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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 2006

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This announcement, for which the directors of Zhengzhou Gas Company Limited 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 for the purpose of giving information with regard to Zhengzhou Gas Company Limited. 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

- During the Relevant Period, the audited consolidated revenue of the Company and the profits attributable to equity holders of the Company were approximately RMB731,637,000 and RMB111,485,000 respectively, representing a growth of approximately 17.92% and 19.36% respectively over the corresponding period of last year.

- The revenue derived from sales of piped natural gas in the Relevant Period was approximately RMB498,729,000, representing an increase of 20.58% over the corresponding period of last year, primarily ascribable to the increased number of natural gas users which resulted in an increased sales volume of natural gas and a rise in the prices of natural gas for commercial, industrial and vehicular users.

- In the Relevant Period, the revenue from natural gas pipeline construction amounted to approximately RMB222,800,000, representing an increase of approximately 32.58% over the corresponding period of last year, primarily ascribable to an increase in natural gas pipeline construction projects for residential users.

- In the Relevant Period, the earnings per share was approximately RMB0.089, representing an increase of approximately RMB0.014 compared with approximately RMB0.075 in the corresponding period of last year.

- The Board recommended the distribution of a final dividend of RMB0.0285 per share to shareholders for the year ended 31 December 2006.

ANNUAL RESULTS

The board of directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to announce that the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006 (the "Relevant Period"), together with the comparative figures for the corresponding period of 2005 are as follows:

Audited Consolidated Income Statement

	Notes	**2006** **RMB'000**	2005 *RMB'000*
Revenue	*4*	**731,637**	620,478
Cost of sales		**(489,986)**	(410,876)
Gross profit		**241,651**	209,602
Other income	*4*	**3,555**	2,334
Selling and distribution costs		**(33,294)**	(26,860)
Administrative expenses		**(66,335)**	(53,880)
Other expenses		**(10,407)**	(4,886)
Profit from operating activities		**135,170**	126,310
Finance costs		**–**	–
Profit before income tax	*5*	**135,170**	126,310
Income tax expenses	*7*	**(9,513)**	(16,560)
Profit for the year		**125,657**	109,750
Attributable to:			
Equity holders of the Company		**111,485**	93,400
Minority interests		**14,172**	16,350
		125,657	109,750
Dividends	*8*	**17,271**	20,024
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted			
– For profit for the year (RMB Yuen)	*9*	**0.089**	0.075

Audited Balance Sheets

		Group		Company	
		2006	2005	**2006**	2005
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Non-current assets					
Interests in subsidiaries		**–**	–	**52,350**	42,450
Property, plant and equipment		**424,422**	366,077	**414,411**	365,559
Available-for-sale financial asset		**50**	200	**50**	200
Construction in progress		**170,990**	91,225	**175,692**	73,318
Land lease prepayments		**18,288**	9,653	**18,288**	9,653
Deferred tax assets		**8,514**	3,228	**6,731**	1,833
Total non-current assets		**622,264**	470,383	**667,522**	493,013
Current assets					
Cash and cash equivalents		**177,496**	184,892	**105,819**	99,880
Restricted cash deposits		**16,000**	–	**16,000**	–
Trade receivables	*10*	**95,131**	74,348	**93,277**	67,358
Inventories		**4,639**	3,886	**2,097**	673
Construction contract work in progress		**1,417**	911	**–**	–
Prepayments, deposits and other receivables		**28,577**	16,041	**15,068**	8,375
Due from a subsidiary		**–**	–	**3,000**	–
Due from fellow subsidiaries		**136**	111	**136**	111
Total current assets		**323,396**	280,189	**235,397**	176,397
TOTAL ASSETS		**945,660**	750,572	**902,919**	669,410
Current liabilities					
Trade payables	*11*	**65,291**	41,554	**26,155**	19,091
Advance payments received		**209,382**	162,207	**6,566**	4,450
Accrued liabilities and other payables		**92,325**	64,089	**85,146**	59,717
Tax payable		**6,887**	6,938	**2,067**	5,524
Due to the holding company		**–**	2,877	**–**	2,877
Due to subsidiaries		**–**	–	**267,826**	207,124
Due to fellow subsidiaries		**947**	100	**947**	100
Total current liabilities		**374,832**	277,765	**388,707**	298,883
NET CURRENT ASSETS/ (LIABILITIES)		**(51,436)**	2,424	**(153,310)**	(122,486)
NET ASSETS		**570,828**	472,807	**514,212**	370,527
EQUITY					
Equity attributable to equity holders of the Company					
Share capital	*12*	**125,150**	125,150	**125,150**	125,150
Reserves	*12*	**442,076**	319,712	**389,062**	245,377
		567,226	444,862	**514,212**	370,527
Minority interests		**3,602**	27,945	**–**	–
Total equity		**570,828**	472,807	**514,212**	370,527

Notes to 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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, the construction of gas pipelines and the provision of repairs and maintenance of gas pipelines services. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a historical cost basis. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

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 Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

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 portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of minority interests are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in equity.

Impact of New and Revised International Financial Reporting Standards

The following new and revised IFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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 Intragroup 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 these new and revised standards had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements during the year.

Impact of Issued But Not Yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these IFRSs are effective for annual periods beginning on or after 1 January 2007:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006)
IFRIC-Int 8	Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006)
IFRIC-Int 9	Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 June 2006)
IFRIC-Int 10	Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006)
IFRIC-Int 11	Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)

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 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from these financial instruments and also incorporates many of the disclosure requirements of IAS 32. 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 pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3. SEGMENT INFORMATION

For management purpose, the Group currently organises its operations into two business segments, namely sales of natural gas and other related products including pressure control equipment, gas appliances and provision of repairs and maintenance of gas pipeline services and gas pipeline construction. The principle activities of the business segments are as follows:

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

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

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2006				
Segment revenue				
Sales to external customers	**518,493**	**213,144**	–	**731,637**
Intersegment sales	**5,492**	**70,870**	**(76,362)**	**–**
Total	**523,985**	**284,014**	**(76,362)**	**731,637**
Segment results	**59,854**	**155,036**	**(8,967)**	**205,923**
Other income				**3,350**
Unallocated corporate expense				**(74,103)**
Finance costs				**–**
Profit before taxation				**135,170**
Taxation				**(9,513)**
Profit for the year				**125,657**
Assets and liabilities				
Total assets	**871,353**	**378,041**	**(303,734)**	**945,660**
Total liabilities	**394,601**	**257,420**	**(277,189)**	**374,832**
Other segment information				
Depreciation of property, plant and equipment	**24,898**	**2,001**	**(787)**	**26,112**
Impairment of trade receivables	**232**	**–**	**–**	**232**
Amortisation of land lease prepayments	**403**	**–**	**–**	**403**
Impairment of property, plant and equipment	**586**	**–**	**–**	**586**
Loss on disposal of property, plant and equipment	**1,181**	**–**	**–**	**1,181**
Write-down of inventories	**655**	**–**	**–**	**655**
Write-off of construction in progress	**1,963**	**–**	**–**	**1,963**

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

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2005				
Segment revenue				
Sales to external customers	458,920	161,558	–	620,478
Intersegment sales	2,000	32,046	(34,046)	–
Total	460,920	193,604	(34,046)	620,478
Segment results	78,254	111,036	(6,884)	182,406
Other income				2,334
Unallocated corporate expense				(58,430)
Finance costs				–
Profit before taxation				126,310
Taxation				(16,560)
Profit for the year				109,750
Assets and liabilities				
Total assets	638,406	340,339	(228,173)	750,572
Total liabilities	300,059	187,913	(210,207)	277,765
Other segment information				
Depreciation of property, plant and equipment	21,536	1,711	(610)	22,637
Amortisation of land lease prepayments	279	–	–	279
Impairment of property, plant and equipment	334	–	–	334

4. REVENUE AND OTHER INCOME

	Notes	2006 RMB'000	2005 RMB'000
Natural gas		**498,729**	413,606
Gas appliances		**4,018**	4,091
Pressure control equipment		**2,962**	3,414
Liquefied Petroleum Gas ("LPG")	*(a)*	**–**	3,216
Gas pipelines:			
– Construction of gas pipelines		**222,800**	168,049
– Repairs and maintenance of gas pipelines		**13,241**	35,721
Others		**43**	50
		741,793	628,147
Less: Business tax and government surcharges		**(10,156)**	(7,669)
Revenue		**731,637**	620,478
Interest income from bank balances		**2,096**	1,206
Rental income		**287**	120
Government grants	*(b)*	**403**	300
Dividend income from a long term investment		**35**	28
Others		**734**	680
Other income		**3,555**	2,334
Total revenue and other income		**735,192**	622,812

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 the LPG system to the natural gas system completed, upon which the Group would take over those gas users. As of 31 December 2005, the conversion of LPG system to natural gas system was completed.

(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):

	2006	2005
	RMB'000	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 6):		
Retirement benefits		
– Defined contribution fund	**6,985**	6,324
Accommodation benefits		
– Defined contribution fund	**2,089**	2,001
Salaries and other staff costs	**57,855**	44,246
Total staff costs	**66,929**	52,571
Operating lease rentals in respect of:		
Land and buildings	**11,594**	5,324
Equipment	**4,959**	12,133
Trademarks	**773**	946
Total operating lease rentals	**17,326**	18,403
Costs of inventories recognised as an expense	**412,004**	333,913
Auditors' remuneration	**1,462**	1,196
Depreciation of property, plant and equipment	**26,112**	22,637
Amortisation of land lease prepayments	**403**	279
Impairment of property, plant of items and equipment	**586**	334
Loss on disposal of items of property, plant and equipment	**1,181**	–
Write-down of inventories	**655**	–
Write-off of construction in progress	**1,963**	–
Impairment of trade receivables	**232**	–

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

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

	2006	2005
	RMB'000	*RMB'000*
Fees:		
– Non-executive directors	**425**	257
	425	257
Other emoluments for executive and non-executive directors:		
– Basic salaries and other benefits	**569**	447
– Bonuses paid and payable	**1,294**	908
– Retirement benefits	**51**	31
	1,914	1,386
	2,339	1,643
Executive directors:		
– Yan Guoqi	**479**	260
– Song Jinhui	**282**	241
– Li Yantong	**188**	86
– Li Jinliu	**192**	85
Supervisors:		
– Chang Zongxian	**175**	151
– Niu Minghua	**137**	120
– Li Zizheng	**50**	66
– Ding Ping	**141**	124
– Zhou Weihua	**76**	70
– Gao Mingshun	**–**	25
– Wang Xiaoxing	**–**	20
Non-executive directors:		
– Yang Degu	**180**	82
– Bao Hongwei	**189**	85
– Li Keqing	**–**	25
– Zhang Chaoyi	**–**	20
– Li Zhenguo	**–**	20
Independent non-executive directors:		
– Zhang Yichun	**50**	50
– Liu Jianwen	**50**	50
– Yu Shulian	**50**	50
Independent supervisors:		
– Cai Yuming	**50**	13
– Yang Guirong	**50**	–
Total	**2,339**	1,643

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 announcement, the Company has not adopted any share option scheme as an incentive plan.

During the year ended 31 December 2006, the five highest paid individuals of the Group included four (2005: four) directors. They were Yan Guoqi, Song Jinhui, Li Jinliu and Bao Hongwei Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2005: one) nondirector, highest paid employees for the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and other benefits	**334**	253
Bonuses paid and payable	**58**	56
Pension scheme contributions	**12**	12
	404	321

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

During the year ended 31 December 2006, 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 2006, as approved by the 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 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 expense for the year ended 31 December 2006 are as follows:

	2006	2005
	RMB'000	*RMB'000*
Group:		
Current		
– charge for the year	**14,758**	17,444
– underprovision/(overprovision) in prior years	**41**	(297)
Deferred	**(5,286)**	(587)
Total tax charge for the year	**9,513**	16,560

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

	2006	2005
	RMB'000	*RMB'000*
Profit before income tax	**135,170**	126,310
Tax at the applicable tax rate of 33%	**44,606**	41,682
Tax effect of:		
– non-deductible expenses	**1,234**	1,020
– taxable advance from customers	**–**	105
– non-taxable profit*	**(39,250)**	(27,039)
– unrecognised tax losses	**311**	–
– underprovision/(overprovision) in prior years	**41**	(297)
– unrealised profit	**2,571**	1,089
Tax expense	**9,513**	16,560

* mainly attributable to profit generated by Zhengzhou Gas Engineering and Construction Co., Ltd., whose taxable profit was based on 12% (2005: 10%) of its revenue as explained above. The increase in non-taxable profit was mainly due to the increase in profit generated by Zhengzhou Gas Engineering and Construction Co., Ltd. during the Relevant Periods.

8. DIVIDENDS

	2006	2005
	RMB'000	*RMB'000*
Declared and paid during the year:		
– Final dividend pertaining to 2005 – RMB0.0138 per ordinary share (2004: RMB0.016)	**17,271**	20,024
Proposed for payment in 2007:		
– Final dividend pertaining to 2006 – RMB0.0285 per ordinary share (2005: RMB0.0138)	**35,667**	17,271

The proposed final dividend pertaining to 2006 for payment in 2007 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 2006.

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 announcement 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 ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share amount for the year ended 31 December 2006 is computed by dividing the net profit attributable to equity holders of the Company of approximately RMB111,485,000 (2005: approximately RMB93,400,000) by the weighted average number of 1,251,500,000 ordinary shares (2005: 1,251,500,000 ordinary shares) in issue during the year ended 31 December 2006.

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**87,371**	69,299	**85,649**	62,933
Between 31 days and 90 days	**6,703**	4,117	**6,689**	4,117
Between 91 days and 180 days	**957**	234	**944**	234
Between 181 days and 365 days	**192**	389	**176**	334
Over 365 days	**1,413**	1,582	**1,324**	1,013
	96,636	75,621	**94,782**	68,631
Less: Impairment of trade receivables	**(1,505)**	(1,273)	**(1,505)**	(1,273)
	95,131	74,348	**93,277**	67,358

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 30 days	**29,267**	33,666	**20,609**	15,346
Between 31 days and 90 days	**6,309**	2,710	**2,471**	623
Between 91 days and 180 days	**2,860**	791	**1,314**	781
Between 181 days and 365 days	**23,885**	2,251	**404**	388
Over 365 days	**2,970**	2,136	**1,357**	1,953
	65,291	41,554	**26,155**	19,091

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

12. EQUITY AND RESERVE MOVEMENT

Group

	Year ended 31 December 2006 Attributable to			Year ended 31 December 2005 Attributable to		
	Equity holders of the Company	**Minority interests**	**Total equity**	Equity holders of the Company	Minority interests	Total equity
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*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	**43,564**	**3,018**	**46,582**	25,483	1,383	26,866
Transferred from retained earnings	**24,030**	**1,414**	**25,444**	18,081	1,635	19,716
Transferred out	**–**	**(4,197)**	**(4,197)**	–	–	–
Transferred from statutory public welfare fund	**43,564**	**153**	**43,717**	–	–	–
At end of year	**111,158**	**388**	**111,546**	43,564	3,018	46,582
Statutory public welfare fund						
At beginning of year	**43,564**	**3,018**	**46,582**	23,265	945	24,210
Transferred from retained earnings	**–**	**–**	**–**	20,299	2,073	22,372
Transferred out	**–**	**(2,865)**	**(2,865)**	–	–	–
Transferred to statutory surplus reserve	**(43,564)**	**(153)**	**(43,717)**	–	–	–
At end of year	**–**	**–**	**–**	43,564	3,018	46,582
General surplus reserve						
At beginning of year	**19,905**	**207**	**20,112**	12,752	207	12,959
Transferred from retained earnings	**10,047**	**–**	**10,047**	7,153	–	7,153
Transferred out	**–**	**(207)**	**(207)**	–	–	–
At end of year	**29,952**	**–**	**29,952**	19,905	207	20,112
Retained earnings						
At beginning of year	**111,653**	**12,652**	**124,305**	83,810	8,195	92,005
Profit for the year	**111,485**	**14,172**	**125,657**	93,400	16,350	109,750
Transferred to statutory surplus reserve	**(24,030)**	**(1,414)**	**(25,444)**	(18,081)	(1,635)	(19,716)
Transferred to statutory public welfare fund	**–**	**–**	**–**	(20,299)	(2,073)	(22,372)
Transferred to general surplus reserve	**(10,047)**	**–**	**(10,047)**	(7,153)	–	(7,153)
Dividends paid	**(17,271)**	**(466)**	**(17,737)**	(20,024)	(8,185)	(28,209)
Transferred out	**–**	**(24,180)**	**(24,180)**	–	–	–
At end of year	**171,790**	**764**	**172,554**	111,653	12,652	124,305
Reserve arising from acquisition of an MI						
At beginning of year	**–**	**–**	**–**	–	–	–
Acquisition of an MI	**28,150**	**–**	**28,150**	–	–	–
At end of year	**28,150**	**–**	**28,150**	–	–	–
Total reserves	**442,076**	**1,152**	**443,228**	319,712	18,895	338,607
Minority interests in the capital of subsidiaries						
At beginning	**–**	**9,050**	**9,050**	–	9,050	9,050
Transferred out	**–**	**(6,600)**	**(6,600)**	–	–	–
At end of year	**–**	**2,450**	**2,450**	–	9,050	9,050
Total equity	**567,226**	**3,602**	**570,828**	444,862	27,945	472,807

CLOSURE OF REGISTER OF MEMBERS

Pursuant to the articles of association of the Company, the register of members of the Company will be closed for a 30-day period prior to the holding of the annual general meeting of the Company. Information in relation to the forthcoming annual general meeting of the Company and the closure of the register of members related to dividend payment and forthcoming annual general meeting shall be separately disclosed by way of an announcement of the Company upon the determination of the date of the forthcoming annual general meeting of the Company.

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 2005 and 2006 are set out below:

Table 1 Revenue

	Year ended 31 December				
	2006		2005		
	Revenue ***(RMB'000)***	**As % of Revenue**	Revenue *(RMB'000)*	As % of Revenue	Growth
Natural gas	**498,729**	**67.23%**	413,606	65.85%	20.58%
LPG	**–**	**0.00%**	3,216	0.51%	N/A
Gas appliances	**4,018**	**0.54%**	4,091	0.65%	-1.78%
Pressure control equipment	**2,962**	**0.40%**	3,414	0.54%	-13.24%
Gas pipelines					
– Construction of gas pipelines	**222,800**	**30.04%**	168,049	26.75%	32.58%
– Repairs and maintenance of gas pipelines	**13,241**	**1.78%**	35,721	5.69%	-62.93%
Other	**43**	**0.01%**	50	0.01%	-14.00%
	741,793	**100.00%**	628,147	100.00%	18.09%
Less: Business tax and government surcharges	**(10,156)**		(7,669)		
Total	**731,637**		620,478		17.92%

Table 2 The number of customers of natural gas

	Year ended 31 December		
	2006	2005	Growth
Residential customers	**629,016**	568,490	10.65%
Commercial customers	**1,433**	1,214	18.04%
Industrial customers	**51**	48	6.25%
Vehicular customers	**6,235**	5,522	12.91%
Total:	**636,735**	575,274	10.68%

Table 3 Gas Consumption

	Year ended 31 December				
	2006		2005		
	Gas consumption	**As % gas of consumption**	Gas consumption	As % gas of consumption	Growth
Natural gas					
Total gas consumption *(in approximate '000 m^3)*	**286,236**		261,890		9.30%
of which					
residential users	**100,749**	**35.20%**	89,737	34.27%	12.27%
commercial users	**88,621**	**30.96%**	81,895	31.27%	8.21%
industrial users	**55,973**	**19.55%**	49,921	19.06%	12.12%
vehicular users	**40,893**	**14.29%**	40,337	15.40%	1.38%

General

For the year ended 31 December 2006, the Group recorded a total revenue of approximately RMB731,637,000 and a gross profit of approximately RMB241,651,000, representing an increase of approximately 17.92% in revenue and approximately 15.29% in gross profit as compared with the corresponding period of last year respectively. The increase was mainly due to the increase in the number of customers of natural gas, which resulted in the increase of revenue from gas consumption and gas pipelines construction. The total revenue also gained great growth impetus from the increased prices for natural gas consumption by commercial, industrial and vehicular users during the Relevant Period.

During the Relevant Period, the gross profit margin of the Group was approximately 33.03%, representing a slight decrease as compared with the gross profit margin of approximately 33.78% in the corresponding period of last year. In the Relevant Period the Group suffered losses in the pipeline repair and maintenance business. That was primarily because the relevant government authorities of Zhengzhou City were considering the Group's application for the increase in price of natural gas for residential users, of which the collection of RMB48 annual maintenance fee per household was one of the factors affecting the approval of the application, so the Group did not collect the said fee before getting the result of the application. As a result, the pipeline repair and maintenance business recorded a -78.97% gross profit margin, leading to a decrease of the overall gross profit margin. On the other hand, the gross profit margin of the pipeline construction business recorded an increase from 67.39% in the corresponding period of last year to 70.00% in the Relevant Period, and the percentage of the revenue from the said business in the total revenue rose from approximately 26.75% in the corresponding period of last year to approximately 30.04% in the Relevant Period. Such growth has offset the negative impact on overall gross profit margin caused by the loss in repair and maintenance business.

During the Relevant Period, the aggregate selling and distribution costs and administrative costs were approximately RMB33,294,000 and RMB66,335,000 respectively, representing an increase of approximately 23.95% and 23.12% respectively as compared with the corresponding period of last year. The increase was mainly due to the increase in staff costs, lease and depreciation expenses as a result of the expansion of the scale of operation.

Other expenses of the Group increased by approximately 113.00% from approximately RMB4,886,000 in the corresponding period of last year to approximately RMB10,407,000 in the Relevant Period, which was chiefly ascribable to the intermediary fee of approximately RMB7,262,000 paid in relation to the Company's proposed migration of its listing status to the main board of the Stock Exchange.

Income tax expenses of the Group for the Relevant Period were approximately RMB9,513,000, representing a decrease of approximately 42.55% from approximately RMB16,560,000 in the corresponding period of last year. This was mainly due to the increase of revenue of the Group in the Relevant Period which was primarily ascribable to the revenue from pipeline construction. This business was undertaken by Zhengzhou Gas Engineering Co., Ltd., a subsidiary of the Company, which had been approved by the local taxation authority to calculate the corporate taxable profit by 12% of the revenue in the Relevant Period. The taxable profit calculated in this manner was less than the taxable profit calculated based on the accounting profit.

During the Relevant Period, the net profit attributable to the equity holders of the Company was approximately RMB111,485,000, representing an increase of approximate 19.36% as compared with approximately RMB93,400,000 in the corresponding period of last year.

Sales of Piped Natural Gas

During the Relevant Period, revenue derived from sale of natural gas was approximately RMB498,729,000, representing an increase of approximately 20.58% as compared with approximately RMB413,606,000 in the corresponding period of last year.

During the Relevant Period, total gas consumption by natural gas users of the Group was approximately 286,236,000 m^3, representing an increase of approximately 9.30% as compared with approximately 261,890,000 m^3 in the corresponding period of last year.

Short supply of natural gas occurred in Zhengzhou in early 2006. To ensure that the normal daily life of Zhengzhou citizens remained unaffected, the Group suspended gas supply to vehicular users (resumed on 14 February 2006) and set limit on gas consumption to commercial and industrial users. Such measure of suspension and setting limit slowed down the growth of gas consumption of all users other than residential users and even led to a temporary drop of the consumption of vehicular gas. Fortunately, after negotiation with suppliers such as Petrochina and Sinopec, the Company secured their agreements to increase gas supply to Zhengzhou, thereby fundamentally relieving the shortage of natural gas in Zhengzhou, and vehicular gas consumption picked up to the normal level in late 2006, reaching 40,893,000 m^3, representing a slight increase of 1.38% over the corresponding period of last year. Gas consumption by commercial users in the Relevant Period was approximately 88,621,000 m^3, representing an increase of 8.21% over the corresponding period of last year; gas consumption by industrial users was approximately 55,973,000 m^3, representing an increase of 12.12% over the corresponding period of last year; gas consumption by residential users was approximately 100,749,000 m^3, representing an increase of 12.27% over the corresponding period of last year.

As at 31 December 2006, the Group had 629,016 residential users, representing an increase of 60,526 as compared with 568,490 residential users as at 31 December 2005; 1,433 commercial users, representing an increase of 219 as compared with 1,214 commercial users as at 31 December 2005; 51 industrial users, representing an increase of 3 as compared with 48 industrial users as at 31 December 2005; and 6,235 vehicular users, representing an increase of 713 as compared with 5,522 vehicular users as at 31 December 2005. The number of vehicular users decreased by 205 compared with 6,440 as at 30 June 2006, primarily because some buses turned to refuel gas at gas stations built by Zhengzhou Bus Co., Ltd.

On 9 August 2006, the Group had obtained an approval from the Zhengzhou Commodity Price Bureau to raise the prices of natural gas sold to industrial and commercial users so as to minimise the adverse impact of the rise in costs on the profits of the Relevant Period. The price of natural gas for commercial users was raised from RMB2.00/m^3 to RMB2.40/m^3, and the price of natural gas for industrial users was raised from RMB1.80/m^3 to RMB2.10/m^3.The aforesaid adjustments applied to gas consumption of industrial and commercial users metered on or after 15 August 2006. The Group also raised the price of natural gas for vehicular users several times in the Relevant Period, from RMB2.6/m^3 in early 2006 to RMB3.00/m^3.

During the Relevant Period, the Group purchased approximately 217,797,000 m^3 of natural gas from Petrochina through the "Project of Transmitting Natural Gas through the West to the East Pipelines", accounting for approximately 70.97% of the total volume of gas purchased by the Group. The cost price was raised from RMB1.20/m^3 to RMB1.24/m^3 as from 1 February 2006. In addition, the Group purchased approximately 79,291,000 m^3 from Zhongyuan Oilfield of Sinopec, accounting for approximately 25.84% of the total volume of gas purchased by the Group.

Sales of Liquefied Petroleum Gas ("LPG")

In the Relevant Period, the Group did not have any revenue from sales of LPG. The LPG sales revenue in the corresponding period of last year came from 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 LPG business which had already been terminated in 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 gas users in Zhengzhou and other natural gas suppliers. For the Relevant Period, revenue from sale of gas appliances and pressure control equipment amounted to approximately RMB6,980,000.

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 RMB222,800,000, representing the connection of natural gas supply for 63,412 residential users and 134 commercial users, the average fee for connection of natural gas supply for each residential user was approximately RMB3,032 while that for each commercial user was approximately RMB99,216, or an increase of approximately 32.58% as compared with approximately RMB168,049,000 for the corresponding period of last year. The increase was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. Furthermore, the Group also received revenue from other construction project amounted to approximately RMB17,213,000.

In addition, the Group also collected fees from users for providing renovation work and gas pipelines repair and maintenance services. During the Relevant Period, such fees amounted to approximately RMB13,241,000, representing a decrease of 62.39% as compared with approximately RMB35,721,000 for the corresponding period of last year. The substantial decrease was mainly caused by the fact that relevant authority was reveiwing the pricing mechanism for repair and maintenance services, thus the Group has not obtained approval from such authority to charge repair and maintenance fees from the users.

Net Profit and Return to Shareholders

During the Relevant Period, net profit margin of the Group was approximately 15.24%, which was higher than the 15.05% recorded for the corresponding period of last year. The increase was mainly attributable to lower income tax.

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 Relevant Period, was approximately 22.03%, which was similar to that of 22.88% of the corresponding period of last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and Banking Facilities

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

As at 31 December 2006, the Group had no outstanding interest-bearing borrowings.

Net Current Liabilities

As at 31 December 2006, the Group had net current liabilities of approximately RMB51,436,000 (as at 31 December 2005: the Group had net current assets of approximately RMB2,424,000). Such current liabilities included advance receipts of approximately RMB209,382,000, which were income pending recognition rather than payables of liability in nature. The net current liabilities net of advance receipts amounted to approximately RMB157,946,000.

Working Capital

As at 31 December 2006, the Group had no outstanding bank borrowings and had cash and bank balances of approximately RMB177,496,000. 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 2006, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 152.29% which was lower than that of approximately 170.22% as at 31 December 2005. 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.

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 2006, the Group had capital commitments of approximately RMB104,782,000, of which approximately RMB53,722,000 was for the contracts of pipeline network construction and equipment purchase, and the balance of approximately RMB51,060,000 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 2006, the Group had no significant contingent liability or any asset under pledge.

Employees and Remuneration Policy

Human resources

An analysis of the Group's employees by functions as at 31 December 2005 and 31 December 2006 is as follows:

	Year ended 31 December	
	2006	2005
Management and administration	**198**	192
Finance	**42**	45
Sales and marketing	**222**	202
Safety maintenance and technical upgrading	**139**	130
Purchases and supplies	**14**	15
Engineering and installation	**220**	216
Repairs, maintenance and testing	**361**	350
Others	**322**	323
Total	**1,518**	1,473

As at 31 Dcember 2006, the Group had 1,518 employees, an addition of 45 employees as compared with 1,473 employees in the corresponding period of last 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 RMB66,929,000, representing an increase of approximately 27.31% compared with the total staff costs of approximately RMB52,571,000 for the corresponding period of last year.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

In 2006 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 2006, the Group had neither material investment nor contingent liabilities, and likewise as at 31 December 2005.

Charge of Assets

As at 31 December 2006, the assets of the Group were not under any charges and likewise as at 31 December 2005.

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.

The Group will strategically develop some industrial and commercial users who consume gas evenly throughout the year, such as restaurants and hotels, so that the gas sales of the Group in the off-peak summer will remain at a high level and the annual gas sales become more balanced.

For vehicular gas business, the Group plans to build more natural gas stations to improve the natural gas supply network and shorten the waiting time of users at the stations. The Group will also keep improving customer service to attract more potential vehicle owners to use natural gas.

The Group is expecting relief of short supply of natural gas in Zhengzhou. On the one hand, after negotiation with suppliers such as Petrochina and Sinopec, the Group secured their agreements to increase gas supply to Zhengzhou; on the other hand, the Group is resorting to diversified sources of gas and introducing coal-bed methane, compressed natural gas and liquefied natural gas as auxiliary sources of gas, and has built LNG reserve base to meet gas demand in peak and emergency.

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 or re-election of the respective director and supervisor for a term of three years.

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

Directors' and Supervisors' Remuneration

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

Directors' and Supervisors' Interests in Contracts

None of the directors or supervisors of the Company had a material interest, 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 2006 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', Supervisors' and Chief Executive's Interests in Shares and Underlying Shares or Debentures

As at 31 December 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

As at 31 December 2006, 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 the Company or any of its associated corporations were as follows:

Long positions in ordinary shares of the Company

Name	Capacity/ Nature of interest	Number of H Shares held	Approximate % of beneficial 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)	Investment Manager	33,000,000	5.99%	–	–	2.63%
Emirates International Investment Co., LLC	Beneficial owner	97,000,000	17.61%	–	–	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
Dengfeng Zhengran Gas Co., Ltd. (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司)	RMB23,500,000	78%

Notes:

(1) As at 31 December 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 31 December 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 100% 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 the share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company and its associated corporations.

Directors' and Supervisors' Rights to Acquire H Shares

Save as disclosed above, during the year ended 31 December 2006, 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 2006, none of the directors or supervisors or chief executive their spouses or minor children had any right to acquire H Shares in the Company or had exercised any such right.

Purchase, Redemption or Sale of Listed Securities of the Company

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

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 compliance advisor (as defined in Rule 6A.01 of the GEM Listing Rules) thereafter.

Competing Interests

None of the directors, supervisors and 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 Company.

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 2006. The audited results of the Group for the year ended 31 December 2006 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 durring the year ended 31 December 2006.

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 2006.

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

Zhengzhou, Henan Province, the PRC
13 March 2007

As at the date of this announcement, 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), Ms. Yu Shulian (余恕蓮) and Mr. Wong Ping (王平).

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its publication.

* *For identification purpose only*