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ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

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

(Stock Code: 8099)

CONNECTED TRANSACTIONS

The Board announces that on 23 September 2005, the Company and Zhengzhou Gas Group, the controlling shareholder of the Company, entered into the Equipment Sale and Purchase Agreement, pursuant to which the Company agreed to purchase the Equipment, which is currently leased to the Group by Zhengzhou Gas Group and used by the Group for its operational use at a consideration of RMB2,622,000 (approximately HK\$2,513,902) which had been determined after arm's length negotiation between the Company and Zhengzhou Gas Group with reference to the fair market value of RMB2,622,000 (approximately HK\$2,513,902) as appraised by CB Richard Ellis Limited, a professional independent valuer not being a connected person of the Company as at 30 June 2005. The consideration under the Equipment Sale and Purchase Agreement is the same as the professional valuation as stated in the valuation report of CB Richard Ellis Limited.

The Board further announces that on 23 September 2005, the Company and Zhengran Gas Appliances, a subsidiary of the Zhengzhou Gas Group, entered into the Gas Meters Sale and Purchase Agreement, pursuant to which the Company agreed to purchase the Gas Meters from Zhengran Gas Appliances at a consideration of RMB1,731,803 (approximately HK\$1,660,406) which had been determined after arm's length negotiation between the Company and Zhengran Gas Appliances with reference to the prevailing market price of the Gas Meters. The Gas Meters will be used to replace obsolete or inappropriate gas meters of some of the natural gas users in order to ensure the accurate records of gas sales.

Zhengzhou Gas Group currently holds approximately 43.18% of the issued share capital of the Company and is a controlling shareholder of the Company. Zhengran Gas Appliances is a subsidiary of Zhengzhou Gas Group which is held as to approximately 67.21% by Zhengzhou Gas Group and as to approximately 32.79% by an independent third party not being a connected person of the Group. The transactions under the Equipment Sale and Purchase Agreement and the Gas Meters Sale and Purchase Agreement constitute connected transactions exempt from independent Shareholders' approval requirements under Rule 20.32 of the GEM Listing Rules.

Pursuant to Rule 20.32 (1) of the GEM Listing Rules, each of the applicable percentage ratios (other than the profit ratio) calculated with reference to the aggregate consideration of RMB4,353,803 (approximately HK\$4,174,308) under the Equipment Sale and Purchase Agreement and the Gas Meters Sale and Purchase Agreement is less than 2.5%. Accordingly, the transactions under the Equipment Sale and Purchase Agreement and the Gas Meters Sale and Purchase Agreement are exempt from independent Shareholders' approval requirements and are only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

* For identification purposes only

EQUIPMENT SALE AND PURCHASE AGREEMENT

Background

The Group has leased certain equipment and machinery, including the Equipment, from Zhengzhou Gas Group for administrative and operational use at an aggregate annual rental of RMB925,340 (approximately HK\$887,191) under several existing equipment lease agreements with a term of three years commencing from 1 January 2005 to 31 December 2007. Most of the equipment and machinery have been leased to the Group since 2003 under previous lease agreements. The Board expects that the Group will continue to use the equipment and machinery leased from Zhengzhou Gas Group for its administrative and operational needs except for some pieces of equipment and machinery no longer needed by the Group, and therefore holds the view that it would be in the Group's best interest to enter into the Equipment Sale and Purchase Agreement to purchase the Equipment from Zhengzhou Gas Group and terminate the existing equipment lease agreements between the Group and Zhengzhou Gas Group upon entering into the Equipment Sale and Purchase Agreement.

Terms

Date

23 September 2005

Parties

Purchaser: the Company

Seller: Zhengzhou Gas Group

Terms

Pursuant to the Equipment Sale and Purchase Agreement, the Company agreed to purchase the Equipment from Zhengzhou Gas Group for its administrative and operational use at a consideration of RMB2,622,000 (approximately HK\$2,513,902) which had been determined after arm's length negotiation between the Company and Zhengzhou Gas Group with reference to the fair market value of RMB2,622,000 (approximately HK\$2,513,902) as appraised by CB Richard Ellis Limited, a professional independent valuer not being a connected person of the Company as at 30 June 2005. The consideration under the Equipment Sale and Purchase Agreement is the same as the professional valuation as stated in the valuation report of CB Richard Ellis Limited and will be paid by cash from the internal resources of the Company.

The Equipment

The 197 items of Equipment under the Equipment Sale and Purchase Agreement comprises production equipment such as drills, lathes, milling machines; communication equipment such as base radio system; testing instruments such as gas detectors, pipe wall thickness testers; office equipment such as computers, printers, projectors; and motor vehicles such as vans and sedans. The aggregate cost of acquisition of the Equipment by Zhengzhou Gas Group was RMB10,262,517 (approximately HK\$9,839,421.86).

Reasons for the Transaction

The Equipment under the Equipment Sale and Purchase Agreement are currently leased from Zhengzhou Gas Group and used by the Group and the directors of the Company (“Directors”) expect that the Group will continue to use the Equipment due to administrative and operational needs, and thus it is in the Group’s best interest to have the ownership of such Equipment. Upon taking over the ownership of the Equipment by the Company pursuant to the Equipment Sale and Purchase Agreement, the Company can use the Equipment more effectively and efficiently. For example, the Company can move the Equipment to other locations or add parts to the Equipment freely in order to enhance the function of the Equipment without advising Zhengzhou Gas Group. The Directors, including independent non-executive Directors, have confirmed that the terms of the Equipment Sale and Purchase Agreement are normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

GAS METERS SALE AND PURCHASE AGREEMENT

Terms

Date

23 September 2005

Parties

Purchaser: the Company

Seller: Zhengran Gas Appliances

Terms

On 23 September 2005, the Company and Zhengran Gas Appliances, a subsidiary of Zhengzhou Gas Group which is held as to approximately 67.21% by Zhengzhou Gas Group and as to approximately 32.79% by Zhengzhou Gas Group Labour Union Committee, an independent third party not being a connected person of the Company, entered into the Gas Meters Sale and Purchase Agreement, pursuant to which the Company agreed to purchase 4,224 pieces of Gas Meters from Zhengran Gas Appliances at a consideration of RMB1,731,803 (approximately HK\$1,660,406) which had been determined after arm’s length negotiation between the Company and Zhengran Gas Appliances with reference to the prevailing market price of Gas Meters. The consideration under the Gas Meters Sale and Purchase Agreement is the same as the net book value which represents the original purchase cost of the Gas Meters recorded in the accounts of Zhengran Gas Appliances, being RMB1,731,803 (approximately HK\$1,660,406). The consideration will be paid by cash from the internal resources of the Company.

The Gas Meters

The Gas Meters purchased under the Gas Meters Purchase and Sales Agreement include 4,156 pieces of IC card gas meters and 57 pieces of household gas meters for residential natural gas users, and 11 pieces of large gas meters for commercial and industrial natural gas users.

Reasons for the Transaction

Various coal gas users have converted to natural gas users according to a new energy policy promulgated by the Reform and Development Committee of the Provincial Government of Henan last year and the Company found that some of the gas meters used by these new natural gas users were obsolete or inappropriate for recording natural gas sales volume. In order to ensure the accurate records of gas sales volume, the Company decided to purchase the Gas Meters which are suitable for recording natural gas sales volume to replace the unsuitable ones. The Board is of the view that it is in the interest of the Company and Shareholders to ensure the accurate records of natural gas sales volume in order to secure the accurate recognition of revenue. The Directors, including independent non-executive Directors, have confirmed that the terms of the Gas Meters Sale and Purchase Agreement are normal commercial terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATIONSHIPS AMONG THE COMPANY, ZHENGZHOU GAS GROUP AND ZHENGRAN GAS APPLIANCES

The Group is principally engaged in the sale of piped natural gas, bottled liquefied petroleum gas and gas appliances to residential, commercial and industrial customers and the provision of gas pipeline construction services.

Zhengzhou Gas Group is principally engaged in the sale of piped natural gas and bottled liquefied petroleum gas and the related pipeline installation and maintenance, the development of real estate, gas pipeline interior network design, maintenance of gas meters, sale of gas equipment, and wholesale of liquefied petroleum gas.

Zhengran Gas Appliances is principally engaged in the sales of gas meters and the provision of testing and repair services of gas meters.

As at the date of this announcement, Zhengzhou Gas Group holds approximately 43.18% and 67.21% of the issued share capital of the Company and the registered capital of Zhengran Gas Appliances respectively. Therefore, Zhengzhou Gas Group is a controlling shareholder of both the Company and Zhengran Gas Appliances and thus Zhengran Gas Appliances is an associate of Zhengzhou Gas Group. As such, both Zhengzhou Gas Group and Zhengran Gas Appliances are considered to be connected persons of the Company. Pursuant to the GEM Listing Rules, any transaction entered into between the Group and Zhengzhou Gas Group or its associates constitutes a connected transaction of the Company.

COMPLIANCE REQUIREMENTS

Pursuant to Rule 20.32 (1) of the GEM Listing Rules, each of the percentage ratios (other than the profit ratio) as calculated based on the aggregate consideration of RMB4,353,803 (approximately HK\$4,174,308) under the Equipment Sale and Purchase Agreement and the Gas Meters Sale and Purchase Agreement is less than 2.5%. Therefore, no independent Shareholders' approval is required, and the transactions under both the Equipment Sale and Purchase Agreement and the Gas Meters Sale and Purchase Agreement are only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

DIRECTORS

As at the date of this announcement, the members of the Board include (i) the executive Directors, namely, Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會) and Ms. Niu Minghua (牛鳴華); (ii) the non-executive Directors, namely, Mr. Chang Zongxian (常宗賢), Mr. Wang Yuheng (王玉珩), Mr. Zhang Wushan (張武山), Mr. Li Keqing (李克清), Mr. Zhang Chaoyi (張超義) and Mr. Li Zhenguo (李振國); (iii) the independent non-executive Directors, namely, Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文) and Ms. Yu Shulian (余恕蓮).

DEFINITIONS

Unless otherwise stated, the following words and phrases have the following meanings in this announcement:

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	鄭州燃氣股份有限公司 (Zhengzhou Gas Company Limited*), a joint stock company established in the PRC and whose H Shares are listed on GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company, including the independent non-executive Directors
“Equipment”	the 197 items of equipment and machinery to be purchased by the Company under the Equipment Sale and Purchase Agreement. They comprise production equipment, communication equipment, testing instruments, office equipment and motor vehicles which are currently leased by Zhengzhou Gas Group to the Group
“Equipment Sale and Purchase Agreement”	the equipment purchase agreement entered into by the Company and Zhengzhou Gas Group on 23 September 2005, pursuant to which the Company agreed to purchase the Equipment from Zhengzhou Gas Group
“Gas Meters Sale and Purchase Agreement”	the gas meters purchase agreement entered into by the Company and Zhengran Gas Appliances on 23 September 2005, pursuant to which the Company agreed to purchase the Gas Meters from Zhengran Gas Appliances
“Gas Meters”	4,224 pieces of gas meters sold to the Company under the Gas Meters Sale and Purchase Agreement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“RMB”	Renminbi, the lawful currency of the PRC and for the purpose of this announcement, Renminbi is translated into Hong Kong dollars at a fixed rate of RMB1.043 = HK\$1.00
“Shareholder(s)”	the holder(s) of domestic shares and the overseas listed H shares of nominal value of RMB0.10 each in the share capital of the Company which are listed on GEM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhengran Gas Appliances”	鄭州鄭燃燃氣器具有限公司 (Zhengzhou Zhengran Gas Appliances Company Limited), a subsidiary of Zhengzhou Gas Group, engaged in the sales of gas meters and the provision of testing and repair of gas meters
“Zhengzhou Gas Group”	鄭州燃氣集團有限公司 (Zhengzhou Gas Group Company Limited*), which is a company established in the PRC with limited liability, which is the controlling shareholder of the Company

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

Zhengzhou, the PRC

23 September, 2005

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

This announcement will remain on the GEM website at www.hkgem.com for at least 7 days from the day of its posting.

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