2008, for the purpose of considering and approving two connected transactions in relation to lease of land use right.

The attendance record of each Independent Board Committee member is set out below:

Names of Directors	Attendance	Number of committee meetings held during 2008	Attendance rate
Liu Jianwen	1	1	100%
Zhang Yichun	1	1	100%
Yu Shulian	1	1	100%
Wang Ping	1	1	100%

Corporate Governance Report

Chairman and General Manager

During the year ended 31 December 2008, 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) 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 2008, 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 2008, the Company had paid auditing fees of approximately RMB4,853,000 (inclusive of two periods of audits for proposed listing of A shares of the Company) (2007: approximately RMB1,770,000) to Ernst & Young.

During the Relevant Period, the Audit Committee approved the "Management System for Outsourcing Non-Audit Services", which further ensures the independence of external auditors who are engaged to audit the Company's accounts.

Responsibility of Preparation of the Accounts

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2008, 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 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.

Internal Control Systems

The Board 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 to safeguard the Company's assets against unauthorised use or misappropriation, maintain accounting records properly and ensure the reliability of financial information.

Corporate Governance Report

Internal Control Systems (continued)

The Board has conducted a review of the effectiveness of the system of internal control of the Group annually and believes that the current management system allows the Company to analyse and assess various risks (including those in respect of gas supply, policy environment, operating management, financial management, personnel management, production safety and legal issues) exposed to the Company in the course of its daily operation, and take appropriate steps to implement effective risk control. Meanwhile, based on the 32 management systems issued by the Standardization Committee, the Company is able to formulate corresponding work procedures and standards in respect of each major business process for daily control purpose. The functions and duties of each department in a particular business process are well-defined so that each department appropriately exercises its functions and bears corresponding duties. Moreover, a system of checks and balances is established among departments.

The Board is also of the view that the Company has established effective channels for communication and feedback, making it possible to deliver important information and feedback among the Company's various management levels, business units and business segments, and also among external investors, creditors, customers and regulatory bodies.

In addition, the Company has also established an independent internal audit department to assist the management to conduct regular and ongoing supervision and inspection on the establishment and implementation of internal control process, so as to identify and solve any problems in a timely manner.

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

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 45 to 108, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement 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 2008 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

17 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**1,028,846**	862,161
Cost of sales		**(717,039)**	(563,562)
Gross profit		**311,807**	298,599
Other income and gains	5	**6,187**	4,199
Selling and distribution costs		**(41,082)**	(35,338)
Administrative expenses		**(67,502)**	(60,963)
Other expenses		**(5,714)**	(10,092)
PROFIT BEFORE TAX	6	**203,696**	196,405
Tax	9	**(51,528)**	(66,722)
PROFIT FOR THE YEAR		**152,168**	129,683
Attributable to:			
Equity holders of the Company		**151,216**	128,462
Minority interests		**952**	1,221
		152,168	129,683
DIVIDENDS	11		
Proposed final		**13,016**	30,286
Proposed conditional special dividend		**100,120**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit for the year (RMB Yuan)		**0.121**	0.103

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**666,115**	632,477
Prepaid land lease payments	15	**113,949**	66,697
Interests in an associate	17	**32,025**	–
Deferred tax assets	18	**7,398**	5,842
Total non-current assets		**819,487**	705,016
CURRENT ASSETS			
Inventories	19	**15,460**	6,186
Construction contract work in progress	20	**954**	1,515
Trade and notes receivables	21	**104,926**	116,993
Prepayments, deposits and other receivables	22	**40,536**	37,364
Restricted cash deposits	23	**25,250**	19,200
Cash and cash equivalents	23	**368,169**	219,091
Due from the holding company		**–**	21
Due from fellow subsidiaries	28	**143**	96
Total current assets		**555,438**	400,466
CURRENT LIABILITIES			
Trade payables	24	**56,174**	64,491
Other payables and accruals	25	**123,594**	94,947
Advance payments received	20	**356,468**	255,710
Interest-bearing bank borrowings	26	**40,000**	–
Tax payable		**13,826**	20,480
Due to fellow subsidiaries	28	**–**	5,746
Total current liabilities		**590,062**	441,374
NET CURRENT LIABILITIES		**(34,624)**	(40,908)
NET ASSETS		**784,863**	664,108
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	**125,150**	125,150
Reserves	30	**655,800**	534,870
		780,950	660,020
Minority interests		**3,913**	4,088
Total equity		**784,863**	664,108

Yan Guoqi
Chairman

Li Jinlu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Note	Attributable to equity holders of the Company								
		Issued capital	Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Reserve arising from acquisition of a minority interest	Total	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 29)		(note 30)	(note 30)	(note 30)				
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
Proposed final 2006 dividend		–	–	–	–	(35,668)	–	(35,668)	–	(35,668)
Dividend paid to minority shareholders		–	–	–	–	–	–	–	(735)	(735)
Transfer from retained profits		–	–	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
At 1 January 2008		**125,150**	**101,026**	**121,284**	**41,456**	**242,954**	**28,150**	**660,020**	**4,088**	**664,108**
Profit for the year		**–**	**–**	**–**	**–**	**151,216**	**–**	**151,216**	**952**	**152,168**
Proposed final 2007 dividend	11	**–**	**–**	**–**	**–**	**(30,286)**	**–**	**(30,286)**	**–**	**(30,286)**
Dividend paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,127)**	**(1,127)**
Transfer from retained profits		**–**	**–**	**13,009**	**10,126**	**(23,135)**	**–**	**–**	**–**	**–**
At 31 December 2008		**125,150**	**101,026***	**134,293***	**51,582***	**340,749***	**28,150***	**780,950**	**3,913**	**784,863**

* These reserve accounts comprise the consolidated reserves of RMB655,800,000 (2007: RMB534,870,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**203,696**	196,405
Adjustments for:			
Interest income	5,6	**(4,498)**	(2,624)
Dividend income from an available-for-sale investment		**–**	(10)
Loss/(gain) on disposal of items of property, plant and equipment	6	**57**	(113)
Gain on disposal of an available-for-sale investment		**–**	(13)
Depreciation	6	**38,013**	30,179
Amortisation of prepaid land lease payments	6	**1,675**	1,535
Impairment of trade receivables	6	**542**	262
Write-down of inventories to net realisable value	6	**438**	1,195
		239,923	226,816
Increase in inventories		**(9,712)**	(2,742)
Decrease/(increase) in construction contracts		**561**	(98)
Decrease/(increase) in trade and notes receivables		**11,525**	(22,124)
Decrease/(increase) in prepayments		**(1,917)**	(7,535)
Increase in deposits and other receivables		**4,879**	(140)
Increase in restricted cash deposits		**(6,050)**	(3,200)
Decrease/(increase) in an amount due from the holding company		**21**	(21)
(Increase)/decrease in amounts due from fellow subsidiaries		**(47)**	40
(Decrease)/increase in trade payables		**(10,852)**	15,946
Increase in advanced payments received		**100,758**	46,328
Increase/(decrease) in other payables		**35,931**	(5,077)
Increase/(decrease) in accruals		**120**	(1,238)
(Decrease)/increase in amounts due to fellow subsidiaries		**(5,746)**	4,799
Cash generated from operations		**359,394**	251,754
Tax paid		**(59,738)**	(50,457)
Net cash inflow from operating activities		**299,656**	201,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,498**	2,624
Dividend from an available-for-sale investment		**–**	10
Purchases of items of property, plant and equipment and prepaid land lease payments		**(125,676)**	(126,741)
Acquisition of an associate		**(32,025)**	–
Proceeds from disposal of items of property, plant and equipment		**3**	745
Disposal of an available-for-sale investment		**–**	63
Net cash outflow from investing activities		**(153,200)**	(123,299)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**40,000**	–
Dividends paid		**(30,286)**	(35,668)
Dividends paid to minority shareholders		**(1,127)**	(735)
Paid for other financing activities		**(5,965)**	–
Net cash inflow/(outflow) from financing activities		**2,622**	(36,403)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**149,078**	41,595
Cash and cash equivalents at beginning of year		**219,091**	177,496
CASH AND CASH EQUIVALENTS AT END OF YEAR		**368,169**	219,091
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**393,419**	238,291
Less: Restricted cash deposits		**(25,250)**	(19,200)
Cash and cash equivalents	23	**368,169**	219,091

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

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**660,715**	625,864
Prepaid land lease payments	15	**109,351**	62,001
Investments in subsidiaries	16	**52,350**	52,350
Interests in an associate	17	**32,025**	–
Deferred tax assets	18	**5,107**	4,218
Total non-current assets		**859,548**	744,433
CURRENT ASSETS			
Inventories	19	**7,961**	4,036
Trade and notes receivables	21	**103,576**	110,946
Prepayments, deposits and other receivables	22	**32,901**	27,143
Restricted cash deposits	23	**25,250**	19,200
Cash and cash equivalents	23	**230,985**	34,703
Due from the holding company		**–**	21
Due from fellow subsidiaries	28	**7**	52
Total current assets		**400,680**	196,101
CURRENT LIABILITIES			
Trade payables	24	**31,405**	39,148
Other payables and accruals	25	**116,564**	91,163
Advance payments received	20	**217,274**	9,722
Interest-bearing bank borrowings	26	**40,000**	–
Tax payable		**3,191**	927
Due to subsidiaries	27	**172,185**	214,020
Due to fellow subsidiaries	28	**–**	5,746
Total current liabilities		**580,619**	360,726
NET CURRENT LIABILITIES		**(179,939)**	(164,625)
NET ASSETS		**679,609**	579,808
EQUITY			
Issued capital	29	**125,150**	125,150
Reserves	30	**554,459**	454,658
Total equity		**679,609**	579,808

Yan Guoqi
Chairman

Li Jinlu
Director

Notes to Financial Statements

31 December 2008

1. Corporate information

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares 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 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 ("IASB"), 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. 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 the 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 2008

2.2 Impact of new and revised IFRSs

The Group has adopted the following new interpretations and amendments to 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, the adoption of these new interpretations and amendments has had no effect on these financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 – Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 Impact of new and revised IFRSs (continued)

(b) IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

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 buys 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 has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 12 *Service Concession Arrangements*

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. After assessing the terms in the concession agreement, the directors are of the opinion that the Group controls and retains the rights on the residual interest of the infrastructure relating to service concession arrangements. Thus, the interpretation has had no financial impact on the Group.

(d) IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no financial impact on the Group.

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

Notes to Financial Statements

31 December 2008

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.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
IFRS 3 (Revised)	*Business Combinations* [2]
IFRS 8	*Operating Segments* [1]
IAS 1 (Revised)	*Presentation of Financial Statements* [1]
IAS 23 (Revised)	*Borrowing Costs* [1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
IFRIC 13	*Customer Loyalty Programmes* [3]
IFRIC 15	*Agreements for the Construction of Real Estate* [1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation* [4]
IFRIC 17	*Distribution of Non-cash Assets to Owners* [2]
IFRIC 18	*Transfers of Assets from Customers* [2]

Apart from the above, the IASB has also issued *Improvements to IFRSs** which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity 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.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

2.4 Summary of significant accounting policies (continued)

Goodwill (continued)

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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, goodwill 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.

2.4 Summary of significant accounting policies (continued)

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

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.

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

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.

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2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of 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, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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%

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 least 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 and capitalised borrowing costs on related borrowed funds 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.

2.4 Summary of significant accounting policies (continued)

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.

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables, 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.

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; a discounted cash flow analysis, and option pricing models.

2.4 Summary of significant accounting policies (continued)

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.

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.

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

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 (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and an amount due to the subsidiaries and fellow subsidiaries and interest-bearing loans and borrowings 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 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.

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 any estimated costs expected to be incurred to completion and disposal.

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2.4 Summary of significant accounting policies (continued)

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 below.

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

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

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 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.

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 goodwill or 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 taxable temporary differences associated with investments in subsidiaries and interests in associates, 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 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 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 and interests in associates, 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.

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.

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.

Connection and construction of gas pipelines
Revenue in respect of the connection and 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 is acceptable to users. Upon the fire ignition ceremony, the significant risks 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 month to six 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.

2.4 Summary of significant accounting policies (continued)

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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 Company'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.

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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) 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 2008 was RMB7,398,000 (2007: RMB5,842,000). Further details are given in note 18 to the financial statements.

(b) 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 the estimate has been changed.

(c) 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, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

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 connection and construction. The principal activities of the business segments are as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work
Gas pipeline connection and construction	Connection and construction of gas pipelines

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

Notes to Financial Statements

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4. Segment information (continued)

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

	Sales of natural gas and other related products RMB'000	Gas pipeline connection and construction RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended 31 December 2008				
Segment revenue:				
Sales to external customers	766,525	262,321	–	1,028,846
Intersegment sales	7,635	23,738	(31,373)	–
Total	774,160	286,059	(31,373)	1,028,846
Segment results	60,709	209,640	(491)	269,858
Other income and gains				6,074
Unallocated corporate expenses				(72,236)
Profit before tax				203,696
Tax				(51,528)
Profit for the year				152,168
Assets and liabilities				
Total assets	1,231,046	346,554	(202,675)	1,374,925
Total liabilities	582,878	181,052	(173,868)	590,062
Other segment information:				
Depreciation of items of property, plant and equipment	37,156	2,206	(1,349)	38,013
Capital expenditure	122,773	415	(2,381)	120,807
Impairment of trade receivables	82	460	–	542
Other non-cash expenses	2,014	99	–	2,113
Other non-cash revenue	–	–	–	–

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 connection and 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 tax				196,405
Tax				(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 items 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 expenses	2,730	–	–	2,730
Other non-cash revenue	(526)	–	–	(526)

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31 December 2008

5. Revenue and other income and gains

	Note	2008 RMB'000	2007 RMB'000
Revenue			
Natural gas		**747,413**	604,610
Gas appliances		**11,348**	5,898
Pressure control equipments		**1,530**	3,070
Gas pipelines:			
Connection and construction		**271,339**	246,227
Provision of renovation work		**7,008**	11,163
Others		**86**	55
		1,038,724	871,023
Less: Business tax and government surcharges		**(9,878)**	(8,862)
		1,028,846	862,161
Other income and gains			
Bank interest income		**4,498**	2,624
Rental income		**487**	300
Government grants	(a)	**600**	–
Dividend income from an available-for-sale investment		**–**	23
Others		**602**	1,252
		6,187	4,199
		1,035,033	866,360

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.

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6. Profit before tax

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**626,094**	490,602
Depreciation	14	**38,013**	30,179
Amortisation of prepaid land lease payments	15	**1,675**	1,535
Minimum lease payments under operating leases:			
Land and buildings		**9,955**	9,119
Equipment		**5,272**	4,959
Trademarks		**780**	780
		16,007	14,858
Auditors' remuneration		**4,853**	1,770
Employee benefits expense (including directors' and supervisors' remuneration (note 7)):			
Wages and salaries		**79,697**	66,086
Pension scheme contributions (defined contribution scheme)		**8,925**	7,903
Accommodation benefits (defined contribution scheme)		**5,477**	4,793
Less: Amount capitalised		**–**	(2,322)
		94,099	76,460
Foreign exchange differences, net		**(272)**	(129)
Impairment of trade receivables	21	**542**	262
Write-down of inventories to net realisable value	19	**438**	1,195
Bank interest income	5	**(4,498)**	(2,624)
Loss/(gain) on disposal of items of property, plant and equipment		**57**	(113)

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7. Directors' and supervisors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2008 RMB'000	2007 RMB'000
Fees	**220**	492
Other emoluments:		
Salaries, allowances and benefits in kind	**664**	616
Performance related bonuses	**400**	633
Pension scheme contributions	**12**	32
	1,076	1,281
	1,296	1,773

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Mr. Zhang Yichun	**50**	50
Mr. Liu Jianwen	**50**	50
Ms. Yu Shulian	**50**	50
Mr. Wong Ping	**70**	70
	220	220

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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7. Directors' and supervisors' remuneration (continued)

(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
2008					
Executive directors:					
Mr. Yan Guoqi	**–**	**294**	**187**	**6**	**487**
Mr. Li Jinlu	**–**	**196**	**106**	**5**	**307**
Mr. Li Hongwei	**–**	**174**	**107**	**1**	**282**
	–	**664**	**400**	**12**	**1,076**
Non-executive directors:					
Mr. Song Jinhui	**–**	**–**	**–**	**–**	**–**
Mr. Zhang Wushan	**–**	**–**	**–**	**–**	**–**
Mr. Hao Ganjun	**–**	**–**	**–**	**–**	**–**
Mr. Ding Ping	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
	–	**664**	**400**	**12**	**1,076**
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

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7. Directors' and supervisors' remuneration (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
2008					
Supervisors:					
Ms. Bao Hongwei	**–**	**177**	**105**	**5**	**287**
Mr. Zhao Ruibao	**–**	**126**	**73**	**5**	**204**
Ms. Wang Xiaohua	**–**	**70**	**54**	**5**	**129**
Ms. Niu Minghua	**–**	**–**	**–**	**–**	**–**
Mr. Chen Kun	**–**	**–**	**–**	**–**	**–**
	–	**373**	**232**	**15**	**620**
Independent supervisors:					
Mr. Cai Yuming	**50**	**–**	**–**	**–**	**50**
Mr. Yang Guirong	**50**	**–**	**–**	**–**	**50**
	100	**–**	**–**	**–**	**100**
	100	**373**	**232**	**15**	**720**
2007					
Supervisors:					
Ms. Niu Minghua	–	99	65	4	168
Mr. Ding Ping	–	107	76	5	188
Mr. Chen Kun	–	–	–	–	–
Ms. Zhou Weihua	–	–	–	–	–
Mr. Chang Zongxian	–	–	–	–	–
	–	206	141	9	356
Independent supervisors:					
Mr. Cai Yuming	50	–	–	–	50
Mr. Yang Guirong	50	–	–	–	50
	100	–	–	–	100
	100	206	141	9	456

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

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.

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8. Five highest paid employees

The five highest paid employees during the year included three (2007: four) directors. They were Yan Guoqi, Li Jinlu and Bao Hongwei, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2007: one) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Basic salaries and other benefits	**746**	579
Bonuses paid and payable	**175**	57
Retirement benefit	**17**	12
	938	648

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

During the year ended 31 December 2008, no emoluments were paid by the Group to the directors or the other non-director, highest paid employee as an inducement to join or upon joining the Group, or as a compensation for loss of office.

9. Tax

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group for the year 2008.

Major components of the Group's income tax expense for the year ended 31 December 2008 are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Current		
Charge for the year	**52,988**	63,765
Underprovision in prior years	**96**	285
Deferred (note 18)	**(1,556)**	2,672
Total tax charge for the year	**51,528**	66,722

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9. Tax (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:

	2008	2007
	RMB'000	RMB'000
Profit before tax	**203,696**	196,405
Tax at the applicable tax rate of 25% (2007: 33%)	**50,924**	64,813
Tax effect of:		
Reversal of temporary difference not recognised	**–**	(232)
Adjustments in respect of current tax of previous periods	**96**	285
Income not subject to tax	**–**	(63)
Expenses not deductible for tax	**361**	174
Tax losses utilised from previous years	**–**	(153)
Unrealised profits	**147**	77
Effect on opening deferred tax of decrease in rates	**–**	1,821
Tax charge at the Group's effective tax rate	**51,528**	66,722

10. Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of RMB130,087,000 (2007: RMB101,264,000) which has been dealt with in the financial statements of the Company.

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11. Dividends

(a) Final

	2008 RMB'000	2007 RMB'000
Proposed final – RMB0.0104 per ordinary share (2007: RMB0.0242)	**13,016**	30,286

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(b) Conditional special dividends

	2008 RMB'000	2007 RMB'000
Proposed conditional special dividend – RMB0.08 per ordinary share (2007: Nil)	**100,120**	–

Pursuant to the AGM and class meetings of holders of H shares and domestic shares held on 26 May 2008, subject to the approval from the China Securities Regulatory Commission ("CSRC") and other relevant regulatory authorities ("Conditions") to the Company for allotment, issue and dealing with the A Shares ("A Share issue"), the Board shall declare the special dividend from the audited accumulated undistributed profits of the company to all shareholders prior to the A Share Issue. The conditional special dividend shall be RMB0.08 per share of the Company, which will amount to RMB100,120,000 million in aggregate.

During the board meeting held on 17 March 2009, the directors resolved to approve the proposed distribution of conditional special dividend of RMB0.08 per share of the Company, subject to, inter alia, the waiver of the above Conditions and the resolution in respect of the revised proposed issue of A shares have been approved by shareholders of the Company at the forthcoming AGM and class meetings of holders of H shares and domestic shares of the Company. The proposed conditional special dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

Subject to the approval of the shareholders of the Company at the forthcoming AGM and class meetings of holders of H shares and domestic shares of the Company, the Company's accumulated undistributed profits after the distribution of the conditional special dividend and the proposed final dividend for the year ended 31 December 2008 and from 1 January 2009 to the day prior to completion of the A Share Issue shall be shared by all new and existing shareholders of the Company after the A Share Issue.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year and the bonus issue after the balance sheet date.

The calculation of basic and diluted earnings per share is based on:

	2008	2007
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	**151,216**	128,462

	Number of shares	
	2008	2007
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year	**1,251,500**	1,251,500

13. Retirement benefits and accommodation benefits

Retirement benefits

As stipulated by 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% (2007: 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% (2007: 12%) of the 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 these contributions to the accommodation fund.

14. Property, plant and equipment

Group

31 December 2008	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 2008:	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Additions	1,480	1,170	479	1,061	3,245	140	450	63,686	71,711
Transferred from construction in progress	724	6,553	25,279	241	–	769	–	(33,566)	–
Disposals	–	–	–	–	(363)	–	–	–	(363)
At 31 December 2008	51,116	260,924	428,953	17,385	36,813	7,349	982	72,779	876,301
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,786	57,694	89,431	5,408	12,929	3,169	59	–	172,476
Depreciation charge for the year	1,956	12,524	16,856	1,847	3,551	1,121	158	–	38,013
Disposals	–	–	–	–	(303)	–	–	–	(303)
At 31 December 2008	5,742	70,218	106,287	7,255	16,177	4,290	217	–	210,186
Net carrying amount:									
At 31 December 2008	45,374	190,706	322,666	10,130	20,636	3,059	765	72,779	666,115
At 31 December 2007	45,126	195,507	313,764	10,675	21,002	3,271	473	42,659	632,477

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

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14. Property, plant and equipment (continued)

Company

31 December 2008	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 2008:	**43,671**	**233,008**	**422,472**	**14,925**	**26,639**	**6,412**	**532**	**43,771**	**791,430**
Additions	**1,233**	**998**	**–**	**899**	**3,245**	**140**	**450**	**64,465**	**71,430**
Transferred from construction in progress	**724**	**6,553**	**26,255**	**241**	**–**	**769**	**–**	**(34,542)**	**–**
Disposals	**–**	**–**	**–**	**–**	**(363)**	**–**	**–**	**–**	**(363)**
At 31 December 2008	**45,628**	**240,559**	**448,727**	**16,065**	**29,521**	**7,321**	**982**	**73,694**	**862,497**
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	**3,559**	**53,176**	**91,834**	**4,894**	**8,900**	**3,144**	**59**	**–**	**165,566**
Depreciation charge for the year	**1,752**	**11,306**	**17,678**	**1,709**	**2,791**	**1,120**	**158**	**–**	**36,514**
Disposals	**–**	**–**	**–**	**–**	**(298)**	**–**	**–**	**–**	**(298)**
At 31 December 2008	**5,311**	**64,482**	**109,512**	**6,603**	**11,393**	**4,264**	**217**	**–**	**201,782**
Net carrying amount:									
At 31 December 2008	**40,317**	**176,077**	**339,215**	**9,462**	**18,128**	**3,057**	**765**	**73,694**	**660,715**
At 31 December 2007	40,112	179,832	330,638	10,031	17,739	3,268	473	43,771	625,864

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

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15. Prepaid land lease payments

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**68,277**	18,756	**63,483**	18,756
Additions	**49,096**	51,056	**49,096**	46,133
Recognised during the year	**(1,675)**	(1,535)	**1,577**	(1,406)
Carrying amount at 31 December	**115,698**	68,277	**111,002**	63,483
Current portion included in prepayments, deposits and other receivables	**(1,749)**	(1,580)	**(1,651)**	(1,482)
Non-current portion	**113,949**	66,697	**109,351**	62,001

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

As at 31 December 2008, the Group is in process of applying for the land certificates, with net book values of RMB44,981,000 (2007: RMB3,043,000).

16. Investments in subsidiaries

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted investments, at cost	**52,350**	52,350

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16. Investments in subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of registration and operations/ date of registration	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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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17. Interests in an associate

	Group and Company 2008 RMB'000
Share of net assets	29,062
Goodwill on acquisition	2,963
Provision for impairment	–
	32,025

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Pingdingshan Gas LLC.	RMB95,590,600	PRC	27%	Sale of natural gas, LPG and gas appliances, construction of gas pipelines and the provision of renovation services of gas pipelines.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2008 RMB'000
Assets	446,562
Liabilities	339,348
Revenue	203,207
Profit	10,905

On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission to acquire a 27% equity interest in Pingdingshan Gas LLC. at an aggregate cash consideration of approximately RMB32,025,000 (inclusive of RMB1,525,000 transaction cost).

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18. Deferred tax assets

Group

	Temporary differences arising from				
	Provision for impairment losses RMB'000	**Accrued expenses RMB'000**	**Unrealised intergroup profit RMB'000**	**Advances from customers aged more than one year and others RMB'000**	**Total RMB'000**
At 1 January 2008	**1,001**	**3,025**	**1,624**	**192**	**5,842**
Deferred tax credited to the income statement during the year (note 9)	**124**	**1,015**	**113**	**304**	**1,556**
At 31 December 2008	**1,125**	**4,040**	**1,737**	**496**	**7,398**

	Temporary differences arising from				
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Unrealised intergroup profit RMB'000	Advances from customers aged more than one year and others RMB'000	Total RMB'000
At 1 January 2007	490	6,024	1,783	217	8,514
Deferred tax credited/(charged) to the income statement during the year (note 9)	511	(2,999)	(159)	(25)	(2,672)
At 31 December 2007	1,001	3,025	1,624	192	5,842

18. Deferred tax assets (continued)

Company

	Temporary differences arising from			
	Provision for impairment losses RMB'000	**Accrued expenses RMB'000**	**Advances from customers aged more than one year RMB'000**	**Total RMB'000**
At 1 January 2008	**1,001**	**3,025**	**192**	**4,218**
Deferred tax credited to the income statement during the year	**9**	**576**	**304**	**889**
At 31 December 2008	**1,010**	**3,601**	**496**	**5,107**

	Temporary differences arising from			
	Provision for impairment losses RMB'000	Accrued expenses RMB'000	Advances from customers aged more than one year RMB'000	Total RMB'000
At 1 January 2007	490	6,024	217	6,731
Deferred tax credited/(charged) to the income statement during the year	511	(2,999)	(25)	(2,513)
At 31 December 2007	1,001	3,025	192	4,218

19. Inventories

	Group		Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Natural gas, at net realisable value	**4,947**	2,491	**4,947**	2,491
Construction materials and pressure control equipment, at net realisable value	**10,513**	3,695	**3,014**	1,545
	15,460	6,186	**7,961**	4,036

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB438,000 (2007: RMB1,195,000) and RMB438,000 (2007: RMB1,195,000), respectively.

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20. Construction contract work in progress/advance payments received

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Construction contract work in progress				
Contract costs incurred to date	**954**	1,515	**–**	–
Advance payments received				
Progress payments received	**402,206**	288,360	**217,274**	10,076
Less: Contract costs incurred to date	**(45,738)**	(32,650)	**–**	(354)
	356,468	255,710	**217,274**	9,722

As at 31 December 2008, retention held by customers for contract work included in trade receivables amounted to approximately RMB262,000 (2007: RMB1,439,000).

21. Trade and notes receivables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**105,035**	110,869	**103,225**	106,722
Notes receivables	**2,200**	7,891	**2,200**	5,991
Impairment	**(2,309)**	(1,767)	**(1,849)**	(1,767)
	104,926	116,993	**103,576**	110,946

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months. 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.

21. Trade and notes receivables (continued)

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**98,704**	97,999	**98,014**	95,930
1 to 3 months	**2,813**	9,052	**2,803**	8,733
3 to 6 months	**2,398**	7,566	**2,361**	5,265
6 to 12 months	**478**	1,788	**182**	860
Over 12 months	**533**	588	**216**	158
	104,926	116,993	**103,576**	110,946

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,767**	1,505	**1,767**	1,505
Impairment losses recognised (note 6)	**542**	262	**82**	262
At 31 December	**2,309**	1,767	**1,849**	1,767

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,296,000 (2007: RMB1,276,000) with a carrying amount of RMB1,296,000 (2007: RMB1,276,000). 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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21. Trade and notes receivables (continued)

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**101,972**	105,959	**101,100**	101,921
Less than 1 month past due	**1,800**	6,845	**1,759**	6,215
1 to 3 months past due	**217**	1,491	**217**	1,471
3 to 6 months past due	**207**	496	**145**	496
6 to 12 moths past due	**260**	1,768	**228**	839
Over 12 months past due	**470**	434	**127**	4
	104,926	116,993	**103,576**	110,946

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.

22. Prepayments, deposits and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**36,833**	34,747	**30,292**	24,938
Deposits and other receivables	**3,703**	2,617	**2,609**	2,205
	40,536	37,364	**32,901**	27,143

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.

23. Cash and cash equivalents and restricted cash deposits

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**393,419**	238,291	**256,235**	53,903
Less: Restricted cash deposits	**(25,250)**	(19,200)	**(25,250)**	(19,200)
Cash and cash equivalents	**368,169**	219,091	**230,985**	34,703

At the balance sheet date, the cash and bank balances of the Group denominated in Hong Kong dollars ("HK$") amounted to HK$936 (2007: HK$927).

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**36,732**	49,121	**21,797**	30,007
1 to 3 months	**12,034**	4,033	**5,067**	1,900
3 to 6 months	**2,498**	2,937	**1,234**	1,143
6 to 12 months	**1,795**	4,286	**1,319**	4,275
Over 12 months	**3,115**	4,114	**1,988**	1,823
	56,174	64,491	**31,405**	39,148

The above balances are unsecured, non-interest-bearing and are normally settled on 7-365-day terms.

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25. Other payables and accruals

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**55,594**	52,259	**55,219**	51,941
Other payables	**45,601**	27,278	**40,704**	23,826
Accruals	**1,470**	1,350	**1,470**	1,350
Payroll payables	**20,929**	14,060	**19,171**	14,046
	123,594	94,947	**116,564**	91,163

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

26. Interest-bearing bank borrowings

Group and Company

	2008			2007		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**4.8-5.0**	**2009**	**40,000**	–	–	–

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**40,000**	–	**40,000**	–

The Group's banking facilities amount to RMB420,000,000 (2007: RMB260,000,000), of which RMB40,000,000 (2007: Nil) has been utilised as at the balance sheet date.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

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27. Due to subsidiaries

	Notes	2008 RMB'000	2007 RMB'000
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
– Entrusted loans	(a)	**100,000**	100,000
– Accrued interest on entrusted loans		**208**	–
– Construction fee payables	(b)	**71,805**	109,148
		172,013	209,148
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		**172**	4,872
		172,185	214,020

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 6.804% (2007: 6.39%) per annum and are repayable on 24 February 2009.

(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.

28. Due from/to fellow subsidiaries

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

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29. Issued capital

	Group and Company			
	2008		2007	
	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

	2008		2007	
	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

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.

30. Reserves

(a) Group

(i) 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.

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

In addition to the statutory surplus reserve 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 26 May 2008 to transfer approximately RMB10,126,000 from the Company's retained earnings as at 31 December 2007 to the GSR.

(iii) Retained profits

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.

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. Since 2007, profits under IFRS are the same as those under PRC GAAP.

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 2008, the Company's reserves available for distribution were approximately RMB310,443,000 (2007: RMB233,777,000), of which approximately RMB13,016,000 and RMB100,120,000 have been proposed as a final dividend and conditional special dividend, respectively, for the year and approximately RMB13,009,000 has been proposed to be transferred to the GSR.

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30. Reserves (continued)

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2007		101,026	98,225	189,811	389,062
Profit for the year		–	–	101,264	101,264
Proposed final 2006 dividend	11	–	–	(35,668)	(35,668)
Transfer from retained profits		–	21,630	(21,630)	–
At 31 December 2007		101,026	119,855	233,777	454,658
Profit for the year		–	–	130,087	130,087
Proposed final 2007 dividend	11	–	–	(30,286)	(30,286)
Transfer from retained profits		–	23,135	(23,135)	–
As 31 December 2008		101,026	142,990	310,443	554,459

31. Operating lease arrangements

As lessee

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

	Group		Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Within one year	**12,940**	15,694	**12,403**	15,157
In the second to fifth years, inclusive	**12,934**	34,771	**12,595**	33,894
Over five years	**8,132**	8,342	**8,132**	8,342
	34,006	58,807	**33,130**	57,393

31. Operating lease arrangements (continued)

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.

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Capital commitments				
In respect of items of property, plant and equipment:				
Contracted, but not provided for	**123,916**	11,779	**123,916**	11,670
Authorised, but not contracted for	**522,930**	364,534	**522,726**	364,534
	646,846	376,313	**646,642**	376,204

33. Contingencies

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

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34. Related party transactions

(i) Transactions with the Group's and 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	2008 RMB'000	2007 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))	**10,196**	8,930
	Trademark fees (note (e))	**780**	780
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
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (g))	**7,354**	17,000
Zhengzhou Gas Group LPG Co., Ltd. (note (b))	Purchases of items of property, plant and equipment and land (note (h))	**–**	27,606
NanYang Zhengran Natural Gas Co., Ltd. (note (b))	Provision of construction services to the related company	**–**	884
	Sales of goods to the related company	**136**	–

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34. Related party transactions (continued)

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

Name of related parties	Nature of transactions	2008 RMB'000	2007 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))	**9,659**	8,296
	Trademark fees (note (e))	**780**	780
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
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (c))	Provision of construction services by the related company (note (i))	**24,284**	7,567
	Advances from the related company (note (j))	**71,805**	109,148
	Entrusted loans from the related company (note (k))	**80,000**	100,000
	Interest expense to the related company (note (k))	**9,355**	8,535
	Sales of construction materials to the related company	**546**	–
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (c))	Purchases of construction materials from the related company (note (l))	**2,871**	8,092
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchases of land and buildings (note (g))	**7,354**	17,000
Zhengzhou Gas Group LPG Co., Ltd. (note (b))	Purchases of property, plant and equipment (note (h))	**–**	27,606

34. Related party transactions (continued)

(i) Transactions with the Group's and 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, the equipment lease agreement, and vehicle lease agreements entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment, vehicle 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. The agreement was expired at 31 December 2007.

(g) On 30 November 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire a parcel of land situated at the junction of Juyuan Road East and Hongtu Road South, at an aggregate consideration of RMB6,690,000 and certain buildings erected there at a consideration of RMB664,000.

As at 31 December 2008, the acquisition of the parcel 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.

34. Related party transactions (continued)

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

Notes: (continued)

(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 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.

(j) Apart from the entrusted loans advanced by Zhengzhou Gas Engineering and Construction Co., Ltd. as set out in note 27 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 5.58% per annum (2007: 7.47% per annum) for the year ended 31 December 2008, the Company would have borne interest expense, net of tax, of approximately RMB4,452,000 (2007: RMB6,136,000) for the year ended 31 December 2008.

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

(k) On 22 February 2008 and 27 February 2008, the Company entered into two agreements with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright Bank Zhongyuan Branch ("Everbright") for two entrusted loan, both of which were with amount of RMB40,000,000 at interest rate of 5.913% per annum, including bank commission charge at a rate of 0.1% per annum. The repayment of RMB40,000,000 was made by the Company on 21 August 2008, and the other on 26 August 2008.

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.

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34. Related party transactions (continued)

(ii) Compensation of key management personnel of the Group

	2008 RMB'000	2007 RMB'000
Short term employee benefits	**4,570**	4,435
Retirement benefits	**90**	109
Total compensation paid to key management personnel	**4,660**	4,544

Further details of the 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 Relevant Periods, the Group had transactions with State-Owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

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

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

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35. Financial instruments by category

Group

Financial assets

	Notes	2008 Loans and receivables RMB'000	2007 Loans and receivables RMB'000
Cash and cash equivalents	23	368,169	219,091
Trade and notes receivables	21	104,926	116,993
Due from the holding company		–	21
Due from fellow subsidiaries	28	143	96
Financial assets included in prepayments, deposits and other receivables	22	3,703	1,115
		476,941	337,316

Financial liabilities

	Notes	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	40,000	–
Trade payables	24	56,174	64,491
Due to fellow subsidiaries	28	–	5,746
Financial liabilities included in other payables and accruals	25	45,601	27,278
		141,775	97,515

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35. Financial instruments by category (continued)

Company

Financial assets

	Notes	2008 Loans and receivables RMB'000	2007 Loans and receivables RMB'000
Investments in subsidiaries	16	52,350	52,350
Trade and notes receivables	21	103,576	110,946
Cash and cash equivalents	23	230,985	34,703
Due from the holding company		–	21
Due from fellow subsidiaries	28	7	52
Financial assets included in prepayments, deposits and other receivables	22	2,609	705
		389,527	198,777

Financial liabilities

	Notes	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	40,000	–
Trade payables	24	31,405	39,148
Due to subsidiaries	27	172,185	214,020
Due to fellow subsidiaries	28	–	5,746
Financial liabilities included in other payables and accruals	25	40,704	23,826
		284,294	282,740

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36. Financial risk management objectives and policies

The Group's principal financial liabilities are trade payables and interest-bearing bank borrowings. 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

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The Group is not exposed to material interest rate risks as the interest-bearing bank borrowings of the Group are short term with fixed interest rates.

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.

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, 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 21 to the financial statements.

36. Financial risk management objectives and policies (continued)

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 contractual undiscounted payments, was as follows:

Group

			2008			
		Less than	91 to 180	181 to 365	Over	
	On demand	90 days	days	days	365 days	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	–	–	–	40,000	–	40,000
Trade payables	36,539	11,719	1,096	6,820	–	56,174
Other payables	3,755	13,245	4,084	23,760	757	45,601
	40,294	24,964	5,180	70,580	757	141,775

			2007			
		Less than	91 to 180	181 to 365	Over	
	On demand	90 days	days	days	365 days	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

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36. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Company

	2008					
	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**
Interest-bearing bank borrowings	**–**	**–**	**–**	**40,000**	**–**	**40,000**
Trade payables	**23,374**	**115**	**1,096**	**6,820**	**–**	**31,405**
Other payables	**1,780**	**10,662**	**4,045**	**23,760**	**457**	**40,704**
Due to subsidiaries	**–**	**100,000**	**–**	**595**	**71,590**	**172,185**
	25,154	**110,777**	**5,141**	**71,175**	**72,047**	**284,294**

	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

36. Financial risk management objectives and policies (continued)

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 for managing capital during the years ended 31 December 2008 and 31 December 2007. As at 31 December 2008 and 2007, the details of the capital structure of the Group are as follows:

	2008 **RMB'000**	2007 RMB'000
Issued capital	**125,150**	125,150
Reserves	**655,800**	534,870
Total capital	**780,950**	660,020

36. Financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio at or below 30%. Net debt includes interest-bearing bank borrowings, trade and other payables, accruals, advance payments received, an amount due to fellow subsidiaries, less cash and cash equivalents. Capital includes share capital and reserves. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008	2007
	RMB'000	RMB'000
Interest-bearing bank borrowings	**40,000**	–
Trade payables	**56,174**	64,491
Other payables and accruals	**123,594**	94,947
Advance payments received	**356,468**	255,710
Due to fellow subsidiaries	**–**	5,746
Less: Cash and cash equivalents	**(368,169)**	(219,091)
Net debt	**208,067**	201,803
Issued capital	**125,150**	125,150
Reserves	**655,800**	534,870
Capital	**780,950**	660,020
Capital and net debt	**989,017**	861,823
Gearing ratio	**21%**	23%

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37. Post balance sheet events

The following significant events took place subsequent to 31 December 2008:

(a) Subsequent to 31 December 2008, the directors proposed a final dividend of RMB0.0104 per ordinary share, totalling approximately RMB13,016,000 pertaining to 2008 for payment in 2009. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(b) Subsequent to 31 December 2008, the directors proposed to transfer 10%, totalling approximately RMB13,009,000 of the Company's profit after tax for the year ended 31 December 2008 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(c) Subsequent to 31 December 2008, the directors proposed to declare the conditional special dividend, as set out in note 11(b).

(d) Currently, the domestic shares and H shares of the Company are at a par value of RMB0.10 each and the Company will also propose to apply to the CSRC and the relevant authorities to issue A shares at RMB0.10 each. However, as it is the practice that A shares listed on the Shenzhen Stock Exchange are at a par value of RMB1.00 each and the relevant laws, rules and regulations and the relevant authorities may require the Company to consolidate its issued domestic shares and H shares in order to increase the par value from RMB0.10 each to RMB1.00 each as a condition of granting the approval of the A Shares Issue ("Share Consolidation"), therefore the Board is authorised to decide that if required by the relevant laws, rules and regulations and the relevant authorities ("the Conditions of Share Consolidation"), the Company will effect the Share Consolidation in order to facilitate the proposed A Share Issue.

Subsequent to 31 December 2008, the directors proposes to seek Shareholders' approval of waiver of the Conditions of Share Consolidation at the forthcoming 2008 AGM and Class Meetings and the implementation of the Share Consolidation after the forthcoming 2008 AGM and Class Meetings.

(e) Pursuant to the 2009 first board meeting held on 17 March 2009, the Company proposed the A Share Issue with a maximum of 42,000,000 A Shares of RMB1.00 each on the Shenzhen Stock Exchange. The final number of A shares to be issued and the structure of the issue is subject to the approval by CSRC and other relevant authorities and adjustments (if any) made by the Board as authorised by the shareholders at the AGM and the class meetings.

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38. Comparative figures

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

39. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 17 March 2009.