



ZHENGZHOU GAS COMPANY LIMITED*
鄭州燃氣股份有限公司

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

(Stock Code: 3928)



Interim Report
2010

* for identification purpose only

FINANCIAL HIGHLIGHTS

- During the Relevant Period, unaudited consolidated revenue of the Group and profit attributable to the shareholders of the Company amounted to approximately RMB730,780,000 and RMB117,361,000 respectively, representing respective increases of approximately 18.74% and 1.70% over the corresponding period of last year.
- Sales of piped natural gas for the Relevant Period amounted to approximately RMB548,531,000, representing an increase of approximately 19.53% over the corresponding period of last year.
- Revenue derived from gas pipeline construction aggregated to approximately RMB180,894,000 for the Relevant Period, representing an increase of approximately 16.30% over the corresponding period of last year, which was primarily attributable to the desirable growth in gas pipeline construction projects for residential users.
- Basic earnings per share for the Relevant Period were approximately RMB0.938, representing an increase of approximately RMB0.016 as compared with approximately RMB0.922 for the corresponding period of last year.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

FINANCIAL STATEMENTS

The board of directors (the "Board") of Zhengzhou Gas Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 (the "Relevant Period") together with comparative figures of the corresponding period of 2009 as follows:

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Revenue	4	730,780	615,425
Cost of sales		(507,167)	(405,032)
Gross profit		223,613	210,393
Other income and gains	4	2,592	2,366
Selling and distribution costs		(25,178)	(20,345)
Administrative expenses		(40,943)	(35,070)
Other expenses		(1,222)	(7,284)
Finance costs		–	(993)
Share of profits of an associate		314	4,795
Profit before tax	5	159,176	153,862
Income tax expense	6	(41,636)	(37,964)
Profit and total comprehensive income for the period		117,540	115,898
Attributable to:			
Owners of the Company		117,361	115,394
Non-controlling interests		179	504
		117,540	115,898
Dividends:			
Proposed interim	7	–	–
Earnings per share attributable to ordinary equity holders of the Company			
Basic			
– For profit for the period (RMB Yuan)	8	0.938	0.922

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	884,682	841,526
Prepaid land lease prepayments		111,267	112,584
Interests in an associate		30,052	32,863
Deferred tax assets		10,739	9,327
Total non-current assets		1,036,740	996,300
CURRENT ASSETS			
Inventories		18,543	18,367
Construction work in progress	10	922	933
Trade and notes receivables	11	105,981	161,379
Prepayments, deposits and other receivables		70,155	63,734
Restricted cash deposits		26,450	26,450
Fixed deposits held at banks with maturity over three months		10,000	30,000
Cash and cash equivalents		453,145	291,732
Due from a fellow subsidiary		414	414
Total current assets		685,610	593,009
TOTAL ASSETS		1,722,350	1,589,309
CURRENT LIABILITIES			
Trade payables	12	147,088	83,517
Other payables and accruals	13	174,612	163,357
Advance payments received	10	412,949	447,502
Tax payable		16,135	25,135
Due to a related company		5,021	444
Total current liabilities		755,805	719,955
NET CURRENT LIABILITIES		(70,195)	(126,946)
NET ASSETS		966,545	869,354

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<i>Notes</i>	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	125,150	125,150
Reserves		<u>818,127</u>	<u>721,115</u>
		943,277	846,265
Non-controlling interests		<u>23,268</u>	<u>23,089</u>
Total equity		<u>966,545</u>	<u>869,354</u>

Yan Guoqi
Chairman

Li Jinlu
Director

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company								
	Issued capital RMB'000 (note 14)	Share premium account RMB'000	Statutory surplus reserve RMB'000	General surplus reserve RMB'000	Retained profits RMB'000	Reserve arising from acquisition of a non-controlling interests RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	125,150	101,026	154,726	64,591	372,622	28,150	846,265	23,089	869,354
Total consolidated income for the period	-	-	-	-	117,361	-	117,361	179	117,540
2009 final dividend	-	-	-	-	(20,349)	-	(20,349)	-	(20,349)
Appropriation to surplus reserves	-	-	-	20,433	(20,433)	-	-	-	-
At 30 June 2010 (Unaudited)	<u>125,150</u>	<u>101,026</u>	<u>154,726</u>	<u>85,024</u>	<u>449,201</u>	<u>28,150</u>	<u>943,277</u>	<u>23,268</u>	<u>966,545</u>
At 1 January 2009	125,150	101,026	134,293	51,582	340,749	28,150	780,950	3,913	784,863
Total consolidated income for the period	-	-	-	-	115,394	-	115,394	504	115,898
2008 final dividend	-	-	-	-	(13,016)	-	(13,016)	-	(13,016)
Special dividend	-	-	-	-	(100,120)	-	(100,120)	-	(100,120)
Appropriation to surplus reserves	-	-	-	13,009	(13,009)	-	-	-	-
At 30 June 2009 (Unaudited)	<u>125,150</u>	<u>101,026</u>	<u>134,293</u>	<u>64,591</u>	<u>329,998</u>	<u>28,150</u>	<u>783,208</u>	<u>4,417</u>	<u>787,625</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2010 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	257,039	182,700
NET CASH OUTFLOWS USED IN INVESTING ACTIVITIES	(75,277)	(20,311)
NET CASH OUTFLOWS USED IN FINANCING ACTIVITIES	(20,349)	(114,574)
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,413	47,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	291,732	368,169
CASH AND CASH EQUIVALENTS AT END OF PERIOD	453,145	415,984
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	489,595	441,234
Less: Restricted cash deposits	(26,450)	(25,250)
Fixed deposit held at banks with maturity over three months	(10,000)	–
Cash and cash equivalents	453,145	415,984

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2002. On 29 June 2007, the Company's H shares were migrated to the Main Board of the Stock Exchange.

The Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation 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 of the Company, the holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC. Subsequent to 30 June 2010, the holding company has changed to Zhengzhou China Resources Gas Co., Ltd. (refer to Note 19 for details).

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of certain new and revised International Financial Reporting Standards ("IFRSs", which also include IASs and Interpretations), as set out in note 2.3.

2.3 ADOPTION OF NEW AND REVISED IFRSS

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised standards and interpretations as of 1 January 2010 as noted below:

Changes in accounting policy and disclosures

The Company has adopted the following new and revised IFRSs for the first time in these unaudited interim condensed consolidated financial statements.

IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i>
IFRS 1 Amendments	<i>Amendments to IFRS 1 First-time Adoption of IFRS – Additional Exemptions for First-time Adopters</i>
IFRS 2 Amendments	<i>Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39 Amendment	<i>Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
IFRIC17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to IFRS 5 included in <i>Improvements to IFRSs issued in May 2008</i>	<i>Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
Improvements to IFRSs (issued in April 2009)*	Amendments to a number of IFRSs

* Improvements to IFRSs 2009 contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The adoption of these new and revised IFRSs has had no significant financial impact on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

3. SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessments. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets arising from unrealised intergroup profit as these assets are managed on a group basis.

As the chief operating decision maker of the Group considers that the Group's consolidated revenue and results are all attributable to the market in the PRC, the Group's consolidated assets are all located within the PRC, therefore no geographical information is presented.

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009:

	Sales of natural gas and related products <i>RMB'000</i>	Gas pipeline connection and construction <i>RMB'000</i>	Total <i>RMB'000</i>
Period ended 30 June 2010 (Unaudited)			
Segment revenue:			
Sales to external customers	553,797	176,983	730,780
Intersegment sales	<u>7,702</u>	<u>41,714</u>	<u>49,416</u>
	561,499	218,697	<u>780,196</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(49,416)</u>
Revenue			<u>730,780</u>
Segment results	54,389	147,259	201,648
<i>Reconciliation:</i>			
Elimination of intersegment results			(3,174)
Bank interest income			1,686
Unallocated gains			518
Unallocated corporate expenses			<u>(41,502)</u>
Profit before tax			<u>159,176</u>

	Sales of natural gas and related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
As at 30 June 2010 (Unaudited)			
Segment assets	1,444,136	417,436	1,861,572
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(141,275)
Corporate and other unallocated assets			<u>2,053</u>
Total assets			<u><u>1,722,350</u></u>
Segment liabilities	439,145	457,935	897,080
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(141,275)</u>
Total liabilities			<u><u>755,805</u></u>
	Sales of natural gas and related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
Period ended 30 June 2009 (Unaudited)			
Segment revenue:			
Sales to external customers	462,950	152,475	615,425
Intersegment sales	<u>5,168</u>	<u>11,286</u>	<u>16,454</u>
	468,118	163,761	631,879
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(16,454)</u>
Revenue			<u><u>615,425</u></u>
Segment results	63,413	127,720	191,133
<i>Reconciliation:</i>			
Elimination of intersegment results			(730)
Bank interest income			1,614
Unallocated gains			752
Unallocated corporate expenses			(37,914)
Finance costs			<u>(993)</u>
Profit before tax			<u><u>153,862</u></u>

	Sales of natural gas and related products RMB'000	Gas pipeline connection and construction RMB'000	Total RMB'000
As at 31 December 2009 (Audited)			
Segment assets	1,412,529	371,586	1,784,115
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Corporate and other unallocated assets			2,057
Total assets			<u>1,589,309</u>
Segment liabilities	430,245	486,573	916,818
<i>Reconciliation:</i>			
Elimination of intersegment payables			(96,730)
Elimination of an intersegment entrusted loan			(100,133)
Total liabilities			<u>719,955</u>

4. REVENUE AND OTHER INCOME AND GAINS

An analysis of revenue and other income and gains is as follows:

	For the six months ended 30 June	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Revenue		
Natural gas	548,531	458,924
Gas appliances	7,008	5,507
Pressure control equipments	362	259
Gas pipelines:		
Connection and construction	180,894	155,538
Provision of renovation work	1,013	537
Others	127	38
	<u>737,935</u>	<u>620,803</u>
Less: Business tax and government surcharges	(7,155)	(5,378)
	<u>730,780</u>	<u>615,425</u>
Other income and gains		
Bank interest income	1,686	1,614
Government grant	500	–
Rental income	198	221
Others	208	531
	<u>2,592</u>	<u>2,366</u>
Total revenue and other income and gains	<u>733,372</u>	<u>617,791</u>

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Cost of inventories sold	421,462	356,004
Depreciation	24,631	20,049
Amortisation of prepaid land lease prepayments	1,416	914
Minimum lease payments under operating leases:		
Land and buildings	4,963	4,926
Equipment	486	2,701
Trademarks	–	195
	<u>5,449</u>	<u>7,822</u>
Employee benefits expense (including directors', supervisors' remuneration):		
Wages and salaries	58,290	45,725
Pension scheme contributions (defined contribution scheme)	6,093	5,113
Accommodation benefits (defined contribution scheme)	3,537	3,058
	<u>67,920</u>	<u>53,896</u>
Impairment of trade receivables	116	816
Write-down/(reversal of write-down) of inventories	544	(101)
Impairment of property, plant and equipment	–	3,725
Loss on disposal of items of property, plant and equipment	243	–

6. INCOME TAX EXPENSE

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group for the six months ended 30 June 2010.

Major components of the Group's income tax expense for the periods are as follows:

	For the six months ended 30 June	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Current:		
Charge for the period	43,048	39,799
Deferred	(1,412)	(1,835)
Total tax charge for the period	<u>41,636</u>	<u>37,964</u>

7. DIVIDENDS

(a) Dividends attributable to the interim period

The board of directors does not recommend the payment of interim dividend for the six months ended 30 June 2010.

(b) Dividends attributable to the previous financial year, declared and paid during the interim period

	For the six months ended 30 June	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Dividend in respect of the financial year ended 31 December 2009 of RMB0.163 per share (2008: RMB0.904 per share, including special dividend):		
Declared during the period:		
Final dividend	20,349	13,016
Special dividend	–	100,120
	<u>20,349</u>	<u>113,136</u>
Paid during the period	<u>20,349</u>	<u>113,136</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share amount for the six months ended 30 June 2010 is computed by dividing the profit attributable to owners of the Company of approximately RMB117,361,000 (six months ended 30 June 2009: approximately RMB115,394,000) by the weighted average of 125,150,000 ordinary shares (six months ended 30 June 2009: 125,150,000 ordinary shares) in issue during the period ended 30 June 2010.

Diluted earnings per share amounts for the periods ended 30 June 2010 and 2009 have not been calculated as no diluting events existed during those periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired property, plant and equipment with a cost of RMB68,161,000 (six months ended 30 June 2009: RMB23,197,000). No property, plant and equipment were acquired through a business combination.

Net book value of property, plant and equipment disposed of by the Group during the six months ended 30 June 2010 was RMB374,000 (six months ended 30 June 2009: Nil).

10. CONSTRUCTION WORK IN PROGRESS/ADVANCE PAYMENTS RECEIVED

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Construction work in progress		
Construction costs incurred to date	<u>922</u>	<u>933</u>
Advance payments received		
Progress payments received	497,926	519,512
Less: Construction costs incurred to date	<u>(84,977)</u>	<u>(72,010)</u>
	<u>412,949</u>	<u>447,502</u>

11. TRADE AND NOTES RECEIVABLES

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Trade receivables	82,319	142,374
Notes receivable	25,546	20,773
Impairment	<u>(1,884)</u>	<u>(1,768)</u>
	<u>105,981</u>	<u>161,379</u>

Trade and notes receivables of a nominal value of RMB1,188,000 as at 30 June 2010 (31 December 2009: RMB1,045,000) were impaired and fully provided for. The movement in the provision for impairment of receivables during the period is as follows:

	<i>RMB'000</i>
At 1 January 2010	1,768
Impairment losses recognised	<u>116</u>
At 30 June 2010	<u>1,884</u>

An aged analysis of the trade and notes receivables as at the statement of financial position date, based on the due date and net of provision, is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Neither past due nor impaired	101,153	157,376
Less than 1 month past due	2,720	2,763
1 to 3 months past due	1,150	694
3 to 6 months past due	687	139
6 to 12 months past due	227	370
Over 12 months past due	<u>44</u>	<u>37</u>
	<u>105,981</u>	<u>161,379</u>

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. Therefore, there is no significant concentration of credit risk.

12. TRADE PAYABLES

An aged analysis of the trade payables as at the statement of financial position date, based on the invoice date, is as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within 30 days	73,538	61,767
Between 31 days and 90 days	26,166	12,198
Between 91 days and 180 days	40,057	4,380
Between 181 days and 365 days	4,530	2,175
Over 365 days	<u>2,797</u>	<u>2,997</u>
	<u>147,088</u>	<u>83,517</u>

The above balances are unsecured, interest-free and are generally on 7 to 365 days' terms.

13. OTHER PAYABLES AND ACCRUALS

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Advances from customers	30,510	48,190
Other payables	112,387	86,815
Accruals	857	1,055
Payroll payables	30,858	27,297
	174,612	163,357

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

14. ISSUED CAPITAL

	30 June 2010 (Unaudited)		31 December 2009 (Audited)	
	Number of shares '000	Nominal value RMB'000	Number of shares '000	Nominal value RMB'000
Registered	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>
Issued and fully paid:				
Domestic shares of RMB1.00 each (2009: RMB1.00 each)	70,084	70,084	70,084	70,084
H shares of RMB1.00 each (2009: RMB1.00 each)	<u>55,066</u>	<u>55,066</u>	<u>55,066</u>	<u>55,066</u>
	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>	<u>125,150</u>

15. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within one year	6,596	9,371
In the second to fifth years, inclusive	5,420	5,460
Over five years	6,099	6,776
	18,115	21,607

The Group has entered into commercial leases on certain of land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years. There were no purchase options and escalation clauses in the contracts. The Group was given priority to renew the lease of land and buildings upon expiry of the lease term subject to the terms and conditions agreed by both parties.

16. COMMITMENTS

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Capital commitments		
In respect of property, plant and equipment:		
Contracted, but not provided for	77,796	10,675
Authorised, but not contracted for	146,373	123,141
	<u>224,169</u>	<u>133,816</u>

17. CONTINGENCIES

At the end of reporting period, the Group had no significant contingencies.

18. 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, according to IFRS, the Group had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	For the six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease of vehicles and land and buildings from the related company (note (c))	–	5,148
	Trademark fees (note (d))	–	195
Zhengzhou China Resources Gas Co., Ltd. (note (b))	Operating lease of vehicles and land and buildings from the related company (note (c))	5,075	–
Zhengzhou Jixiang Property Management Co., Ltd. (note (b))	Provision of property management services by the related company (note (e))	476	–
Non-recurring transactions			
Nanyang Zhengran Natural Gas Co., Ltd. (note (b))	Sales of goods to the related company (note (e))	–	278

Notes:

- (a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.
- (b) Zhengzhou Jixiang Property Management Co., Ltd. and Nanyang Zhengran Natural Gas Co., Ltd. are fellow subsidiaries of the Company. Zhengzhou China Resources Co., Ltd. is related to the Company because of common directors.
- (c) In accordance with the property lease agreements, the land use rights lease agreements, and the vehicles lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain vehicles and land and buildings to the Company for its office and operational uses. In the opinion of the directors of the Company, these transactions were carried out based on normal commercial terms and determined by agreement of parties with reference to valuation of an independent appraiser. These lease agreements were assigned to Zhengzhou China Resources Co., Ltd.
- (d) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement. Pursuant to the trademark licence agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use certain trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

On 28 April 2009, the Company and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with the trademark licences. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Company the trademark licences without consideration from 1 April 2009. The trademark licences are to be expired in July 2010 and March 2012, respectively.

These transactions were carried out in accordance with the terms of the underlying agreements.

- (e) The transactions were conducted by both parties based on negotiation by reference to market price.

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

(ii) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	2,621	2,421
Retirement benefits	134	47
Total compensation paid to key management personnel	<u>2,755</u>	<u>2,468</u>

(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 Period, 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 were conducted in the ordinary course of the Group's business, and that the transactions 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 were 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 of the Company are of the opinion that the transactions with other State-owned Enterprises were fair and reasonable.

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

19. EVENTS AFTER THE REPORTING PERIOD

- (i) On 27 August 2010, China Resources Gas Group Limited ("CRGG") announced in the joint announcement issued by CRGG and the Company (the "Joint Announcement") that all the approvals and registrations in the PRC in connection with the acquisition of 54,041,510 domestic shares of the Company which represent approximately 43.18% equity interest of the Company (the "Acquisition") by the Zhengzhou China Resources Gas Co., Ltd. ("Zhengzhou CR Gas") from the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality have been obtained and the conditions precedent for the completion of the Acquisition have been fulfilled on 27 August 2010. Accordingly, the new holding company of the Group is Zhengzhou CR Gas.
- (ii) On 27 August 2010, the Board has received a joint request from Zhengzhou CR Gas and another shareholder of the Company for convening an extraordinary general meeting of the Company to approve the proposed distribution of a special dividend of RMB0.492 per share. The proposed distribution of which is subject to approval by the shareholders of the Company at the forthcoming extraordinary general meeting. The proposed distribution of the special dividend is not reflected in the interim condensed consolidated financial statements for the six months ended 30 June 2010.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 27 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

General

For the six months ended 30 June 2010, the Group recorded a total revenue of approximately RMB730,780,000, representing an increase of 18.74% as compared with the corresponding period of last year, which was mainly attributed to the increase in both income from sales of natural gas and income from connection and pipeline construction.

During the Relevant Period, the overall gross profit margin of the Group was approximately 30.60%, representing a decrease of approximately 3.59 percentage points as compared with approximately 34.19% of the corresponding period of last year. The decrease of gross profit margin was primarily due to the continuous rise in purchase cost of natural gas, thus the gross profit margin of the sales of natural gas decreased to approximately 14.51% in the Relevant Period from approximately 18.02% of the corresponding period of last year. In addition, the gross profit margin of the connection and pipeline construction operation decreased to approximately 82.29% in the Relevant Period from approximately 84.59% of the corresponding period of last year.

During the Relevant Period, the selling and distribution costs of the Group amounted to approximately RMB25,178,000, representing an increase of approximately 23.76% from approximately RMB20,345,000 of the corresponding period of last year, mainly due to the increase in depreciation, repairs expenses, advertising and publicity costs and staff costs. During the Relevant Period, the administrative cost of the Group was approximately RMB40,943,000, representing an increase of approximately 16.75% as compared with approximately RMB35,070,000 of the corresponding period of last year, mainly due to the increase in employees' salary and labour insurance.

During the Relevant Period, the Group's share of profit of an associate was approximately RMB314,000, representing a decrease of approximately 93.45% as compared with approximately RMB4,795,000 of the corresponding period of last year, mainly attributed to the fluctuation of foreign exchange profits and losses arising from a Yen loan granted to Pingdingshan Gas Co., Ltd., an associate of the Group.

Income tax expenses of the Group for the Relevant Period were approximately RMB41,636,000, representing an increase of approximately 9.67% from approximately RMB37,964,000 in the corresponding period of last year, mainly due to the increase in earnings.

During the Relevant Period, the net profit attributable to shareholders of the Company was approximately RMB117,361,000, representing an increase of approximately 1.7% from approximately RMB115,394,000 for the corresponding period of last year.

Sales of piped natural gas

The revenue attributed to the sales of piped natural gas for the Relevant Period amounted to approximately RMB548,531,000, representing an increase of approximately 19.53% as compared with approximately RMB458,924,000 for the corresponding period of last year.

During the Relevant Period, the total gas consumption by natural gas users of the Group was approximately 255,535,000 m³, representing an increase of approximately 13.10% as compared with approximately 225,946,000 m³ for the corresponding period of last year.

Natural gas consumption of the Group analyzed by different types of users during the Relevant Period, together with the comparative figures for the corresponding period of last year is set out below:

	2010		2009		Increase (%)
	Total gas consumption	As a percentage of total gas consumption	Total gas consumption	As a percentage of total gas consumption	
Natural Gas Consumption (approximately '000 m ³)	255,535		225,946		13.10%
Including					
residential users	96,496	37.77%	81,000	35.85%	19.13%
commercial users	85,177	33.33%	79,156	35.03%	7.61%
industrial users	37,485	14.67%	30,389	13.45%	23.35%
vehicular users	36,087	14.12%	35,401	15.67%	1.94%
CNG users	290	0.11%	–	0.00%	Not Applicable

During the Relevant Period, the gas consumption by residential and industrial users of the Group recorded a relatively satisfactory growth, and was up 19.13% and 23.35% respectively as compared with the corresponding period of last year. The increase in the gas consumption by residential users was mainly due to the colder weather during the Relevant Period as compared with the corresponding period of last year. The increase in the gas consumption by industrial users was mainly a result of the global economic stabilization. During the Relevant Period, growth in the gas consumption by commercial and vehicular users of the Group decelerated, and was only up 7.61% and 1.94% respectively as compared with the corresponding period of last year. Only single-digit growth was recorded by the gas consumption of commercial users, which was attributed to the small-sized new commercial users who made limited contribution to the gas consumption of commercial users. The growth of gas consumption by vehicular users slowed down significantly from 34.74% for the corresponding period of last year to 1.94% during the Relevant Period. The major reason was that the Group lost certain customers to other vehicular gas suppliers due to severe competition, and secondly the Group was forced to close a gas station due to the changes in the city planning, which affected the income from relevant business. During the Relevant Period, the Group obtained an additional type of users, CNG users, who primarily purchase compressed natural gas from the Group and then redistribute to other users.

As at 30 June 2010, the Group has 931,263 residential users, representing an increase of 55,649 users as compared with 875,614 residential users as at 31 December 2009; 2,493 commercial users, representing an increase of 196 users as compared with 2,297 commercial users as at 31 December 2009; 80 industrial users, representing an increase of 7 users as compared with 73 industrial users as at 31 December 2009; 9,861 vehicular users, representing an increase of 517 users as compared with 9,344 vehicular users as at 31 December 2009; 2 CNG users.

During the Relevant Period, the Group purchased approximately 223,925,000 m³, 38,948,000 m³ and 3,249,000 m³ of natural gas from “Project of Transmitting Natural Gas through the West to the East Pipelines”, Ordos Gasfield and Zhongyuan Oilfield respectively, representing approximately 82.13%, 14.29% and 1.19% of the total purchase of natural gas respectively. During the Relevant Period, the Group’s cost for gas purchase kept climbing, and the average cost for gas purchases rose from approximately RMB1.3606/m³ for the corresponding period of last year to approximately RMB1.5210/m³ during the Relevant Period.

In order to solve the problem of ever-increasing cost of natural gas, the Company proactively coordinated with the relevant authorities to call for a rise in the selling prices of natural gas. On 30 June 2010, pursuant to the Notice on Adjustments of Natural Gas Selling Prices in Zhengzhou issued by the Zhengzhou City Commodity Pricing Bureau, the Company’s selling prices of natural gas to commercial, industrial and vehicular users were adjusted upwards. Consequently, the selling prices of natural gas to commercial, industrial and vehicular users in Zhengzhou increased from RMB2.80/m³ to RMB3.16/m³, RMB2.50/m³ to RMB2.86/m³ and RMB3.32/m³ to RMB3.60/m³ respectively. The said adjustments were applicable to the natural gas consumption volumes of commercial and industrial users metered on or after 1 June 2010. The adjustment to the selling price of natural gas to vehicular users became effective from 1 July 2010. Subject to current price adjustment mechanism of natural gas for residential use, the prices of natural gas for residential users cannot be increased immediately. The Company currently strives to prepare for obtaining approval for the increase in the price of residential gas with a view to achieving so as soon as possible.

Sales of gas appliances and pressure control equipments

The Group is also engaged in sales of gas appliances and pressure control equipments. The gas appliances available for sale mainly include gas stoves, water heaters, fire alarms, etc.. 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 equipments, the main target clients are other natural gas suppliers and residential users. For the Relevant Period, revenue from sales of gas appliances and pressure control equipments amounted to approximately RMB7,008,000 and approximately RMB362,000, representing an increase of approximately 27.26% and approximately 39.77% as compared with approximately RMB5,507,000 and approximately RMB259,000 for the corresponding period of last year, respectively.

Natural gas pipeline construction services

For the Relevant Period, the Group’s revenue derived from provision of natural gas pipeline construction services amounted to approximately RMB180,894,000, representing an increase of approximately 16.30% as compared with approximately RMB155,538,000 for the corresponding period of last year and the connection of natural gas supply for 49,289 residential users and 223 commercial users. The average fee for connection of natural gas supply for each residential user was approximately RMB3,299 while that for each commercial user was approximately RMB71,166. The increase in the revenue from natural gas pipeline construction services was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. Furthermore, the Group obtained revenue from other construction projects amounting to approximately RMB2,425,000.

In addition, the Group provides gas pipeline renovation services. During the Relevant Period, such income amounted to approximately RMB1,013,000, representing an increase of approximately 88.64% as compared with approximately RMB537,000 for the corresponding period of last year. The increase was mainly attributable to the rising number of outdoor gas pipeline renovation projects.

Net profit and return to shareholders

During the Relevant Period, net profit margin of the Group was approximately 16.06% which was lower than 18.75% recorded for the corresponding period of last year. The decrease was mainly due to a shrinking gross profit margin of the sales of natural gas and connection and gas pipeline construction service and a sharp decrease in the share of profit from an associate.

Average return to shareholders for the Relevant Period, based on the profit attributable to shareholders of the Company divided by the average of equity attributable to shareholders of the Company at the beginning and at the end of the Relevant Period, was 13.12% which represented a decrease as compared with 14.75% of the corresponding period of last year. This was primarily because no special dividends were distributed during the Relevant Period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowing and banking facilities

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

As at 30 June 2010, the Group had no interest-bearing bank borrowings.

Net current liabilities

As at 30 June 2010, the Group had net current liabilities of approximately RMB70,195,000 (31 December 2009: net current liabilities of approximately RMB126,946,000). However, there were advance payments received of approximately RMB412,949,000 in the current liabilities, which was deferred revenue, not an amount payable as a liability by nature. The Group had net current assets of approximately RMB342,754,000 after deducting such advance payments received.

Working capital

As at 30 June 2010, the Group had cash and bank balances of approximately RMB463,145,000, excluding restricted cash deposits of RMB26,450,000.

Equity to liabilities ratio

As at 30 June 2010, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was 127.88%, which was higher than 120.75% as at 31 December 2009, but it was shown that more than half of the assets were still financed by shareholders' equity, so our financial position remained stable. The increase in such ratio as compared with the end of the previous year was mainly because that no special dividend was distributed during the Relevant Period, and therefore the equity has not incurred a substantial decline.

Foreign exchange risk

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

Contingent liabilities and pledged assets

As at 30 June 2010, the Group had no significant contingent liabilities or any asset under pledge.

Employees and remuneration policy

There is no significant change in the Group's employees and remuneration policy compared to that disclosed in the annual report for the year ended 31 December 2009.

Cooperation with China Resources Gas (China) Investment Limited and Proposed Distribution of Special Dividend

The State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality ("Zhengzhou SASAC") and China Resources Gas (China) Investment Limited ("CRGI"), a wholly owned subsidiary of China Resources Gas Group Limited (Stock code: 1193) ("CRGG") signed several agreements to explore the potential cooperation opportunities in Zhengzhou ("Potential Cooperation") on 25 November 2009. The Potential Cooperation involves an acquisition of 54,041,510 domestic shares of the Company (representing approximately 43.18% of the total issued share capital of the Company) (the "Sale Shares") by a joint venture (the "JV"), in the equity interest of which CRGI and Zhengzhou SASAC hold 80% and 20% respectively (the "Share Acquisition"). The detailed information about the Potential Cooperation can be found in the joint announcements made by the Company and CRGG dated 25 November 2009 and 11 December 2009 (the "Announcements"). On 27 August 2010, CRGG announced in the joint announcement issued by CRGG and the Company (the "Joint Announcement") that all the approvals and registrations in the PRC in connection with the acquisition of the Sale Shares by the JV from Zhengzhou SASAC at a total consideration of RMB421,750,560 have been obtained and the registration of the Sale Shares under the name of the JV in China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司) has been updated on 30 June 2010. At this point, Zhengzhou SASAC did not regard that the registration of the Sale Shares under the name of the JV as the completion of the acquisition by the JV of the Sale Shares from Zhengzhou SASAC (the "Completion") because it has the right to finalise the distribution of the profit attributable to it given it is an obligation to be fulfilled by CRGI pursuant to the cooperation agreements, details of which are set out below.

Pursuant to the Announcements, the Completion shall take place within 10 business days, or such later date as CRGI and Zhengzhou SASAC may agree in writing, after fulfillment of all the pre-conditions contained in the Announcements. According to the agreements entered into between CR Gas Investment and Zhengzhou SASAC for the Potential Cooperation, the attributable profit and loss incurred by Zhengzhou Gas Group Co., Ltd. and its subsidiaries during the period from 1 July, 2009 up to the date of incorporation of the JV which was 25 November, 2009, should be borne by Zhengzhou SASAC. CRGI and Zhengzhou SASAC, by entering into an addendum on 27 August, 2010, have confirmed and agreed that (i) the audited profits of the Company, Zhengzhou City Zhengran Gas Design Development Co., Ltd. ("Zhengzhou Gas Design") and Nanyang Zhengran Natural Gas Co., Ltd. ("Nanyang Zhengran"), being entities transferred to the JV by Zhengzhou SASAC, during the period from 1 July, 2009 to 30 November, 2009 attributable to Zhengzhou SASAC were RMB26,586,900 based on its 43.18% beneficial interest in Zhengzhou Gas, 17.37% beneficial interest in Zhengzhou Gas Design and 100% beneficial interest in Nanyang Zhengran; and CRGI has agreed that Zhengzhou SASAC will be entitled to such profit; (ii) CRGI and Zhengzhou SASAC have agreed through the JV to procure the Company to distribute such profit by way of special dividend; and (iii) as a condition precedent to Completion, either the Board shall resolve to propose declaration of a special dividend and to submit the proposal to the shareholders for approval, or the parties shall procure the JV to request the Company to convene an extraordinary general meeting for the shareholders of the Company to approve the payment of special dividend.

The Board has received a request from the JV and another shareholder of the Company on 27 August, 2010 for convening an extraordinary general meeting to approve the payment of special dividend. CRGG announced in the Joint Announcement that the condition precedent to Completion was therefore fulfilled on 27 August, 2010. The proposed payment of special dividend will be RMB0.492 per share of the Company and subject to approval of the shareholders of the Company at the extraordinary general meeting, which is expected to be held on 23 November, 2010, at which CRGI will procure the JV to vote for the resolution. All shareholders of the Company will be entitled to the special dividend, if it is approved at the extraordinary general meeting. Once the JV has received its entitlement to the special dividend, being an amount approximately equal to the above-mentioned profits attributable to and entitled by Zhengzhou SASAC, it will within five working days repay the same amount to Zhengzhou SASAC. In the event the special dividend is not paid by the Company, CRGI and Zhengzhou SASAC will then agree on other means to settle the obligation to pay the said profit, if appropriate, and CRGI undertakes that all other shareholders of the Company will receive the same entitlement and be treated fairly.

The board of directors of CRGG announced on 27 August 2010 in the Joint Announcement that Completion has therefore duly taken place and the pre-conditions for the mandatory cash offers by CRGI, or its representative, for all the domestic shares and H shares of the Company other than those owned or agreed to be acquired by it and parties acting concert with it (the "Offers") have been fulfilled on 27 August, 2010. Upon Completion, the JV was interested in 54,041,510 domestic shares of the Company which represented approximately 43.18% of the total issued share capital of the Company. Accordingly, the board of directors of CRGG is of the view that there is a change in controlling shareholder of the Company whereby CRGI and the parties acting in concert with it are now required to make the Offers to acquire all the domestic shares and H shares of the Company (other than those already owned or agreed to be acquired by CRGI and parties acting in concert with it) in compliance with Rules 14 and 26.1 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code").

Details of the above information including the special dividend arrangement of the Company can be found in the Joint Announcement.

The Company has established an Independent Board Committee comprising of all independent non-executive directors of the Company (the "Directors"), namely Mr. Yu Jingsong (余勁松), Mr. Zhang Jianqing (張建清), Ms. Wang Xiuli (王秀麗) and Mr. Wong Ping (王平) and Mr. Liu Jianwen (劉劍文), the non-executive Director (whom do not have any direct or indirect interest in the Offers), to advise and make recommendations to the independent shareholders of the Company in respect of the Offers.

In accordance with Rule 2.1 of the Takeovers Code, First Shanghai Capital Limited has been appointed as the Independent Financial Advisor with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Offers.

Withdrawal of the Issue and Listing of A Shares

Since the successful completion of the Share Acquisition will result in the changes in control of the Company, the sponsor of the listing application of A Shares of the Company suggested that the Company should consider to withdraw the listing application. On 19 March 2010, the Board resolved to withdraw the A Shares issue and listing application from the CSRC after taking the possibility of successful listing and ongoing costs of listing application into consideration.

The Directors believe that the withdrawal of the A Shares issue and listing application will not adversely affect the development of the Company as most projects such as Zhengzhou High Pressure Circular Gas Pipelines Construction Project, construction of natural gas stations, acquisition of coal gas assets proposed to be financed by the proceeds from the proposed A Shares Issue have already been financed partially or entirely by the internal resources of the Group or bank borrowing. In the meantime, the Company determined to terminate the construction of Boai-Zhengzhou Natural Gas Pipeline Project, one of the projects in the proposed A Shares Issue, because the upper stream pipeline construction has not been processed as well as expected. However, the Company has anticipated that it will be able to procure sufficient natural gas for future development in the second phase of the "Project of Transmitting Natural Gas through the West to the East Pipeline".

Prospect

Prospect of expanding customer base

In order to implement the policy of "The Rise of Central China", Zhengzhou is accelerating its city construction, with a view to becoming one of the major hubs in central China. According to the plans of the Zhengzhou Municipal Government, the 143 urban villages in the Zhengzhou City will all be reconstructed by stages. The reconstruction of these urban villages will involve 100,000 mu of land and 300,000 ordinary residents. According to the 2008-2012 housing plan of Zhengzhou City, the number of residential users will keep growing steadily.

In respect of gas consumption by industrial and commercial users, since the development of industrial areas, industrial parks and aerial port areas in Zhengzhou City are at their infancy and the gas consumption by industrial and commercial users will not reach a significant scale in the short run, it is expected that the gas consumption by industrial and commercial users may only attain a stable growth in the second half of this year, but, in the long run, the development of various areas will bring about new momentums for the growth of gas consumption by industrial and commercial users.

In respect of vehicular gas business, facing the competition from additional gas station operators, the Group on one hand solidified its existing user base, and on the other hand adopted a strategy that turned competition into cooperation by providing those gas stations with compressed natural gas, so that a win-win situation can be achieved.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 26 October 2010 to Tuesday, 23 November 2010 (both days inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for the special dividend proposed by Zhengzhou China Resources Gas Co., Ltd. and to determine the identity of the shareholders of the Company (the "Shareholders") who are entitled to attend and vote at the forthcoming extraordinary general meeting of the Company for Shareholders, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 25 October 2010.

The proposed special dividend of RMB0.492 (HKD0.5627) per ordinary share of the Company will be paid in Renminbi (for holders of domestic shares of the Company) or Hong Kong dollars (for holders of H shares of the Company) on 15 December 2010 to those members registered in the Company's register of members as at 26 October 2010 ("Record Date") subject to the approval of the Company's Shareholders at the extraordinary general meeting to be held on 23 November 2010.

Pursuant to the Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law, both implemented in 2008, a withholding tax at the rate of 10% is applicable to dividends payable to Shareholders of the Company who are non-resident enterprises. In accordance with the relevant tax rules and regulations of the PRC, the Company has an obligation to withhold for payment the withholding tax from the payment of the RMB0.492 (HKD0.5627) per share special dividend to non-resident enterprises (including HKSCC (Nominees) Limited) whose names are registered on the H shares register of members on the Record Date. The term "non-resident enterprises" when used in this report shall have the meaning as defined under the relevant tax rules and regulations of the PRC. No tax at the rate of 10% will be withheld in respect of dividends to natural persons whose names are registered on the H shares register of members of the Company on the Record Date.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2010, none of the Directors, supervisors or chief executives of the Company or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have been taken 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 "Model Code for Securities Transactions by Directors of Listed Issuers" to be notified to the Company and the Stock Exchange.

DISCLOSURES UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2010, the persons (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 of the Company 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 were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity/ Nature of interest	Number of H Shares held in the Company	Approximate % of beneficial interests in H Shares in the Company	Number of Domestic Shares held in the Company	Approximate % of beneficial interests in Domestic Shares in the Company	Approximate % of beneficial interests in the total registered share capital of the Company
Zhengzhou Gas Group (note 1)	Beneficial owner	–	–	54,041,510	77.11%	43.18%
Beijing Jinqiyuan Investment Management Co., Ltd. (北京金啟元投資管理有限公司) (formerly known as Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (鄭州啟元投資諮詢有限公司)) (note 2)	Beneficial owner	–	–	11,550,000	16.48%	9.23%
Beijing Crystal Stone Investment Company Limited (北京水晶岩投資管理有限公司) (note 3)	Corporate	–	–	11,550,000	16.48%	9.23%
Liu Liangkun (劉良昆) (note 4)	Corporate	–	–	11,550,000	16.48%	9.23%

Notes:

- The Company's 54,041,510 domestic shares held by Zhengzhou Gas Group were transferred to Zhengzhou SASAC on 30 June 2010, and Zhengzhou SASAC transferred the shares to Zhengzhou CR Gas on the same date. Having made enquiries to CRGG, which indirectly holds 80% equity interests in Zhengzhou CR Gas, there is still outstanding condition precedent to the share acquisition, and therefore the said transfer of domestic shares is deemed to be incomplete.
- As at 30 June 2010, Beijing Jinqiyuan Investment Management Co., Ltd. ("Beijing Jinqiyuan") held 11,550,000 domestic shares of the Company ("Domestic Shares"), representing approximately 16.48% of the beneficial interests in Domestic Shares. However, pursuant to the Listing Rules, Beijing Jinqiyuan was not a substantial Shareholder of the Company because the Domestic Shares held by it represented only 9.23% of the total registered share capital of the Company.

3. As at 30 June 2010, Beijing Crystal Stone Investment Company Limited ("Beijing Crystal Stone") was deemed to have an interest in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares, as it was interested in 37.39% of the registered capital of Beijing Jinqiyuan, which held 11,550,000 Domestic Shares. However, pursuant to the Listing Rules, Beijing Crystal Stone was not a substantial Shareholder of the Company because the Domestic Shares in which Beijing Crystal Stone was deemed to be interested represented only 9.23% of the total registered share capital of the Company.
4. As at 30 June 2010, Mr. Liu Liangkun was deemed to have an interest in 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares, as he was interested in 33.75% of the registered capital of Beijing Crystal Stone, which was deemed to have an interest of 11,550,000 Domestic Shares. However, pursuant to the Listing Rules, Mr. Liu Liangkun was not a substantial Shareholder of the Company because the Domestic Shares in which Mr. Liu Liangkun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.

So far as the Directors are aware, as at 30 June 2010, the persons (not being a Director or supervisor or chief executive of the Company) or companies who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company) were as follows:

Name of subsidiary of the Company	Name of Shareholder	Nominal value of registered and paid-up capital held by the shareholder in the subsidiary	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	78.33%

Save as disclosed above, the Directors are not aware of any other person (not being a Director or supervisor or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was 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 any member of the Group (other than the Company).

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES UNDER OPTION DERIVATIVES

Save as disclosed above, during the six months ended 30 June 2010, none of the Directors, supervisors or chief executives of the Company were granted options to subscribe for H Shares of the Company. As at 30 June 2010, none of the Directors, supervisors or chief executives, or their spouses or minor children (with their age under 18) had any right to acquire H Shares in the Company or had exercised any of such right during the period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

According to the publicly available information of the Company and as far as the Directors of the Company are aware, the Directors confirmed that the Company had complied with the requirement of maintenance of the public float under the Listing Rules during the Relevant Period.

AUDIT COMMITTEE

The Company established an audit committee on 30 September 2002 with terms of reference re-adopted on 29 March 2007 in compliance with the Listing Rules. The primary functions of the audit committee are to review the financial reporting process and the internal control systems of the Group. The audit committee currently comprises three members, namely Ms. Wang Xiuli and Mr. Zhang Jianqing, both being independent non-executive Directors, and Mr. Zhang Wushan, a non-executive Director. Ms. Wang Xiuli is the chairperson of the audit committee.

During the Relevant Period, the audit committee held three meetings and reviewed the unaudited consolidated results of the Group for the six months ended 30 June 2010.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the provisions of the Code on Corporate Governance Practices as set out in the Listing Rules for the six months ended 30 June 2010.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2010, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in the Listing Rules. The Group, 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 code of conduct regarding securities transactions by the Directors.

COMPETING INTERESTS

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

DIRECTORS

As at the date of this report, the members of the Board include three executive Directors, namely, Mr. Yan Guoqi (閔國起), Mr. Li Jinlu (李金陸) and Mr. Li Hongwei (李紅衛), four non-executive Directors, namely, Mr. Song Jinhui (宋金會), Mr. Zhang Wushan (張武山), Mr. Ding Ping (丁平) and Mr. Liu Jianwen (劉劍文) and four independent non-executive Directors, namely, Mr. Yu Jingsong (余勁松), Mr. Zhang Jianqing (張建清), Ms. Wang Xiuli (王秀麗) and Mr. Wong Ping (王平).

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

27 August 2010
Zhengzhou, the PRC

* For identification purpose only