Zhengzhou Gas Company Limited*

Stock code: 8099

* for identification purpose only

Annual Report **2006**

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This report, 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 annual report 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

Directors

Executive Directors

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)

Non-executive Directors

Mr. Zhang Wushan (張武山)
Mr. Yang Degu (楊德固)
Ms. Bao Hongwei (鮑紅偉)

Independent Non-executive Directors

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

Supervisors

Mr. Chang Zongxian (常宗賢)
Mr. Chen Kun (陳鯤)
Ms. Niu Minghua (牛鳴華)
Mr. Ding Ping (丁平)
Ms. Zhou Weihua (周衛華)
Mr. Cai Yuming (蔡玉明)
Mr. Yang Guirong (楊桂榮)

Audit Committee

Ms. Yu Shulian *(Chairlady)*
Mr. Zhang Yichun
Mr. Liu Jianwen

Company Secretary

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

Compliance Officer

Mr. Yan Guoqi

Qualified Accountant

Mr. Wong Cheuk Lam,
CPA, CPA Australia

Authorised Representatives

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

Registered Office and Principal Place of Business in PRC

352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

Principal Place of Business in Hong Kong

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

Legal Adviser to the Company

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

Auditors

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

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

Stock Code

8099

Financial Highlights

Financial Statistics

For the year ended 31 December

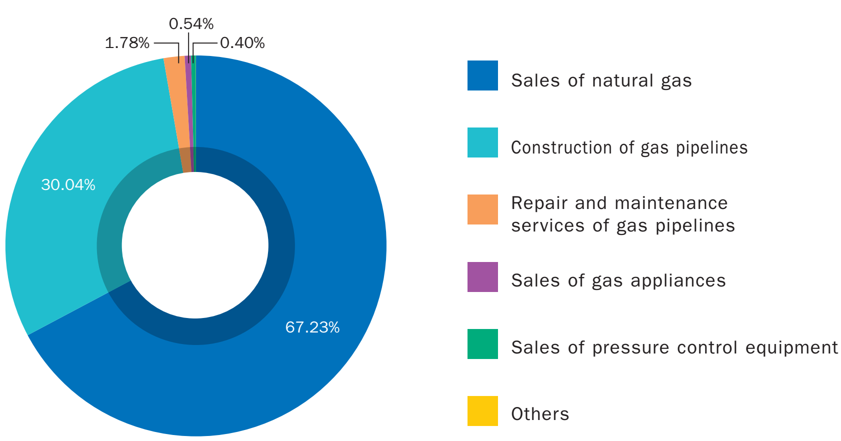
	2006 (RMB'000)	2005 (RMB'000)	2004 (RMB'000)	2003 (RMB'000)	2002 (RMB'000)
Revenue	**731,637**	620,478	470,386	356,869	282,154
Profit before taxation	**135,170**	126,310	98,722	78,457	56,238
Net profit attributable to the equity holders of the Company	**111,485**	93,400	65,211	52,937	37,324
Earnings per share (RMB in Yuan) (Basic and Diluted)	**0.089**	0.075	0.052	0.042	0.044

REVENUE AND NET PROFIT

RMB'000

REVENUE BREAKDOWN

(For the year ended 31 December, 2006)



Chairman's Statement

Mr. Yan Guoqi
Chairman

To all shareholders,

The year 2006 was a memorial year for the development of Zhengzhou Gas Company Limited (the "Company"). After years of efforts, the Company made itself successfully one of the enterprises that earned a net profit of more than RMB100 million, its results had brought the Company to move into a new stage. Hereby, I would like to share with all shareholders the business performance of the Company and its subsidiaries (together referred to as "the Group") in the year ended 31 December 2006 (the "Relevant Period" or the "Year").

Performance Review and Dividends

During the Relevant Period, the Group recorded remarkable results with total revenue of RMB731,637,000 and profit attributable to shareholders of the Company of RMB111,485,000, representing an increase of 17.92% and 19.36% respectively over the corresponding period of last year. In consideration of the favourable operating results, the board (the "Board") of directors (the "Directors") of the Company is pleased to propose the payment of a dividend of RMB0.0285 per share to shareholders so that they can share the Group's fruitful results.

Negotiation Actively to Resolve Natural Gas Shortage

During the Relevant Period, to cope with the new challenge brought by the natural gas shortage, the Company resolved the problem actively in two ways. Firstly, it negotiated extra gas supply from suppliers such as PetroChina and SINOPEC and earned their support. In addition to the gas supply guaranteed by SINOPEC's Zhongyuan Oilfield, the Company secured an additional daily gas supply of 100,000 m^3 from SINOPEC's Huabei Oil Bureau and 47,000,000 m^3 from PetroChina. The suppliers also showed their intention to substantially raise the natural gas supply to Zhengzhou city. Secondly, the Group actively diversified the gas sources by introducing coal bed methane, compressed natural gas and liquefied natural gas as ancillary sources, and set up a liquefied natural gas storage base to increase its ability to handle peak hour consumption and emergency.

Chairman's Statement

Strengthen Infrastructure Construction to Increase Gas Transmission and Storage Capacity

1. Pipeline construction

During the Year, the Group invested over RMB30,000,000 to construct the high pressure natural gas pipelines project along the south-western Fourth Ring Road, with a total length of 34 kilometers. Upon completion of the pipeline project, the service area and gas transmission capacity of the Group will be further enhanced. In addition, the Group also started building natural gas pipelines along 57 roads, and completed pipelines along 28 roads within the year. From the date the construction began till 31 December 2006, a total pipelines of a total length of 86.246 kilometers had been completed.

2. Construction of the third storage and distribution station

During the Year, the Group invested a total of RMB130,000,000 to construct a strategic natural gas storage and distribution station in Zhengzhou city, and the station was officially put into service, and thus increased the Group's gas storage capacity for Zhengzhou city by 11 times to 2,400,000 m^3. The completion of this project is another milestone in the history of the Group's development. It not only makes up the insufficiency of the present natural gas supply adjustment capacity of Zhengzhou city in peak hours, but also renders, for the first time in history, Zhengzhou city the strategic gas storage ability, which, in case of emergency, can meet the full gas consumption demand from all residents of Zhengzhou city for 7 days. At present, the gas storage capacity of Zhengzhou city is in a leading position among the nation's provincial capital cities.

Further Development of the Main Board Listing Program

After receiving the indication from CSRC in relation to the Company's proposed migration of the listing status of its H Shares from the GEM to the main board of the Stock Exchange in the first half of 2006, the Company submitted such application to the Stock Exchange on August 2006 and coordinated with the intermediaries to proceed with many complicated procedures for approval. The Company expects that the proposed migration will become crystalised in 2007.

Adjustment of Natural Gas Price for Industrial and Commercial Customers

Due to speedy reform on the nation's energy pricing mechanism and higher gas price charged by upstream suppliers, the Company was under huge pressure of rising costs. To relieve the pressure of rising costs, the Company had applied to the National Development and Reform Commission of Henan for approval of price increases, and obtained the approval of the Zhengzhou Commodity Price Bureau to raise selling prices of natural gas to industrial customers from RMB1.80 per m^3 to RMB2.10 per m^3 and commercial customers from RMB2.00 per m^3 to RMB2.40 per m^3, effective from all gas consumption metered after 15 August 2006. This was the first price adjustment by the Company since 2000, which would benefit the Company's sustainable development, ease the adverse impact arising from the rise of costs and substantially support the Company to maintain a stable profit growth.

Chairman's Statement

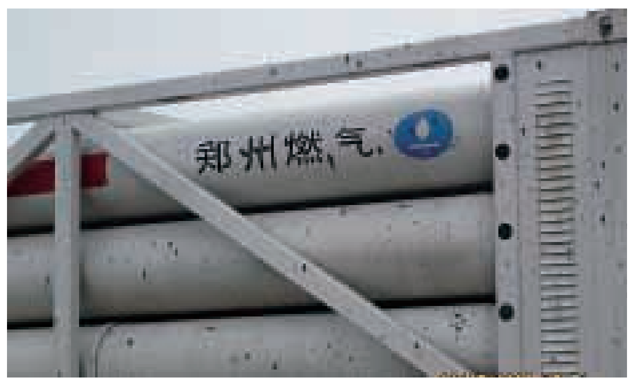
Reform on Remuneration and Appraisal System

In 2006, the Group earnestly launched a reform on its remuneration and appraisal system, and invited professionals to design proposals for reforming its remuneration system, in order to set up a new performance management system and remuneration management system, which will be implemented in 2007. The remuneration reform will be set up to improve the operation mechanism which is incentive and restraining, and will have positive impact on work efficiency and the enhancement of economic return.

Enhance Corporate Governance

In order to enhance its corporate governance, the Company has reinforced the power and responsibilities of the Nomination Committee, the Remuneration & Appraisal Committee and the Audit Committee under the Board as well as the roles of independent non-executive directors in those committees, and further improved the appraisal management mechanism on members of the senior management by the Board, which in turn improved the Company's decision-making process.

In order to establish its internal control system, the Company has established 13 sets of internal control rules, which include the Currency Capital Control, the Financing Funding Control, the Cost Expense Control and the Connected Transaction Control etc., which will be fully implemented in 2007 to improve its internal control.



Prospects

Looking into the future, the Group faces both opportunities and challenges. The rise of Central China policy and the Zhengzhou-Bianzhou Economic Strip will guarantee a steady economic growth and continuous expansion of urban area of Zhengzhou, which will bring new opportunities to the Group for rapid development in future. However, there are also challenges to its ability in maintaining steady gas supply and efficient operation. The Group will continue to push forward its reform, enhance its core competitive edge, endeavor to carry out the main board listing program, and maximize the value of the Company through rationalizing the pricing system and strengthening its ability to create sustained growth.

On behalf of the Board, I wish to express my heartfelt appreciation to our shareholders and devoted employees for their full support to the development of the Company.

Zhengzhou Gas Company Limited
Chairman
Yan Guoqi

13 March 2007, Zhengzhou

Management Discussion and Analysis

Mr. Song Jinhui
Executive Director and
General Manager

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%

Management Discussion and Analysis

Performance Review *(continued)*

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.

Management Discussion and Analysis

Performance Review *(continued)*

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.

Management Discussion and Analysis

Performance Review *(continued)*

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.

Shortage 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.

Management Discussion and Analysis

Performance Review *(continued)*

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 62.93% 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 reviewing 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.

Management Discussion and Analysis

Liquidity, Financial Resources and Capital Structure

Borrowings and Banking Facilities

The Group currently finances its capital expenditure and operations mainly by internally generated funds, 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. After excluding such advance receipts, the Group had a net current asset of 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.

Management Discussion and Analysis

Liquidity, Financial Resources and Capital Structure *(continued)*

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 December 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.

Management Discussion and Analysis

Liquidity, Financial Resources and Capital Structure *(continued)*

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 during peak consumption and in emergency.

Profiles of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Yan Guoqi (閆國起), aged 52, Chairman of the Company, an executive Director and compliance officer of the Company. He is a representative of the 12th Session of the National People's Congress of Zhengzhou City, head of the Urban Gas Association of Henan Province and a senior engineer. He was deputy head of water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company (鄭州市自來水公司) from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation (鄭州市天然氣總公司) from 1997 to 1998, deputy chairman and executive deputy general manager of Zhengzhou Municipal Gas Company Limited (鄭州市燃氣有限公司) from 1998 to 2000, and deputy chairman and general manager of Zhengzhou Gas Group (鄭州市燃氣集團) since 2000. Mr. Yan is also the chairman of Henan Province Zhongyuan Gas Heating Project Supervision Company Limited (河南省中原燃氣熱力工程監理有限公司). Mr. Yan was appointed the Chairman of the Company since 2001.

Mr. Song Jinhui (宋金會), aged 54, an executive Director, the Deputy Chairman and general manager of the Company and a senior engineer. Mr. Song is a member of the 11th Chinese People's Political Consultative and a representative of the 13th Session of the National People's Congress of Zhongyuan District of Zhengzhou City. He was deputy head of general office of Zhengzhou Municipal Coal Gas Company (鄭州市煤氣公司) from 1983 to 1986, head of safety and technology department and sales and services outlets, deputy general manager of Zhengzhou Municipal Natural Gas Corporation from 1986 to 1998, deputy general manager of Zhengzhou Municipal Gas Company Limited from 1998 to 2000 and deputy chairman of Zhengzhou Gas Group since December 2002. Mr. Song was appointed as general manager of the Company and executive Director in December 2000.

Mr. Li Jinliu (李金陸), aged 40, an executive Director, deputy general manager and a senior engineer of the Company. He was head of pipeline network of Zhengzhou Municipal Natural Gas Company, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. Mr. Li was the chief economist of Zhengzhou Gas Group from December 2000 to August 2002 and a director of Zhengzhou Gas Group from 2002 to January 2007. Mr. Li is currently the chairman of Zhengzhou Gas Engineering and Construction Company Limited (鄭州燃氣工程建設有限公司), a subsidiary of the Company. In December 2000, he was appointed as a deputy general manager of the Company and as an executive Director in October 2005. Since January 2007, Mr. Li no longer holds any directorship or managerial position in Zhengzhou Gas Group.

Mr. Li Yantong (李燕同), aged 49, an executive Director, deputy general manager of the Company and a senior engineer. He was head of storage & distribution station of Zhengzhou Municipal Gas Corporation, deputy chief engineer and chief engineer of Zhengzhou Municipal Gas Company Limited from 1989 to 2000, chief engineer of Zhengzhou Gas Group from 2000 to 2002, a director of Zhengzhou Gas Group from 2002 to January 2007 and the chairman of Zhengran Gas Design Development Company Limited (鄭州鄭燃燃氣設計開發有限公司), a subsidiary of Zhengzhou Gas Group from December 2004 to January 2007. Mr. Li was appointed as a deputy general manager of the Company in 2000 and as an executive Director in October 2005. Since January 2007, Mr. Li no longer holds any directorship or managerial position in Zhengzhou Gas Group and its associates.

Profiles of Directors, Supervisors and Senior Management

Directors *(continued)*

Non-executive Directors

Mr. Yang Degu (楊德固), aged 58, a non-executive Director appointed in October 2005 and a senior political engineer*. Mr. Yang has successively been a deputy secretary for the disciplinary committee of Zhengzhou Municipal Administration of Public Utilities (鄭州市公用局) from 1985 to 1993, a secretary for the disciplinary committee of Zhengzhou Coal Gas Company from 1993 to 1998, a secretary and a deputy party secretary for the disciplinary committee of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Yang has been a deputy Party secretary of the Company since 2004 and he is also a deputy party secretary, a secretary of the disciplinary committee, and the chairman of the supervisory committee of Zhengzhou Gas Group and the chairman of the supervisory committee of Zhengzhou Gas Estate Development Company Limited (鄭州燃氣房地產開發有限公司), a subsidiary of Zhengzhou Gas Group.

Mr. Zhang Wushan (張武山), aged 51, a non-executive Director and a senior engineer of the Company. He was the head of storage and distribution station and the measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997, and chief economist and deputy general manager of Zhengzhou Municipal Natural Gas Company Limited since 1998 and currently a director and standing deputy general manager of Zhengzhou Gas Group and the chairman of Zhengzhou Gas Estate Development Company Limited (鄭州燃氣房地產開發有限公司), a subsidiary of Zhengzhou Gas Group. Mr. Zhang was appointed as a non-executive Director in December 2000.

Ms. Bao Hongwei (鮑紅偉), aged 49, a non-executive Director of the Company and a senior political engineer. From 1997 to 2000, Ms. Bao was the deputy head and head of the Zhengzhou City Natural Gas Company's General Manager's Office, and head of the human resources department of Zhengzhou City Municipal Gas Company Limited. From 2000 to 2002, Ms. Bao was the chairperson of the Company's labour union. Ms. Bao is now the Chairman, a Party Designate Member and a Director of the Company. From 2004 onward, she became the chairperson of the Company's labour union again. In addition, Ms. Bao is the Chairman of the Zhengzhou Zhengran Property Management Company Limited (鄭州燃氣物業管理有限公司), a subsidiary of the Zhengzhou Gas Group.

Independent non-executive Directors

Mr. Zhang Yichun (張亦春), aged 73, an independent non-executive Director. He is also the head of the Financial Research Institute of Xiamen University. Since August 1960, he was a lecturer of the economics department, associate professor and deputy head of the finance and fiscal department of the economics faculty, professor, supervisor of doctoral candidates and department head of the finance and fiscal department as well as a professor, supervisor of doctoral candidates and faculty head of the economics faculty, and professor, supervisor of doctoral candidates and head of the fiscal research institute, all of Xiamen University. In addition, Mr. Zhang is an independent non-executive director of Everbright Prumerica Fund Management Company Limited (光大保德信基金管理公司), Fujian Zhonghe Company Limited (福建眾和股份有限公司), Yu Fai Group Joint Stock Company (旭輝集團股份有限公司) and a supervisor of Industrial Bank Company Limited (興業銀行股份有限公司). He was appointed independent non-executive Director in May 2001.

* *The title political engineer is a professional qualification for a person whose primary responsibility is to conduct political ideological work for the PRC Communist Party in state-owned organizations.*

Profiles of Directors, Supervisors and Senior Management

Directors *(continued)*

Independent non-executive Directors *(continued)*

Ms. Yu Shulian (余恕蓮), aged 53, an independent non-executive Director of the Company. She is a professor of accounting and a supervisor of doctoral candidates of the External Economics and Trade University and a PRC non-practising accountant registered with the Association of Registered Accountants of the PRC. She was appointed independent non-executive Director in April 2002. Ms. Yu is also an independent non-executive director of Shenyang Siasun Robot & Automation Company Limited (瀋陽新松機器人自動化股份有限公司).

Mr. Liu Jianwen (劉劍文), aged 47, an independent non-executive Director of the Company. He holds a doctor of jurisprudence degree. He is presently a professor of Beijing University and a supervisor of doctoral candidates, officer of Peking University Fiscal Law Research Center, an arbitrator of China International Economic and Trade Arbitration Commission. He is also the president of China Institute for Fiscal and Tax Law Education Research, president of International Texas Longhorn Association (ITLA). Mr. Liu also acted as the leader of the drafting team of the Basic Law for Taxation of the People's Republic of China – a project entrusted by the Finance and Economy Working Committee of National People's Congress, consultant of the drafting team of the Law for Fiscal Transfer Payment of the People's Republic of China-an project entrusted by the Budget Working Committee of the Standing Committee of National People's Congress, consultant of the drafting team of the Law for State Assets of the People's Republic of China of National People's Congress and the chief expert in China side of the State Administration of Taxation on "the World Bank debt project-Research on Taxation Law System Reform and Consummation after China's entry to WTO". He was appointed as an independent non-executive Director in April 2002.

Mr. Wong Ping (王平), aged 46, an independent non-executive Director appointed in November 2006. Mr. Wong holds a graduate certificate in commercial corporate management from Henan University of Television Broadcast. Mr. Wong has experience in corporate management and finance. He was formerly an assistant manager of Henan Zhouhou District Price Bargaining Company (河南省周口地區議價公司), a manager of general business department of Henan Province Foreign Trade of Commodity Development Company (河南省外貿商品開發公司), a deputy general manager of Henan Imports and Exports Company of China National Cereals, Oils and Foodstuffs Corporation (中糧河南進出口公司) and is currently a deputy general manager of Henan Zhengzhou Rongyuan Shopping Plaza Company Limited (河南鄭州融元購物廣場有限公司). Mr. Wong is ordinarily resident in Hong Kong.

Profiles of Directors, Supervisors and Senior Management

Supervisors

Mr. Chang Zongxian (常宗賢), aged 47, a Supervisor and was formally appointed as a non-executive Director and resigned from this post on 17 October 2005. He has been the chairman of Zhengzhou Gas Group since December 2000. He is a representative of the 10th National People's Congress of Henan Province and a senior economist. He was head of the planning and construction bureau of the Zhengzhou High and Innovative Technology Industrial Development Zone from 1988 to 1992, general manager of Zhengzhou High Land City Construction Development Corporation from 1992 to 1994, the deputy head of management committee of the Zhengzhou High and Innovative Technology Industrial Development Zone from 1994 to 1995, the deputy chief commandant of construction command of the Zhengzhou Shinzheng Airport (鄭州新鄭機場) from 1995 to 1997, the deputy head of the Zhengzhou Municipal Transport Bureau from 1997 to 1998 and the chairman of Zhengzhou Municipal Gas Company Limited since 1998. Mr. Chang was previously a non-executive Director of the Company from 2001 to 2005. Mr. Chang was appointed as a Supervisor in 2005.

Mr. Ding Ping (丁平), aged 43, a Supervisor and a political engineer. Mr. Ding was head of the coordination and propaganda division, branch secretary of iron cylinder testing section and organisation and promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. He was appointed chairman of the supervisory committee of the Company in December 2000. Having resigned as chairman of the supervisory committee, he remained as one of its supervisors. Mr. Ding is also the deputy party secretary and the head of general office of the Company.

Ms. Niu Minghua (牛鳴華), aged 49, a Supervisor of the Company and a political engineer. Ms. Niu was previously the secretary of the Discipline Inspection Commission and formerly an executive Director of the Company. She was the office deputy head and the general party secretary of Zhengzhou Municipal Gas Company Limited and the office head and general party secretary of Zhengzhou Gas Group. Ms. Niu was appointed an executive Director between August 2002 and October 2005. She resigned from this post on 17 October 2005 and was appointed as a Supervisor on the same day.

Ms. Zhou Weihua (周衛華), aged 37, a Supervisor and the head of the Company's human resources department. She is a member of the Eleventh Session of Youth Federation of Zhengzhou, director of the Youth Volunteers Federation of Zhengzhou and an accountant. She was the deputy head of corporate customer management office of Zhengzhou Municipal Natural Gas Company, secretary of regiment committee and organisation and promotion office of Zhengzhou Municipal Gas Company Limited. Ms. Zhou was appointed as a Supervisor in December 2000. Ms. Zhou is currently the general manager and a director of Zhengzhou Gas Estate Development Company Limited (鄭州燃氣集團房地產開發有限公司).

Mr. Chen Kun (陳鯤先生), aged 43, a Supervisor and an engineer holding a doctor in engineering. Mr. Chen joined Zhengzhou Gas Group on 20 May 2003 and is currently a deputy general manager of Zhengzhou Gas Group. On 1 February, 2007, Mr. Chen was appointed as the chairman of Zhengran Gas Design Development Company Limited.

Profiles of Directors, Supervisors and Senior Management

Supervisors *(continued)*

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

Mr. Cai Yuming (蔡玉明), aged 47, a Supervisor of the Company. Mr. Cai holds a master's degree in management and engineering. He was previously a deputy general manager of Zhengzhou Municipal Government Bond Center (鄭州市國債服務中心), a general manager of Zhengzhou Municipal Trust Investment Company (鄭州信託投資公司), a vice president of Zhengzhou Branch of Guangzhou Development Bank (廣東發展銀行鄭州分行) and a deputy general manager of China Eagle Securities Company Limited (大鵬證券有限責任公司). He is currently an assistant of general manager of Shenzhen Guanghua Printing Co., Ltd., (深圳光華印制有限公司). Mr. Cai was appointed as a Supervisor in October 2005.

Company Secretary and Qualified Accountant

Mr. Wong Cheuk Lam, Raymond (黃焯琳), aged 38, the full-time qualified accountant and company secretary of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan, Sakura Asia Finance Limited and Bank of China International Company Limited. Mr. Wong has over ten years of experience in accounting and finance. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Wong Cheuk Lam is a member of the senior management.

Senior Management

Mr. Li Zizheng (李自正), aged 43, is the Company's financial controller. From 1998 onward, Mr. Li was the deputy head of the finance department Zhengzhou City Natural Gas Company Limited, division head of Zhengzhou City Urban Gas Company Limited's financial investment department, division head of finance of Zhengzhou Gas Group. Mr. Li is also the Director of Zhengzhou Urban Gas Real Estate Development Company Limited. He was appointed as the Company's financial controller in October 2005.

Ms. Geng Tongmin (耿同敏), aged 40, a deputy general manager and senior engineer of the Company. Ms. Geng consecutively held offices as a deputy director of the Zhengzhou City Natural Gas Company Limited's Design Scientific Research Institute and a deputy chief engineer of Zhengzhou Municipal Natural Gas Corporation, a deputy chief engineer and chief engineer of Zhengzhou Gas Group and deputy chairman of Henan Province Zhong Yuan Natural Gas Heat Engineering Supervising Company Limited (河南省中原燃氣熱力工程有限公司). Ms. Geng held office as a deputy general manager of the Company in August 2004.

Profiles of Directors, Supervisors and Senior Management

Senior Management *(continued)*

Mr. Hao Ganjun (郝幹軍), aged 54, deputy general manager of the Company. He was head of corporate management office of Zhengzhou Municipal Natural Gas Corporation and assistant to general manager of Zhengzhou Municipal Gas Company Limited from 1997 to 2000. In December 2000, Mr. Hao was appointed deputy general manager of the Company. In August 2003, he was appointed as the deputy officer of the Corporate Management Committee of China Gas Association.

Mr. Liu Daoshuan (劉道栓), aged 41, deputy general manager and senior engineer of the Company and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Coal Gas Company and deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited from 1992 to 2000. In December 2000, Mr. Liu was appointed chief engineer of the Company. He was appointed as the Company's deputy general manager in August 2002.

Mr. Zhao Ruibao (趙瑞保), aged 41, is the secretary to the Board and an assistant to the general manager. When the Company was first established in 2000, he was appointed as the manager of the Number One natural gas sales branch. In 2002, he became the deputy chief engineer of the Company. He later became the chief engineer of the Company in 2003 and in 2004, he took the role as the assistant to the general manager of the Company. He was appointed as secretary to the Board in December 2005.

Ms. Qiao Hong (喬紅), aged 39, is the Company chief accountant. She also holds the designation of a Senior Accountant. She was the deputy head of the accounting department of Zhengzhou Municipal Coal Gas Project Preparation Division, the deputy head of finance office of Zhengzhou Municipal Gas Company Limited and the head of securities investment division of Zhengzhou Gas Group. She was appointed financial controller of the Company in May 2001 and a part time chief accountant. She became the chief accountant in 2005.

Mr. Huang Biao (黃飈), aged 38, chief engineer of the Company and a senior engineer. He was deputy manager of No.1 Engineering Company of Zhengzhou Municipal Natural Gas Corporation and deputy head of sales office of Zhengzhou Municipal Gas Company Limited from 1993 to 2000. Mr. Huang was appointed chief economist of the Company in December 2000.

Mr. Li Wei Min (李為民), aged 39, is the chief economist of the Company and a senior engineer. He was the deputy head of the technology and equipment office of Zhengzhou Municipal Natural Gas Corporation in 1997 and the general manager of Zhengzhou Gas Group LPG Company Limited in 2003. He was appointed as the chief economist of the Company in October 2005.

Mr. Sun Xian Zhong (孫獻忠), aged 38, is an assistant to the general manager of the Company. Mr. Sun was the head of operation division, officer and property management manager of Zhengzhou High Land City Construction Development Company, Zhengzhou High and Innovative Technology Development Zone. He joined the Company in 2000 and was the Company's previous securities investment deputy division head, Hong Kong branch officer and securities investment division head. Mr. Sun was appointed as the Company's assistant to general manager in March 2006.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

Principal Activities

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

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

Segment Information

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

Results and Dividends

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 84.

The directors recommended the payment of a final dividend of RMB0.0285 per ordinary share in respect of the year ended 31 December 2006 to shareholders whose names appear in the register of members of the Company on the date of the forthcoming annual general meeting of the Company. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2006. Further details of the dividends are set out in note 9 to the financial statements.

Report of the Directors

Summary Financial Information

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

RESULTS

	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**731,637**	620,478	470,386	356,869	282,154
Cost of sales	**(489,986)**	(410,876)	(300,643)	(229,145)	(181,535)
Gross profit	**241,651**	209,602	169,743	127,724	100,619
Other income	**3,555**	2,334	1,144	925	523
Selling and distribution costs	**(33,294)**	(26,860)	(16,822)	(11,331)	(16,326)
Administrative expenses	**(66,335)**	(53,880)	(47,157)	(38,153)	(27,964)
Other expenses	**(10,407)**	(4,886)	(8,186)	(708)	(47)
Profit from operating activities	**135,170**	126,310	98,722	78,457	56,805
Finance costs	**–**	–	–	–	(567)
Profit before income tax	**135,170**	126,310	98,722	78,457	56,238
Income tax expense	**(9,513)**	(16,560)	(23,813)	(22,003)	(18,301)
Profit for the year	**125,657**	109,750	74,909	56,454	37,937
Attributable to:					
Equity holders of the Company	**111,485**	93,400	65,211	52,937	37,324
Minority interests	**14,172**	16,350	9,698	3,517	613
	125,657	109,750	74,909	56,454	37,937
Dividends	**17,271**	20,024	5,507	18,184	10,407
Earnings per share attributable to ordinary equity holders of the Company – Basic and diluted *(RMB Yuan)*	**0.089**	0.075	0.052	0.042	0.044

Report of the Directors

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**945,660**	750,572	615,510	502,399	439,742
Total liabilities	**374,832**	277,765	224,244	177,437	157,975
Minority interests	**3,602**	27,945	19,780	13,180	4,738
Net assets	**570,828**	472,807	391,266	324,962	281,767

Note: The consolidated results and financial position of the Group for the years ended 31 December 2002, 2003, 2004 and 2005 have been extracted from the 2002, 2003, 2004 and 2005's annual reports of the Company, while those for the year ended 31 December 2006 were prepared based on the consolidated income statement as set out on page 44 of this annual report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Construction in Progress

Details of movements in the property, plant and equipment and construction in progress of the Company and the Group during the year are set out in notes 13 and 15 to the financial statements, respectively.

Share Capital

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2006.

Pre-emptive Rights

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

Purchase, 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.

Reserves

Details of movements in the reserves of the Group and the Company during the Year are set out in the statements of changes in equity on pages 46 and 47 of the financial statements, respectively.

Report of the Directors

Distributable Reserves

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB189,811,000, of which approximately RMB35,668,000 has been proposed as a final dividend for the Year and approximately RMB11,504,000 has been proposed to be transferred to the general surplus reserve. In addition, the Company's share premium account, in the amount of RMB101,026,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

During the year ended 31 December 2006, the revenue attributable to the five largest customers accounted for less than 30% of the Group's total revenue for the year. Accordingly, a corresponding analysis of major customers is not presented.

Purchases from the Group's five largest suppliers accounted for approximately 82% (2005: 87%) of the total purchases and purchases from the largest supplier included therein amounted to 55% (2005: 57%).

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

Report of the Directors

Directors and Supervisors

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

Executive Directors

Mr. Yan Guoqi *(Chairman)*
Mr. Song Jinhui
Mr. Li Yantong
Mr. Li Jinliu

Non-executive Directors

Mr. Zhang Wushan
Mr. Yang Degu
Ms. Bao Hongwei

Independent Non-executive Directors

Mr. Zhang Yichun
Mr. Liu Jianwen
Ms. Yu Shulian
Mr. Wong Ping (appointed on 22 November 2006)

Supervisors

Mr. Chang Zongxian
Ms. Niu Minghua
Mr. Li Zizheng (resigned on 21 April 2006)
Mr. Ding Ping
Ms. Zhou Weihua
Mr. Chen Kun (appointed on 22 November 2006)

Independent Supervisors

Mr. Cai Yuming
Mr. Yang Guirong

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

Report of the Directors

Directors', Supervisors' and Senior Management's Biographies

Biographical details of the Directors and supervisors of the Company and senior management of the Company are set out under the Profile of Directors, Supervisors and Senior Management Section of the annual report.

Confirmation of Independence by Independent Non-executive Directors

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

Directors' and Supervisors' Service Contracts

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

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

Directors' and Supervisors' Remuneration

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

Directors' and Supervisors' Interests in Contracts

None of the Directors or supervisors of the Company had a material interest, 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.

Report of the Directors

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 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%

Report of the Directors

Disclosures under the SFO and Substantial Shareholders *(continued)*

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
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%

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.

Report of the Directors

Disclosures under the SFO and Substantial Shareholders *(continued)*

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.

Connected Transactions

Details of the Group's connected transactions during the year ended 31 December 2006 are included in note 29 to the financial statements.

I Continuing Connected Transactions

(a) Land Use Rights Lease Agreements

On 16 January 2002, the Company and its controlling shareholder, Zhengzhou Gas Group, entered into three land use rights lease agreements (the "Land Use Rights Lease Agreements") whereby the Company leased from Zhengzhou Gas Group the land use rights on three pieces of land for operational use. As supplemented by a supplemental agreement dated 30 September 2002, the term of the Land Use Rights Lease Agreements were extended to a period from 16 January 2002 to 31 December 2019 with an option of renewal (subject to the laws and regulations then applicable in the PRC) exercisable by the Company for another 18 years and a further option of renewal (subject to the laws and regulations applicable in the PRC) exercisable by the Company for another 15 years.

Pursuant to a memorandum relating to the adjustment of the annual rentals referred to in the Land Use Rights Lease Agreements, the Company and Zhengzhou Gas Group had agreed to adjust the annual rentals, with effect from 1 June 2005, with reference to aggregate fair market rentals of RMB1,427,970 per annum as appraised by a professional independent valuer as at 29 April 2005.

On 26 May 2005, the Company and Zhengzhou Gas Group entered into a new land use rights lease agreement (the "New Land Use Rights Lease Agreement"), pursuant to which Zhengzhou Gas Group as landlord agreed to lease the land use rights on another piece of land to the Company as tenant for the operation of a natural gas refueling station for a duration of three years commencing from 1 June 2005 to 31 May 2008 at a rental of RMB117,026 per annum.

Report of the Directors

Connected Transactions *(continued)*

I Continuing Connected Transactions *(continued)*

(a) Land Use Rights Lease Agreements (continued)

The lease arrangements under the Land Use Rights Lease Agreements and the New Land Use Rights Lease Agreement are continuing connected transactions for the Company. As the aforementioned transactions are similar in nature and are entered into by the Company with the same connected person, for the purpose of Rule 20.25 of the GEM Listing Rules, such transactions should be aggregated. Accordingly, pursuant to Rule 20.35(2) of the GEM Listing Rules, the aggregate annual cap for the transactions under the Land Use Rights Lease Agreements and the New Land Use Rights Lease Agreement was fixed at RMB1,544,996.

(b) Property Lease Agreements

On 5 November 2004, the Group and Zhengzhou Gas Group entered into three property lease agreements (the "Property Lease Agreements") pursuant to which Zhengzhou Gas Group as landlord had agreed to lease the occupation rights in certain properties to the Group as tenant for office and operational uses for a duration of three years commencing from 1 November 2004 to 31 October 2007 (with an option to renew exercisable by the Group) at the respective rentals of RMB3,931,563, RMB720,312 and RMB3,156,024 per annum.

The arrangements under the Property Lease Agreements are continuing connected transactions for the Company. Under Rule 20.25 of the GEM Listing Rules, the annual rentals under the Property Lease Agreements should be aggregated. Accordingly, pursuant to Rule 20.35(2) of the GEM Listing Rules, the aggregate annual cap for the transactions under the Property Lease Agreements was fixed at RMB7,807,899.

With respect to the continuing connected transactions as set out above, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that, during the year ended 31 December 2006, such transactions were entered into:

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

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

(3) in accordance with the Property Lease Agreements, the Land Use Rights Lease Agreements and the New Land Use Rights Lease Agreement governing the relevant transactions.

Report of the Directors

Connected Transactions *(continued)*

I Continuing Connected Transactions *(continued)*

(b) Property Lease Agreements (continued)

Ernst & Young, the auditors of the Company, had also provided a letter to the board of directors of the Company (with a copy provided to the Stock Exchange on 13 March 2007, confirming that during the year ended 31 December 2006, the above continuing connected transactions were:

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

(2) entered into in accordance with the Property Lease Agreements, the Land Use Rights Lease Agreements and the New Land Use Rights Agreement governing the relevant transactions; and

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

II Connected Transactions

(a) Acquisition of 16.5% Equity Interest of the Zhengzhou Gas Engineering and Construction Company Limited (the "Engineering Company")

On 1 July 2006, the Company entered into the equity transfer agreement with the Zhengzhou Gas Group Labour Union Committee (the "Labour Union Committee"), a connected person of the Company by virtue of its being a substantial shareholder (as defined in the GEM Listing Rules) of the Engineering Company, a subsidiary of the Company. Pursuant to the equity transfer agreement, the Company agreed to acquire from the Labour Union Committee its 16.5% equity interest in the Engineering Company (the "Acquisition") for a consideration of RMB9.90 million (equivalent to approximately HK$9.52 million) (the "Consideration"). The Consideration would be satisfied in cash through the Company's internal resources and cash flow from its operating activities. Upon completion of the Acquisition, the Company would increase its equity interest in the Engineering Company from 83.50% to 100.00% and the Engineering Company would become a direct wholly-owned subsidiary of the Company.

The Directors believe that, the Acquisition enabled the Company to strengthen its control over the Engineering Company's management and operations. Furthermore, after the Acquisition, the Engineering Company will become a direct wholly-owned subsidiary of the Company and the Labour Union Committees' share of the Engineering Company's profit and loss and net assets will be eliminated, thereby resulting in a substantial decrease in minority interest in both the Company's consolidated profit and loss account and net assets. In view of the favourable terms (including the Consideration) for the Acquisition and the positive financial impact on the Group's future financial results, the Directors (including the independent non-executive Directors) considered that the terms of the Acquisition pursuant to the equity transfer agreement are on normal commercial terms which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As at 31 December 2006, the transaction regarding the Acquisition had been completed.

Report of the Directors

Connected Transactions *(continued)*

II Connected Transactions *(continued)*

(b) Acquisition of Liquefied Petroleum Gas ("LPG") Assets and Land Assets

LPG Assets Purchase Agreement

On 8 September 2006, the Company entered into the LPG assets purchase agreement with Zhengzhou Gas Group LPG Company Limited (the "LPG Company"). The LPG Company is owned as to 44% by Zhengzhou Gas Group, the controlling shareholder of the Company. Accordingly, the LPG Company is an associate of a connected person of the Company. Pursuant to the LPG assets purchase agreement, the Company had conditionally agreed to acquire a parcel of land and certain gas storage structures, real estates and equipments erected on the land (the "LPG Assets") from the LPG Company for an aggregate consideration of approximately RMB63.24 million. The consideration will be satisfied by cash from internal resources of the Group.

In order to accommodate the increasing demand for natural gas from the Group's existing and potential customers, the Directors believe that it is essential for the Group to further expand its natural gas storage facilities in the near future. Currently the storage capacity of the Group is 200,000 m^3. After the acquisition of the LPG Assets, the storage capacity of the Group will increase to 2,400,000 m^3. As such, the Directors considered that the LPG Assets acquisition provided an opportunity for the Company to expand its storage capacity within a relatively short period of time (when compared with constructing the Group's own natural gas facilities) which may improve the Group's capacity to maintain stable supply of natural gas to users in Zhengzhou City.

Taking into account the consideration of the acquisition of the LPG Assets, and the positive impact of the LPG Assets acquisition on the Group's future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the LPG assets purchase agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Land Purchase Agreements

The Company entered into the Land Purchase Agreement 1 on 26 July 2006 for the acquisition from Zhengzhou Gas Group a parcel of land located at the junction of Juyuan Road East and Hongtu Road South in Zhengzhou (the "Land Asset 1") for a consideration of RMB577,000 (equivalent to approximately HK$554,808), which will be satisfied by cash from internal resources of the Company.

The Company entered into the Land Purchase Agreement 2 on 8 September 2006 for the acquisition from Zhengzhou Gas Group two parcels of lands, one located at the junction of Fengqing Road West and Guihua Road in Zhengzhou , while the other parcel of land located at the junction of Ruhe Road North and Huashan Road West (the "Land Asset 2") for a consideration of RMB4,900,000 (equivalent to approximately HK$4,710,000), which will be satisfied by cash from internal resources of the Company.

Report of the Directors

Connected Transactions *(continued)*

II Connected Transactions *(continued)*

(b) Acquisition of Liquefied Petroleum Gas ("LPG") Assets and Land Assets (continued)

Land Purchase Agreements *(continued)*

One of the Company's operations is the sale of piped natural gas to vehicular users through gas refueling stations (the "Gas Stations") and accordingly the Gas Stations are important assets of the Company. On each parcel of the Land Asset 1 and Land Asset 2 ("Land Assets") covered by the Land Purchase Agreement 1 and Land Purchase Agreement 2 ("Land Purchase Agreements"), there was constructed one of the Company's Gas Stations. In order to obtain the titles of such Gas Stations, the Company has to possess the land use rights of the Land Assets. Taking into account the considerations for the acquisition of the Land Assets and its positive impact on the Group's future operation, the Directors (including the independent non-executive directors) is of the opinion that the terms of the Land Purchase Agreements are fair and reasonable, and in the interest of the Company and its shareholders as a whole.

The Company held an extraordinary general meeting on 22 November 2006 for the independent shareholders to vote on the connected transactions in relation to the acquisitions of above LPG Assets and Land Assets and the resolutions in relation to the acquisitions were duly passed at the meeting.

Board Practices and Procedures

In the opinion of the directors, the Company has complied with the requirements of board practices and procedures as set out in the code provisions of the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the Year.

Code of Conduct Regarding Securities Transactions by Directors

During the Year, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance by any of the Directors with the required standard of dealings and the Company's code of conduct regarding securities transactions by the Directors.

Compliance Adviser's Interests

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.

Report of the Directors

Competing Interests

None of the Directors, the supervisors, 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 Rule 5.29 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 during the year ended 31 December 2006.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

Statement of No Change in Auditors

The Board confirms that there has been no change in the auditors of the Company in any of the preceding three years from the year ended 31 December 2006.

Auditors

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

Report of the Directors

Directors

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

BY ORDER OF THE BOARD

Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
13 March 2007

Corporate Governance Report

The year 2006 witnessed the Company's determination to strengthen its corporate governance and the establishment of a culture of respecting corporate governance practices. Through continuous efforts such as strengthening the functions of committees under the Board and promoting the formation of internal control systems, the Company has incorporated the core value of corporate governance, such as adopting an open, reasonable and restrictive decision-making process and taking into account the Company and the shareholders' interest as a whole in the process of decision-making etc., into Company's daily operation.

The Code on Corporate Governance Practices

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix XV to the GEM Listing Rules throughout the Year.

Securities Transactions by Directors

The interests in the Company's securities held by the Directors as at 31 December 2006 and the extent of compliance with the code of conduct regarding securities transactions by the Directors have been disclosed in the Report of Directors of this annual report.

The Company has adopted a code of conduct (the "Code") regarding securities transactions by the Directors on terms no less exacting than the required standards as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the relevant provisions of the Code during the Year.

The Board

Composition of the Board

The Board of the Company comprises eleven Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Song Jinhui (General Manager), Mr. Li Yantong and Mr. Li Jinliu; (ii) non-executive Directors: Mr. Zhang Wushan, Mr. Yang Degu and Ms. Bao Hongwei; and (iii) independent non-executive Directors: Mr. Liu Jianwen, Mr. Zhang Yichun, Ms. Yu Shulian and Mr. Wong Ping. Biographical details of the Directors and their relationships are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report. The Directors all have sufficient requisite experience essential for them to perform their duties efficiently.

The Company has appointed four independent non-executive Directors, at least one has appropriate accounting expertise, who can help the management to formulate the Group's development strategies, ensure the Board prepares its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintains appropriate systems to protect the interests of the Company and its shareholders. The Board has received the annual confirmation in respect of their independence from each of the independent non-executive Directors, and believes that their independence is in compliance with the GEM Listing Rules as at the date of the Company's 2006 annual report.

Corporate Governance Report

The Board *(continued)*

Operation of the Board

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

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

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

In 2006, the Board held a total of 18 meetings. The attendance record of each Director is set out below:

Directors	Attendance	Number of board meetings held during the term of directorship in 2006	Attendance rate	Remarks
Executive Directors				
Mr. Yan Guoqi	18	18	100%	
Mr. Song Jinhui	18	18	100%	
Mr. Li Yantong	18	18	100%	
Mr. Li Jinliu	18	18	100%	
Non-executive Directors				
Mr. Zhang Wushan	18	18	100%	
Ms. Bao Hongwei	18	18	100%	
Mr. Yang Degu	18	18	100%	

Corporate Governance Report

The Board *(continued)*

Operation of the Board *(continued)*

Directors	Attendance	Number of board meetings held during the term of directorship in 2006	Attendance rate	Remarks
Independent Non-executive Directors				
Mr. Zhang Yichun	17	18	94%	
Mr. Liu Jianwen	17	18	94%	
Ms. Yu Shulian	17	18	94%	
Mr. Wong Ping	3	3	100%	Appointed as Independent Non-executive Director on 22 November 2006

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

Audit Committee

The Company established its Audit Committee on 30 September 2002 with terms of reference in compliance with Rule 5.29 of the GEM Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control system of the Company and provide recommendations to the Board.

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

In 2006, the Audit Committee held a total of four meetings, at which it reviewed, together with the senior management and the internal and external auditors of the Company, the internal and independent audit results, the accounting principles and practices adopted by the Group, the listing and other relevant regulations, and discussed the audit and internal control system, and financial reporting matters (such as recommending the Board to approve the quarterly, interim and annual results for 2006).

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

Corporate Governance Report

Audit Committee *(continued)*

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

Names of directors	Attendance	Number of committee meetings held during 2006	Attendance rate	Remarks
Ms. Yu Shulian	4	4	100%	
Mr. Zhang Yichun	4	4	100%	
Mr. Zhang Wushan	4	4	100%	

Remuneration and Appraisal Committee

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

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

In 2006, the Remuneration and Appraisal Committee held a total of two meetings. At the first meeting, the "Standards for Appraising Directors and Senior Management" were approved, and the committee discussed the plans regarding the proposed reform of the Company's remuneration and appraisal systems and the work progress, and presented their proposals to the Board on the establishment of a remuneration system which is fit for a modern enterprise and an incentive system which can inspire the senior and middle management. At the second meeting, by way of meeting with employees and holding employees' colloquium, the Remuneration and Appraisal Committee took into consideration opinions and views of the employees on the remuneration reform, and approved the "Annual Salary Management System of Zhengzhou Gas Company Limited" and "Annualized Salary Performance Management and Performance Appraisal System of Zhengzhou Gas Company Limited".

In addition, the Committee also reviewed the incentive bonus given to the Directors and senior management in 2006. The Committee concluded that the amount of the incentive bonus given to the Directors and management in 2006 was reasonable after taking into account the overall financial performance of the Company and performance of each Director and member of the senior management.

Corporate Governance Report

Remuneration and Appraisal Committee *(continued)*

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

Names of directors	Attendance	Number of committee meetings held during 2006	Attendance rate
Zhang Yichun	2	2	100%
Liu Jianwen	2	2	100%
Yan Guoqi	2	2	100%
Song Jinhui	2	2	100%
Yu Shulian	2	2	100%

Nomination Committee

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

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

The Nomination Committee held three meetings in 2006, for the purpose of nominating new Directors and senior management mainly according to criteria such as educational background, working experience and the talent needed by the Company. The Committee had proposed to the Board the nomination of Mr. Sun Xianzhong as assistant to the General Manager, Mr. Li Jinliu as Executive Deputy General Manager and Mr. Wong Ping as independent non-executive Director of the Company.

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

Names of directors	Attendance	Number of committee meetings held during 2006	Attendance rate	Remarks
Yan Guoqi	3	3	100%	
Yu Shulian	3	3	100%	
Liu Jianwen	3	3	100%	
Zhang Yichun	3	3	100%	

Corporate Governance Report

Chairman and General Manager

Mr. Yan Guoqi served as a Director and the Chairman of the Board, and Mr. Song Jinhui served as an Executive Director and the General Manager during the year ended 31 December 2006. The posts of Chairman and General Manager have been held by different persons. The separation of the roles and functions of the Chairman and the General Manager ensures a clear distinction in the Chairman's responsibility to manage the Board and the General Manager's responsibility to manage the Company's business activities.

Term of the Directors

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

Remuneration of the Auditors

For the year ended 31 December 2006, the Audit Committee of the Company had reviewed the performance of Messrs. Ernst & Young ("Ernst & Young") as the auditors of the Company and proposed to re-appoint Ernst & Young as the auditors. For the year ended 31 December 2006, the Company had paid auditing fees of approximately RMB1,462,000 (2005: approximately RMB1,196,000) to Ernst & Young.

Responsibility of Preparation of the Accounts

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2006, the Directors are not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the financial statements of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Report of the Auditors in this annual report.

Internal Control Systems

The Directors conduct an annual review of the internal control systems of the Company every year in order to ensure their effectiveness. The Directors assess the effectiveness of the internal control systems based on 5 criteria, including environment monitoring, risk assessment, activity supervision, information and communication, and continuous assessment of the procedures of the internal control systems. The Directors consider that the Company has implemented a series of procedures for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining accounting records properly and ensuring the reliability of financial information.

In order to establish sound internal control systems, the Company formed a working group dedicated to the establishment of internal control systems and completed the drafting of 13 internal control rules and disciplines during the year. These 13 internal control disciplines include: 1. monetary fund control; 2.stocks (inventories) control; 3.financing activities control; 4.investing activities control; 5.sales and payment collection control; 6.procurement and payment control; 7.cost and expense control; 8.budget control; 9.connected transactions control; 10.fixed assets control; 11.construction project control; 12.information disclosure control; and 13.audit control.

Corporate Governance Report

Internal Control Systems *(continued)*

In addition, the Company further strengthened its internal audit and control. During the Year, the audit and control department completed more than 10 audit reports, submitted various audit control proposals to the Company, and proactively participated in the monitoring of the whole process of the tendering for key construction projects.

Investor Relations

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

During the year, the Company launched a promotional plan on the security market and organized five sizable road show activities. The Company participated in a dedicated promotional meeting "CSLA China Forum" in Zhengzhou and the "Global Fund Managers" promotional meeting organized by CCG Elite Investor Relations Limited (駿天投資者關係有限公司). In addition, the Company also went to the United Arab Emirates and Australia for road shows.

Independent Auditors' Report

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements of Zhengzhou Gas Company Limited set out on pages 44 to 84, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
13 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	**2006** **RMB'000**	2005 RMB'000
REVENUE	5	**731,637**	620,478
Cost of sales		**(489,986)**	(410,876)
Gross profit		**241,651**	209,602
Other income	5	**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	6	**135,170**	126,310
Income tax expense	8	**(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	9	**17,271**	20,024
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
– For profit for the year *(RMB)*	10	**0.089**	0.075

Balance Sheets

31 December 2006

	Notes	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
NON-CURRENT ASSETS					
Interests in subsidiaries	12	**–**	–	**52,350**	42,450
Property, plant and equipment	13	**424,422**	366,077	**414,411**	365,559
Available-for-sale financial asset	14	**50**	200	**50**	200
Construction in progress	15	**170,990**	91,225	**175,692**	73,318
Land lease prepayments	16	**18,288**	9,653	**18,288**	9,653
Deferred tax assets	17	**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	18	**95,131**	74,348	**93,277**	67,358
Inventories	19	**4,639**	3,886	**2,097**	673
Construction contract work in progress	22	**1,417**	911	**–**	–
Prepayments, deposits and other receivables	20	**28,577**	16,041	**15,068**	8,375
Due from a subsidiary	25	**–**	–	**3,000**	–
Due from fellow subsidiaries	26	**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	21	**65,291**	41,554	**26,155**	19,091
Advance payments received	22	**209,382**	162,207	**6,566**	4,450
Accrued liabilities and other payables	23	**92,325**	64,089	**85,146**	59,717
Tax payable		**6,887**	6,938	**2,067**	5,524
Due to the holding company	24	**–**	2,877	**–**	2,877
Due to subsidiaries	25	**–**	–	**267,826**	207,124
Due to fellow subsidiaries	26	**947**	100	**947**	100
Total current liabilities		**374,832**	277,765	**388,707**	298,883
NET CURRENT (LIABILITIES)/ASSETS		**(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	27	**125,150**	125,150	**125,150**	125,150
Reserves	28	**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

Yan Guoqi
Chairman

Song Jinhui
Director

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

Statements of Changes in Equity

Year ended 31 December 2006

Group

	Notes	**Year ended 31 December 2006 Attributable to Equity holders of the Company RMB'000**	**Minority interests RMB'000**	**Total equity RMB'000**	Year ended 31 December 2005 Attributable to Equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
SHARE CAPITAL							
Issued and fully paid capital	27						
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	*28 (a)*						
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 the 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	*28 (b)*						
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 the statutory surplus reserve		**(43,564)**	**(153)**	**(43,717)**	–	–	–
At end of year		**–**	**–**	**–**	43,564	3,018	46,582
General surplus reserve	*28 (c)*						
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	*28 (d)*						
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 the statutory surplus reserve		**(24,030)**	**(1,414)**	**(25,444)**	(18,081)	(1,635)	(19,716)
Transferred to the statutory public welfare fund		**–**	**–**	**–**	(20,299)	(2,073)	(22,372)
Transferred to the 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 a minority interest							
At beginning of year		**–**	**–**	**–**	–	–	–
Acquisition of a minority interest		**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

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

Statements of Changes in Equity

Year ended 31 December 2006

Company

	Notes	**2006 RMB'000**	2005 RMB'000
SHARE CAPITAL			
Issued and fully paid capital	27		
Ordinary shares of RMB0.10 each			
At beginning and end of year		**125,150**	125,150
RESERVES			
Share premium account			
At beginning and end of year		**101,026**	101,026
Statutory surplus reserve	28 (a)		
At beginning of year		**28,907**	18,860
Transferred from retained earnings		**11,504**	10,047
Transferred from the statutory public welfare fund		**28,907**	–
At end of year		**69,318**	28,907
Statutory public welfare fund	28 (b)		
At beginning of year		**28,907**	18,860
Transferred from retained earnings		**–**	10,047
Transferred to the statutory surplus reserve		**(28,907)**	–
At end of year		**–**	28,907
General surplus reserve	28 (c)		
At beginning of year		**18,860**	11,707
Transferred from retained earnings		**10,047**	7,153
At end of year		**28,907**	18,860
Retained earnings	28 (d)		
At beginning of year		**67,677**	57,170
Profit for the year		**160,956**	57,778
Transferred to the statutory surplus reserve		**(11,504)**	(10,047)
Transferred to the statutory public welfare fund		**–**	(10,047)
Transferred to the general surplus reserve		**(10,047)**	(7,153)
Dividends paid		**(17,271)**	(20,024)
At end of year		**189,811**	67,677
Total reserves		**389,062**	245,377
Total equity		**514,212**	370,527

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

Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Cash flows from operating activities		
Profit before income tax	**135,170**	126,310
Adjustments for:		
Depreciation of property, plant and equipment	**26,112**	22,637
Amortisation of land lease prepayments	**403**	279
Impairment of property, plant and equipment	**586**	334
Loss on disposal of property, plant and equipment	**1,181**	–
Interest income from bank balances	**(2,096)**	(1,206)
Impairment of trade receivables	**232**	–
Write-down of inventories	**655**	–
Write-off of construction in progress	**1,963**	–
Operation profit before working capital changes	**164,206**	148,354
Increase in trade receivables	**(21,015)**	(3,326)
(Increase)/decrease in inventories	**(1,408)**	54
Increase in construction contract work in progress	**(506)**	(552)
Increase in prepayments, deposits and other receivables	**(12,471)**	(629)
Increase in amounts due from fellow subsidiaries	**(25)**	(111)
Increase in restricted cash deposits	**(16,000)**	–
Increase in trade payables	**2,621**	10,546
Increase in advance payments received	**47,175**	23,249
Increase in accrued liabilities and other payables	**28,236**	36,789
Decrease in an amount due to the holding company	**(2,877)**	(12,278)
Increase/(decrease) in amounts due to fellow subsidiaries	**847**	(755)
Cash generated from operations	**188,783**	201,341
Income tax paid	**(14,850)**	(21,177)
Net cash inflow from operating activities	**173,933**	180,164
Cash flows from investing activities		
Interest income from bank balances	**2,096**	1,206
Proceeds from disposal of items of property, plant and equipment	**678**	424
Proceeds from disposal of an available-for-sale financial asset	**150**	–
Acquisitions of property, plant and equipment and construction in progress	**(156,616)**	(81,103)
Acquisition of an minority interest	**(9,900)**	–
Net cash outflow from investing activities	**(163,592)**	(79,473)
Cash flows from financing activities		
Capital contributed by minority shareholders of subsidiaries	**–**	–
Dividends paid	**(17,271)**	(20,024)
Dividends paid to minority shareholders	**(466)**	(8,185)
Net cash outflow from financing activities	**(17,737)**	(28,209)
Net (decrease)/increase in cash and cash equivalents	**(7,396)**	72,482
Cash and cash equivalents at beginning of year	**184,892**	112,410
Cash and cash equivalents at end of year	**177,496**	184,892
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**193,496**	184,892
Less: Restricted cash deposits	**(16,000)**	–
Cash and cash equivalents	**177,496**	184,892

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

Notes to Financial Statements

31 December 2006

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.

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

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

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 has 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	IFRS 2 – 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.

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

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

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.

Subsidiaries

A subsidiary is an entity over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities.

In the Company's financial statements, interests in subsidiaries are stated at cost less any impairment losses. An assessment of interests in subsidiaries is performed when there is an indication that the asset has been impaired. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

Revenue recognition

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

Sale of natural gas, pressure control equipment and gas appliances

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

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

(ii) Bottled Liquefied Petroleum Gas ("LPG") sales – upon delivered to customers and title has passed; and

(iii) Pressure control equipment and gas appliances sales - upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and title has passed.

Construction of gas pipelines

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

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Revenue recognition *(continued)*

Interest income

Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Rental income

Rental income is accounted for on the straight-line basis over the lease terms on an ongoing basis.

Dividend income

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

Repairs and maintenance services

Revenue is recognised when services have been rendered.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	25 years
Machinery and equipment	12-28 years
Gas pipelines	22-25 years
Office equipment	8 years
Motor vehicles	8 years
Computer software	3 years

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where their carrying values exceed these recoverable amounts, assets are written down to their recoverable amounts.

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Operating leases

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

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

Construction in progress

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction and is stated at cost less any impairment losses, and is not depreciated. The construction period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing. Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Investment and other financial assets

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as separate components of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

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

Impairment of financial assets

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses in equity instruments classified as available-for-sale are not reversed through the income statement.

Inventories

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

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

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Construction contract work in progress and revenue recognition

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

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

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

Trade and other receivables

Trade receivables, which generally have terms ranging from 30 to 60 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts. Provision for impairment is made when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Prepayments, deposits and other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms ranging from 7 to 90 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to the holding company and fellow subsidiaries are recognised and carried at cost.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discount present value amount arising from the passage of time is included in finance costs in the income statement.

Retirement benefits

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

Accommodation benefits

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

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Government grants

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

Foreign currency transactions

The Group is using the currency of its primary economic environment in which the Group operates. The financial statements are presented in RMB, which is the Group's functional and presentation currency.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Income tax *(continued)*

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

Cash and cash equivalents

Cash on hand and at banks are carried at cost.

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

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

Derecognition of financial assets

A financial asset is derecognised where:

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

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

Notes to Financial Statements

31 December 2006

2. Summary of significant accounting policies *(continued)*

Derecognition of financial assets *(continued)*

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

Derecognition of financial liabilities

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Notes to Financial Statements

31 December 2006

3. Significant accounting judgements and estimations

The preparation of the financial statements in conformity with IFRSs requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The following judgements have the most significant effect on the amounts recognised in the financial statements.

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

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

(b) Deferred tax assets

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(c) Impairment of receivables

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

(d) Useful lives of plant and equipment

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

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

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

The Group's management estimates the consumption of natural gas by IC card users with reference to the average consumption volume of normal metre-reading residential users. The actual consumption could deviate from those estimates. The total sales of natural gas to IC cards users for the year ended 31 December 2006 amounted to RMB45,376,000 (2005: RMB41,757,000).

Notes to Financial Statements

31 December 2006

4. Segment information

For management purposes, the Group currently organises its operations into two business segments, namely sales of natural gas and other related products and gas pipeline construction. The principal activities of the business segments are as follows:

Sales of natural gas and other related products	Sale 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.

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

Year ended 31 December 2006

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
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 income tax				**135,170**
Income tax expense				**(9,513)**
Profit for the year				**125,657**
Assets and liabilities				
Total assets	**871,353**	**378,041**	**(303,734)**	**945,660**
Total liabilities	**394,601**	**257,420**	**(277,189)**	**374,832**
Other segment information				
Depreciation of property, plant and equipment	**24,898**	**2,001**	**(787)**	**26,112**
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**

Notes to Financial Statements

31 December 2006

4. Segment information *(continued)*

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

Year ended 31 December 2005

	Sales of natural gas and related products *RMB'000*	Gas pipeline construction *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
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 income tax				126,310
Income tax expense				(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

Notes to Financial Statements

31 December 2006

5. 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 from the LPG system to the 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.

Notes to Financial Statements

31 December 2006

6. 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 7):		
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	**1,180**	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 property, plant and equipment	**1,181**	–
Write-down of inventories	**655**	–
Write-off of construction in progress	**1,963**	–
Impairment of trade receivables	**232**	–

Notes to Financial Statements

31 December 2006

7. 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
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.

Notes to Financial Statements

31 December 2006

7. Directors', supervisors' and senior executives' emoluments *(continued)*

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

During the year ended 31 December 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) non-director, highest paid employee 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
Retirement Benefits	**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.

8. Income tax expense

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at a rate of 33% of their taxable profits. 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% (2005: 10%) of its revenue for corporate income tax filing purposes. The taxable profits calculated thereon were lower than the taxable profits determined with the reference to its accounting profits.

Major components of the Group's income tax 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 *(note 17)*	**(5,286)**	(587)
Total tax charge for the year	**9,513**	16,560

Notes to Financial Statements

31 December 2006

8. Income tax expense *(continued)*

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

Notes to Financial Statements

31 December 2006

9. 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)	**35,668**	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 report which is prepared in accordance with IFRSs.

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

10. 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 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.

11. Retirement benefits and accommodation benefits

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 23% (2005: 23%) of the previous year's average basic salaries within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries and their employees are required to make contributions which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for such contributions to the accommodation fund.

Notes to Financial Statements

31 December 2006

12. Interests in subsidiaries

	Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted investments, at cost	**52,350**	42,450

Particulars of the Company's subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations/ date of incorporation	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Group 2006	2005	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (a))*	PRC 19 June 2002	RMB40,000,000	**100%**	83.5%	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (b))*	PRC 14 November 2003	RMB5,000,000	**51%**	51%	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. *(note (c))*	PRC 17 February 2004	RMB30,000,000	**100%**	94.2%	Sale of natural gas and gas appliances and the provision of natural gas installation and maintenance

Notes:

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

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

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

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

Notes to Financial Statements

31 December 2006

13. Property, plant and equipment

Group

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Gas pipelines *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2006	20,697	166,114	270,113	10,668	23,444	4,765	495,801
Additions	369	5,919	60	2,800	4,034	394	13,576
Transferred from construction in progress *(note 15)*	6,122	26,393	40,615	–	–	196	73,326
Disposals	(664)	(10,949)	(2,772)	(298)	(239)	–	(14,922)
At 31 December 2006	**26,524**	**187,477**	**308,016**	**13,170**	**27,239**	**5,355**	**567,781**
Accumulated depreciation and provision for impairment losses:							
At 1 January 2006	2,196	48,947	66,946	2,767	7,688	1,180	129,724
Depreciation charge for the year	849	8,587	11,882	1,302	2,556	936	26,112
Impairment losses provided for the year	384	34	–	39	129	–	586
Disposals	(664)	(9,988)	(1,935)	(247)	(229)	–	(13,063)
At 31 December 2006	**2,765**	**47,580**	**76,893**	**3,861**	**10,144**	**2,116**	**143,359**
Net carrying amount:							
At 31 December 2006	**23,759**	**139,897**	**231,123**	**9,309**	**17,095**	**3,239**	**424,422**
At 31 December 2005	18,501	117,167	203,167	7,901	15,756	3,585	366,077

Notes to Financial Statements

31 December 2006

13. Property, plant and equipment *(continued)*

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Total RMB'000
Cost:							
At 1 January 2006	20,697	149,473	290,398	9,680	16,153	4,740	491,141
Additions	261	4,801	60	2,679	4,033	394	12,228
Transferred from construction in progress *(note 15)*	–	25,522	37,669	–	–	196	63,387
Disposals	(664)	(10,522)	(2,772)	(298)	(239)	–	(14,495)
At 31 December 2006	**20,294**	**169,274**	**325,355**	**12,061**	**19,947**	**5,330**	**552,261**
Accumulated depreciation and provision for impairment losses:							
At 1 January 2006	2,196	46,440	67,873	2,512	5,406	1,155	125,582
Depreciation charge for the year	730	7,501	12,400	1,179	1,797	936	24,543
Impairment losses provided for the year	384	34	–	39	129	–	586
Disposals	(664)	(9,786)	(1,935)	(247)	(229)	–	(12,861)
At 31 December 2006	**2,646**	**44,189**	**78,338**	**3,483**	**7,103**	**2,091**	**137,850**
Net carrying amount:							
At 31 December 2006	**17,648**	**125,085**	**247,017**	**8,578**	**12,844**	**3,239**	**414,411**
At 31 December 2005	18,501	103,033	222,525	7,168	10,747	3,585	365,559

14. Available-for-sale financial asset

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted equity investment, at cost	**50**	200

The Group's unlisted equity investment, held on a long term basis, represents the Company's 1.87% (2005: 7.46%) equity interest in an unlisted company incorporated in the PRC with limited liability.

Notes to Financial Statements

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15. Construction in progress

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**91,225**	101,977	**73,318**	83,110
Additions	**164,157**	72,426	**176,827**	80,663
Transferred to land lease prepayments *(note 16)*	**(9,103)**	(3,330)	**(9,103)**	(3,330)
Transferred to property, plant and equipment *(note 13)*	**(73,326)**	(79,848)	**(63,387)**	(87,125)
Write off	**(1,963)**	–	**(1,963)**	–
At end of year	**170,990**	91,225	**175,692**	73,318

16. Land lease prepayments

	Group and Company	
	2006	2005
	RMB'000	*RMB'000*
At beginning of year	**10,056**	7,005
Transferred from construction in progress *(note 15)*	**9,103**	3,330
Amortisation charged for the year	**(403)**	(279)
At end of year	**18,756**	10,056
Current portion included in prepayments, deposits and other receivables	**(468)**	(403)
Non-current portion	**18,288**	9,653

17. Deferred tax assets

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
– Accrued expenses not deductible until payments are made	**6,514**	1,366	**6,514**	1,366
– Taxable advances from customers and others	**2,000**	1,862	**217**	467
	8,514	3,228	**6,731**	1,833

Notes to Financial Statements

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18. 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.

19. Inventories

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Natural gas, at net realisable value	**1,211**	–	**1,211**	–
Construction materials and pressure control equipment, at net realisable value	**3,428**	3,886	**886**	673
	4,639	3,886	**2,097**	673

The amounts of the write-down of inventories recognised as an expense for the Group and the Company are RMB805,000 (2005: RMB150,000) and RMB667,000 (2005: nil), respectively.

20. Prepayments, deposits and other receivables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**27,212**	15,011	**14,160**	7,599
Deposits	**270**	139	**5**	5
Sundry debtors	**1,095**	891	**903**	771
	28,577	16,041	**15,068**	8,375

The above balances are unsecured and interest-free.

Notes to Financial Statements

31 December 2006

21. 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 90 days terms.

22. Construction contract work in progress/advance payments received

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	**1,417**	911	**–**	–
Advance payments received				
Progress payments received	**239,879**	210,089	**7,713**	5,022
Less: Contract costs incurred to date	**(30,497)**	(47,882)	**(1,147)**	(572)
	209,382	162,207	**6,566**	4,450

As at 31 December 2006 and 2005, the Group had no retention monies held by its customers for the contract works performed.

23. Accrued liabilities and other payables

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advances from customers	**54,293**	40,840	**53,709**	39,111
Other payables	**19,796**	19,212	**14,595**	16,569
Accruals	**2,588**	1,086	**2,588**	1,086
Payroll payables	**15,648**	2,951	**14,254**	2,951
	92,325	64,089	**85,146**	59,717

Other payables and accruals are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

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24. Due to the holding company

The amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

25. Due from/(to) subsidiaries

	2006	2005
	RMB'000	*RMB'000*
Due from a subsidiary:		
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	**3,000**	–
Due to subsidiaries:		
Zhengzhou Gas Engineering and Construction Co., Ltd.	**264,555**	207,043
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	**3,271**	81
	267,826	207,124

On 26 April 2006, pursuant to an entrusted loan agreement entered into between the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright Bank Zhongyuan Branch ("Everbright"), Zhengzhou Gas Engineering and Construction Co., Ltd. made two entrusted loans totalling RMB150,000,000 to the Company through Everbright at an interest rate of 5.022% per annum, including a bank commission charge at a rate of 0.1% per annum.

On 9 August 2006, the Company entered into another entrusted loan agreement with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright. Pursuant to the agreement, Zhengzhou Gas Engineering and Construction Co., Ltd. made an entrusted loan of RMB50,000,000 to the Company through Everbright at an interest rate of 5.265% per annum, including a bank commission charge at a rate of 0.1% per annum. The loan was settled by the Company on 29 December 2006.

The balances of these entrusted loans at 31 December 2006 and their maturity are as follows:

	RMB'000
Repayable on:	
– 24 April 2007	100,000
– 25 April 2007	50,000
	150,000

26. Due from/(to) fellow subsidiaries

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

Notes to Financial Statements

31 December 2006

27. Share capital

	2006		2005	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***RMB'000***	*'000*	*RMB'000*
Registered	**1,251,500**	**125,150**	1,251,500	125,150

	2006		2005	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***RMB'000***	*'000*	*RMB'000*
Issued and fully paid:				
Domestic Shares of RMB0.10 each	**700,840**	**70,084**	700,840	70,084
H Shares of RMB0.10 each	**550,660**	**55,066**	550,660	55,066
	1,251,500	**125,150**	1,251,500	125,150

The Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars among, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. The Domestic Shares, on the other hand, may only be subscribed for by, and traded among legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the Domestic Shares are to be paid by the Company in RMB.

Save for the above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the Domestic Shares and the H Shares rank pari passu with each other in all aspects.

There was no movement of the Company's ordinary share capital during the year.

28. Reserves

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

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

Notes to Financial Statements

31 December 2006

28. Reserves *(continued)*

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

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

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

According to the revised Company Law of the PRC effective 1 January 2006, the Company and its subsidiaries are not required to transfer their profit after tax to the PWF. As allowed by the revised Company Law of the PRC, the Company and its subsidiaries have transferred their PWF to SSR.

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

In addition to the above statutory reserves which are required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the equity holders of the Company resolved on 13 March 2006 to transfer approximately RMB10,047,000 from the Company's retained earnings as at 31 December 2005 to the GSR.

(d) Retained earnings

As set out in note 9 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

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

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

As at 31 December 2006, the Company's reserves available for distribution were approximately RMB189,811,000 (2005: RMB67,677,000), of which approximately RMB35,668,000 has been proposed as a final dividend for the year and approximately RMB11,504,000 has been proposed to be transferred to the GSR.

Notes to Financial Statements

31 December 2006

29. Related party transactions

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

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

Name of related parties	Nature of transactions	2006 RMB'000	2005 RMB'000
Group			
Continuing transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**9,353**	9,993
	Trademark fees *(note (e))*	**773**	750
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Group's leased equipment and land and buildings *(note (h))*	**951**	967
Discontinued transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchases of equipment *(note (f))*	**–**	2,622
	Operating lease of plant and equipment to the related company *(note (g))*	**–**	120
	Purchase of land lease prepayments *(note (o))*	**5,477**	–
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Purchases of gas metres from the related company *(note (i))*	**–**	1,732
	Provision of gas metres repairment services by the related company *(note (i))*	**–**	210
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment *(note (n))*	**35,385**	–
Zhengzhou Gas Group Labour Union Committee *(note (b))*	Acquisition of an equity interest *(note (m))*	**9,900**	–

Notes to Financial Statements

31 December 2006

29. Related party transactions *(continued)*

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

Name of related parties	Nature of transactions	**2006** **RMB'000**	2005 RMB'000
Company			
Continuing transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment and land and buildings from the related company *(note (d))*	**8,633**	9,209
	Trademark fees *(note (e))*	**773**	750
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Company's leased equipment and land and buildings *(note (h))*	**792**	809
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (c))*	Provision of construction services by the related company *(note (j))*	**19,155**	34,070
	Advances from the related company *(note (k))*	**114,555**	207,043
	Entrusted loans from the related company *(note (l))*	**150,000**	–
	Interest expense to the related company *(note (l))*	**6,075**	–
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (c))*	Purchases of construction materials from the related company *(note (i))*	**4,047**	1,108

Notes to Financial Statements

31 December 2006

29. Related party transactions *(continued)*

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

Name of related parties	Nature of transactions	2006 RMB'000	2005 RMB'000
Company *(continued)*			
Discontinued transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchases of equipment *(note (f))*	**–**	2,622
	Operating lease of plant and equipment to the related company *(note (g))*	**–**	120
	Purchases of land lease prepayments *(note (o))*	**5,477**	–
Zhengzhou Zhengran Gas Appliances Co., Ltd. *(note (b))*	Purchases of gas metres from the related company *(note (i))*	**–**	1,732
	Provision of gas metres repairment services by the related company *(note (i))*	**–**	210
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment *(note (n))*	**35,385**	–
Zhengzhou Gas Group Labour Union Committee *(note (b))*	Acquisition of an equity interest *(note (m))*	**9,900**	–

Notes:

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

(b) Zhengzhou Zhengran Property Management Co., Ltd., Zhengzhou Zhengran Gas Appliances Co., Ltd., Zhengzhou Gas Group LPG Co., Ltd. and Zhengzhou Gas Group Labour Union Committee are fellow subsidiaries of the Company.

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

(d) In accordance with the property lease agreements, the land use rights lease agreements, and the equipment lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment and land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were carried out based on normal commercial terms and determined by agreement of parties based on the valuation of an independent appraiser.

Notes to Financial Statements

31 December 2006

29. Related party transactions *(continued)*

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

Notes: (continued)

(e) On 20 May 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement 1"). Pursuant to the trademark licence agreement 1, Zhengzhou Gas Group Co., Ltd. agreed to grant a right to the Group for the use of two of its trademarks free of charge for the period from 16 July 2001 to 15 July 2004.

On 1 August 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into a supplemental agreement to the trademark licence agreement 1. Pursuant to the supplemental agreement, Zhengzhou Gas Group Co., Ltd. had undertaken to permit the Group to use such trademarks upon the expiry of the trademark licence agreement 1. Upon the expiry of the trademark licence agreement 1, the annual trademark fees to be charged for the use of the trademarks will be based on the negotiation between the Company and Zhengzhou Gas Group Co., Ltd.

On 30 September 2002, the Company and Zhengzhou Gas Group Co., Ltd. entered into a second supplemental agreement to the trademark licence agreement 1. Pursuant to the second supplemental agreement, the Company and Zhengzhou Gas Group Co., Ltd. will negotiate on adjustments to the annual trademark fees every three years. In any event, it has been agreed that such annual trademark fees shall not exceed RMB800,000.

On 29 September 2004, the Company and Zhengzhou Gas Group Co., Ltd. entered into another trademark licence agreement (the "trademark licence agreement 2"). Pursuant to the trademark licence agreement 2, Zhengzhou Gas Group Co., Ltd. agreed to grant to the Group the right to use two of its trademarks at a fee of RMB750,000 per annum for the period from 1 August 2004 to 31 July 2007.

On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a third trademark licence agreement (the "trademark licence agreement 3"). Pursuant to the trademark licence agreement 3, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use two of its trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

In the opinion of the directors, these transactions were carried out based on normal commercial terms and in accordance with the terms of the underlying agreements.

(f) On 23 September 2005, the Company and Zhengzhou Gas Group Co., Ltd. entered into a sale and purchase agreement. Pursuant to the agreement, the Company acquired equipment amounting to RMB2,622,000 from Zhengzhou Gas Group Co., Ltd.

These transactions were carried out based on normal commercial terms and the purchase consideration was determined by agreement of the parties involved.

(g) In accordance with a lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd. on 27 April 2005, the Company leased certain plant and equipment with a net book value of RMB7,019,000 as at 31 December 2005 to Zhengzhou Gas Group Co., Ltd. for an annual rental of RMB240,000 for a fixed period from 1 May 2005 to 31 December 2006. The lease contract was terminated on 31 October 2005 in accordance with the agreement entered into between the two parties on 27 September 2005.

These transactions were carried out based on normal commercial terms and determined by agreement of parties.

(h) In accordance with the property management services agreement entered into between the Company and Zhengzhou Zhengran Property Management Co., Ltd. dated 15 June 2003, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the Group's leased equipment and land and buildings to the Group.

(i) These transactions were carried out based on normal commercial terms and determined by agreement of parties.

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

Notes to Financial Statements

31 December 2006

29. Related party transactions *(continued)*

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

Notes: (continued)

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

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 6.12% per annum (2005: 5.58% per annum) for the year ended 31 December 2006, the Company would have borne interest expense, net of tax, of approximately RMB5,599,000 (2005: RMB9,536,000) for the year ended 31 December 2006.

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

(l) On 26 April 2006, pursuant to an entrusted loan agreement entered into between the Company, Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright, Zhengzhou Gas Engineering and Construction Co., Ltd. made two entrusted loans totalling RMB150,000,000 to the Company through Everbright at an interest rate of 5.022% per annum, including a bank commission charge at a rate of 0.1% per annum.

On 9 August 2006, the Company entered into another entrusted loan agreement with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright. Pursuant to the agreement, Zhengzhou Gas Engineering and Construction Co., Ltd. made an entrusted loan of RMB50,000,000 to the Company through Everbright at an interest rate of 5.265% per annum, including bank commission charge at a rate of 0.1% per annum. The loan was settled by the Company on 29 December 2006.

The directors of the Company are of the opinion that the above transactions with related parties were carried out based on normal commercial terms in the ordinary course of business and were fair and reasonable.

(m) On 1 July 2006, the Company entered into an equity transfer agreement with the Zhengzhou Gas Group Labour Union Committee (the "Labour Union Committee"), a related party of the Company by virtue of its being a substantial shareholder of a subsidiary of the Company. Pursuant to the equity transfer agreement, the Company agreed to acquire from the Labour Union Committee its 16.5% equity interest in Zhengzhou Gas Engineering and Construction Co., Ltd. (the "Acquisition") for a consideration of RMB9.90 million.

The directors of the Company are of the opinion that the Acquisition pursuant to the equity transfer agreement were conducted on normal commercial terms.

As at 31 December 2006, the Acquisition had been completed.

(n) On 8 September 2006, the Company entered into an LPG assets purchase agreement with Zhengzhou Gas Group LPG Co., Ltd. (the "LPG Company"). The LPG Company is owned as to 44% by Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), the controlling shareholder of the Company. Pursuant to the LPG assets purchase agreement, the Company has conditionally agreed to acquire a parcel of land and certain gas storage structures, real estate and equipment erected on the land for the purposes of storage of LPG (the "LPG Assets") from the LPG Company for an aggregate consideration of approximately RMB63.24 million.

(o) On 26 July 2006, the Company entered into a land purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire a parcel of land situated at the junction of Junyuan Road East and Hongtu Street South in Zhengzhou City for a consideration of RMB577,000.

On 8 September 2006, the Company entered into a land purchase agreement to acquire two parcels of land which are located at the junction of Fengqing Road West and Guihua Road in Zhengzhou and the junction of Ruhe Road North and Huashan Road West, respectively, for an aggregate consideration of RMB4,900,000.

As at 31 December 2006, both acquisitions of land had been completed.

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

Notes to Financial Statements

31 December 2006

29. Related party transactions *(continued)*

(ii) Compensation of key management personnel of the Group

	2006	2005
	RMB'000	*RMB'000*
Short term employee benefits	**3,990**	3,614
Retirement benefits	**119**	108
Total compensation paid to key management personnel	**4,109**	3,722

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

(iii) Transactions with other State-Owned Enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During the Relevant Periods, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

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

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

30. Commitments

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Capital commitments				
In respect of property, plant and equipment:				
Authorised, but not contracted for	**19,124**	6,371	**20,976**	6,371
Contracted, but not provided for	**34,598**	3,488	**34,593**	3,488
	53,722	9,859	**55,569**	9,859

Notes to Financial Statements

31 December 2006

30. Commitments *(continued)*

Operating lease commitments

As lessee

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**14,633**	16,312	**13,877**	15,592
In the second to fifth years, inclusive	**26,050**	18,773	**26,050**	18,173
Over five years	**10,377**	14,102	**10,377**	14,102
	51,060	49,187	**50,304**	47,867

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

31. Contingent liabilities

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

32. Financial instruments

Financial risk management objectives and policies

The Group is exposed to market risk, including primarily changes in commodity prices. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

Business risk

Natural gas, the major raw material sourced by the Group, accounted for approximately 80% of the total purchase for the year ended 31 December 2006 (2005: approximately 83%). The Group purchased most of its natural gas from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co., Ltd., both being State-Owned Enterprises. The Group's purchases from SINOPEC Zhongyuan Oil & Gas High-tech Co., Ltd. and Petro China Co., Ltd. accounted for approximately 18% and 50%, respectively, of the total cost of sales of the Group for the year ended 31 December 2006 (2005: approximately 21% and 49%, respectively).

Foreign currency risk

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

Notes to Financial Statements

31 December 2006

32. Financial instruments *(continued)*

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group does not have significant credit risk as the credit given to any individual or entity is not significant.

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time, and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risk exposure

The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at 31 December 2006 in relation to each class of the recognised financial assets is the carrying amount of those assets as indicated on the balance sheet.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group sells its products to a diversity of consumers, thereby mitigating any significant concentrations of credit risk.

33. Post balance sheet events

The following significant events took place subsequent to 31 December 2006:

(a) Subsequent to 31 December 2006, the directors proposed a final dividend of RMB0.0285 per ordinary share, totalling approximately RMB35,668,000, pertaining to 2006 for payment in 2007. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2006.

(b) Subsequent to 31 December 2006, the directors proposed to transfer 10%, totalling approximately RMB11,504,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31 December 2006 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2006.

34. Comparative figures

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

35. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 13 March 2007.