
IMPORTANT

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If you are in doubt as to any aspect of this circular, you should consult your stock broker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhengzhou Gas Company Limited (the “Company”), you should at once hand this circular to the purchaser or transferee or to the bank, stock broker or other agent through whom the sale was effected for transmission to the purchaser or transferee.



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 with limited liability)

(Stock Code: 8099)

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF LPG ASSETS AND LAND ASSETS AND APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR AND A SUPERVISOR

Financial Adviser

 **SBICROSBY**
SBI Crosby Limited

*Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders*



A letter from the board of directors of the Company is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular. A letter from First Shanghai containing its advice to the Independent Board Committee is set out on pages 20 to 29 of this circular.

A notice convening an extraordinary general meeting of ZHENGZHOU GAS COMPANY LIMITED to be held on 22 November 2006 at Samost Hotel, Zhengzhou City, Henan Province, the PRC at 9:00 a.m. is set out on pages 59 to 61 of this circular. If you intend to attend the extraordinary general meeting, please complete and return the reply slip enclosed with the notice of extraordinary general meeting in accordance with the instructions printed thereon as soon as possible and in any event by no later than 2 November 2006. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Company (in the case of the proxy form of holders of Domestic Shares) or to the registrar of the H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (in the case of proxy form of holders of H Shares) and in any event no later than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

“Announcement”	announcement of the Company dated 8 September 2006
“Appointments”	the appointments of Mr. Wang Ping as an independent non-executive director, and Mr. Chen Kun as a supervisor of the Company
“Assets Acquisition”	the acquisition of the LPG Assets and Land Assets
“Assets Purchase Agreements”	LPG Assets Purchase Agreement and Land Purchase Agreements
“Board”	the board of Directors
“CB Richard Ellis”	CB Richard Ellis Limited, an independent valuer
“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 thereto in the GEM Listing Rules
“Directors”	the directors of the Company
“Domestic Share(s)”	the Share(s) which are not H Share(s)
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Assets Purchase Agreements and the transactions as contemplated thereunder
“First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, who has been appointed as the independent financial adviser to give advice to the Independent Board Committee and Independent Shareholders in respect of the Assets Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board established to advise the Independent Shareholders in respect of the acquisition of the LPG Assets and Land Assets, which comprises of all the three independent non-executive Directors
“Independent Shareholder(s)”	the Shareholders other than Zhengzhou Gas Group, and its associates
“INED”	the independent non-executive Director
“Land Asset 1”	a parcel of land at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City, purchased from Zhengzhou Gas Group pursuant to Land Purchase Agreement 1
“Land Asset 2”	two parcels of land, one located at the junction of Fengqing Road and Guihua Road, Jinshui District, Zhengzhou City and the other one at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City, purchased from Zhengzhou Gas Group pursuant to Land Purchase Agreement 2
“Land Assets”	three parcels of land, made up of Land Asset 1 (comprising one parcel of land) and Land Asset 2 (comprising two parcels of land), which were acquired by the Group from Zhengzhou Gas Group pursuant to the Land Purchase Agreements, further details of which are set out in the paragraph headed “Information on the Land Assets” in the Letter from the Board to this circular

DEFINITIONS

“Land Purchase Agreement 1”	the agreement dated 26 July 2006 entered into between the Company and the Zhengzhou Gas Group in relation to the acquisition of Land Asset 1
“Land Purchase Agreement 2”	the agreement dated 8 September 2006 entered into between the Company and the Zhengzhou Gas Group in relation to the acquisition of Land Asset 2
“Land Purchase Agreements”	Land Purchase Agreement 1 and Land Purchase Agreement 2, collectively referred to as the Land Purchase Agreements
“Latest Practicable Date”	3 October 2006, being the latest practicable date prior to the printing of this circular to ascertain certain information contained in this circular
“LPG”	liquefied petroleum gas
“LPG Assets”	the assets which are to be disposed of by the LPG Company and to be acquired by the Company, including, among other things, a parcel of land and certain gas storage structures erected on the land for the purposes of storage and distribution of LPG, further details of which are set out in the paragraph headed “Information on the LPG Assets” in the Letter from the Board to this circular
“LPG Assets Purchase Agreement”	the agreement dated 8 September 2006 entered into between the Company and the LPG Company in relation to the acquisition of the LPG assets
“LPG Company”	Zhengzhou Gas Group LPG Company Limited* (鄭州燃氣集團液化氣有限公司), a company incorporated in the PRC with limited liability which is owned as to 48% by the Zhengzhou Gas Group and its non-wholly owned subsidiaries
“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
“Shareholders”	holders of the Shares, including holders of the Domestic Shares and the H Shares, unless specified otherwise

DEFINITIONS

“Shares”	shares of the Company with a nominal value of RMB0.10 each, including the Domestic Shares and the H Shares, unless specified otherwise
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhengzhou Gas Group”	Zhengzhou Gas Group Company Limited* (鄭州燃氣集團有限公司), a state-owned company incorporated in the PRC with limited liability, which is a substantial shareholder of the Company holding approximately 43.18% of the entire issued share capital of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“cu. m.”	cubic metres
“sq. m.”	square metres

For the purpose of this circular, translation of HK\$ into RMB is based on the exchange rate of approximately RMB1.04 to HK\$1.00. Such translation should not be constructed as a representation that the relevant amounts have been, could have been, or could be, converted at that or any other rate or at all.

* For identification purposes only

LETTER FROM THE BOARD



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 with limited liability)

(Stock Code: 8099)

Executive Directors:

Mr. Yan Guoqi (*Chairman*)

Mr. Song Jinhui

Mr. Li Yantong

Mr. Li Jinliu

Registered office:

352 Longhai Road West

Zhengzhou City

Henan Province

The PRC 450006

Non-executive Directors:

Mr. Zhang Wushan

Mr. Yang Degu

Ms. Bao Hongwei

Principal place of business

in Hong Kong:

Room 908, 9th Floor

Hutchison House

10 Harcourt Road, Central

Hong Kong

Independent non-executive Directors:

Mr. Zhang Yichun

Mr. Liu Jianwen

Ms. Yu Shulian

3 October 2006

To the Shareholders,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF LPG ASSETS AND LAND ASSETS
AND
APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR
AND A SUPERVISOR**

INTRODUCTION

On 8 September 2006, the Company entered into the LPG Assets Purchase Agreement with the LPG Company, pursuant to which the Company has conditionally agreed to acquire the LPG Assets from the LPG Company for an aggregate consideration of approximately RMB63.24 million (equivalent to approximately HK\$60.81 million), which was determined after arm's length negotiations between the Company and LPG Company with reference to the valuation of CB Richard Ellis. The consideration will be satisfied by cash from internal resources of the Group.

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Separately, the Company entered into the Land Purchase Agreements, comprising Land Purchase Agreement 1 and Land Purchase Agreement 2, with Zhengzhou Gas Group.

The Company entered into Land Purchase Agreement 1 on 26 July 2006 for the acquisition of Land Asset 1 from the Zhengzhou Gas Group for a consideration of RMB577,000 (equivalent to approximately HK\$554,808), which will be satisfied by cash from internal resources of the Group.

The Company entered into the Land Purchase Agreement 2 on 8 September 2006 for the acquisition of Land Asset 2 from the Zhengzhou Gas Group for a consideration of RMB4.90 million (equivalent to approximately HK\$4.71 million) which will be satisfied by cash from internal resources of the Group.

The acquisitions of LPG Assets and Land Assets are collectively referred to as the Assets Acquisition for the purpose of this circular. As two of the relevant percentage ratios (as defined in the GEM Listing Rules) in relation to the aggregated consideration pursuant to the Assets Acquisition exceed 5% but are less than 25%, the Assets Acquisition constitutes a discloseable transaction under Chapter 19 of the GEM Listing Rules.

Since Zhengzhou Gas Group, together with two of its non wholly-owned subsidiaries, in aggregate hold 48% of the equity interest in the LPG Company, the LPG Company is considered an associate of the Zhengzhou Gas Group under Rule 20.11 of the GEM Listing Rules. Furthermore, Zhengzhou Gas Group is also the controlling Shareholder of the Company, holding approximately 43.2% equity interest in the Company's registered share capital. By virtue of Zhengzhou Gas Group's equity interest in both the Company and the LPG Company, Zhengzhou Gas Group and the LPG Company are considered connected to the Company under Rule 20.11 of the GEM Listing Rules.

Furthermore, as two of the percentage ratios (as defined in the GEM Listing Rules, other than the profits ratio) in relation to the aggregated consideration pursuant to the Assets Acquisition are more than 2.5% and the total consideration is more than HK\$10 million, the Assets Acquisition is also a connected transaction under Chapter 20 of the GEM Listings Rule and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

In view of the interests of Zhengzhou Gas Group in the Assets Acquisition, Zhengzhou Gas Group and its associates will abstain from voting at the EGM for the ordinary resolution regarding the Assets Acquisition.

The Independent Board Committee has been formed to advise the Independent Shareholders on whether or not the terms of the Assets Purchase Agreements and the transactions contemplated thereunder (including but not limited to the Assets Acquisition) are in the best interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. First Shanghai has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the terms and conditions of the Assets Purchase Agreements.

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In addition, on 21 September 2006, the Board proposed the appointment of Mr. Wang Ping as an INED of the Company and the supervisory committee of the Company proposed the appointment of Mr. Chen Kun as a supervisor of the Company. Further details of Mr. Wang Ping and Mr. Chen Kun are shown in later part of this circular.

The purpose of this circular is (a) to provide the Shareholders with further information in relation to the Assets Acquisition and the Appointments; (b) to set out the letter from the Independent Board Committee to the Independent Shareholders containing its recommendation and opinion to the Independent Shareholders on the Assets Acquisition and the letter from First Shanghai to the Independent Board Committee and Independent Shareholders containing its advice to the Independent Board Committee and Independent Shareholders on the Assets Acquisition; (c) to set out the valuation report from CB Richard Ellis on the LPG Assets and Land Assets; and (d) to give notice to the Shareholders of the EGM at which ordinary resolutions will be proposed to approve, among other things, the Assets Purchase Agreements and the Appointments.

LPG ASSETS PURCHASE AGREEMENT

The principal terms and conditions of the LPG Assets Purchase Agreement are detailed as follows:

LPG Assets Purchase Agreement Date

8 September, 2006

Parties to the LPG Assets Purchase Agreement

Vendor : The LPG Company, a company incorporated in the PRC, whose registered capital is owned as to 44.40% by the Zhengzhou Gas Group, 2.16% by Zhengzhou Zhengran Material Company Limited* (鄭州鄭燃物資有限公司), 1.44% by Zhengzhou Zhengran Gas Equipment Company Limited* (鄭州鄭燃燃氣器具有限公司), 24.00% by Henan Province Tianlun Fuel Gas Engineering Investment Limited* (河南省天倫燃氣工程投資有限公司), 6.00% by Henan Province Tianlun Real Estate Company Limited* (河南省天倫房地產有限公司) and 22.00% by Ms. Sun Yan (孫燕).

Both Zhengzhou Zhengran Material Company Limited and Zhengzhou Zhengran Gas Equipment Company Limited are non wholly-owned subsidiaries of the Zhengzhou Gas Group, which are held as to approximately 67.71% and 51.72% of the registered capital by Zhengzhou Gas Group respectively.

LETTER FROM THE BOARD

To the best of the knowledge and belief of the Directors and having made all reasonable enquiries, Henan Province Tianlun Fuel Gas Engineering Investment Limited and Henan Province Tianlun Real Estate Company Limited are companies incorporated in the PRC with limited liability and each of the ultimate beneficial owners of each of Henan Province Tianlun Fuel Gas Engineering Investment Limited, Henan Province Tianlun Real Estate Company Limited and Ms. Sun Yan is an independent third party and is not a connected person with any Directors, chief executive or substantial shareholders of the Company and its subsidiaries, or any of their respective associates.

The LPG Company is principally engaged in the sales and distribution of LPG, kitchen equipment as well as the sales, installation, repair and maintenance of natural gas equipment.

Purchaser : The Company

The Consideration

Pursuant to the LPG Assets Purchase Agreement, the Company has conditionally agreed, among other things, to acquire the LPG Assets from the LPG Company for a total consideration of RMB63.24 million (equivalent to approximately HK\$60.81 million) which was determined after arm's length negotiations between the Company and LPG Company with reference to the valuation of CB Richard Ellis. The consideration is the same as the value stated in the valuation report prepared by CB Richard Ellis and will be satisfied by the Company within 60 days from the completion of the LPG Assets Purchase Agreement by cash payment, which is expected to be financed by the Company's internally generated cash flow.

Conditions Precedent to the LPG Assets Purchase Agreement

Completion of the LPG Assets Purchase Agreement is conditional upon, among other things, the following conditions being fulfilled on or before 29 December 2006 or a later date as agreed by both the Company and the LPG Company in writing:

- (i) a legal opinion being issued by a firm of PRC lawyers, in relation to, among other things, the title to the LPG Assets and the legality of the acquisition of the LPG Assets and the transfer of the LPG Assets, the contents of which are satisfactory to the Company;
- (ii) there being no laws, regulations and judgments which may
 - prohibit or delay the completion of the LPG Assets Purchase Agreement, or the carrying out of the obligations by any parties to the LPG Assets Purchase Agreement in any way; or
 - amend the nature and scope of the rights and obligations of any parties to the LPG Assets Purchase Agreement;

LETTER FROM THE BOARD

- (iii) no person or entity having raised any objections to the courts or government bodies in relation to the LPG Assets Purchase Agreement;
- (iv) the passing of ordinary resolution(s) by the Independent Shareholders in the extraordinary general meeting of the Company to be held for the purposes of approving the consideration and transactions contemplated under the acquisition of the LPG Assets;
- (v) the obtaining of the relevant approval from the PRC government bodies in relation to the transfer of the LPG Assets by the LPG Company to the Company;
- (vi) the completion of all the obligations and duties by the LPG Company under the LPG Assets Purchase Agreement on or before completion; and
- (vii) the obtaining of all the relevant approval documents and the completion of all the relevant registrations (if any) for the purpose of completion of the acquisition of the LPG Assets.

If all of the above conditions precedent to the LPG Assets Purchase Agreement have not been fulfilled by the Company and/or the LPG Company or, in the case of condition (i) above, waived by the Company on or before 29 December 2006 or on a later date as agreed by both the Company and the LPG Company in writing, the LPG Assets Purchase Agreement shall lapse, and all obligations and liabilities of the parties to the LPG Assets Purchase Agreement shall cease except for the liability of any party in respect of any antecedent breach.

Currently, except in the case of condition (iv) above, all of the above conditions precedent to the LPG Assets Purchase Agreement have been fulfilled by the Company and/or LPG Company.

Completion

Completion shall take place on the third business day (including any Saturday) immediately after all the conditions precedent under the LPG Assets Purchase Agreement have been fulfilled or, in the case of condition (i) above, waived by the Company on or before 29 December 2006 or such other date as the LPG Company and the Company may agree in writing. Upon completion, the ownership of the LPG Assets will be transferred from the LPG Company to the Company.

INFORMATION ON THE LPG ASSETS

The LPG Assets mainly comprise a parcel of land with a site area of 64,637.3 sq. m. (the “Land”), gas storage structures (the “Gas Storage Structures”) and certain office and ancillary buildings (the “Buildings”). The original cost of the LPG Assets incurred by the LPG Company was RMB46.88 million (equivalent to approximately HK\$45.08 million). The LPG Company acquired the Land in September 2003. The Gas Storage Structures and the Buildings were the

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investments of the LPG Company. The construction of the Gas Storage Structures and the ancillary buildings was completed in November 2001 while that of the three-storey office building and the one-storey canteen was completed in December 2005. The Gas Storage Structures and Buildings are all erected on the Land, which is situated at Xiying Gang, Putian, Guancheng District, Zhengzhou City, Henan Province, the PRC.

The Gas Storage Structures comprise, among others, four spherical storage tanks, each of which has a storage volume of approximately 2,000 m³. The Buildings comprise (i) a three-storey office building, (ii) a one-storey canteen, (iii) a two-storey office building and structures and (iv) other ancillary buildings. The ancillary buildings include, among other things, a fire pumping room, an electrical and compressor electric room, a guard-house and an information control room.

Apart from including the Land, the Gas Storage Structures and the Buildings, the LPG Assets also comprise various other fixed assets such as office equipment, vehicles and certain items of fire-prevention equipment.

However, according to the valuation report prepared by CB Richard Ellis, the LPG Company has not yet obtained the relevant title documents for several buildings (the "Property") among the LPG Assets and thus no commercial value has been assigned to these buildings in the valuation. Since the consideration in the Acquisition Agreement is based on the valuation report prepared by CB Richard Ellis, in effect the Company purchased the Property for free.

The Directors consider that there may be potential legal consequences to the Group relating to the Property. According to the PRC legal advisers to the Company, the potential actions that may be taken by the relevant authorities against the Company include:

1. ordering the Company to demolish the Property; and/or
2. imposing a fine on the Company.

Zhengzhou Gas Group, being the controlling shareholder of the Company, has undertaken to indemnify the Group in connection with, among others, all and any potential, losses whatever direct or indirect, that may be incurred by the Company relating to the Property's lack of title document as mentioned above. The PRC legal advisers to the Company are in the opinion that such indemnification is legally binding and can be enforced against Zhengzhou Gas Group.

The aggregate net book value of the LPG Assets was approximately RMB44.60 million (equivalent to approximately HK\$42.88 million) as at 28 February 2006.

LETTER FROM THE BOARD

REASONS FOR THE LPG ASSETS ACQUISITION

The Group's revenue is principally derived from (i) the sale of piped natural gas to residential, commercial, industrial and vehicular customers; (ii) the sale of pressure control equipment; (iii) the construction of gas pipelines; and (iv) the provision of repairs and maintenance of gas pipeline services. Since the listing of the Company's shares on GEM in October 2002, the Company has continued to record significant growth in terms of both of its number of customers and the total volume of natural gas consumption.

Set out below is a summary of the number of the Group's customers for each major customer segment and their corresponding volume of natural gas consumption for each of the three years ended 31 December 2005 and six months ended 30 June 2006.

	Number of customers				Volume of gas consumption (approximately '000 cu. m.)			
	Year ended 31 December			Six months ended 30 June 2006	Year ended 31 December			Six months ended 30 June 2006
	2003	2004	2005	2006	2003	2004	2005	2006
Residential customers	457,671	508,421	568,490	597,827	66,762	69,222	89,737	54,980
Commercial customers	759	966	1,214	1,360	38,050	56,806	81,895	43,880
Industrial customers	18	38	48	48	32,841	45,686	49,921	25,370
Vehicle customers	1,528	4,079	5,522	6,440	7,228	26,240	40,337	18,360
Total	459,976	513,504	575,274	605,675	144,881	197,954	261,890	142,590

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

Although the acquisition of LPG Assets can lead to potential legal consequences to the Group as mentioned above, the Directors were of the opinion that the Group is adequately protected from all potential losses which may be suffered by the Group as a result of Property's lack of title document, by the indemnity given by Zhengzhou Gas Group in favor of the Company and therefore, such disadvantage of the acquisition could well be offset by the advantages of increasing storage capacity of the Group.

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The consideration in respect of the acquisition of the LPG Assets was arrived at after arm's length negotiation between the Company and the LPG Company with reference to, among other things, a valuation performed by CB Richard Ellis on the LPG Assets as at 31 July 2006 which amounted to RMB63.24 million (equivalent to approximately HK\$60.81 million). Taking into account the consideration of the acquisition of the LPG Assets, and the positive impact of the acquisition of the LPG Assets on the Group's future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the LPG Assets Purchase Agreement are fair and reasonable and in the interest of the Company and the shareholders of the Company as a whole.

LAND PURCHASE AGREEMENTS

The principal terms and conditions of the Land Purchase Agreements are detailed as follows:

Land Purchase Agreement 1 Date

26 July 2006

Parties to the Land Purchase Agreement 1

Vendor : Zhengzhou Gas Group, the controlling Shareholder of the Company, holding an approximately 43.2% equity interest in the Company's registered share capital. Zhengzhou Gas Group, and its subsidiaries and associated companies other than the Company, is principally engaged in property management, real estate development and gas pipeline interior network engineering design.

Purchaser : The Company

The Consideration

Pursuant to the Land Purchase Agreement 1, the Company has conditionally agreed, among other things, to acquire the Land Asset 1 from Zhengzhou Gas Group for a consideration of RMB577,000 (equivalent to approximately HK\$554,808), which was determined after arm's length negotiations between the Company and Zhengzhou Gas Group with reference to the valuation of CB Richard Ellis. The consideration is the same as the value as stated in the valuation report and will be satisfied in cash generated from the Company's operating activities after the Company has obtained land use rights certificate in respect of Land Asset 1.

Completion

Completion of the Land Purchase Agreement 1 shall take place upon the Company obtaining the land use rights certificate in respect of Land Asset 1 and thereby, the ownership of the Land Asset 1 will be transferred from Zhengzhou Gas Group to the Company.

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Land Purchase Agreement 2 Date

8 September 2006

Parties to the Land Purchase Agreement 2

Vendor : Zhengzhou Gas Group, the controlling Shareholder of the Company, holding an approximately 43.2% equity interest in the Company's registered share capital. Zhengzhou Gas Group, and its subsidiaries and associated companies other than the Company, is principally engaged in property management, real estate development and gas pipeline interior network engineering design.

Purchaser : The Company

The Consideration

Pursuant to the Land Purchase Agreement 2, the Company has conditionally agreed, among other things, to acquire Land Asset 2 from Zhengzhou Gas Group for a consideration of RMB4.90 million (equivalent to approximately HK\$4.71 million), which was determined after arm's length negotiations between the Company and Zhengzhou Gas Group with reference to the valuation of CB Richard Ellis. The consideration is the same as the professional valuation as stated in the valuation report and will be satisfied in cash from the Company's operating activities after the Company has obtained the land use rights certificate in respect of Land Asset 2.

Completion

Completion of the Land Purchase Agreement 2 shall take place upon the Company obtaining the land use rights certificate in respect of Land Asset 2 and thereby, the ownership of the Land Asset 2 will be transferred from Zhengzhou Gas Group to the Company.

INFORMATION ON THE LAND ASSETS

The Land Assets are made up of Land Asset 1, comprising one parcel of land with a site area of approximately 1,803.4 sq. m., situated at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City, PRC, and Land Asset 2, with two parcels of land with respective site areas of 4,256.6 sq. m., and 2,957.8 sq. m., situated at the junction of Fengqing Road and Guihua Road, Jinshui District, Zhengzhou City and at the junction of Ruhe Road North and Huashan Road West, Zhengzhou City, the PRC respectively.

The original cost of the Land Assets incurred by the Zhengzhou Gas Group was zero because the Land Assets were administratively allocated to the Zhengzhou Gas Group. Then, an aggregate amount of RMB773,580 (or equivalent to approximately HK\$743,827) was paid by Zhengzhou Gas Group to the Zhengzhou city government as premium to convert the Land

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Assets from administratively allocated land to transferable land. Zhengzhou Gas Group expensed this premium in 2002 and according to the requirements of the relevant PRC GAAP, the book value of the Land Assets was zero. Each parcel of the land on the Land Assets has one of the Company's gas refueling stations (the "Gas Stations") constructed on it.

REASONS FOR THE LAND PURCHASE

The Company is principally engaged in the sale of piped natural gas to residential, commercial, industrial and vehicular customers and the provision of gas pipeline construction services and the sale of gas appliances. Thus, the Gas Stations are important assets to the Company's vehicular gas business operation. Taking into account the consideration of the acquisition of Land Assets, and the positive impact of the acquisition of Land Assets on the Group's future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the Land Purchase Agreements are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Currently, the Company leases several pieces of land from Zhengzhou Gas Group and the Land Assets form parts of such leased lands under three land use rights lease agreements dated 16 January 2002 and supplemented by a supplemental agreement dated 30 September 2002. In May 2005, the Group and Zhengzhou Gas Group agreed to adjust the annual rental under the land use rights lease agreements. Details of such land use rights lease agreements and the supplemental agreement had been disclosed in the prospectus of the Company dated 22 October 2002. Details of the adjustment of annual rental under the land use rights lease agreements had been disclosed in the announcement of the Company dated 26 May 2005. The Company has one Gas Station erected on each parcel of land on the Land Assets. In order to obtain the title document for the gas stations, the Company has to own the land use rights in respect of the Land Assets. Thus, the Company decided to enter into the Land Purchase Agreements. Once the Company has completed the acquisitions of the Land Assets, it will comply with the necessary requirements for applying for the title documents of the Gas Stations situated on the Land Assets. In addition, the affected land use rights lease agreements as supplemented by the supplemental agreement entered into between the Company and Zhengzhou Gas Group will have to be amended and the annual rentals adjusted accordingly after the completion of the Land Purchase Agreements.

APPOINTMENT OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR AND A SUPERVISOR

On 21 September 2006, the Board proposed the appointment of Mr. Wang Ping as an INED of the Company. Furthermore, the supervisory committee of the Company proposed the appointment of Mr. Chen Kun as a supervisor of the Company. Further details of Mr. Wang Ping and Mr. Chen Kun are shown in "Details of Director and Supervisor" section of this circular.

BUSINESS OF THE COMPANY

The Group operates a natural gas pipeline distribution network in Zhengzhou City, Henan Province, the PRC. The Group is principally engaged in the sale of piped natural gas to

LETTER FROM THE BOARD

residential, commercial, industrial and vehicular customers, the provision of natural gas pipeline construction and the related repair and maintenance services, as well as the sale of gas appliances and pressure control equipment.

SHAREHOLDERS' APPROVAL

As two of the relevant percentage ratios (as defined in the GEM Listing Rules) in relation to the Assets Acquisition exceed 5% but are less than 25%, the Assets Acquisition constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules.

Since Zhengzhou Gas Group, together with two of its non wholly-owned subsidiaries, in aggregate hold 48% of the equity interest in the LPG Company, the LPG Company is considered an associate of the Zhengzhou Gas Group under Rule 20.11 of the GEM Listing Rules. Furthermore, Zhengzhou Gas Group is also the controlling Shareholder of the Company, holding an approximately 43.2% equity interest in the Company's registered share capital. By virtue of Zhengzhou Gas Group's equity interests in both the Company and the LPG Company, Zhengzhou Gas Group and the LPG Company are considered connected to the Company under Rule 20.11 of the GEM Listing Rules.

Furthermore, as two of the percentage ratios (as defined in the GEM Listing Rules, other than the profits ratio) in relation to the Assets Acquisition are more than 2.5% and the total consideration is more than HK\$10 million, the Assets Acquisition is also a connected transaction under Chapter 20 of the GEM Listings Rule and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

In view of the interests of the Zhengzhou Gas Group in the Assets Purchase Agreements, the Independent Board Committee, comprising Mr. Zhang Yichun, Mr. Liu Jianwen, and Ms. Yu Shulian, being all independent non-executive Directors, have been appointed to advise the Independent Shareholders on whether or not the terms of the Assets Purchase Agreements are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. First Shanghai was appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the Assets Purchase Agreements and the transactions contemplated thereunder (including but not limited to, the Assets Acquisition).

The Assets Acquisition is subject to the approval of the Independent Shareholders. Zhengzhou Gas Group and its associates (as defined in the GEM Listing Rules), being connected person of the Company in respect of the Assets Acquisition, will abstain from voting on the ordinary resolution to approve the terms of the Assets Acquisition and the transactions contemplated thereunder. Any vote of the Independent Shareholders shall be taken by poll.

The Appointments are subject to the approval of the Shareholders. However resolutions to be put to vote at the EGM can be taken by way of show of hands or by poll.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL

Pursuant to article 77 of the articles of association of the Company, a poll may be demanded by the following persons:

- (1) Chairman of the meeting;
- (2) at least two shareholders entitled to vote in person or by proxy; or
- (3) one or more shareholders representing in aggregate 10% or more of all Shares carrying the right to vote at the meeting present in person or by proxy.

THE EGM

Set out on pages 59 to 61 of this circular is a notice convening the EGM to be held on 22 November 2006 at 9:00 a.m. at Samost Hotel, Zhengzhou City, Henan Province, PRC. The EGM will be convened at which the ordinary resolution(s) will be proposed to approve, amongst other things, the Assets Purchase Agreements and the transactions contemplated thereunder (including but not limited to, the Assets Acquisition) and the Appointments. If you intend to attend the EGM, please complete and return the reply slip enclosed with the notice of EGM in accordance with the instructions printed thereon as soon as possible and in any event by no later than 2 November 2006.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy to the Company (in the case of proxy form of holders of Domestic Shares) or to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (in the case of proxy form of holders of H Shares) in accordance with the instructions printed thereon not less than 24 hours before the time appointed for the holding of the EGM or 24 hours before the time appointed for taking the poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Shareholders of the Company whose name appear on the register of members of the Company on 22 November 2006 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from 23 October 2006 to 22 November 2006, both days inclusive, during such period no share transfer will be registered.

Zhengzhou Gas Group and its associates will abstain from voting at the EGM in respect of the ordinary resolution to be proposed at the EGM to approve the Assets Purchase Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 18 to 19 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM. Your attention is also drawn to the letter from First Shanghai, the independent financial adviser, for incorporation into this circular, which contains its advice to the Independent Board Committee and Independent Shareholders in relation to the Assets Acquisition. The text of the letter from First Shanghai to the Independent Board Committee is set out on pages 20 to 29 of this circular.

The Independent Board Committee, having taken into account the advice and recommendation of First Shanghai, are of the view that the Assets Purchase Agreements are in the interests of the Company and the shareholders of the Company as a whole and the terms of the Assets Purchase Agreements are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, it recommends that the Independent Shareholders should vote in favor of the resolution to be proposed to approve the Assets Acquisition.

Regarding the Appointments, the Board considers that the appointment of the INED and the supervisor of the Company is in the interest of the Company. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolutions to be proposed in relation to the Appointments at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of
Zhengzhou Gas Company Limited
Yan Guoqi
Chairman



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 with limited liability)

(Stock Code: 8099)

3 October 2006

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF LPG ASSETS AND LAND ASSETS**

INTRODUCTION

We refer to the circular dated 3 October 2006 (the “Circular”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

Under the GEM Listing Rules, the Assets Purchase Agreements is conditional and shall only be effective upon the passing of ordinary resolution(s) by the Independent Shareholders at the Extraordinary General Meeting of the Company approving the terms of the Assets Purchase Agreements. We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as a shareholder whether in the views of the Independent Board Committee the terms of the Assets Purchase Agreements are fair and reasonable and in the interests of the shareholders of the Company as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 17 of the Circular and the letter from First Shanghai as set out on pages 20 to 29 of the Circular which contains, *inter alia*, its advice and recommendation to us regarding the terms of the Assets Purchase Agreements with the principal factors and reasons for its advice and recommendation.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the advice and recommendation of First Shanghai, we are of the view that the Assets Purchase Agreements are in the interests of the Company and the shareholders of the Company as a whole and the terms of the Assets Purchase Agreements are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolution to be proposed to approve the Assets Purchase Agreements and the Assets Acquisition.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Mr. Zhang Yichun Mr. Liu Jianwen Ms. Yu Shulian

Independent non-executive Directors

LETTER FROM FIRST SHANGHAI

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from First Shanghai in respect of the terms of the Assets Acquisition prepared for the purpose of incorporation in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

3 October 2006

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sir and Madam,

DISCLOSABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Assets Acquisition, details of which are set out in the letter from the Board contained in the circular dated 3 October 2006 (the “Circular”) to the Shareholders, of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 8 September 2006, the Company announced that it has entered into the LPG Assets Purchase Agreement with the LPG Company, pursuant to which, the Company has conditionally agreed to acquire the LPG Assets from the LPG Company for a total consideration of approximately RMB63.24 million (equivalent to approximately HK\$60.81 million), which was determined after arm’s length negotiation between the Company and the LPG Company with reference to the valuation of CB Richard Ellis. The consideration is the same as the value as stated in the valuation report prepared by CB Richard Ellis and will be satisfied by the Company within 60 days from the completion of the LPG Assets Purchase Agreement by cash payment, which is expected to be financed by the Company’s internally generated cash flow.

Separately, the Company entered into the Land Purchase Agreements, comprising Land Purchase Agreement 1 and Land Purchase Agreement 2, with Zhengzhou Gas Group.

The Company entered into Land Purchase Agreement 1 on 26 July 2006 for the acquisition of Land Asset 1 from the Zhengzhou Gas Group for a consideration of RMB577,000 (equivalent to approximately HK\$554,808), which will be satisfied by cash from internal resources of the Group.

LETTER FROM FIRST SHANGHAI

The Company entered into Land Purchase Agreement 2 on 8 September 2006 for the acquisition of Land Asset 2 from Zhengzhou Gas Group for a consideration of RMB4.90 million (equivalent to approximately HK\$4.71 million) which will be satisfied by cash from internal resources of the Group.

Since Zhengzhou Gas Group, together with two of its non wholly-owned subsidiaries, in aggregate hold approximately 48% of the equity interest in the LPG Company, the LPG Company is considered an associate of the Zhengzhou Gas Group under Rule 20.11 of the GEM Listing Rules. Furthermore, Zhengzhou Gas Group is also the controlling Shareholder of the Company, holding an approximately 43.2% equity interest in the Company's registered share capital. By virtue of Zhengzhou Gas Group's equity interest in both the Company and the LPG Company, the LPG Company is considered to be a connected person under Rule 20.11 of the GEM Listing Rules.

Furthermore, as two of the percentage ratios (as defined in the GEM Listing Rules, other than the profits ratio) in relation to the aggregated consideration pursuant to the Assets Acquisition is more than 2.5% and the total consideration is more than HK\$10 million, the Assets Acquisition is also a connected transaction under Chapter 20 of the GEM Listings Rule and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Independent Board Committee has been formed to advise the Independent Shareholders on whether or not the terms of the Assets Acquisition are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is to give an independent opinion as to whether the terms of the Assets Acquisition are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In putting forth our opinion and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided, and opinion expressed to us by the Directors and the Company. We have assumed that all such information and representations made or referred to in the Circular and provided, and opinion expressed to us by the Directors and the Company were true, accurate and complete at the time they were made and continued to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Company and the information contained in the Circular. We have also been advised by the Directors and the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We have also relied on the information and representations provided by CB Richard Ellis regarding the valuation of the LPG Assets and

LETTER FROM FIRST SHANGHAI

the Land Assets as at 31 July 2006, the text of which is set out in Appendices I to IV to the Circular, and assumed that the bases and assumptions made in determining the valuation of the LPG Assets and the Land Assets by CB Richard Ellis are fair and reasonable. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors nor have we conducted any form of investigation into the LPG Assets, the Land Assets or the valuation of the LPG Assets and the Land Assets provided by CB Richard Ellis, or the business, operations, financial condition, affairs or future prospects of the Group.

Having considered the following principal factors and reasons, we are of the opinion that the Assets Acquisition is in the interests of the Company and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations on the Assets Acquisition, we have taken into account, among other things, the following principal factors and reasons:

1. Background of the Group

The Group is principally engaged in (i) the sale of piped natural gas to residential, commercial, industrial and vehicular customers; (ii) the sale of pressure control equipments; (iii) the construction of gas pipelines; and (iv) the provision of repairs and maintenance of gas pipeline services.

As stated in the interim report of the Company for the six months ended 30 June 2006 (the “Interim Report 2006”), the Group’s turnover, gross profit of the Group and net profit attributable to the Shareholders of the Company were approximately RMB359.5 million, RMB120.4 million and RMB57.7 million respectively, representing an increase of approximately 16.9%, 15.0% and 10.1% respectively, as compared with those of approximately RMB307.5 million, RMB104.7 million and RMB52.5 million respectively in the previous corresponding period.

2. Information on the Assets Acquisition

2.1 LPG Assets

As described in the “Letter from the Board” contained in the Circular, the LPG Assets mainly comprise a parcel of land with a site area of 64,637.3 sq. m. (the “Land”), gas storage structures (the “Gas Storage Structures”), and certain office and ancillary buildings (the “Buildings”). The original cost of the LPG Assets incurred by the LPG Company was RMB46.88 million (equivalent to approximately HK\$45.08 million). The LPG Company acquired the Land in September 2003. The Gas Storage Structures and the Buildings were the investments of the LPG Company. The construction of the Gas Storage

LETTER FROM FIRST SHANGHAI

Structures and the ancillary buildings was completed in November 2001 while that of the three-storey office building and the one-storey canteen was completed in December 2005. The Gas Storage Structures and Buildings are all erected on the Land which is situated at Xiyang Gang, Putian, Guancheng District, Zhengzhou City, Henan Province, the PRC.

The Gas Storage Structures comprise, among others, four spherical storage tanks, each of which has a storage volume of approximately 2,000 cu. m.. The Buildings comprise (i) a three-storey office building, (ii) a one-storey canteen, (iii) a two-storey office building and structures and (iv) other ancillary buildings. The ancillary buildings include, among other things, a fire pumping room, an electrical and compressor electric room, a guard house and an information control room.

Apart from the Land, the Gas Storage Structures and the Buildings, the LPG Assets also comprise various other fixed assets such as office equipment, vehicles and certain items of fire-prevention equipment.

However, according to the valuation report prepared by CB Richard Ellis, the LPG Company has not yet obtained the relevant title documents for several buildings (the "Property") among the LPG Assets and no commercial value has been assigned to these buildings in the valuation. Since the consideration in the Acquisition Agreement is based on the valuation report prepared by CB Richard Ellis, in effect the Company purchased the Property for free.

As stated in the Letter from the Board contained in the Circular, the Directors consider that there may be potential legal consequences to the Group relating to the Property. According to the PRC legal advisers to the Company, the potential actions that may be taken by the relevant authorities against the Company include:

1. ordering the Company to demolish the Property; and/or
2. imposing a fine on the Company.

Zhengzhou Gas Group, being the controlling shareholder of the Company, has undertaken to indemnify the Group in connection with, among others, all and any potential, losses whatever direct or indirect, that may be incurred by the Company relating to the Property's lack of title document as mentioned above. The PRC legal advisers to the Company are of the opinion that such indemnification is legally binding and can be enforced against Zhengzhou Gas Group.

The aggregate net book value of the LPG Assets was approximately RMB44.60 million (equivalent to approximately HK\$42.88 million) as at 28 February 2006.

LETTER FROM FIRST SHANGHAI

2.2 Land Assets

The Land Assets are made up of Land Asset 1, comprising one parcel of land with a site area of approximately 1,803.4 sq. m., situated at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City, Henan Province, the PRC, and Land Asset 2, with two parcels of land with respective site areas of 4,256.6 sq. m., and 2,957.8 sq. m., situated at the junction of Fengqing Road West and Guihua Road, Jinshui District, Zhengzhou City, Henan Province, the PRC and at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City, Henan Province, the PRC respectively.

The original cost of the Land Assets incurred by Zhengzhou Gas Group was zero because the Land Assets were administratively allocated to Zhengzhou Gas Group. Then, an aggregate amount of RMB773,580 (equivalent to approximately HK\$743,827) was paid by Zhengzhou Gas Group to the Zhengzhou city government as premium to convert the Land Assets from administratively allocated land to transferable land. Zhengzhou Gas Group expensed this premium in 2002 in accordance with the requirements of the relevant PRC GAAP. As such, the book value of the Land Assets was zero. Each parcel of the land on the Land Assets has one of the Company's gas refueling stations (the "Gas Stations") constructed on it.

3. Reasons for the Assets Acquisition

3.1 Reasons for the acquisition of the LPG Assets

Set out below is a summary of the number of the Group's customers for each major customer segment and their corresponding volume of natural gas consumption for each of the three years ended 31 December 2005 and the six months ended 30 June 2006.

	Number of customers				Volume of gas consumption (approximately '000 cu. m.)			
	Year Ended 31 December			Six months ended 30 June	Year Ended 31 December			Six months ended 30 June
	2003	2004	2005	2006	2003	2004	2005	2006
Residential customers	457,671	508,421	568,490	597,827	66,762	69,222	89,737	54,980
Commercial customers	759	966	1,214	1,360	38,050	56,806	81,895	43,880
Industrial customers	18	38	48	48	32,841	45,686	49,921	25,370
Vehicle customers	1,528	4,079	5,522	6,440	7,228	26,240	40,337	18,360
Total	<u>459,976</u>	<u>513,504</u>	<u>575,274</u>	<u>605,675</u>	<u>144,881</u>	<u>197,954</u>	<u>261,890</u>	<u>142,590</u>

LETTER FROM FIRST SHANGHAI

In order to accommodate the increasing demand of natural gas from the Group's existing and potential customers, the Directors believe that it is essential for the Group to further expand its natural gas storage facilities in the near future. Currently the storage capacity of the Group is 200,000 cu. m.. After the LPG Assets Acquisition, the storage capacity of the Group is expected to be increased to 2,400,000 cu. m. after the necessary modifications to be taken place in order to fulfill the actual requirements of the Group. As such, the Directors consider that the acquisition of the LPG Assets provides an opportunity for the Group to expand its storage facilities within a relatively short period of time (when compared with constructing the Group's own natural gas storage facilities) which may improve the Group's ability to maintain a stable supply of natural gas to users in Zhengzhou City.

Although the acquisition of the LPG Assets can lead to potential legal consequences to the Group as mentioned above, the Directors were of the opinion that the Group is adequately protected from all potential losses which may be suffered by the Group as a result of Property's lack of title document, by the indemnity given by Zhengzhou Gas Group in favour of the Company and therefore, such disadvantage of the acquisition could well be offset by the advantages of increasing storage capacity of the Group.

The consideration in respect of the acquisition of the LPG Assets was arrived at after arm's length negotiation between the Company and the LPG Company with reference to, among other things, a valuation performed by CB Richard Ellis on the LPG Assets as at 31 July 2006 which amounted to RMB63.24 million (equivalent to approximately HK\$60.81 million). Taking into account the consideration of the acquisition of the LPG Assets, and the positive impact of the acquisition of the LPG Assets on the Group's future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the LPG Assets Purchase Agreement are fair and reasonable and in the interest of the Company and the shareholders of the Company as a whole.

According to the annual report of the Company for the year ended 31 December 2005 and the Interim Report 2006, the Group had experienced insufficient gas supply in Zhengzhou City. In order to ensure that the daily lives of the citizens in Zhengzhou City remained unaffected, the Group ceased the supply of gas to vehicular users since the end of November 2005, which supply was subsequently resumed on 14 February 2006, and set limits on gas supply to both commercial and industrial users. It eventually resulted in a drop of the sales volume of natural gas in the vehicular gas business segment of the Group during the six months period ended 30 June 2006 to approximately 18,360,000 m³ representing a decrease of approximately 12.7% as compared with approximately 21,040,000 m³ for the corresponding period in 2005.

In view of the above, we consider that the acquisition of LPG Assets can (i) strengthen the gas storage capacity of the Group to cope with the demand of Zhengzhou City; and (ii) enable the Group to provide a more stable supply of gas to its customers in different business segments. Therefore, we concur with the Board that the acquisition of the LPG Assets is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM FIRST SHANGHAI

3.2 Reasons for the acquisition of the Land Assets

As stated in the “Letter from the Board” contained in the Circular, the gas stations erected on the Land Assets are important assets to the Company’s vehicular gas business operation. Taking into account the consideration of the acquisition of the Land Assets, and the positive impact of the acquisition of the Land Assets on the Group’s future business operations, the Directors (including the independent non-executive Directors) believe that the terms of the Land Purchase Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Currently, the Company leases several pieces of land from Zhengzhou Gas Group and the Land Assets form parts of such leased lands under three land use rights lease agreements dated 16 January 2002 and supplemented by a supplemental agreement dated 30 September 2002. In May 2005, the Group and Zhengzhou Gas Group agreed to adjust the annual rental under the land use rights lease agreements. Details of such land use rights lease agreements and the supplemental agreement had been disclosed in the prospectus of the Company dated 22 October 2002. Details of the adjustment of annual rental under the land use rights lease agreements had been disclosed in the announcement of the Company dated 26 May 2005 respectively. The Company has one gas station erected on each parcel of land on the Land Assets. In order to obtain the title document for the gas stations, the Company has to own the land use rights in respect of the Land Assets. Thus, the Company decided to enter into the Land Purchase Agreements. Once the Company has completed the acquisitions of the Land Assets, it will comply with the necessary requirements for applying for the title documents of the gas stations situated on the Land Assets. In addition, the affected land use rights lease agreements as supplemented by the supplemental agreement entered into between the Company and Zhengzhou Gas Group will have to be amended and the annual rentals adjusted accordingly after the completion of the Land Purchase Agreements.

As discussed with the management of the Company, we understand that the Board has reasonable concern about the legality of the properties erected on each parcel of land of the Land Assets, since the Group has not obtained the relevant title documents for the Gas Stations. To avoid the risk of having to dismantle the Gas Stations, the management of the Company believes that the Company has to own the land use rights in respect of the Land Assets in order to obtain the title documents for the Gas Stations. After considering the reasons of the acquisition of the Land Assets, we are of the view that the acquisition of the Land Assets is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM FIRST SHANGHAI

4. Basis of consideration

4.1 *Basis of consideration for the acquisition of the LPG Assets*

As stated in the “Letter from the Board” contained in the Circular, the Company has conditionally agreed, among other things, to acquire the LPG Assets from the LPG Company for a total consideration of RMB63.24 million (equivalent to approximately HK\$60.81 million) pursuant to the LPG Assets Purchase Agreement, which was determined after arm’s length negotiation between the Company and LPG Company with reference to the valuation of CB Richard Ellis. The consideration is the same as the value as stated in the valuation report prepared by CB Richard Ellis and will be satisfied by the Company by cash payment within 60 days from the completion of the LPG Assets Purchase Agreement, which is expected to be financed by the Company’s internally generated cash flow.

According to the valuation reports set out in Appendix I to II in the Circular, we note that CB Richard Ellis has arrived at the valuation of the LPG Assets by using both the market approach and depreciated replacement cost approach. In the valuation of the Land, CB Richard Ellis has made reference to the standard land price and the sales evidence as available to them in the locality. Where due to the nature of the Buildings and Gas Storage Structures on the Land, there are no market sales comparables, the property interests have been valued on the basis of their depreciated replacement cost.

CB Richard Ellis has concluded that the valuation of the LPG Assets was approximately RMB63.2 million (equivalent to approximately HK\$60.81 million).

Having considered the valuation methodologies adopted by CB Richard Ellis and the valuation arrived thereat, we are of the view that the consideration for the acquisition of the LPG Assets is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4.2 *Basis of consideration for the acquisition of the Land Assets*

As stated in the “Letter from the Board” contained in the Circular, the Company has conditionally agreed, among other things, to acquire Land Asset 1 from Zhengzhou Gas Group for a consideration of RMB577,000 (equivalent to approximately HK\$ 554,808) pursuant to Land Purchase Agreement 1, which was determined after arm’s length negotiation between the Company and Zhengzhou Gas Group with reference to the valuation of CB Richard Ellis. The consideration is the same as the value as stated in the valuation report and will be satisfied in cash generated from the Company’s operating activities after the Company has obtained land use rights certificate in respect of Land Asset 1.

As stated in the “Letter from the Board” contained in the Circular, the Company has conditionally agreed, among other things, to acquire Land Asset 2 from Zhengzhou Gas Group for a consideration of RMB4.90 million (equivalent to approximately HK\$4.71

LETTER FROM FIRST SHANGHAI

million) pursuant to the Land Purchase Agreement 2, which was determined after arm's length negotiation between the Company and Zhengzhou Gas Group with reference to the valuation of CB Richard Ellis. The consideration is the same as the value as stated in the valuation report and will be satisfied in cash from the Company's operating activities after the Company has obtained the land use rights certificate in respect of Land Asset 2.

According to the valuation reports set out in Appendices III to IV to the Circular, we note that CB Richard Ellis has arrived at the valuation of the Land Assets by using direct comparison approach. In their valuation, CB Richard Ellis has made reference to the sales evidence as available to them in the locality.

CB Richard Ellis has concluded that the valuation of the Land Assets was approximately RMB5.50 million (equivalent to approximately HK\$5.26 million).

Having considered the valuation methodologies adopted by CB Richard Ellis and the valuation arrived thereat, we are of the view that the consideration for the acquisition of the Land Assets is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Financial effects of the Assets Acquisition on the Group

As stated in the "Letter from the Board" contained in the Circular, the consideration for the Assets Acquisition will be satisfied by cash in full and will be financed by internal resources of the Group. The Assets Acquisition is not expected to affect the net tangible asset value of the Group. According to the Interim Report 2006, the net tangible asset value of the Group amounted to approximately RMB526.0 million as at 30 June 2006 with cash and cash equivalents of approximately RMB231.7 million. Based on 1,251,500,000 Shares in issue as at the Latest Practicable Date, the Group's net tangible asset value per Share was approximately RMB0.42. The consideration for the Assets Acquisition represents approximately 13.1% and 29.7% of the Group's net tangible asset value and cash and cash equivalents respectively.

Working Capital

As stated in the Interim Report 2006, the Group had current assets of approximately RMB296.9 million and current liabilities of approximately RMB304.7, or net current liabilities of approximately RMB7.7 million as 30 June 2006. This represents a current ratio of approximately 0.97. The Assets Acquisition would result in a further increase in net current liabilities due to the cash outflow of approximately RMB68.7 million for the aggregate consideration for the Assets Acquisition.

Having considered the benefits to the Group in respect of the Assets Acquisition, we consider that the slight deterioration in the working capital position of the Group is acceptable.

LETTER FROM FIRST SHANGHAI

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Assets Acquisition is in the interests of the Company and the Shareholders as a whole and that the terms of the Assets Acquisition are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Assets Acquisition and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Byron Tan

Eric Lee

Managing Director

Director

DETAILS OF DIRECTOR AND SUPERVISOR

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Wang Ping (王平先生)

Experience

Mr. Wang Ping (“Mr. Wang”), aged 46, holds a graduate certificate in commercial corporate management from Henan University of Television Broadcast. Mr. Wang has excellent experience in corporate management and finance. He had been an assistant manager of Henan Zhouhou District Price Bargaining Company (河南省周口地區議價公司), a manager of general business department of Henan Foreign Trade of Commodity Company (河南外貿商品公司), a deputy general manager of Henan Imports and Exports Company of China National Cereals, Oils and Foodstuffs Corporation (中糧河南進出口公司) and is currently a deputy general manager of Henan Zhengzhou Rongyuan Shopping Plaza Company Limited (河南鄭州融元購物廣場有限公司). Mr. Wang is ordinarily resident in Hong Kong.

Mr. Wang has not held any directorship in any other listed company in the last three years.

Length of service

Mr. Wang will enter into a service agreement with the Company with effect from the date of appointment for a term of three years.

Director’s emoluments

Mr. Wang will receive an annual director’s fee of HK\$70,000 which was determined with reference to the market rate and expected responsibilities of similar position and is subject to the authorisation by the Shareholders at the EGM.

Relationships

Mr. Wang has no relationship with any director or the senior management of the Company, or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the Latest Practicable Date, Mr. Wang does not have any interest in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”).

Matters that need to be brought to the attention of the Shareholders

Saved as disclosed above, there is no other information to be disclosed pursuant to the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules and there are no other matters concerning Mr. Wang that need to be brought to the attention of the Shareholders of the Company.

DETAILS OF DIRECTOR AND SUPERVISOR

SUPERVISOR

Mr. Chen Kun (陳鯤先生)

Experience

Mr. Chen Kun (“Mr. Chen”), aged 42, is an engineer holding a doctor in engineering. He has been an engineer of Henan Research Institute of Metallurgical Planning and Design (河南冶金規劃設計研究院), and Institute of Urban Utilities Design of Chung Nan City (中南市政設計院). Mr. Chen joined Zhengzhou Gas Group Company Limited (“Zhengzhou Gas Group”), the controlling shareholder of the Company which has interests of approximately 43.18% in the registered capital of the Company, on 20 May, 2003 and is currently a deputy general manager of Zhengzhou Gas Group.

Mr. Chen has not held any directorship in any other listed company in the last three years.

Length of service

Mr. Chen will enter into a service agreement with the Company with effect from the date of appointment for a term of three years.

Supervisor’s emoluments

Mr. Chen will not receive any supervisor’s fee.

Relationships

Other than his role in Zhengzhou Gas Group, the controlling shareholder of the Company, Mr. Chen has no relationship with any director or the senior management of the Company, or with any management shareholder, substantial shareholder or controlling shareholder of the Company.

Interests in Shares

So far as the Directors are aware as at the Latest Practicable Date, Mr. Chen does not have any interest in the shares of the Company (within the meaning of Part XV of the SFO).

Matters that need to be brought to the attention of the Shareholders

Save as discussed above, there is no other information to be disclosed pursuant to the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules and there are no other matters concerning Mr. Chen that need to be brought to the attention of the Shareholders of the Company.

The following is the text of a valuation certificate received from CB Richard Ellis, an independent property valuer, prepared for the purpose of inclusion in this circular, in connection with its valuation as at 31 July 2006 in respect of the Properties.

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世邦魏理仕

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地產代理 (公司) 牌照號碼
Estate Agent's Licence No. C-004065

4 September 2006

The Board of Directors

Zhengzhou Gas Company Limited

No. 352 Longhai Road West

Zhongyuan District

Zhengzhou City

Henan Province, the People's Republic of China

Dear Sirs,

Re: Gas storage, 2 office buildings, a canteen and various ancillary facilities and structures at Xiyang Gang, Putian, Guancheng District, Zhengzhou City, Henan Province, the People's Republic of China

In accordance with your instruction for us to value the captioned property which Zhengzhou Gas Company Limited (the "Company") intends to acquire. We confirm that we have carried out a physical inspection in June 2006, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property as at 31 July 2006 (the "date of valuation").

Unless otherwise stated, our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS"). We have also complied with all the requirements contained in Chapter 8 of "Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") issued by the Stock Exchange of Hong Kong Limited.

Our valuation is made on the basis of Market Value which would define as intended to mean *“the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

Our valuation has been prepared in the capacity as “overseas consultants” and has been made on the assumption that the owner sells the property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the property interest.

We have been provided with extracts from title documents relating to such property. We have not, however, searched the original documents to verify ownership or existence of any amendment which do not appear on the copies handed to us.

We have not seen original planning and/or development schemes and occupation consents for the property and have assumed that the relevant buildings and structures have been erected and are being occupied and used in accordance with such consents and that there are no outstanding statutory notices.

In valuing the property, we have adopted the direct comparison approach in valuing the land portion of the property and depreciated replacement cost approach in assessing buildings and structures standing on the land. In the valuation of the land portion, reference has been made to the standard land price and the sales evidence as available to us in the locality.

Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (or reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Where due to the specific purpose for which the buildings and structures of the property interests have been constructed, or where the property interests are located in market where there is no readily identifiable market comparable, the property interests have been valued on the basis of the depreciated cost.

Depreciated Replacement Cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidence by observed condition or obsolescence present, whether arising from physical, functional or economics causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

We have inspected the property to such extent for that we consider necessary for the purpose of this valuation. During our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor have we inspected or other parts of the structures, which are covered, unexposed or inaccessible. Therefore, we were not able to report whether the buildings and structures are free of rot, infestation or any other structural defects.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

No site investigations were carried out to determine the suitability of the sub-soil condition of the property and we have assumed that these aspects are satisfactory. Our valuation does not make any allowance for contamination or pollution of the lands, if any, which may have occurred as a result of past usage.

We have not carried out site measurements to verify the correctness of the site area of the property and have assumed that the site area shown on the documents/official site plans handed to us are correct.

The land registration system in the People's Republic of China (the "PRC") is such that we are not able to conduct a search on the title and ownership of the property at the relevant registry, we have studied copies of title documents and other relevant information provided to us and we have obtained and relied on the legal opinion provided by the Company's PRC legal advisor, namely "King and Wood PRC Lawyers" (the "PRC Legal Advisor"). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, site and floor areas and in the identification of the property. All documents have been used for reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate. No on-site measurements have been taken.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Alex P W Leung
MHKIS MRICS RPS(GP)
Director
Valuation & Advisory Services

Note: Mr. Alex P W Leung is a Registered Professional Surveyor (General Practice), a corporate member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 12 years' valuation experience in Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value as at 31 July 2006
Gas storage, 2 office buildings, a canteen and various ancillary facilities and structures at Xiyang Gang, Putian, Guancheng District, Zhengzhou City, Henan Province, the People's Republic of China.	<p>The property comprises a 3-storey office building, a 1-storey canteen, a 2-storey office building and various ancillary facilities and structures erected on a site with a total site area of approximately 64,637.3 sq. m..</p> <p>The gross floor areas of a 3-storey office building and the canteen are approximately 1,662.57 sq. m. and 289.89 sq. m. respectively.</p> <p>As advised by the Company, the gross floor area of the 2-storey office building is approximately 620 sq. m..</p> <p>The ancillary facilities and structures, including a fire pumping room, an electrical and compressor electric room, a guard house and an information control room.</p> <p>The buildings and structures were generally built in December 2003.</p> <p>The land use rights of the subject site are held for public infrastructure use for a term of 50 years commencing from 18 November 2003.</p>	The property is occupied by the Zhengzhou Gas Group LPG Company Limited for gas storage, office and ancillary facilities purposes.	RMB38,800,000 (RENMINBI THIRTY EIGHT MILLION EIGHT HUNDRED THOUSAND)

Notes:

1. In accordance with the State-owned Land Use Certificate No. Zheng Guo Yong (2003) Zi 0473 (鄭國用(2003)字0473) dated 18 November 2003, the land use rights of the subject site with approximately 64,637.3 sq. m. for public infrastructure use have been granted to Zhengzhou Gas Group LPG Company Limited with a term of 50 years commencing from 18 November 2003.
2. In accordance with the Building Ownership Certificate No. Zheng Fang Quan Zheng 0501070001 (鄭房權証0501070001) dated 9 December 2005, the 3-storey office with a gross floor area of approximately 1,662.57 sq. m. has been granted to Zhengzhou Gas Group (LPG) Company Limited for office uses.
3. In accordance with the Building Ownership Certificate No. Zheng Fang Quan Zheng 0501069999 (鄭房權証0501069999) dated 9 December 2005, the canteen with a gross floor area of approximately 289.89 sq. m. has been granted to Zhengzhou Gas Group (LPG) Company Limited for other uses.
4. In accordance with the Construction Works Planning Permit No. Zheng Cheng Gui Jian Guan Xu (2002) Zi 0414 (鄭城規建管許(2001)字0414) issued by Zhengzhou City Planning Bureau dated 28 September 2001, the construction works of a 3-storey office, a canteen, a fire pumping room, an electrical and compressor electric room, a guard house, an information control room, a bottle-filler room and other ancillary structures, with a total floor area of approximately 3,537.95 sq. m., have been approved.

5. In accordance with the Construction Works Commencement Permit No. 410102200111200101, issued by Zhengzhou City Construction Bureau dated 20 November 2001, the commencement of the construction works of a 3-storey office, a canteen, a fire pumping room, an electrical and compressor electric room, a guard house, an information control room, a bottle-filler room and other ancillary structures, with a total floor area of approximately 3,537.95 sq. m., have been approved.
6. As advised by the Company and our site inspection, two buildings from the list of works in the Construction Works Planning Permit and Construction Works Commencement Permit, with a gross floor area of approximately 1,107.08 sq. m., were not constructed.
7. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisor, which contains, inter alia, the following information:
 - (a) Pursuant to the State-owned Land Use Contract No. Zheng Guo Yong (2003) Zi 046 (鄭國用(2003)字046) made between Stated-owned Land Resources Administration Bureau of Zhengzhou City and Zhengzhou Gas Group LPG Company Limited, and the State-owned Land Use Certificate No. Zheng Guo Yong (2003) Zi 0473 (鄭國用(2003)字0473) issued by Zhengzhou City Land Administration Bureau, the land use rights of the property with a site area of approximately 64,637.3 sq. m. are granted to Zhengzhou Gas Group LPG Company Limited expiring on 18 November 2053 for Public Infrastructure uses;
 - (b) Pursuant to the Building Ownership Certificate Nos. Zheng Fang Quan Zheng Zi 0501070001 and 0501069999 (鄭房權証字0501070001及0501069999), the building ownership rights of the property with a gross floor area of approximately 1,952.46 sq. m. have been granted to the Group; and
 - (c) Zhengzhou Gas Group LPG Company Limited has the right to occupy, use, legally transfer, lease, mortgage and legally dispose the buildings and the land of the property stated on the above from (a) to (b).
8. Zhengzhou Gas Group LPG Company Limited cannot provide the relevant title documents for the 2-storey office building with a total gross floor area of approximately 620 sq. m. erected on the site. According to the PRC legal opinion provided by the Company, it cannot be confirmed that Zhengzhou Gas Group LPG Company Limited has the right to occupy, use, legally transfer, lease, mortgage and legally dispose that portions of the property, and thus we have not ascribed any commercial value to the 2-storey office building.
9. We have prepared our valuation based on an assumption that the residual term of the land use rights of the property can be sold to any third parties at no extra land premium or other onerous payment payable to the relevant authorities.

APPENDIX II VALUATION REPORT ON THE MACHINERY AND EQUIPMENT OF THE LPG ASSETS

The following is the text of a letter from CB Richard Ellis Limited, an independent plant and machinery valuer, in connection with their opinion of the value of the machinery and equipment as at 31 July 2006.

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世邦魏理仕

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地產代理(公司)牌照號碼
Estate Agent's Licence No. C-004065

4 September 2006

The Board of Directors
Zhengzhou Gas Company Limited
No. 352 Longhi Road West
Zhongyuan District
Zhengzhou City
Henan Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions, we have conducted a valuation of selected machinery and equipment exhibited to us as those held by Zhengzhou LPG Company Limited (the "Company"), we confirm that we have carried out a physical inspection in June 2006, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value for existing use of the machinery and equipment as at 31 July 2006 (the "Valuation Date").

It is our understanding that this exercise is for public disclosure purposes. We have appraised the assets on the basis of its Market value for existing use. Market value is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

Market value for existing use is further defined as the market value of an asset based on continuation of its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represents the highest and best use of the property.

APPENDIX II VALUATION REPORT ON THE MACHINERY AND EQUIPMENT OF THE LPG ASSETS

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the assets are used. It is assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the valuation, and adequate net working capital. This valuation does not attempt to arrive at the value of the Company as a total business entity.

This summary report forms part of the detailed valuation report dated 9 August 2006, which comprises:

- A narrative section, which identifies the machinery and equipment valued, scope and character of our investigation; the premise of the value adopted; the valuation process employed and the opinion of value;
- Limiting Conditions;
- A summary of values;
- A schedule, with technical description of the machinery and equipment, showing for each item or group of items the appraised market value for existing use; and
- Valuer's Professional Declaration.

Assets Valued

Assets under review comprised LPG gas storage and distribution facilities comprising four (4) spherical storage tanks, one (1) horizontal cylindrical storage tank, one (1) motor truck scale, one (1) railroad track scale, two (2) distribution transformers, two (2) air compressors, one (1) air dryer, one (1) air receiver, one (1) deep well pump, two (2) turbine type fire fighting pumps, three (3) engine driven fire fighting pumps, 2 booster water pumps, one (1) pressure tank, one (1) rectangular water tank, control system, electrical distribution system, fire fighting system, water piping system and twelve (12) motor vehicles. Other associated equipment includes computers, furniture and office equipment.

The items were inspected at Putian, Zhengzhou City, Henan Province, the PRC.

Exclusion

The scope of this valuation is restricted to the machinery and equipment as listed in the schedule of assets portion of this report which excludes land, buildings, other land improvements, spare parts, stocks, company records or any current or intangible assets.

Inspection and Investigation

We have carried out physical inspections of the asset and found that the items are generally in good condition and well maintained.

APPENDIX II VALUATION REPORT ON THE MACHINERY AND EQUIPMENT OF THE LPG ASSETS

In the inventory, machinery and/or equipment were listed as complete units and were meant to include all parts and accessories normally comprising the unit.

VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparative.

Assets for which there is an established used market may be appraised by this approach.

The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is general applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Analysis

Any number or combination of the three approaches to value may be used in a particular valuation, depending upon the objectives and the nature of the property involved.

We have searched for similar equipment in the second hand market and found no comparable data that can be used as a benchmark. In the absence of any market information regarding sales and purchases of facilities similar to the subject assets in the PRC, the most reliable approach in arriving at an opinion of value of the plant and machinery is by using the cost approach. Likewise, we have considered and excluded the income approach due to insufficient financial data being available.

In arriving at our assessment using the cost approach, we have firstly developed the Cost of Replacement New ("CRN") of the asset. In developing our CRN we have conducted inspections and obtained pricing information from reputable sources.

APPENDIX II VALUATION REPORT ON THE MACHINERY AND EQUIPMENT OF THE LPG ASSETS

CRN is the estimated amount of money needed to acquire a similar new item having the nearest equivalent utility as the property being valued taking into consideration current prices of materials and manufactured equipment, shipping and handling, labour, contractor's overhead, design and supervision, profit and fees, and other attendant costs associated with its acquisition and installation, but without provision for overtime or bonuses for labour and premium for materials.

Having developed the CRN, we then deducted for the various elements of depreciation to arrive at a Depreciated Replacement Cost ("DRC"), which we have taken to be market value for existing use. DRC includes depreciation allowance or loss of value arising from condition, utility, age, wear and tear, and obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

During our inspection, we have been provided with a list of the machinery and equipment, which we have inspected and verified. We have relied considerably on this plus on other information such as maintenance records, equipment specifications and other documents provided to us.

We have not investigated the title or any liabilities affecting the machinery and equipment appraised. No consideration was made for any outstanding amount owed under financing agreements, if any.

We hereby certify that we have neither present nor prospective interest in the assets appraised or on the value reported.

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that as at 31 July 2006 the market value for existing use of the machinery and equipment is fairly represented in the amount of **RMB 24,440,000 (RENMINBI TWENTY FOUR MILLION FOUR HUNDRED FORTY THOUSAND)**. A breakdown is shown in the attached summary values.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Mario E. Maninggo – BSME
Director – Plant and Machinery
Valuation & Advisory Services

Note: Mario E. Maninggo is a mechanical engineer and industrial appraiser who has 15 years extensive experience in plant and machinery valuation in Hong Kong, the PRC and the Asia Pacific region.

APPENDIX II VALUATION REPORT ON THE MACHINERY AND EQUIPMENT OF THE LPG ASSETS

SUMMARY OF VALUES

Description	Market value for existing use (RMB)
Machinery & equipment	23,439,000
Office equipment	230,400
Motor vehicles	<u>1,093,000</u>
Grand Total:	<u><u>24,439,400</u></u>
Rounded to:	<u><u>24,440,000</u></u>

The following is the text of a valuation certificate received from CB Richard Ellis an independent property valuer, prepared for the purpose of inclusion in this circular, as connection with its valuation as at 30 June 2006 in respect of the Properties.

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地產代理 (公司) 牌照號碼
Estate Agent's Licence No. C-004065

4 September 2006

The Board of Directors
Zhengzhou Gas Company Limited
No. 352 Longhai Road West
Zhongyuan District
Zhengzhou City, Henan Province
the People's Republic of China

Dear Sirs,

**Re: "Parcel of land at the junction of Juyuan Road East and Hongtu Street South,
Zhengzhou City, Henan Province,
the People's Republic of China"**

In accordance with your instruction for us to carry out a valuation of the captioned property, we confirm that we have carried out a physical inspection in June 2006, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property as at 30 June 2006 (the "date of valuation").

Unless otherwise stated, our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS"). We have also complied with all the requirements contained in Chapter 8 of "Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") issued by the Stock Exchange of Hong Kong Limited.

Our valuation is made on the basis of Market Value which would be defined as intended to mean *“the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

Our valuation has been prepared in the capacity as “overseas consultants” and has been made on the assumption that the owner sells the property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the property interest.

We have adopted the direct comparison approach and made reference to the sales evidence as available to us in the locality. In our valuation, we have ignored the existing tenancy and assumed the sale of the property to be on vacant possession basis.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

No site investigations were carried out to determine the suitability of the sub-soil condition of the property and we have assumed that these aspects are satisfactory. Our valuation does not make any allowance for contamination or pollution of the lands, if any, which may have occurred as a result of past usage.

We have not carried out site measurements to verify the correctness of the site area of the property and have assumed that the site area shown on the documents/official site plans handed to us are correct.

The land registration system in the People’s Republic of China (the “PRC”) is such that we are not able to conduct a search on the title and ownership of the property at the relevant registry, we have studied copies of title documents and other relevant information provided to us and we have obtained and relied on the legal opinion provided by the Company’s PRC legal advisor, namely Henan Quan Ye Law Firm (the “PRC Legal Advisor”). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us.

We have relied to a considerable extent on information provided by the instructing party and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, site and floor areas and in the identification of the property. All documents have been used for reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Alex P W Leung
MHKIS MRICS RPS(GP)
Director
Valuation & Advisory Services

Note: Mr. Alex P W Leung is a Registered Professional Surveyor (General Practice), a corporate member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 12 years' valuation experience in Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value as at 30 June 2006
Parcel of land at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City, Henan Province, the People's Republic of China	<p>The property comprises an irregular shaped land located at the junction of Juyuan Road East and Hongtu Street South.</p> <p>As advised by the Company, the site area of the property is approximately 1,803.4 sq. m..</p> <p>The property forms a part of a larger site (the "Larger Site") which is held by Zhengzhou Gas Group Company Limited (the "Owner") under a State-owned Land Use Certificate for a term of 50 years commencing from 10 January 2002.</p>	<p>The Owner has leased the Larger Site (including the property) to Zhengzhou Gas Company Limited (the "Tenant") for a term of 5 years from 16 January 2002 at an annual rent of approximately RMB163,000.</p>	<p>RMB577,000</p> <p>(RENMINBI FIVE HUNDRED SEVENTY SEVEN THOUSAND)</p>

Notes:

1. Pursuant to the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0021 dated 10 January 2002, the land use rights of the Larger Site (including the property) with a site area of approximately 10,879.1 sq. m. have been granted to the Owner for a term of 50 years commencing from 10 January 2002 for public infrastructural uses.
2. As advised by the Company, a gas station with a gross floor area of approximately 639.5 sq. m. is erected on the property.
3. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisor, which contains, inter alia, the following information:
 - (a) Pursuant to the State-owned Land Use Rights Grant Contract Zheng Guo Tu Zi Ji He (2001) No. 098 dated 25 December 2001 entered between Zhengzhou City Land Administration Bureau and Zhengzhou Gas Group Company Limited, the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0021 dated 1 October 2002 issued by Zhengzhou City Land Administration Bureau and the notice dated 20 December 2001 issued by Zhengzhou City People's Government, the Larger Site has been legally acquired by Zhengzhou Gas Group Company free of land premium;
 - (b) Zhengzhou Gas Group Company Limited is in possession of a proper title to the property and is entitled to occupy, use, lease, mortgage and transfer the property. The residual term of the land use rights of the property can be sold separately from the Larger Site to Zhengzhou Gas Company Limited at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (c) The buildings and structures erected on the property were constructed by Zhengzhou Gas Company Limited under the permission of Zhengzhou Gas Group Company, thus there is no legal impediment for the property sale.
4. We have prepared our valuation based on the following assumptions:
 - (a) The residual term of the land use rights of the property can be sold to any third parties at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (b) As the buildings and structures were constructed by the Tenant, we have not taken their values into account in our valuation.

The following is the text of a letter summary of values and valuation certificate received from CB Richard Ellis an independent property valuer, prepared for the purpose of inclusion in this circular, as connection with its valuation as at 31 July 2006 in respect of the Properties.

CBRE
CB RICHARD ELLIS
世邦魏理仕

CB Richard Ellis Limited

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Wanchai, Hong Kong
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地產代理 (公司) 牌照號碼
Estate Agent's Licence No.C-004065

4 September 2006

The Board of Directors
Zhengzhou Gas Company Limited
No. 352 Longhai Road West
Zhongyuan District
Zhengzhou City, Henan Province
the People's Republic of China

Dear Sirs,

Re:

“Property 1: Parcel of land at the junction of Fengqing Road West and Guihua Road, Jinshui District, Zhengzhou City

Property 2: Parcel of land at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City”

In accordance with your instruction for us to carry out a valuation of the captioned properties in Zhengzhou City, Henan Province, the People's Republic of China (the “PRC”), we confirm that we have carried out a physical inspection in June 2006, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of such properties as at 31 July 2006 (the “date of valuation”).

Unless otherwise stated, our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors (“HKIS”). We have also complied with all the requirements contained in Chapter 8 of “Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) issued by the Stock Exchange of Hong Kong Limited.

Our valuation is made on the basis of Market Value which would be defined as intended to mean *“the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”*

Our valuation has been prepared in the capacity as “overseas consultants” and has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

We have adopted the direct comparison approach and made reference to the sales evidence as available to us in the locality. In our valuation, we have ignored the existing tenancies and assumed the sale of the properties to be on vacant possession basis.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

No site investigations were carried out to determine the suitability of the sub-soil condition of the properties and we have assumed that these aspects are satisfactory. Our valuation does not make any allowance for contamination or pollution of the lands, if any, which may have occurred as a result of past usage.

We have not carried out site measurements to verify the correctness of the site areas of the properties and have assumed that the site areas shown on the documents/official site plans handed to us are correct.

The land registration system in the People’s Republic of China (the “PRC”) is such that we are not able to conduct a search on the title and ownership of the properties at the relevant registry, we have studied copies of title documents and other relevant information provided to us and we have obtained and relied on the legal opinion provided by the Company’s PRC legal advisor, namely Henan Quan Ye Lawyer Firm (the “PRC Legal Advisor”). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us.

We have relied to a considerable extent on information provided by the instructing party and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, site and floor areas and in the identification of the properties. All documents have been used for reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Alex P W Leung
MHKIS MRICS RPS(GP)
Director
Valuation & Advisory Services

Note: Mr. Alex P W Leung is a Registered Professional Surveyor (General Practice), a corporate member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 12 years' valuation experience in Hong Kong and the PRC.

SUMMARY OF VALUATION

	Capital value as at 31 July 2006
Property Interests	
1. Parcel of land at the junction of Fengqing Road West and Guihua Road, Jinshui District, Zhengzhou City, Henan Province, the People's Republic of China	RMB1,800,000
2. Parcel of land at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City, Henan Province, the People's Republic of China	RMB3,100,000
Grand Total:	<hr/> RMB4,900,000 <hr/> <hr/>

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value as at 31 July 2006
1. Parcel of land at the junction of Fengqing Road and Guihua Road, Jinshui District, Zhengzhou City, Henan Province, the People's Republic of China	<p>The property comprises a rectangular shaped land located at the junction of Fengqing Road and Guihua Road.</p> <p>As advised by the Company, the site area of the property is approximately 4,256.6 sq. m..</p> <p>The property forms a part of a larger site (the "Larger Site") which is held by Zhengzhou Gas Group Company Limited (the "Owner") under a State-owned Land Use Certificate for a term of 50 years commencing from 10 January 2002.</p>	<p>The Owner has leased the Larger Site to Zhengzhou Gas Company Limited (the "Tenant") for a term of 5 years from 16 January 2002 at an annual rent of approximately RMB515,000.</p>	<p>RMB1,800,000</p> <p>(RENMINBI ONE MILLION EIGHT HUNDRED THOUSAND)</p>

Notes:

1. Pursuant to the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0020 dated 1 October 2002, the land use rights of the Larger Site with approximately 34,330.4 sq. m. have been granted to the Owner for a term of 50 years commencing from 10 January 2002 for public infrastructural uses.
2. As advised by the Company, a gas station with a gross floor area of approximately 1,131.65 sq. m. is erected on the property.
3. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisor, which contains, inter alia, the following information:
 - (a) Pursuant to the State-owned Land Use Rights Grant Contract Zheng Guo Tu Zi Ji He (2001) No. 096 dated 25 December 2001 entered between Zhengzhou City Land Administration Bureau and Zhengzhou Gas Group Company, the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0020 dated 1 October 2002 issued by Zhengzhou City Land Administration Bureau and the notice dated 10 December 2001 issued by Zhengzhou City People's Government, the Larger Site has been legally acquired by Zhengzhou Gas Group Company free of land premium;
 - (b) Zhengzhou Gas Group Company Limited is in possession of a proper title to the property and is entitled to occupy, use, lease, mortgage and transfer the property. The residual term of the land use rights of the property can be sold separately from the Larger Site to Zhengzhou Gas Company Limited at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (c) The buildings and structures erected on the property were constructed by Zhengzhou Gas Company Limited under the permission of Zhengzhou Gas Group Company, thus there is no legal impediment for the property sale.
4. We have prepared our valuation based on the following assumptions:
 - (a) The residual term of the land use rights of the property can be sold to any third parties at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (b) As the buildings and structures were constructed by the Tenant, we have not taken their values into account in our valuation.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value as at 31 July 2006
2. Parcel of land at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City, Henan Province, the People's Republic of China	<p>The property comprises an irregular shaped land located at the junction of Ruhe Road North and Huashan Road West.</p> <p>As advised by the Company, the site area of the property is approximately 2,957.8 sq. m..</p> <p>The property forms a part of a larger site (the "Larger Site") which is held by Zhengzhou Gas Group Company Limited (the "Owner") under a State-owned Land Use Certificate for a term of 50 years commencing from 10 January 2002.</p>	<p>The Owner has leased the Larger Site to Zhengzhou Gas Company Limited (the "Tenant") for a term of 5 years from 16 January 2002 at an annual rent of approximately RMB786,000.</p>	<p>RMB3,100,000</p> <p>(RENMINBI THREE MILLION ONE HUNDRED THOUSAND)</p>

Notes:

1. Pursuant to the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0019 dated 1 October 2002, the land use rights of the Larger Site with a site area of approximately 37,405.7 sq. m. have been granted to the Owner for a term of 50 years commencing from 10 January 2002 for storage uses.
2. As advised by the Company, a gas station with a gross floor area of approximately 1,129.07 sq. m. is erected on the property.
3. We have been provided with a legal opinion on the property prepared by the PRC Legal Advisor, which contains, inter alia, the following information:
 - (a) Pursuant to the State-owned Land Use Rights Grant Contract Zheng Guo Tu Zi Ji He (2001) No. 097 dated 25 December 2001 entered between Zhengzhou City Land Administration Bureau and Zhengzhou Gas Group Company Limited, the State-owned Land Use Certificate Zheng Guo Yong (2002) Zi No. 0019 dated 1 October 2002 issued by Zhengzhou City Land Administration Bureau and the notice dated 20 December 2001 issued by Zhengzhou City People's Government, the Larger Site has been legally acquired by Zhengzhou Gas Group Company free of land premium;
 - (b) Zhengzhou Gas Group Company Limited is in possession of a proper title to the property and is entitled to occupy, use, lease, mortgage and transfer the property. The residual term of the land use rights of the property can be sold separately from the Larger Site to Zhengzhou Gas Company Limited at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (c) The buildings and structures erected on the property were constructed by Zhengzhou Gas Company Limited under the permission of Zhengzhou Gas Group Company, thus there is no legal impediment for the property sale.
4. We have prepared our valuation based on the following assumptions:
 - (a) The residual term of the land use rights of the property can be sold to the third parties at no extra land premium or other onerous payment payable to the relevant authorities; and
 - (b) As the buildings and structures were constructed by the Tenant, we have not taken their values into account in our valuation.

1. RESPONSIBILITY STATEMENT

This document, 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:

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

2. DISCLOSURE OF INTERESTS**(i) Directors', Supervisors' and Chief Executive's Interests in Shares and Underlying shares or Debentures**

As at the latest Practicable Date, none of the Directors, supervisors or chief executives of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the "Code of Conduct regarding Securities Transactions by Directors of Listed Issuers" to be notified to the Company and the Stock Exchange.

(ii) Disclosures under the SFO and Substantial Shareholders

As at the Latest Practicable Date, so far as the Directors are aware the person (other than a Director or supervisor or chief executive of the Company) or companies who had equity interests or short positions in shares and underlying shares which would have to be notified by the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 336 of the SFO or who was/were directly or indirectly deemed to be interested in 10% or more of the nominal value of

any classes of share capital carrying rights to vote in any circumstances at general meetings of any members of the Group (other than the Company) was/were as follows:

Long positions in shares of the Company

Name	Nature of interest	Number of H Shares held	Approximate % of beneficial interest in H Shares	Number of Domestic Shares held	Approximate % of beneficial interests in Domestic Shares	Approximate % of beneficial interest in the total registered share capital of the Company
Zhengzhou Gas Group Co., Ltd	Beneficial owner	–	–	540,415,098	77.11%	43.18%
Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (note (1))	Beneficial owner	–	–	115,500,000	16.48%	9.23%
Li Keqing (note (2))	Corporate	–	–	115,500,000	16.48%	9.23%
Guo Wenjun (note (2))	Family	–	–	115,500,000	16.48%	9.23%
Daiwa SB Investments (HK) Limited	Investment Manager	33,000,000	5.99%	–	–	2.63%
Value Partners Limited (note (3))	Investment Manager	34,590,000	6.28%	–	–	2.76%
Cheah Cheng Hye	Corporate	34,590,000	6.28%	–	–	2.76%
Emirates International Investment Company LLC	Beneficial owner	97,000,000	17.62%	–	–	7.75%

Notes:

- As at Latest Practicable Date, Zhengzhou Qiyuan Investment Consultancy Co., Ltd. (“Zhengzhou Qiyuan”) held 115,500,000 Domestic Shares of the Company, representing approximately 16.48% of the beneficial interest in Domestic Shares. However, pursuant to the GEM Listing Rules, Zhengzhou Qiyuan was not a substantial shareholder of the Company because the Domestic Shares held by Zhengzhou Qiyuan represented only 9.23% of the total registered share capital of the Company.
- As at Latest Practicable Date, each of Li Keqing and his spouse, Guo Wenjun was deemed to have an interest in 115,500,000 Domestic Shares of the Company as they were together interested in 40% of the registered capital of Zhengzhou Qiyuan, which held 115,500,000 Domestic Shares, representing about 16.48% of the Domestic Shares. However, pursuant to the GEM Listing Rules, each of Li Keqing and Guo Wenjun was not a substantial shareholder of the Company because the Domestic Shares in which each of Li Keqing and Guo Wenjun was deemed to be interested represented only 9.23% of the total registered share capital of the Company.
- As at Latest Practicable Date, Value Partners Limited held 34,590,000 H Shares of the Company, representing approximately 10.28% of the interest in H Shares, Cheah Cheng Hye is interested in the same block of shares by virtue of his 32.77% shareholding in Value Partners Limited. However, pursuant to the GEM Listing Rules, each of Value Partners Limited and Cheah Cheng Hye was not a substantial shareholder of the Company because the H Shares in which each of Value Partners Limited and Cheah Cheng Hye was interested or deemed to be interested represented only 2.76% of the total registered share capital of the Company.

Save as disclosed above, the Board is not aware of any other persons that had interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Long positions in shares of associated corporations

Name of subsidiary of the Company which has any shareholders, other than the Company, which held 10% or more interests in any classes of share capital of such subsidiary	Name of shareholder	Nominal value of registered and paid-up capital of the subsidiary held	Approximate % of shareholding of the subsidiary
Dengfeng Zhengran Gas Co., Ltd.	Zhengzhou Gas Engineering and Construction Co., Ltd.	RMB3,500,000	35.00%

Same as disclosed above, Directors or chief executive of the Company were not aware of any other person (other than a Director or supervisor or chief executive of the Company) who had an interest or short position in the shares or underlying shares of other members of the Group which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any members of the Group.

3. DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

As at the Latest Practicable Date, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. In addition, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2005, the date to which the latest audited financial statements of the Group were made up.

5. SIGNIFICANT LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. DIRECTORS' INTEREST IN CONTRACTS

- (a) Each of the directors and supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective director and supervisor for a term of three years.
- (b) None of the directors or supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.
- (c) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased by any member of the Group, or are proposed to be acquired or disposed of by or leased by any member of the Group.
- (d) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

7. COMPETING INTERESTS

None of the directors, the initial management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group as at the Latest Practicable Date.

8. QUALIFICATION OF EXPERTS

The following is the qualification of the professional adviser who has given opinion or advice contained in this circular:

Name	Qualifications
First Shanghai	a licensed corporation permitted to carry out type 6 regulated activity (advising on corporate finance) under the SFO
CB Richard Ellis	an independent professional valuer

9. EXPERTS' INTEREST IN ASSETS

As at the Latest Practicable Date, each of First Shanghai and CB Richard Ellis:

- (a) does not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group;

- (b) was not interested, directly or indirectly, in any assets which have been made up, acquired or disposed of by, or leased to, the Company since 31 December 2005, being the date to which the latest published audit accounts of the Company were made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their respective opinion, reports, and letters of advice and references to their respective name in the form and context in which they appear.

10. ADDITIONAL INFORMATION

- (i) The qualified accountant and the company secretary of the Company is Mr. Wong Cheuk Lam who is a member of Hong Kong Institute of Certified Public Accountants and a member of CPA, Australia.
- (ii) The compliance officer of the Company is Mr. Yan Guoqi who is also the Chairman of the Company, a representative of the 12th Session of National People's Congress of Zhengzhou.
- (iii) The Company established an audit committee on 30 September 2002 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duty of the audit committee is to review the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Ms. Yu Shulian and Mr. Zhang Yichun, both being independent non-executive Directors, and Mr. Zhang Wushan, a non-executive Director.

Mr. Zhang Wushan, aged 50, a non-executive Director and a senior engineer. He was head of the storage and distribution station and the measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997, and chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and deputy general manager of Zhengzhou Gas Group Co, Ltd. since 1998 and currently a director of Zhengzhou Gas Group and the chairman of Zhengzhou Gas Estate Development Company Limited, a subsidiary of Zhengzhou Gas Group. Mr. Zhang was appointed as a non-executive Director in December 2000.

Mr. Zhang Yichun, aged 72, is an independent non-executive Director of the Company. He holds an honorable doctor degree from Hong Kong Science Institute. He is the head of the Financial Research Institute of Xiamen University. Since August 1960, he was an assistant instructor, lecturer, associate professor, professor, supervisor of doctoral candidates, head of pivotal finance research project and as well as the deputy head and head of the finance and fiscal department and faculty head of the economics faculty, all of Xiamen University. In addition, Mr. Zhang is an independent non-executive director of Everbright Pramerica Fund Management Company Limited and Fujian Zhonghe Company Limited and an external supervisor of Industrial Bank Company Limited. Mr. Zhang was appointed as an independent non-executive Director in May 2001.

Ms. Yu Shulian, aged 52, an independent non-executive Director, is a professor of accounting, supervisor of doctoral candidates of the External Economics and Trade University and a PRC registered accountant (non-practising). Ms. Yu is also an independent non-executive director of Create Technology and Science Company Limited, a company listed on the Shenzhen Stock Exchange, and Shenyang Siasun Robot & Automation Company Limited. Ms. Yu was appointed as an independent non-executive Director in April 2002.

- (iii) The legal address of the Company is at 352 Longhai Road West, Zhengzhou City, Henan Province, PRC 450006.
- (iv) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (v) The English text of this circular and of the proxy form shall prevail over the Chinese text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of SBI Crosby Limited at Suites 3711-3715 Jardine House, One Connaught Place, Central, Hong Kong up to and including 18 October 2006:

- (a) the LPG Assets Purchase Agreement dated 8 September 2006;
- (b) the Land Assets 1 Purchase Agreement dated 26 July 2006;
- (c) the Land Assets 2 Purchase Agreement dated 8 September 2006;
- (d) the letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 29 of this circular;
- (e) the valuation report on the land and buildings of the LPG Assets prepared by CB Richard Ellis, the text of which is set out as Appendix I to this circular;
- (f) the valuation report on the machinery and equipment of the LPG Assets prepared by CB Richard Ellis, the text of which is set out as Appendix II to this circular;
- (g) the valuation report on the Land Asset 1 prepared by CB Richard Ellis, the text of which is set out as Appendix III to this circular;

- (h) the valuation report on the Land Asset 2 prepared by CB Richard Ellis, the text of which is set out in Appendix IV to this circular;
- (i) the written consent of each of First Shanghai and CB Richard Ellis referred to the section headed “Qualification of Experts” of this appendix;
- (j) the annual report of the Company for the year ended 31 December 2005; and
- (k) all the service agreements as referred to in this appendix headed “Directors’ interest in contracts”.

NOTICE OF THE EGM



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 with limited liability)

(Stock Code: 8099)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“Extraordinary General Meeting”) of ZHENGZHOU GAS COMPANY LIMITED (the “Company”) will be held at Samost Hotel, Zhengzhou City, Henan Province, the People’s Republic of China on 22 November 2006 at 9:00 a.m. for the purposes of considering and, if thought fit, passing the following ordinary resolutions of the Company:

ORDINARY RESOLUTION 1

“THAT:

- (a) the conditional sales and purchase agreement entered into between the Company and Zhengzhou Gas Group LPG Company Limited (the “LPG Company”) dated 8 September 2006 (the “LPG Assets Purchase Agreement”), pursuant to which the Company has agreed to acquire a parcel of land and certain gas storage structures erected on the land for the purposes of storage and distribution of LPG from the LPG Company and all the transactions as contemplated therein be and are hereby approved, confirmed and ratified;
- (b) the sale and purchase agreement entered into between the Company and Zhengzhou Gas Group Company Limited (the “Zhengzhou Gas Group”) dated 26 July 2006 (the “Land Purchase Agreement 1”), pursuant to which the Company has agreed to acquire from Zhengzhou Gas Group a parcel of land at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City where a Company’s gas station is erected thereon and all the transactions as contemplated therein be and are hereby approved, confirmed and ratified;
- (c) the sale and purchase agreement entered into between the Company and Zhengzhou Gas Group dated 8 September 2006 (the “Land Purchase Agreement 2”), pursuant to which the Company has agreed to acquire from Zhengzhou Gas Group two parcels of land, one located at the junction of Fengqing Road and Guihua Road, Jinshui District, Zhengzhou City and the other one located at the junction of Ruhe Road North and Huashan Road West, Zhongyuan District, Zhengzhou City where the Company’s gas stations are erected thereon and all the transactions as contemplated therein be and are hereby approved, confirmed and ratified;
- (d) the Directors be and are hereby authorised to take all steps necessary or expedient to implement and/or give effect to the LPG Assets Purchase Agreement, Land Purchase Agreement 1 and Land Purchase Agreement 2.

* *For identification purposes only*

NOTICE OF THE EGM

ORDINARY RESOLUTION 2

“THAT:

- (a) the appointment of Mr. Wang Ping (王平) as an independent non-executive director of the Company be and is hereby approved; and
- (b) the board of Directors be and is hereby authorised to fix the remuneration of the independent non-executive director.

ORDINARY RESOLUTION 3

“THAT:

- (a) the appointment of Mr. Chen Kun (陳鯤) as a supervisor of the Company be and is hereby approved.

Directors

The members of the Board comprises (i) the executive Directors, namely Mr. Yan Guoqi (閔國起) (Chairman), Mr. Song Jinhui (宋金會), Mr. Li Yantong (李燕同) and Mr. Li Jinliu (李金陸); (ii) the non-executive Directors, namely Mr. Zhang Wushan (張武山), Mr. Yang Degu (楊德固) and Ms. Bao Hongwei (鮑紅偉); and (iii) the independent non-executive Directors, namely Mr. Zhang Yichun (張亦春), Mr. Liu Jianwen (劉劍文) and Ms. Yu Shulian (余恕蓮).

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

Zhengzhou, PRC, 3 October 2006

Registered office:
352 Longhai Road West
Zhengzhou City
Henan Province
PRC 450006

*Principal place of business
in Hong Kong:*
Room 908, 9th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

NOTICE OF THE EGM

Notes:

- (i) Any shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy needs not be a shareholder of the Company. A form of proxy for use at the meeting is hereby enclosed. In the case of joint holders of a share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the meeting either in person or by proxy, the vote of the joint holder whose name appears first in the register of shareholders shall be accepted to the exclusion of the other joint holder(s).
- (ii) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.
- (iii) The register of holders of H shares of the Company in Hong Kong will be closed from 23 October 2006 to 22 November 2006 (both days inclusive), during which no transfer of shares will be registered. All properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar for H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 20 October 2006, for registration.
- (iv) Holders of H shares whose names appear in the register of holders of H shares of the Company on 22 November 2006 are entitled to attend and vote at the meeting.
- (v) Holders of H shares of the Company who intend to attend the meeting shall complete and deposit or post or fax the enclosed reply slip to the Company's share registrar of H shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (fax no.: (852) 3107 0091) or the Company's legal address at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC (fax no.: 86-371-68890488) on or before 2 November 2006.
- (vi) Holders of H shares of the Company or their proxies shall produce their identity documents when attending the meeting.