

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

DISCLOSEABLE AND CONNECTED TRANSACTION

On 1 July, 2006, the Company entered into the Equity Transfer Agreement with the Labour Union Committee, pursuant to which, the Company has conditionally agreed to acquire from the Labour Union Committee its 16.5% equity interest in the Engineering Company for a consideration of RMB9.90 million (equivalent to approximately HK\$9.52 million). The consideration relating thereto will be satisfied in cash through the Company's internal resources and cash flow from its operating activities. Upon completion of the Acquisition, the Company will increase its equity interest in the Engineering Company from its existing 83.50% to 100.00% and the Engineering Company will become a direct wholly-owned subsidiary of the Company.

Since the relevant percentage ratios (as defined in the GEM Listing Rules) of the Acquisition contemplated under the Equity Transfer Agreement are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction under Rule 19.08 of the GEM Listing Rules.

By virtue of the Labour Union Committee's 16.5% equity interest in the Engineering Company, which is a subsidiary of the Company, the Labour Union Committee is considered to be a connected person of the Company under Chapter 20 of the GEM Listing Rules. Since the Acquisition is on normal commercial terms and each of the percentage ratios (other than the profits ratio) is more than 2.5% but less than 25%, and the total consideration for the Acquisition is less than HK\$10,000,000, pursuant to Rule 20.32 of the GEM Listing Rules, the Acquisition under the Equity Transfer Agreement constitutes a connected transaction exempt from the independent shareholders' approval requirement and is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

A circular containing, among other things, further details of the Equity Transfer Agreement will be despatched by the Company to the Shareholders within 21 days from the date of this announcement.

THE EQUITY TRANSFER AGREEMENT

The principal terms and conditions of the Equity Transfer Agreement are detailed as follows:

Agreement Date

1 July, 2006

Parties to the Agreement

Vendor : the Labour Union Committee, a social organisation legal person (社團法人) established under the General Principles of the Civil Law and the Labour Union Law of the PRC, which owns the Equity Interest in the registered capital of the Engineering Company. By virtue of the Labour Union Committee's 16.5% equity interest in the Engineering Company, which is a subsidiary of the Company, the Labour Union Committee is considered to be a connected person of the Company under the Chapter 20 of the GEM Listing Rules

Purchaser : The Company

The Consideration

Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed, among other things, to acquire the Equity Interest in the Engineering Company from the Labour Union Committee for a total consideration of RMB9.90 million (equivalent to approximately HK\$9.52 million). The consideration will be satisfied by the Company in cash within five days after the signing of the Equity Transfer Agreement.

The consideration has been arrived at after arm's length negotiations between the Company and the Labour Union Committee, with reference to the Labour Union Committee's aggregate contribution to the registered capital of the Engineering Company which amounted to RMB6.60 million (equivalent to approximately HK\$6.35 million) and the Labour Union Committee's share of the net assets of the Engineering Company. As at 31 December, 2005, net assets of the Engineering Company amounted to approximately RMB149.70 million (equivalent to approximately HK\$143.95 million) based on the latest available audited financial statements of the Engineering Company prepared in accordance with the PRC accounting standards.

It is expected that the consideration for the Acquisition will be financed by the Company's internal resources and cash flow from its operating activities.

Conditions of the Equity Transfer Agreement

The Equity Transfer Agreement is conditional upon the Labour Union Committee and the Company having obtained the approval from the governing body of the Labour Union Committee and the board of Directors respectively.

Completion

Completion of the Acquisition shall occur upon obtaining the approvals from the governing body of the Labour Union Committee and the board of Directors in relation to the Equity Transfer Agreement. Within five business days from the date of completion, the parties thereto shall attend to the registration procedures at the relevant authorities in the PRC for the transfer of the Equity Interest from Labour Union Committee to the Company.

As each of the Labour Union Committee and the Company respectively obtained approval from the governing body of the Labour Union Committee and the board of Directors before the signing of the Equity Transfer Agreement, the above-mentioned condition in the Equity Transfer Agreement had been fulfilled upon signing. In addition, it is expected that the relevant registration procedures will be completed within one month after completion of the Acquisition.

Prior to the Acquisition, the Company has been holding a 83.50% interest in the registered capital of the Engineering Company, whose board of directors comprised five members, four of whom were appointed by the Company while one director was appointed by the Labour Union Committee. Upon completion, the Company will hold 100.00% in the registered capital of the Engineering Company, which will become a direct wholly-owned subsidiary of the Company with all members of its board of directors being appointed by the Company.

DETAILS OF THE GROUP, THE ENGINEERING COMPANY AND THE REASON FOR THE ACQUISITION

The Group is principally engaged in the sale of piped natural gas to residential, commercial, industrial and vehicular customers, the sale of gas appliances, pressure control equipment as well as the provision of natural gas pipeline construction and the related repair and maintenance services.

The Engineering Company is one of the Company's major operating subsidiaries and is mainly engaged in the construction of natural gas pipelines and the corresponding pipeline laying work for the Group's residential, commercial and industrial customers. The Engineering Company was established in 2002 with its registered capital of RMB25.00 million (equivalent to approximately HK\$24.04 million) being contributed by the Company and the Labour Union Committee in the sum of RMB20.88 million (equivalent to approximately HK\$20.08 million) and RMB4.12 million (equivalent to approximately HK\$3.96 million) respectively. The shareholding of each of the Company and the Labour Union Committee in the Engineering Company was proportional to their respective capital contribution and was held as to 83.5% and 16.5% respectively. In 2003, each of the Company and the Labour Union Committee increased their capital contribution in proportion to their shareholding percentage in the Engineering Company and the registered capital of the Engineering Company had increased to an aggregate of RMB40.00 million (equivalent to approximately HK\$38.46 million). The aggregate capital contribution from each of the Company and the Labour Union Committee amounted to RMB33.40 million (equivalent to approximately HK\$32.11 million) and RMB6.60 million (equivalent to approximately HK\$6.35) respectively. Since then, the registered capital and shareholding structure of the Engineering Company have not been changed and its registered capital has been owned as to 83.5% by the Company and owned as to 16.5% by the Labour Union Committee. According to the audited financial statements prepared in accordance with the PRC accounting standards, the net profit before and after tax of the Engineering Company amounted to approximately RMB57.21 million (equivalent to approximately HK\$55.01 million) and RMB53.12 million (equivalent to approximately HK\$51.08 million) respectively for the year ended 31 December, 2004. For the year ended 31 December, 2005, the Engineering Company's net profit before and after tax respectively amounted to approximately RMB101.86 million (equivalent to approximately HK\$97.94 million) and RMB95.48 million (equivalent to approximately HK\$91.81 million) for the year ended 31 December, 2005.

The Directors believe that, following the Acquisition, the Company will be able 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) consider 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.

IMPLICATIONS UNDER THE GEM LISTING RULES

Since the relevant percentage ratios (as defined in the GEM Listing Rules) of the Acquisition contemplated under the Equity Transfer Agreement are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction under Rule 19.08 of the GEM Listing Rules.

By virtue of the Labour Union Committee's 16.5% equity interest in the Engineering Company, which is a subsidiary of the Company, the Labour Union Committee is considered to be a connected person of the Company under Chapter 20 of the GEM Listing Rules. Since the Acquisition is on normal commercial terms and each of the percentage ratios (other than the profits ratio) is more than 2.5% but less than 25%, and the total consideration for the Acquisition is less than HK\$10,000,000, pursuant to Rule 20.32 of the GEM Listing Rules, the Acquisition under the Equity Transfer Agreement constitutes a connected transaction exempt from independent shareholders' approval requirement and is only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

GENERAL

A circular containing, among other things, further details of the Equity Transfer Agreement, will be despatched by the Company to the Shareholders within 21 days from the date of this announcement.

As at the date of this announcement, the members of the Board comprise (i) the executive Directors, namely Mr. Yan Guoqi (閻國起) (*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), 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), and Ms. Yu Shulian (余恕蓮).

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the acquisition of the Equity Interest, being 16.5% of the registered capital of the Engineering Company by the Company from the Labour Union Committee
“Company”	鄭州燃氣股份有限公司 (Zhengzhou Gas Company Limited*), a joint stock limited company incorporated in the PRC, the H shares of which are listed on the GEM
“connected person”	has the same meaning ascribed hereto in the GEM Listing Rules
“Labour Union Committee”	the Zhengzhou Gas Group Labour Union Committee, a social organisation legal person (社團法人) established under the General Principles of the Civil Law and the Labour Union Law of the PRC, which owns the Equity Interest in the registered capital of the Engineering Company.
“Directors”	the directors of the Company
“Domestic Share(s)”	the Share(s) which are not H Share(s)

“Engineering Company”	鄭州燃氣工程建設有限公司 (Zhengzhou Gas Engineering and Contraction Co., Ltd*), a company with limited liability incorporated in the PRC, with its registered capital owned as to 83.5% by the Company and as to 16.5% by the Labour Union Committee.
“Equity Interest”	the 16.5% equity interest in the registered capital of the Engineering Company owned by the Labour Union Committee which will be transferred to the Company pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the agreement dated 1 July, 2006 entered into between the Company and the Labour Union Committee in relation to the Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM, as amended from time to time
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign share(s) of the Company which are listed on the GEM with a nominal value of RMB0.10 each
“PRC”	the People’s Republic of China, which for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Shares”	shares of the Company with a nominal value of RMB0.10 each, including the Domestic Shares and the H Shares, unless specified otherwise
“Shareholders”	holders of the Shares, including holders of the Domestic Shares and the H Shares, unless specified otherwise
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

All amounts in RMB have been translated into HK\$ at a rate of HK\$1.00 = RMB1.04 in this announcement for illustration purpose only.

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

Zhengzhou, the PRC

3 July, 2006

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: (1) the information contained in this announcement is accurate and complete in all material respects and is not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

* *for identification purposes only*