ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

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

(Stock Code: 8099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors (the "Directors") of Zhengzhou Gas Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS HIGHLIGHT

- Audited consolidated revenue and profit attributable to equity holders of the Company for the Relevant Period amounted to approximately RMB620,478,000 and RMB93,400,000 respectively, representing respective increases of approximately 31.91% and 43.23% over the corresponding period of last year.

- Sales of piped natural gas for the Relevant Period amounted to RMB413,606,000, representing an increase of approximately 37.55% over the corresponding period of last year, which was primarily attributed to the increase in the number of residential, industrial, commercial and vehicular users, coupled with a significant increase in gas consumption by commercial and vehicular users.

- Revenue derived from gas pipeline construction aggregated to approximately RMB168,049,000 for the Relevant Period, representing an increase of approximately 26.30% over the corresponding period of last year, which was primarily attributed to satisfactory growth in gas pipeline construction projects for residential users.

- Basic earnings per share for the Relevant Period was approximately RMB0.075, representing an increase of approximately RMB0.023 as compared with approximately RMB0.052 in the corresponding period of last year.

- The Directors recommended the payment of a final dividend of RMB0.0138 per share for the year ended 31 December 2005.

ANNUAL RESULTS

The board of directors of the Company (the "Board") is pleased to announce the audited results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2005 ("the Relevant Period"), together with the comparative figures for the corresponding period of 2004 as follows:

Audited Consolidated Income Statement

	Notes	**2005** ***RMB'000***	2004 *RMB'000*
Revenue	*4*	**620,478**	470,386
Cost of sales		**(410,876)**	(300,643)
Gross profit		**209,602**	169,743
Other income	*4*	**2,334**	1,144
Selling and distribution costs		**(26,860)**	(16,822)
Administrative expenses		**(58,002)**	(47,157)
Other expenses		**(764)**	(8,186)
Profit from operating activities		**126,310**	98,722
Finance costs		**–**	–
Profit before income tax	*5*	**126,310**	98,722
Income tax expenses	*7*	**(16,560)**	(23,813)
Profit for the year		**109,750**	74,909
Attributable to:			
Shareholders of the Company		**93,400**	65,211
Minority interests		**16,350**	9,698
		109,750	74,909
Dividends	*8*	**20,024**	5,507
Earnings per share attributable to ordinary equity holders of the Company			
– Basic and diluted (RMB Yuen)	*9*	**0.075**	0.052

Audited Balance Sheet

		Group		Company	
		2005	2004	**2005**	2004
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Interests in subsidiaries		**–**	–	**42,450**	42,450
Long term investment		**200**	200	**200**	200
Property, plant and equipment		**366,077**	300,947	**365,559**	293,762
Construction in progress		**91,225**	101,977	**73,318**	83,110
Land use rights		**10,056**	7,005	**10,056**	7,005
Deferred tax assets		**3,228**	2,641	**1,833**	2,641
Total non-current assets		**470,786**	412,770	**493,416**	429,168
Current assets					
Cash and cash equivalents		**184,892**	112,410	**99,880**	55,625
Trade receivables	*10*	**74,348**	71,022	**67,358**	70,095
Inventories		**3,886**	3,940	**673**	1,614
Construction contract work in progress		**911**	359	**–**	-
Prepayments, deposits and sundry debtors		**15,638**	15,009	**7,972**	8,522
Due from fellow subsidiaries		**111**	-	**111**	-
Total current assets		**279,786**	202,740	**175,994**	135,856
TOTAL ASSETS		**750,572**	615,510	**669,410**	565,024
Current liabilities					
Trade payables	*11*	**41,554**	31,008	**19,091**	19,232
Advance payments received		**162,207**	138,958	**4,450**	10,105
Accrued liabilities and other payables		**64,089**	27,300	**59,717**	25,993
Tax payable		**6,938**	10,968	**5,524**	10,044
Due to the holding company		**2,877**	15,155	**2,877**	15,155
Due to subsidiaries		**–**	-	**207,124**	150,867
Due to fellow subsidiaries		**100**	855	**100**	855
Total current liabilities		**277,765**	224,244	**298,883**	232,251
NET CURRENT ASSETS/ (LIABILITIES)		**2,021**	(21,504)	**(122,889)**	(96,395)
NET ASSETS		**472,807**	391,266	**370,527**	332,773
EQUITY					
Equity attributable to equity holders of the Company					
Share capital		**125,150**	125,150	**125,150**	125,150
Reserves	*12*	**319,712**	246,336	**245,377**	207,623
		444,862	371,486	**370,527**	332,773
Minority interests		**27,945**	19,780	**–**	–
Total equity		**472,807**	391,266	**370,527**	332,773

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATION INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares have been listed on the GEM since 29 October 2002.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. They have been prepared on 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 as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. The results of subsidiaries established or dissolved during the year are consolidated from or to their effective dates of establishment or dissolution. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interests represent the interests not held by the Group in the results and net assets of the Company's subsidiaries.

Impact of Issued But Not Yet Effective International Financial Reporting Standards (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. Unless otherwise stated, these IFRSs are effective for annual periods beginning on or after 1 January 2006:

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

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

3. SEGMENT INFORMATION

The principal activities of the Group are the sale of natural gas, pressure control equipment and gas appliances to consumers and the construction of gas pipelines and the provision of repairs and maintenance of gas pipelines services. Gas appliances, pressure control equipment and gas pipelines are for the conveyance of natural gas. The products and services of the Group are subject to similar risks and return and, therefore, the Group has only one business segment. The principal assets employed by the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segment analysis by business and geographical segments are provided.

4. REVENUE AND OTHER INCOME

	Notes	2005 RMB'000	2004 RMB'000
Natural gas		**413,606**	300,699
Gas appliances		**4,091**	5,825
Pressure control equipment		**3,414**	3,912
LPG	*(a)*	**3,216**	–
Gas pipelines:			
Construction of gas pipelines		**168,049**	133,060
Repairs and maintenance of gas pipelines		**35,721**	32,114
Others		**50**	288
		628,147	475,898
Less: Business tax and government surcharges		**(7,669)**	(5,512)
Revenue		**620,478**	470,386
Interest income from bank balances		**1,206**	596
Rental income		**120**	280
Government grants	*(b)*	**300**	–
Dividend income from a long term investment		**28**	–
Others		**680**	268
Other income		**2,334**	1,144
Total revenue		**622,812**	471,530

Notes:

(a) The Directors confirmed that the Group has no intention to resume its LPG sales business which was terminated in April 2003. In March 2005, the Company has made an arrangement with Zhengzhou Gas Group Co., Ltd., the holding company of the Company, to supply LPG to the LPG gas users of the holding company until the conversion from LPG system to natural gas system was completed, upon which the Group would take over those gas users.

(b) 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.

5. PROFIT BEFORE INCOME TAX

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

	2005	2004
	RMB'000	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 6):		
Retirement benefits – defined contribution fund	**6,324**	6,224
Accommodation benefits – defined contribution fund	**2,001**	1,753
Salaries and other staff costs	**44,246**	38,079
Total staff costs	**52,571**	46,056
Operating lease rentals in respect of:		
Land and buildings	**5,324**	5,396
Equipment	**12,133**	1,922
Trademarks	**946**	313
Total operating lease rentals	**18,403**	7,631
Costs of inventories recognised as an expense	**333,913**	174,631
Auditors' remuneration	**1,196**	1,070
Depreciation of property, plant and equipment	**22,637**	16,307
Amortisation of land use rights	**279**	211
Provision for impairment losses of property, plant and equipment	**334**	6,488
Loss on disposal of property, plant and equipment	**–**	62
Reversal of provision for bad and doubtful debts	**–**	(192)

6. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of directors' and supervisors' emoluments are as follows:

	2005	2004
	RMB'000	*RMB'000*
Fees:		
– Executive directors	**–**	–
– Non-executive directors	**257**	228
	257	228
Other emoluments for executive and non-executive directors:		
– Basic salaries and other benefits	**447**	471
– Bonuses paid and payable	**908**	253
– Pension scheme contributions	**31**	25
	1,386	749
	1,643	977
Executive directors:		
– Yan Guoqi	**260**	158
– Song Jinhui	**241**	167
– Li Yantong	**86**	–
– Li Jinliu	**85**	–
Supervisors:		
– Chang Zongxian	**151**	–
– Niu Minghua	**120**	107
– Li Zizheng	**66**	–
– Ding Ping	**124**	115
– Zhou Weihua	**70**	42
– Yang Qing	**–**	106
– Gao Mingshun	**25**	30
– Wang Xiaoxing	**20**	24
Non-executive directors:		
– Zhang Wushan	**–**	–
– Yang Degu	**82**	–
– Bao Hongwei	**85**	–
– Wang Yuheng	**–**	–
– Li Keqing	**25**	30
– Zhang Chaoyi	**20**	24
– Li Zhenguo	**20**	24
Independent non-executive directors:		
– Zhang Yichun	**50**	50
– Liu Jianwen	**50**	50
– Yu Shulian	**50**	50
Independent supervisors:		
– Cai Yuming	**13**	–
– Yang Guirong	**–**	–
Total	**1,643**	977

All directors' and supervisors' emoluments fell within the range of nil to HK$1 million.

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

During the year ended 31 December 2005, the five highest paid individuals of the Group included four (2004: two) directors. They were Yan Guoqi, Song Jinhui, Li Yantong and Yang Degu. Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2004: three) non-director, highest paid employees for the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries and other benefits	**253**	425
Bonuses paid and payable	**56**	135
Pension scheme contributions	**12**	10
	321	570

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

During the year ended 31 December 2005, no emoluments were paid by the Group to the directors or the other non-director, highest paid employees, as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7. INCOME TAX EXPENSES

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at a rate of 33% of their taxable profits. In 2005, as approved by Zhongyuan District Local Tax Bureau annually, the taxable profit of Zhengzhou Gas Engineering and Construction Co., Ltd., a PRC subsidiary of the Company, was based on 10% of its revenue for corporate income tax filing purposes. The taxable profits calculated thereon were lower than the taxable profits determined with the reference to its accounting profits.

Major components of the Group's income tax expenses for the year ended 31 December 2005 are as follows:

	2005	2004
	RMB'000	*RMB'000*
Group:		
Current		
– charge for the year	**17,444**	25,074
– (overprovision)/underprovision in prior years	**(297)**	114
Deferred	**(587)**	(1,375)
Total tax charge for the year	**16,560**	23,813

A numerical reconciliation between tax expenses and the product of accounting profit multiplied by the applicable tax rate is as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**126,310**	98,722
Tax at the applicable tax rate of 33%	**41,682**	32,578
Tax effect of:		
– non-deductible expenses	**1,020**	1,703
– taxable advance from customers	**105**	1,622
– non-taxable profit of a subsidiary	**(27,039)**	(14,745)
– (overprovision)/underprovision in prior years	**(297)**	114
– unrealised profit	**1,089**	2,541
Tax expenses	**16,560**	23,813

8. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Declared and paid during the year:		
– Final dividend pertaining to 2004 - RMB0.016 per ordinary share (2003: RMB0.0044)	**20,024**	5,507
Proposed for payment in 2006:		
– Final dividend pertaining to 2005 - RMB0.0138 per ordinary share (2004: RMB0.016)	**17,271**	20,024

The proposed final dividend pertaining to 2005 for payment in 2006 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2005.

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 accounting principles and financial regulations (collectively as "PRC GAAP"). These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

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

9. EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2005 is computed by dividing net profit attributable to shareholders of approximately RMB93,400,000 (2004: approximately RMB65,211,000) by the weighted average number of 1,251,500,000 ordinary shares (2004: 1,251,500,000 ordinary shares) in issue during the year ended 31 December 2005.

10. TRADE RECEIVABLES

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

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**69,299**	63,796	**62,933**	63,757
Between 31 days and 90 days	**4,117**	6,986	**4,117**	6,098
Between 91 days and 180 days	**234**	325	**234**	325
Between 181 days and 365 days	**389**	72	**334**	72
Over 365 days	**1,582**	1,116	**1,013**	1,116
	75,621	72,295	**68,631**	71,368
Less: Provision for bad and doubtful debts	**(1,273)**	(1,273)	**(1,273)**	(1,273)
	74,348	71,022	**67,358**	70,095

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

11. TRADE PAYABLES

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

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**33,666**	20,341	**15,346**	14,318
Between 31 days and 90 days	**2,710**	5,524	**623**	689
Between 91 days and 180 days	**791**	3,225	**781**	2,610
Between 181 days and 365 days	**2,251**	376	**388**	190
Over 365 days	**2,136**	1,542	**1,953**	1,425
	41,554	31,008	**19,091**	19,232

The above balances are unsecured, interest-free and are generally on 7 to 30 days' terms.

12. MOVEMENT IN EQUITY AND RESERVES

Group

	Year ended 31 December 2005	**Attributable to**		Year ended 31 December 2004	Attributable to	
	Equity holders of the Company *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*	Equity holders of the Company *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
SHARE CAPITAL						
Issued and fully paid capital						
Ordinary shares of RMB0.10 each						
At beginning and end of year	**125,150**	**–**	**125,150**	125,150	–	125,150
RESERVES						
Share premium account						
At beginning and end of year	**101,026**	**–**	**101,026**	101,026	–	101,026
Statutory surplus reserve						
At beginning of year	**25,483**	**1,383**	**26,866**	13,797	413	14,210
Transferred from retained earnings	**18,081**	**1,635**	**19,716**	11,686	970	12,656
At end of year	**43,564**	**3,018**	**46,582**	25,483	1,383	26,866
Statutory public welfare fund						
At beginning of year	**23,265**	**945**	**24,210**	13,797	413	14,210
Transferred from retained earnings	**20,299**	**2,073**	**22,372**	9,468	532	10,000
At end of year	**43,564**	**3,018**	**46,582**	23,265	945	24,210
General surplus reserve						
At beginning of year	**12,752**	**207**	**12,959**	6,180	31	6,211
Transferred from retained earnings	**7,153**	**-**	**7,153**	6,572	176	6,748
At end of year	**19,905**	**207**	**20,112**	12,752	207	12,959
Retained earnings						
At beginning of year	**83,810**	**8,195**	**92,005**	51,832	3,273	55,105
Net profit for the year	**93,400**	**16,350**	**109,750**	65,211	9,698	74,909
Transferred to statutory surplus reserve	**(18,081)**	**(1,635)**	**(19,716)**	(11,686)	(970)	(12,656)
Transferred to statutory public welfare fund	**(20,299)**	**(2,073)**	**(22,372)**	(9,468)	(532)	(10,000)
Transferred to general surplus reserve	**(7,153)**	**–**	**(7,153)**	(6,572)	(176)	(6,748)
Dividends paid	**(20,024)**	**(8,185)**	**(28,209)**	(5,507)	(3,098)	(8,605)
At end of year	**111,653**	**12,652**	**124,305**	83,810	8,195	92,005
Total reserves	**319,712**	**18,895**	**338,607**	246,336	10,730	257,066
Minority interests in the capital of subsidiaries						
At beginning and end of year	**–**	**9,050**	**9,050**	–	9,050	9,050
Total equity	**444,862**	**27,945**	**472,807**	371,486	19,780	391,266

MANAGEMENT DISCUSSION AND ANALYSIS

Performance review

The Group is principally engaged in the sale of piped natural gas and gas appliances to residential, commercial, industrial and vehicular users, sale of pressure control equipment and the provision of gas pipeline construction services. Analysis of the revenue of each product and service (see Table 1), the number of customers of natural gas (see Table 2) and gas consumption (see Table 3) for the year ended 31 December 2004 and 2005 are set out below:

Table 1 Revenue

	Year ended 31 December				
	2005		2004		
	Revenue *(RMB'000)*	**As % of revenue**	Revenue *(RMB'000)*	As % of revenue	Growth
Natural gas	**413,606**	**65.85%**	300,699	63.19%	37.55%
LPG	**3,216**	**0.51%**	–	–	N/A
Gas appliances	**4,091**	**0.65%**	5,825	1.22%	-29.77%
Pressure control equipment	**3,414**	**0.54%**	3,912	0.82%	-12.73%
Gas pipelines					
– Construction of gas pipelines	**168,049**	**26.75%**	133,060	27.96%	26.30%
– Repairs and maintenance of gas pipelines	**35,721**	**5.69%**	32,114	6.75%	11.23%
Others	**50**	**0.01%**	288	0.06%	-82.64%
	628,147	**100.00%**	475,898	100.00%	31.99%
Less: Business tax and government surcharges	**(7,669)**		(5,512)		
Total	**620,478**		**470,386**		31.91%

Table 2 The number of customers of natural gas

	Year ended 31 December		
	2005	2004	Growth
Residential customers	**568,490**	508,421	11.81%
Commercial customers	**1,214**	966	25.67%
Industrial customers	**48**	38	26.32%
Vehicular customers	**5,522**	4,079	35.38%
Total:	**575,274**	513,504	12.03%

Table 3 Gas Consumption

	Year ended 31 December				
	2005		2004		
	Gas consumption	**As % of gas consumption**	Gas consumption	As % of gas consumption	**Growth**
Natural gas					
Total gas consumption					
(in approximate '000 m³)	**261,890**		197,954		**32.30%**
of which					
residential users	**89,737**	**34.27%**	69,222	34.97%	**29.64%**
commercial users	**81,895**	**31.27%**	56,806	28.70%	**44.17%**
industrial users	**49,921**	**19.06%**	45,686	23.08%	**9.27%**
vehicular users	**40,337**	**15.40%**	26,240	13.26%	**53.72%**

General

For the year ended 31 December 2005, the Group recorded a revenue of approximately RMB620,478,000 and gross profit of approximately RMB209,602,000, representing a revenue increase of approximately 31.91% as compared with the corresponding period of last year. The increase was mainly due to the increase in the number of customers of natural gas, while natural gas consumption by commercial and vehicular users has also increased remarkably.

During the Relevant Period, the gross profit margin of the Group was approximately 33.78%, representing a slight decrease as compared with the gross profit margin of approximately 36.09% in the corresponding period of last year. The decrease was mainly due to a lower percentage of income derived from the construction of gas pipeline, which has a higher gross profit margin, as represented in the total revenue. In 2004, such income accounted for approximately 27.96% of the total revenue but the percentage decreased to 26.75% during the Relevant Period. Moreover, on 1 April 2005, the price of natural gas purchased by the Group under the "Project of Transmitting Natural Gas through the West to the East Pipelines" increased from RMB1.16 m^3 to RMB1.2 m^3, which resulted in a lower gross profit margin.

During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB84,862,000, representing an increase of approximately 32.64% as compared with that of approximately RMB63,979,000 in the corresponding period of last year. The increase was mainly due to the increase in lease and depreciation expenses as a result of the expansion of the scale of operation.

Income tax expenses of the Group for the Relevant Period were approximately RMB16,560,000, representing a decrease of approximately 30.46% from approximately RMB23,813,000 in the corresponding period of last year. The decrease was largely due to the taxation arrangement made by the Group, under which part of the revenue generated from pipeline construction which used to be received by the Company was received by a subsidiary which enjoyed a lower income tax rate.

During the Relevant Period, the net profit attributable to the equity holders of the Company was approximately RMB93,400,000, representing an increase of approximate 43.23% as compared with approximately RMB65,211,000 over the corresponding period of last year.

Sales of piped natural gas

During the Relevant Period, revenue derived from sale of natural gas was approximately RMB413,606,000, representing an increase of approximately 37.55% as compared with approximately RMB300,699,000 in the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 261,890,000 m^3, representing an increase of approximately 32.30% as compared with approximately 197,954,000 m^3 in the corresponding period of last year.

As shown in Table 3 above, gas consumption by residential users during the Relevant Period sustained a stable growth to 89,737,000 m^3, representing an increase of 29.64% as compared with the corresponding period of last year. Consumption by industrial users also maintained a stable growth with an increase of 9.27% to 49,921,000 m^3 as compared with the corresponding period of last year. During the Relevant Period, consumption by commercial users amounted to 81,895,000 m^3, representing an increase of 44.17% as compared with the corresponding period of last year. The substantial increase in the gas consumption by commercial users was primarily due to the following reasons: (1) the original commercial users previously in the coal gas consumption region have changed to use natural gas by the end of 2004; (2) as during the Relevant Period the temperature of the winter was lower than that of last year, commercial users such as hotels and restaurants consumed more natural gas for heating; and (3) a regional natural gas thermal station designed to supply heat to the East Zhengzhou Economic Development Zone has commenced operation. The afore-mentioned reasons have led to a very remarkable increase in commercial gas consumption, as compared with the corresponding period of last year. As at 31 December 2005, the Group had a total of 568,490 residential users, representing an increase of 60,069 users as compared with 508,421 users as at 31 December 2004; 1,214 commercial users representing an increase of 248 users as compared with 966 users as at 31 December 2004, and 48 industrial users representing an increase of 10 users as compared with 38 users as at 31 December 2004.

In respect of the gas powered vehicles business, given the persistently high oil price, vehicle operators such as taxi drivers were more eager to convert their vehicles into natural gas powered vehicles. During the Relevant Period, the number of the Group's natural gas powered vehicular users has increased by 1,443, and the total number of natural gas powered vehicles reached 5,522 as at 31 December 2005. The gas consumption by vehicular users reached 40,337,000 m^3, representing an increase of 53.72% as compared with 26,240,000 m^3 in the corresponding period of last year. The business growth pace of natural gas sales was greater than expected, resulting an over demand of natural gas consumption in the peak season at the end of the year 2005. The Company has ceased its gas supply to the vehicular users since the end of November 2005 and expected to resume the gas supply in February 2006. The Group is presently trying its best endeavor to explore new gas sources and is negotiating with all of its gas suppliers on the increase of natural gas supply, with a hope that the supply and demand will reach equilibrium in 2006.

During the Relevant Period, the Group purchased approximately 185,179,000 m^3 of natural gas from the "Project of Transmitting Natural Gas through the West to the East Pipelines", at an aggregate cost of approximately RMB201,102,000, representing approximately 67% of the total volume of natural gas purchased.

In addition, Dengfeng Zhengran Gas Limited（登封鄭燃燃氣有限公司）("Dengfeng Zhengran"), a subsidiary of the Company, commenced gas supply to a small portion of users in Dengfeng during the Relevant Period. Due to the relative small scale of the project carried out by Dengfeng Zhengran, it has not yet brought any significant profits or losses to the Group.

Sales of liquefied petroleum gas

During the Relevant Period, certain users were transferred to the Group from a discontinued liquefied petroleum gas ("LPG") company, and the Company would convert their LPG systems into natural gas systems. As the conversion would take time, the Group had to resume its discontinued LPG business temporarily to supply LPG to those users. Thus, a revenue derived from LPG sales amounting to RMB3,216,000 was recorded. The Group has no intention to resume its LPG sales business which was terminated in April 2003. In March 2005, the Company made an arrangement with Zhengzhou Gas Group Co. Ltd. ("Zhengzhou Gas Group"), the holding company of the Company, for the supply of LPG to those users until the conversion is completed, upon which the Group will then take over those users.

Sales of gas appliances

The Group also engages in sales of gas appliances. The gas appliances available for sales include gas stoves, water heaters and wall-attached stoves. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou. For the Relevant Period, revenue from sale of gas appliances amounted to approximately RMB4,091,000, representing a drop of 29.77% as compared with approximately RMB5,825,000 in the corresponding period of last year. Such drop was mainly due to the keen competition in the market of gas appliances.

Sales of pressure control equipment

In relation to pressure control equipment for natural gas manufactured by the Group, the main targets for marketing are other natural gas suppliers. During the Relevant Period, revenue attributable to the sale of pressure control equipment amounted to approximately RMB3,414,000, a slip of approximately 12.73% when comparing with that of RMB3,912,000 in the corresponding period of last year.

Natural gas pipeline construction services

For the Relevant Period, the Group's revenue derived from the provision of the natural gas pipeline construction services amounted to approximately RMB168,049,000, representing the connection of natural gas supply for 46,320 residential users and 106 commercial users, or an increase of approximately 26.30% as compared with approximately RMB133,060,000 for the corresponding period of last year. The increase was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. The average fee for connection of natural gas supply for each residential user was approximately RMB3,094 while that for each commercial user was approximately RMB105,766. Furthermore, the Group also received other construction project related income amounting to approximately RMB13,527,000.

In addition, the Group also collects fees from users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB35,721,000, representing an increase of 11.23% as compared with approximately RMB32,114,000 for the corresponding period of last year. Such increase was mainly due to an increase in the number of residential users.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was approximately 15.05%, which was higher than the 13.86% recorded for the corresponding period of last year. The increase was mainly attributable to the decrease in income tax as a result of the relevant tax arrangement and the impairment provision for liquefied gas assets was no longer required.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to equity holders of the Company divided by the average of equity attributable to equity holders of the Company at the beginning and at the end of the period, was approximately 22.88%, which was higher than that of 19.09% of the corresponding period of last year. Such increase was mainly brought by the growth of profit.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group currently finances its capital expenditure and operations mainly by internally generated funds, net proceeds from the listing and its bank deposits or cash on hand. The Directors are 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 2005, the Group had no outstanding interest-bearing borrowings.

Net current assets

As at 31 December 2005, the Group had net current assets of approximately RMB2,021,000 (as at 31 December 2004: the Group had net current liabilities of approximately RMB21,504,000), which was mainly due to the full settlement of an advance by Zhengzhou Gas Group amounting to RMB12,278,000.

Working capital

As at 31 December 2005, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB184,892,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity to liabilities ratio

As at 31 December 2005, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 170.22% which was lower than that of approximately 174.48% as at 31 December 2004. The current liabilities level of the Group indicated that, with over half of the assets being financed by its shareholders, the Group had ample room for external borrowings.

Capital commitments

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou, the Group is determined to further expand its urban natural gas pipeline network and related gas supply equipment. As at 31 December 2005, the Group had capital commitments of approximately RMB59,046,000, of which approximately RMB9,859,000 was for the contracts of pipeline network construction and equipment purchase, and the balance of approximately RMB49,187,000 was for operating lease commitments. The management believes that such capital expenditure can be defrayed by funds generated from operations and proceeds from listing.

Foreign exchange risk

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

Contingent liability and pledged assets

As at 31 December 2005, the Group had no significant contingent liability or any asset under pledge.

Employees and remuneration policy

As at 31 December 2004 and 31 December 2005, an analysis of the Group's employees by functions is as follows:

	Year ended 31 December	
	2005	2004
Management and administration	**192**	179
Finance	**45**	46
Sales and marketing	**202**	174
Safety maintenance and technical upgrading	**130**	68
Purchases and supplies	**15**	17
Engineering and installation	**216**	211
Repairs, maintenance and testing	**350**	337
Others	**323**	303
Total	**1,473**	1,335

In 2005, the Group had 1,473 employees, an addition of 138 employees as compared with 1,335 employees in the previous year.

Salaries of the Group's employees are determined by reference to the performance, qualification and experience of the relevant staff. A discretionary incentive bonus based on individual performance during the year would be paid by the Group to reward their contributions to the Group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB52,571,000, representing an increase of approximately 14.15% compared with the total staff costs of approximately RMB46,056,000 for the corresponding period of last year.

Material acquisitions and disposals of subsidiaries and associated companies

For the year ended 31 December 2005 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 2005, the Group had neither material investment nor contingent liabilities, and likewise as at 31 December 2004.

Charge of assets

As at 31 December 2005, the assets of the Group had not under any charges and likewise as at 31 December 2004.

Future prospects

The Chinese government is currently implementing the policy of “The Rise of Central China”, further to the development strategies of “Development of Coastal Regions”, “Development of West China”, etc.. Zhengzhou, as the capital city of Henan Province, the most populous province in Central China, naturally plays the leading role in the implementation of “The Rise of Central China” strategy. Zhengzhou is currently developing a new area called “Zheng East New District”, which will cover a total area of approximately 150 km^2. (equivalent to the whole existing developed urban area in Zhengzhou) and a population of 1.5 million as planned. The new development area will include, inter alia, a central business district, commercial, residential and logistics zone, high-tech park, economic and technological development zone, to attract investments from large enterprises in the industrial and commercial sectors from all over the world. Upon completion of this new development area, Zhengzhou will become one of the regional hubs in China with massive population flow, logistics activities and capital flow. Backed up by such favourable policy, the Group believes that our business will have ample room for growth in the next decade.

With a stronger emphasis on environmental protection in Zhengzhou, coal furnaces under 10 tons will be replaced before 2006 and the coal combustion-free zone will be further expanded. Both measures provide the Group a golden opportunity for further exploring the market of commercial users. Further, in order to maintain a balanced development of industrial and commercial sectors in Zhengzhou, the Zhengzhou Municipal Government has promulgated a number of preferential policies to encourage industrial investments and it is believed that such policy will, to a certain extent, help the Group to develop the market of industrial users.

On 26 December 2005, the National Development and Reform Commission (“NDRC”) issued a notice regarding the decision on reforming the mechanism for formulating factory production price of natural gas, aiming to peg the prices of natural gas with other kinds of energy such as crude oil, etc. subject to annual adjustment. Such policy means the price of natural gas may be increased constantly. The Group overwhelmingly supports the state policy in making the price of natural gas more in line with the competitive market. However, such increase of factory production price will apparently uplift the selling costs of natural gas business of the Group. The Group is now seeking an approval from the Zhengzhou Municipal Government for adjusting the selling price of natural gas to all kinds of its users so as to ease the adverse impact arising from the rise of costs, on the profits of next year.

The Group expects that in 2006, the supply of natural gas in Zhengzhou will still be in stringent position. Encountering the insufficiency of gas supply, the Group, on the one hand, will negotiate with its suppliers such as PetroChina and Sinopec, etc. for increasing the supply volume to Zhengzhou; on the other hand, will also take initiative to explore for new gas sources, and introduce coal layer gas from Jin City (晉城), Shanxi and compressed natural gas from Xuedian (薛店) as ancillary gas sources. The Group had also entered into a letter of intent regarding liquefied natural gas supply (液化天然氣供應意向書) with Xinjiang Guanghui Corporation (新疆廣匯公司) for preparing the establishment of a natural gas storage base. The Group expects the above measures can soothe the imbalance of supply and demand of natural gas in Zhengzhou during the year of 2006.

OTHER INFORMATION

Confirmation of Independence by Independent Non-executive Directors

The Company confirms that it has received from each of the independent non-executive Directors of the Company an annual confirmation of his or her independence pursuant to Rule 5.09 of the GEM Listing Rule and considers, based on the confirmations received, the independent non-executive directors of the Company to be independent.

Directors' and Supervisors' Service Contracts

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

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

Directors' and Supervisors' Interests in Contracts

None of the Directors or supervisors of the Company 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

At no time during the year ended 31 December 2005 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or supervisor or their respective spouse or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or supervisors to acquire such rights in any other body corporate.

Directors' and Supervisors' Interests in a Competing Business

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

Directors', Supervisors' and Chief Executive's Interests in Shares and Underlying Shares or Debentures

As at 31 December 2005, none of the Directors, supervisors or chief executive of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Code of Conduct regarding Securities Transactions by Directors of Listed Issuers" to be notified to the Company and the Stock Exchange.

Disclosures under the SFO and Substantial Shareholders

As at 31 December 2005, 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 equity interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which will be required pursuant to section 336 of the SFO to be recorded in the register of the Company or who was/were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group (other than the Company) was/were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity/ Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in Domestic Shares	Approximate % of beneficial interest in the total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd. (鄭州燃氣集團有限公司)	Beneficial owner	–	–	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. *(note (1))* (鄭州啟元投資諮詢有限公司)	Beneficial owner	–	–	115,500,000	16.48%	9.23%
Li Keqing *(note (2))* (李克清)	Corporate	–	–	115,500,000	16.48%	9.23%
Guo Wenjun *(note (2))* (郭文君)	Family	–	–	115,500,000	16.48%	9.23%
Daiwa SB Investments (HK) Limited (大和住銀投信投資顧問(香港)有限公司)	Beneficial owner	49,100,000	8.92%	–	–	3.92%
Atlantis Investment Management Ltd. (西京投資管理有限公司)	Beneficial owner	61,500,000	11.17%	–	–	4.91%
Emirates International Investment Co., LLC	Beneficial owner	100,000,000	18.16%	–	–	7.99%

Name of subsidiary of the Company which has any shareholders, other than the Company, which held 10% or more interests in any classes of share capital of such subsidiary	Name of shareholder	Nominal value of registered and paid-up capital of the subsidiary held	Approximate % of shareholding of the subsidiary
Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	Zhengzhou Gas Group Labour Union Committee (鄭州燃氣集團工會委員會)	RMB6,600,000	16.50%
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB3,500,000	35%

Notes:

(1) As at 31 December 2005, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. ("Zhengzhou Qiyuan") held 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interest in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.

(2) As at 31 December 2005, each of Li Keqing and his spouse, Guo Wenjun was deemed to have an interest in 115,500,000 Domestic Shares of the Company as they were together interested in 40% of the registered capital of Zhengzhou Qiyuan, which held 115,500,000 Domestic Shares. However, pursuant to the GEM Listing Rules, each of Li Keqing and Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares in which each of Li Keqing and Guo Wenjun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

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

Directors' and Supervisors' Rights to Acquire H Shares

Save as disclosed above, during the year ended 31 December 2005, 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 2005, none of the directors or supervisors or chief executive nor their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

Purchase, Sale or Redemption of Securities

The Company and its subsidiaries had not purchased, sold or redeemed any of the Company's listed securities during the period from 29 October 2002 (i.e. the date on which its H Shares were listed on the GEM) to 31 December 2005.

Sponsor's/Compliance Adviser's Interests

The sponsor agreement dated 21 October 2002 entered into between the Company and South China Capital Limited, expired on 31 December 2004. The Company did not appoint any sponsor or compliance adviser (as defined in Rule 6A.01 of the GEM Listing Rules) thereafter.

Competing Interests

Zhengzhou Gas Group Co., Ltd., being the controlling shareholder and initial management shareholder of the Company, is engaged in the sale of bottled LPG in Zhengzhou. As both of the business of selling bottled LPG in Zhengzhou and the Company's business of selling pipeline natural gas involve the provision of fuel to customers, such businesses therefore constituted competing interests.

Save as disclosed above, none of the Directors, the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Audit Committee

The Company established an audit committee on 30 September 2002 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duty of the audit committee is to review the financial reporting process and internal control systems of the Group.

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

The audit committee held four formal meetings during the year ended 31 December 2005. The audited results of the Group for the Relevant Period have been reviewed by the audit committee.

Code on Corporate Governance Practices

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in the GEM Listing Rules during the Relevant Period.

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 2005.

Directors

As at the date of this report, the members of the board of directors of the Company include (i) the executive directors, namely, Mr. Yan Guoqi (閆國起) (Chairman), Mr. Song Jinhui (宋金會), Mr. Li Yantong (李燕同) and Mr. Li Jinliu (李金陸); (ii) the non-executive directors, namely, Mr. Zhang Wushan (張武山), Mr. Yang Degu (楊德固), and Ms. Bao Hongwei (鮑紅偉); and (iii) the independent non-executive directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文), and Ms. Yu Shulian (余恕蓮).

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

Zhengzhou, Henan Province, the PRC

13 March 2006

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting.

* *For identification purpose only*