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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006

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 "Director") 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.

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2006, unaudited consolidated revenue and profit attributable to shareholders of the Company amounted to approximately RMB359,489,000 and RMB57,749,000 respectively, representing respective increases of approximately 16.92% and 10.09% over the corresponding period of last year.

- Sales of piped natural gas for the Relevant Period amounted to approximately RMB232,318,000, representing an increase of approximately 13.14% over the corresponding period of last year, which was primarily attributed to the increase in the gas consumption of residential, industrial, and commercial users.

- Revenue derived from gas pipeline construction aggregated to approximately RMB127,196,000 for the Relevant Period, representing an increase of approximately 59.90% over the corresponding period of last year, which was primarily attributed to the satisfactory growth in gas pipeline construction projects for residential users.

- Basic earnings per share for the Relevant Period was approximately RMB0.0461, representing an increase of approximately 10.09% as compared with approximately RMB0.0419 for the corresponding period of last year.

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

FINANCIAL STATEMENTS

The board of Directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to present to its shareholders the financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 (the "Relevant Period") and comparative figures of the corresponding period of 2005 as follows:

Consolidated Income Statement (Unaudited)
For the three months and six months ended 30 June 2006 and 2005

		Three months ended 30 June		Six months ended 30 June	
		2006	2005	**2006**	2005
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	*3*	**173,892**	132,337	**359,489**	307,460
Cost of sales		**(111,858)**	(83,516)	**(239,055)**	(202,711)
Gross profit		**62,034**	48,821	**120,434**	104,749
Other revenue		**990**	1,047	**1,365**	1,130
Selling and distribution costs		**(6,658)**	(5,983)	**(13,895)**	(11,636)
Administrative costs		**(20,509)**	(11,592)	**(31,435)**	(24,856)
Other operating costs		**(3,660)**	(126)	**(3,689)**	(176)
Profit from operating activities		**32,197**	32,167	**72,780**	69,211
Finance costs		**–**	–	**–**	–
Profit before income tax		**32,197**	32,167	**72,780**	69,211
Income tax expenses	*4*	**359**	(2,050)	**(2,288)**	(8,744)
Profit for the Relevant Period		**32,556**	30,117	**70,492**	60,467
Attributable to:					
Equity holders of the Company		**25,979**	25,272	**57,749**	52,458
Minority interests		**6,577**	4,845	**12,743**	8,009
		32,556	30,117	**70,492**	60,467
Earnings per share– Basic *(RMB Yuan)*	*5*	**0.0260**	0.0241	**0.0461**	0.0419

Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
ASSETS			
Property, plant and equipment	*7*	**394,025**	366,077
Construction in progress		**123,141**	91,225
Land use rights		**9,736**	10,056
Available-for-sale financial assets		**50**	200
Deferred tax assets		**6,793**	3,228
		533,745	470,786
Current Assets			
Cash and cash equivalents		**231,715**	184,892
Trade receivables	*8*	**47,604**	74,348
Inventories		**4,549**	3,886
Construction contract work in progress		**–**	911
Prepayments, deposits and other receivables		**12,915**	15,638
Due from fellow subsidiaries		**159**	111
		296,942	279,786
TOTAL ASSETS		**830,687**	750,572
Current liabilities			
Trade payables	*12*	**74,475**	41,554
Advanced payment received		**157,183**	162,207
Other payables and accrued liabilities		**58,349**	64,089
Dividend payable		**9,672**	–
Tax payable		**1,651**	6,938
Due to the holding company	*11*	**3,327**	2,877
Due to fellow companies	*13*	**–**	100
		304,657	277,765
NET CURRENT ASSETS/(LIABILITIES)		**(7,715)**	2,021
NET ASSETS		**526,030**	472,807
Attributable to:			
Equity attributable to shareholders of the Company			
Issued share capital	*9*	**125,150**	125,150
Reserve	*10*	**360,190**	319,712
		485,340	444,862
Minority interests		**40,690**	27,945
Total equity		**526,030**	472,807

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Net cash inflow/(outflow) from operating activities	**125,505**	83,634
Net cash inflow/(outflow) from investing activities	**(71,083)**	(19,207)
Net cash inflow/(outflow) from financing activities	**(7,599)**	(26,571)
Net increase/(decrease) in cash and cash equivalents	**46,823**	37,856
Balance of cash and cash equivalents, at the beginning of the period	**184,892**	112,410
Balance of cash and cash equivalents, at the end of the period	**231,715**	150,267

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Total equity at the beginning of the period	**444,862**	371,485
Net profit for the period	**57,749**	52,458
Dividends	**(17,271)**	(20,024)
Total equity, at the end of the period	**485,340**	403,919

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 18 December 2000. The overseas listed shares with a nominal value of RMB0.10 each (the "H Shares") in the registered share capital of the Company were listed on GEM on 29 October 2002.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules, International Financial Reporting Standards ("IFRS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board.

The accounting policies and methods used in preparing the condensed consolidated financial statements are the same as those used in the financial statements of the Group for the financial year ended 31 December 2005.

The following new and revised International Financial Reporting Standards have also been adopted in this interim report

IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	Net investment in a foreign operation
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
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 (Effective for accounting periods beginning on or after 1 December 2005)

The adoption of the new Standards had no material impact on the accounting policies of the Group and the computation of the financial statements during the Relevant Period.

2. SEGMENT INFORMATION

The principal activities of the Group are the sale of natural gas and relevant appliances to local consumers and the construction of gas pipelines network for local consumers. The products and services of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment. The principal assets of the Group are located in Zhengzhou, Henan Province, the PRC. Accordingly, no segmental analyses by business and geographical segments are provided.

3. **REVENUE**

An analysis of the Group's revenue for the three months and six months ended 30 June 2006 together with the comparative figures for the corresponding periods in 2005 is as follows:

Revenue

	Three months ended 30 June		**Six months ended 30 June**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Natural gas	**104,420**	76,480	**232,318**	205,328
LPG	**–**	–	**–**	3,217
Gas appliances and pressure control equipmentt	**941**	1,553	**2,160**	3,218
Gas pipeline				
– Gas pipeline construction	**69,250**	45,140	**127,196**	79,547
– Gas pipeline repairs and maintenance services	**1,613**	10,981	**2,062**	19,297
Others	**10**	5	**20**	28
	176,234	134,159	**363,756**	310,635
Less: Business tax and government surcharges	**(2,342)**	(1,822)	**(4,267)**	(3,175)
Revenue	**173,892**	132,337	**359,489**	307,460

4. **TAX**

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to provision for corporate income tax at a rate of 33% of their taxable profits. During the Relevant Period, 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 12% of its revenue for corporate income tax computation for the six months ended 30 June 2006 (2005:10%). The taxable profits calculated thereon were lower than the taxable profits determined with reference to its accounting profits.

	Three months ended 30 June		**Six months ended 30 June**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for income tax in respect of profit for the period:				
– Current	**3,275**	3,613	**5,853**	4,766
– Deferred	**(3,634)**	(1,563)	**(3,565)**	3,978
Tax expenses for the period	**(359)**	2,050	**2,288**	8,744

The income tax expenses for three months ended 30 June 2006 recorded a credit balance as provisions made by the Group in respect of board migration and bonus fund have created deferred tax assets, leading to a downward adjustment of income tax expenses.

5. **EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit attributable to shareholders of the Company of approximately RMB57,749,000 (corresponding period in 2005: approximately RMB52,458,000) divided by the weighted average number of 1,251,500,000 shares of the Company in issue during the Relevant Period (corresponding period in 2005 was 1,251,500,000 shares).

Diluted earnings per share for the six months ended 30 June 2005 and 2006 have not been calculated as no diluting events existed during those periods.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006.

7. DEPRECIATION

During the Relevant Period, depreciation charge in respect of the Group's property, plant and equipment was approximately RMB12,206,000 (the corresponding period of 2005: approximately RMB9,789,000).

8. TRADE RECEIVABLES

	As at 30 June 2006 *RMB'000*	As at 31 December 2005 *RMB'000*
Outstanding balances by aging:		
Within 30 days	**36,699**	69,299
31 days to 90 days	**5,131**	4,117
91 days to 180 days	**173**	234
181 days to 365 days	**5,522**	389
Over 365 days	**1,593**	1,582
	49,118	75,621
Less: Provision for bad and doubtful debts	**(1,514)**	(1,273)
	47,604	74,348

9. SHARE CAPITAL

During the Relevant Period, there was no change in the share capital of the Company.

	As at 30 June 2006		As at 31 December 2005	
	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
Issued and fully paid share capital:				
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

10. RESERVES

	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Discretionary surplus reserve *RMB'000*	Undistributed profit *RMB'000*	Total *RMB'000*
As at 1 January 2005	101,026	25,483	23,265	12,752	83,810	246,336
Dividend paid for 2005					(20,024)	(20,024)
Transferred from retained earnings				7,153	(7,153)	–
Profit for the period					27,186	27,186
As at 31 March 2005	101,026	25,483	23,265	19,905	83,819	253,498
Profit for the period					25,272	25,272
As at 30 June 2005	101,026	25,483	23,265	19,905	109,091	278,769
As at 1 January 2006	101,026	43,564	43,564	19,905	111,653	319,712
Dividend paid for 2005					(17,271)	(17,271)
Transferred from retained earnings				10,047	(10,047)	–
Profit for the period					31,770	31,770
As at 31 March 2006	101,026	43,564	43,564	29,952	116,105	334,211
Transferred from retained earnings		11,803			(11,803)	–
Profit for the period					25,979	25,979
As at 30 June 2006	101,026	55,367	43,564	29,952	130,281	360,190

11. DUE TO THE HOLDING COMPANY

The amount due to the holding company is unsecured and interest-free.

12. TRADE PAYABLES

	As at 30 June 2006 ***RMB'000***	As at 31 December 2005 *RMB'000*
Outstanding balances by aging:		
Within 30 days	**44,852**	33,666
Between 31 days to 90 days	**16,750**	2,710
Between 91 days to 180 days	**9,492**	791
Between 181 days to 365 days	**1,628**	2,251
Over 365 days	**1,753**	2,136
	74,475	41,554

13. DUE TO FELLOW SUBSIDIARIES

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

14. CONNECTED TRANSACTIONS

The Group entered into the following transactions with related parties during the Relevant Period:

Name of related parties	Nature of transactions	**Period ended 30 June 2006** *RMB'000*	Period ended 30 June 2005 *RMB'000*
Zhengzhou Gas Group Co., Ltd. *(note (1))*	Operating lease of equipment, land and buildings from the related company	**4,676**	5,480
	Payment of trademark licence fee to the related company	**382**	40
Zhengran Property Management Co., Ltd. *(note (2))*	Payment of comprehensive service fee to related company	**473**	473
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (2))*	Purchases of construction materials from the related company	**–**	388

Notes:

1. Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

2. Zhengzhou Zhengran Property Management Co., Ltd. and Zhengzhou Zhengran Gas Appliances Co., Ltd. are fellow subsidiaries of the Company.

The Directors of the Company, including the independent non-executive Directors, are of the view that the above transactions were conducted based on normal commercial terms and at market price

15. COMMITMENTS

	As at 30 June 2006 *RMB'000*	As at 31 December 2005 *RMB'000*
Capital commitments		
Capital commitments in respect of property, plant and equipment:		
– authorised, but not contracted for	**18,288**	6,371
– contracted, but not provided for	**24,599**	3,488
	42,887	9,859

Operating lease commitments
As lessee

	As at 30 June 2006 *RMB'000*	As at 31 December 2005 *RMB'000*
At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of equipment and land andbuildings falling due as follows:		
– Within one year	**15,622**	16,312
– In the second to fifth years, inclusive	**14,547**	18,773
– Over five years	**12,763**	14,102
	42,931	49,187

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

During the six months ended 30 June 2006, the Group recorded a total revenue of approximately RMB359,489,000 and a gross profit of approximately RMB120,434,000, representing an increase in total revenue of approximately 16.92% over the corresponding period of last year, which was primarily attributed to the increase of sales of natural gas and the satisfactory growth in natural gas pipeline construction projects for residential users.

During the Relevant Period, the overall gross profit margin of the Group was approximately 33.50%, representing a squeeze of approximately 0.57% as compared with 34.07% for the corresponding period of last year. During the Relevant Period, the gross profit margins of businesses such as gas pipeline construction business and pipeline maintenance and repair business decreased as compared with those of the corresponding period of last year. Due to the increase of average construction costs per user, the gross profit margin of gas pipeline construction business decreased from 75.02% for the six months ended 30 June 2005 to 69.92% during the Relevant Period. In addition, as relevant authorities in Zhengzhou are considering the application made by the Group concerning the increase of selling price of natural gas for residential users, and the repair fee of RMB 48 charged on each user annually by the Group constitutes one of the factors to be taken into consideration by the authorities in determining the granting of the approval of such application. Therefore, the Group suspended charging the residential users for such repair fee before the release of the decision of the authorities. Accordingly, a negative gross profit margin of 369.97% was recorded in respect of pipeline maintenance and repair business, which contributed to the decrease of overall profit margin. On the other hand, the gas pipeline construction business recorded satisfactory revenue increase despite decrease in profit margin. The proportion of revenue from this sector to the total revenue increased from approximately 25.61% in the corresponding period of last year to approximately 34.97% during the Relevant Period. Such growth has partly offset the negative impact on overall gross profit margin as a result of a squeeze of gross profit margin of the abovementioned businesses.

During the Relevant Period, administrative expenses amounted to approximately RMB31,435,000, representing an increase of approximately 26.47% as compared with approximately RMB24,856,000 for the corresponding period of last year. The main reason was due to more provision for staff related remuneration.

Income tax expenses of the Group for the Relevant Period were approximately RMB2,288,000, representing a decrease of approximately 73.83% as compared with approximately RMB 8,744,000 for the corresponding period of last year. Such decrease was mainly attributed to the revenue increase of the Group during the Relevant Period, which was mainly derived from the pipeline construction business. Such business was operated by Zhengzhou Gas Engineering and Construction Co., Ltd., a subsidiary of the Company, which was subject to enterprise income taxes based on 12% of its revenue as approved by the local tax authorities during the Relevant Period. Assessable profits calculated in this manner was lower than that determined based on the accounting profits. Moreover, as provisions made by the Group in respect of its application for migration to the main board of the Stock Exchange and bonus fund have created deferred tax assets, a deferred tax credit amounted to RMB3,565,000 was recorded.

Profit attributable to shareholders of the Company for the Relevant Period was approximately RMB57,749,000, representing an increase of approximately 10.09% from approximately RMB52, 458,000 for the corresponding period of last year.

Sale of piped natural gas

The revenue attributed to the sale of piped natural gas for the Relevant Period amounted to approximately RMB232,318,000, representing an increase of 13.14% from approximately RMB205, 328,000 for the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 142,590,000 m^3, representing an increase of approximately 8.24% as compared with approximately 131,740,000 m^3 for the corresponding period of last year. Natural gas consumption by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year are stated as follows:

	Six months ended 30 June				
	2006		**2005**		
	Total gas consumption	**As a percentage of total gas consumption**	Total gas consumption	**As a percentage of total gas consumption**	**Increase/ Decrease %**
Natural Gas					
total gas consumption *(approximately '000 m^3)*	142,590		131,740		8.24%
including					
residential users	54,980	38.56%	46,560	35.34%	18.08%
commercial users	43,880	30.77%	39,720	30.15%	10.47%
industrial users	25,370	17.79%	24,420	18.54%	3.89%
vehicular users	18,360	12.88%	21,040	15.97%	-12.74%

During the Relevant Period, there was insufficient gas supply in Zhengzhou. In order to ensure the daily life of the citizens in Zhengzhou remained unaffected, the Group ceased the supply of gas to vehicular users, which was subsequently resumed on 14 February 2006, and set limit on gas supply to both commercial and industrial users. As a result of such measures, all types of users (other than residential users) recorded only slight increase or even decrease in gas consumption. Gas consumption of commercial users during the Relevant Period was approximately 43,880,000 m^3, representing an increase of approximately 10.47% as compared with that of the corresponding period of last year; gas consumption of industrial users during the Relevant Period was approximately 25,370,000 m^3 , representing only a slight increase of approximately 3.89% as compared with that of the corresponding period of last year; gas consumption of vehicular users during the Relevant Period was approximately 18,360,000 m^3, representing a decrease of approximately 12.74% as compared with that of the corresponding period of last year.

As at 30 June 2006, the Group has 597,827 residential users, representing an increase of 29,337 users as compared with 568,490 residential users as at 31 December 2005; 1,360 commercial users representing an increase of 146 users as compared with 1,214 commercial users as at 31 December 2005, and 48 industrial users, same as 31 December 2005, and 6,440 vehicular users, representing an increase of 918 users as compared with 5,522 industrial users as at 31 December 2005.

During the Relevant Period, the Group purchased 112,309,000 m^3 natural gas from "Project of Transmitting Natural Gas through the West to the East Pipelines", representing approximately 72.55% of the total gas purchase of the Group. Purchase price had increased from RMB1.20/m^3 to RMB1.24/m^3 starting from 1 February 2006. In addition, the Group also purchased a total of 39,773,000 m^3 natural gas from Zhongyuan Oilfield which is owned by Sinopec, representing approximately 25.96% of the total gas purchase of the Group.

Sales of liquefied petroleum gas

In the Relevant Period, the Group did not generate any revenue from sale of liquefied petroleum gas ("LPG"). Revenue from LPG sales as recorded during the corresponding period of last year was due to a temporary arrangement, under which the Group had to provide LPG to some LPG users who would be converted to natural gas users. The Group had no intention to resume its discontinued LPG business (discontinued since April 2003).

Sales of gas appliances and pressure control equipment

The Group also engages in sales of gas appliances and pressure control equipment. The gas appliances available for sales include gas stoves, water heaters and wall-attached stoves. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou. In relation to pressure control equipment for natural gas manufactured by the Group, the main targets for marketing are other natural gas suppliers and users in Zhengzhou. For the Relevant Period, revenue from sale of gas appliances and pressure control equipment amounted to approximately RMB2,160,000.

Natural gas pipeline construction services

For the Relevant Period, the Group's revenue derived from the provision of the natural gas pipeline construction services amounted to approximately RMB127,196,000, relating to the connection of natural gas supply for 40,342 residential users and 92 commercial users, representing an increase of approximately 59.90% as compared with approximately RMB79,547,000 for the corresponding period of last year. The average fee for connection of natural gas supply for each residential user was approximately RMB2,913.47 while that for each commercial user was approximately RMB101,689.69. The increase was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users.

In addition, the Group also collects fees from users for providing gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB2,062,000, representing a decrease of approximately 89.31% as compared with approximately RMB19,297,000 for the corresponding period of last year. Such significant decrease was mainly due to the fact that the Group has suspended the collection of repair and maintenance fees from users pending for the decision of the relevant authorities regarding the revision of repair and maintenance fees collection mechanism.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was approximately 16.06%, which was lower than the 17.06% recorded for the corresponding period of last year. The decrease was mainly attributable to the decrease of profit margin and increase of administrative fees.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to shareholders of the Company divided by the average of equity attributable to shareholders of the Company at the beginning and at the end of the Relevant Period, was 12.42%, which was lower than that of 13.53% of the corresponding period of last year. Such decrease was mainly attributed to the larger shareholders' equity base brought by the higher retained profit in 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

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

As at 30 June 2006, the Group had no outstanding interest-bearing bank borrowings.

Net current liabilities

As at 30 June 2006, the Group had net current liabilities of approximately RMB7,715,000 (31 December 2005:net current assets of approximately RMB2,021,000). There was an advanced payment received of approximately RMB157,183,000 in the current liabilities, which was unrecognized income, not an amount payable as a liability in nature. The Group had net current assets of approximately RMB149,468,000 after deducting such advanced payment received.

Working capital

As at 30 June 2006, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB231,715,000. The Directors are of the view that the Group has sufficient working capital to meet its present requirements.

Equity interest to liabilities ratio

As at 30 June 2006, equity interest to liabilities ratio (being total equity interest over total liabilities and expressed in percentage) of the Group was approximately 172.66% which was higher than that of approximately 170.22% as at 31December 2005, which indicated that, with over half of the assets were being financed by shareholders' equities, the Group had ample room for external borrowings.

Foreign currency risk

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

Contingent liability and pledged assets

As at 30 June 2006, the Group had no significant contingent liability or any asset under pledge.

Employees and remuneration policy

There is no significant change in the Group's employees and remuneration policy compared to that disclosed in the annual report for the year ended 31 December 2005.

Future Prospect

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 km2. (equivalent to the whole existing developed urban area in Zhengzhou) and a population of 1.5 million as planned. The new development area will include, inter alia, a central business district, commercial, residential and logistics zone, high-tech park, economic and technological development zone, to attract investments from large enterprises in the industrial and commercial sectors from all over the world. Upon completion of this new development area, Zhengzhou will become one of the regional hubs in China with massive population flow, logistics activities and capital flow. Backed up by such favorable policy, the Group believes that its business will have ample room for growth in the next decade.

Following the issue of a notice regarding the decision on reforming the mechanism for formulating factory production price of natural gas by NDRC, the costs of natural gas have increased. On 9 August 2006, the Group had obtained an approval from the Zhengzhou Commodity Price Bureau for adjusting upward the selling prices of natural gas to its commercial and industrial users so as to minimise the adverse impact of the rise in costs, on the profits of this year. Such adjustments apply on gas consumption volume of the commercial and industrial users metered on or after 15 August 2006.

The Group expects that in 2006, the supply of natural gas in Zhengzhou will still be in a stringent position. Encountering the insufficient supply of gas, 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 that the above measures can soothe the imbalance of supply and demand of natural gas in Zhengzhou during the year of 2006.

In respect of the vehicular gas business, the Group plans to build another one to two natural gas refueling stations to further improve the vehicular gas supply network. In addition, the Group raised the price of vehicular gas from RMB2.6 per m^3 as at the beginning of 2006 to RMB3 per m^3 in several intervals during the Relevant Period.

OTHER INFORMATION

DIRECTORS', SUPERVISORS'AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OR DEBENTURES

As at 30 June 2006, 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 (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

So far as the Directors are aware, as at 30 June 2006, 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 the Company or any of its associated corporations were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests 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 (李克清) *(note (2))*	Corporate	–	–	115,500,000	16.48%	9.23%
Guo Wenjun (郭文君) *(note (2))*	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	38,300,000	6.96%	–	–	3.06%
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 Company LLC	Beneficial owner	97,000,000	17.62%	–	–	7.75%

Long positions in shares of associated corporations

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	35.00%

Notes:

1. As at 30 June 2006, 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 30 June 2006, 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, representing about 16.48% of the Domestic Shares. However, pursuant to the GEM Listing Rules, each of Li Keqing and Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares in which each of Li Keqing and Guo Wenjun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

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 Company (other than the Company).

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the six months ended 30 June 2006, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2006, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

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 the H Shares of the Company were listed on GEM) to 30 June 2006.

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 functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive Directors of the Company, and Mr. Zhang Wushan, a non-executive Director. Ms. Yu Shulian is the chairperson of the audit committee.

During the Relevant Period, the audit committee held two meetings and reviewed the interim results of the Group for the Relevant Period.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practices as set out in the GEM Listing Rules for the six months ended 30 June 2006.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in the GEM Listing Rules. The Company, having made specific enquiry of all Directors, has confirmed that it is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

COMPETING INTERESTS

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

POST BALANCE SHEET EVENTS

On 1 July, 2006, the Company entered into an equity transfer agreement with the Zhengzhou Gas Group Labour Union Committee ("Labour Union Committee"), the minority shareholder of Zhengzhou Gas Engineering and Contraction Co., Ltd. (the "Engineering Company"), pursuant to which, the Company acquired from the Labour Union Committee its 16.5% equity interest in the Engineering Company for a consideration of RMB9.90 million. On 7 August 2006, the Company completed the registration procedures for such transfer with the relevant authorities and is now interested in the entire registered capital of the Engineering Company.

DIRECTORS

As at the date of this report, the members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閆國起) (Chairman), Mr. Song Jinhui (宋金會), Mr. Li Yantong (李燕同), Mr. Li Jinliu (李金陸); (ii) the non-executive Directors, namely, Mr. Zhang Wushan (張武山), Mr. Yang Degu (楊德固), Ms. Bao Hongwei (鮑紅偉); (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, the PRC
10 August, 2006

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from its date of publication.

* *for identification purpose only*