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ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

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

(Stock Code: 8099)

CONTINUING CONNECTED TRANSACTIONS

On 4 January 2007, the Company has entered into the Second Supplemental Agreement with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to adjust the annual rentals of the three land use rights in relation to the remaining portions of the lands leased to the Company under the Land Use Rights Lease Agreements as a result of the acquisitions of the Land Assets by the Company pursuant to the Land Purchase Agreements (the “**Reduced Leased Lands**”) and to amend all references in relation to the relevant State-owned Land Use Certificates of the Reduced Leased Lands, the location and the areas of the Reduced Leased Lands.

Zhengzhou Gas Group is 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 the Company, Zhengzhou Gas Group is considered connected to the Company under Rule 20.11 of the GEM Listing Rules. As a result, the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplement Agreement should be treated as continuing connected transactions.

Further, the Company and Zhengzhou Gas Group also entered into the New Land Use Rights Lease Agreement on 26 May 2005, pursuant to which Zhengzhou Gas Group agreed to lease to the Company the land use rights in relation to the land located at Jing Guang Nan Xi Road, Nan San Huan Bei, Er Qi District, Zhengzhou, Henan Province for a period commencing from 1 June 2005 to 31 May 2008 and such term is renewable subject to the agreement by the parties thereto. The annual rental under the New Land Use Rights Lease Agreement is RMB117,026 (approximately HK\$117,026). Pursuant to Rule 20.25 of the GEM Listing Rules the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement constitute a series of transactions and accordingly the adjusted annual rentals under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the annual rental under the New Land Use Rights Lease Agreement are liable to be aggregated.

Pursuant to Rule 20.34 (1) of the GEM Listing Rules, each of the percentage ratios (other than the profit ratio, as defined in the GEM Listing Rules) as calculated based on each of the aggregate annual rentals for the two years ended 31 December 2008 under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement of RMB1,414,136 (approximately HK\$1,414,136) and RMB1,520,196.2 (approximately HK\$1,520,196.2) respectively, is less than 2.5% on an annual basis. Therefore, no independent Shareholders' approval is required, and the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement are only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

Background

Currently, the Company leases several pieces of land from Zhengzhou Gas Group under the 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 the Land Use Rights Lease Agreements. Details of such the 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 the Land Use Rights Lease Agreements had been disclosed in the announcement of the Company dated 26 May 2005 respectively.

The Company has entered into the Land Purchase Agreement 1 and the Land Purchase Agreement 2 with Zhengzhou Gas Group on 26 July 2006 and 8 September 2006 respectively to purchase Land Assets 1 and Land Asset 2 which originally formed parts of the leased land under the Land Use Rights Lease Agreements. As a result of the purchase, the land area leased to the Company was reduced. Details of the purchase of Land Assets had been disclosed in the announcement of the Company dated 11 September 2006. The acquisition of the Land Assets has been duly completed on 31 December 2006.

On 4 January 2007, the Company has entered into the Second Supplemental Agreement with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to reduce the current annual rental of land uses rights leased under the Land Use Rights Lease Agreements, as a result of the reduction of the area of land leased under the Land Use Rights Lease Agreements after the acquisition of the Land Assets by the Company.

THE SECOND SUPPLEMENTAL LAND USE RIGHTS LEASE AGREEMENT

The principal terms and conditions of the Second Supplemental Agreement are detailed as follows:

Agreement Date

4 January 2007

Parties to the Second Supplemental Agreement

Lessor : 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.

Lessee : The Company

The Annual Rentals

Pursuant to the Second Supplemental Agreement, the parties thereto agreed to adjust the annual rental of three land use rights in relation to the remaining portions of the lands leased to the Company under the Land Use Rights Lease Agreements as a result of the acquisitions of the Land Assets by the Company pursuant to the Land Purchase Agreements (the "Reduced Leased Lands") and to amend all references in relation to the relevant State-owned Land Use Certificates of the Reduced Leased Lands, the location and the areas of the Reduced Leased Lands.:

Details of the lands as referred to in the Land Use Rights Lease Agreements and the memorandum of adjustment of rentals entered into between the Company and Zhengzhou Gas Group in May 2005:

State-owned Land Use Certificate No.	Location in Zhengzhou City	Area	Rental per sq. m (RMB)	Annual Rental (RMB)
Zheng Guo Yong (2002) Zi 0020	Feng Qing Road West, Bei Huan Road South	34,330.4	15	514,956
Zheng Guo Yong (2002) Zi 0021	Chui Zhuang Road East	10,879.1	10	108,791
Zheng Guo Yong (2002) Zi 0019	Ru He Road North, Hua Shan Road West	37,405.7	21.5	804,223
Total		<u>82,615.2</u>		<u>1,427,970</u>

Upon the completion of the acquisition of the Land Assets by the Company, the parties to the Land Use Rights Lease Agreements and the Second Supplemental Agreement agreed to adjust the annual rentals of the Reduced Leased Lands and to amend all references in relation to the relevant State-owned Land Use Certificates of the Reduced Leased Lands, the location and the areas of the Reduced Leased Lands as follows:

State-owned Land Use Certificate No.	Location in Zhengzhou City	Area	Rental per sq. m (RMB)	Annual Rental (RMB)
Zheng Guo Yong (2006) Zi 1040	Song Zhai North Street South, Feng Qing Road West	30,073.7	15	451,105.5
Zheng Guo Yong (2006) Zi 1178	Ju Yuan Road East, Hong Tu Street South	10,537.4	10	105,374
Zheng Guo Yong (2006) Zi 1042	Ru He Road North, Hua Shan Road West	34,447.9	21.5	740,629.9
Total		<u>75,059</u>		<u>1,297,109.4</u>

The new annual rental per sq. m under the Second Supplemental Agreement is the same as that under the Land Use Rights Lease Agreements which was determined with reference to fair market rental as appraised by CB Richard Ellis Limited, a professional independent valuer not being a connected person (as defined in the GEM Listing Rules) of the Company, as at 29 April 2005. The new annual rental as adjusted under the Second Supplemental Agreement reflected the reduction of leased land area under the Land Use Rights Lease Agreements after the completion of the acquisition of the Land Assets by the Company. The new annual rentals in respect of the three land use rights under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement takes effect from 1 January 2007. The annual rentals are payable to Zhengzhou Gas Group in four equal instalments and to be settled quarterly in cash.

Save as to the references in relation to the relevant State-owned Land Use Certificates of the Reduced Leased Lands, the location and the areas of the Reduced Leased Lands and the adjusted annual rentals, all terms and conditions of the Land Use Rights Lease Agreements and all supplemental agreements signed in relation thereto remain unchanged.

REASONS FOR THE SECOND SUPPLEMENTAL AGREEMENT

After the acquisition of Land Assets by the Company from Zhengzhou Gas Group, the leased land area under the Land Use Rights Lease Agreements had been reduced. It is fair and reasonable that the annual rental be reduced proportionally with reference to the reduction in the leased land area. The Directors, including the independent non-executive Directors, believe that the terms of the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS OF THE SECOND SUPPLEMENTAL AGREEMENT

Zhengzhou Gas Group is 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 the Company, Zhengzhou Gas Group is considered connected to the Company under Rule 20.11 of the GEM Listing Rules. As a result, the transactions under the Land Use Rights Lease Agreements and as supplemented by the Second Supplement Agreement should be treated as continuing connected transactions.

Further, the Company and Zhengzhou Gas Group also entered into the New Land Use Rights Lease Agreement on 26 May 2005, pursuant to which Zhengzhou Gas Group agreed to lease to the Company the land use rights in relation to the land located at Jing Guang Nan Xi Road, Nan San Huan Bei, Er Qi District, Zhengzhou, Henan Province for a period commencing from 1 June 2005 to 31 May 2008 and such term is renewable subject to the agreement by the parties thereto. The annual rental under the New Land Use Rights Lease Agreement is RMB117,026 (approximately HK\$117,026). Pursuant to Rule 20.25 of the GEM Listing Rules the transactions under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement constitute a series of transactions and accordingly the adjusted annual rentals under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the annual rental under the New Land Use Rights Lease Agreement are liable to be aggregated.

Pursuant to Rule 20.34 (1) of the GEM Listing Rules, each of the percentage ratios (other than the profit ratio, as defined in the GEM Listing Rules) as calculated based on each of the aggregate annual rentals for the two years ended 31 December 2008 under the Land Use Rights Lease Agreements as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement of RMB1,414,136 (approximately HK\$1,414,136) and RMB1,520,196.2 (approximately HK\$1,520,196.2) respectively, is less than 2.5% on an annual basis. Therefore, no independent Shareholders' approval is required, and the transactions under the Land Use Rights Lease Agreement as supplemented by the Second Supplemental Agreement and the New Land Use Rights Lease Agreement are only subject to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules.

Annual Cap

The annual rentals of the Land Use Rights Lease Agreements will be subject to review by 31 May 2008 and the term of the New Land Use Rights Lease Agreement will expire or subject to renewal by 31 May 2008.

Pursuant to Rule 20.35(2) of the GEM Listing Rules, the adjusted annual cap for the transactions under the Land Use Rights Lease Agreement as supplemented by the Second Supplemental Agreement for the years ended 31 December 2007 and 2008 are RMB1,297,110 (approximately HK\$1,297,110) and RMB1,394,393.25 (approximately HK\$1,394,393.25) respectively. The annual cap for the year ended 31 December 2008 reflects an increase of 15% in market rental as compared with the adjusted annual rental under the Land Use Rights Lease Agreements for the six months ended 31 December 2008. The annual cap for the transactions under the New Land Use Rights Lease Agreements for the two years ended 31 December 2008 are RMB117,026 (approximately HK\$117,026) and RMB125,802.95 (approximately HK\$125,802.95) respectively. The annual cap for the year ended 31 December 2008 reflects an increase of 15% in market rental as compared with the current annual rental under the New Land Use Rights Lease Agreement for the six months ended 31 December 2008 (subject to renewal).

The aggregate annual rental under both the Land Use Rights Lease Agreements and the New Land Use Rights Lease Agreement for the two years ended 31 December 2008 are RMB1,414,136 (approximately HK\$1,414,136) and RMB1,520,196.2 (approximately HK\$1,520,196.2) respectively.

ABOUT ZHENGZHOU GAS GROUP

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.

ABOUT THE GROUP

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 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.

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

DEFINITIONS

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

“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)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM, as amended from time to time
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign share(s) of the Company which are listed on the GEM with a nominal value of RMB0.10 each

“Land Assets”	three parcels of land which originally formed parts of lands leased to the Company under the Land Use Rights Lease Agreement and comprise Land Asset 1 (comprising one parcel of land) and Land Asset 2 (comprising two parcels of land), which were acquired by the Company from Zhengzhou Gas Group pursuant to the Land Purchase Agreements
“Land Asset 1”	a parcel of land located 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, and the other one at the junction of Ruhe Road North and Huashan Road West, Zhengzhou City, purchased from Zhengzhou Gas Group pursuant to Land Purchase Agreement 2
“Land Purchase Agreements”	Land Purchase Agreement 1 and Land Purchase Agreement 2, collectively referred to as the Land Purchase Agreements
“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 Use Rights Lease Agreements”	the three land use rights lease agreements dated 16 January 2002 and supplemented by a supplemental agreement dated 30 September 2002 entered into by the Company and Zhengzhou Gas Group relating to the leasing of three pieces of lands located at Feng Qing Road West, Bei Huan Road South; Cui Zhuang Road East; Ru He Road North, Hua Shan Road West, all in Zhengzhou City respectively from Zhengzhou Gas Group to the Company
“New Land Use Rights Lease Agreement”	the land use rights lease agreement dated 26 May 2005, pursuant to which Zhengzhou Gas Group agreed to lease to the Company the land use rights in relation to the land located at Jing Guang Nan Xi Road, Nan San Huan Bei, Er Qi District, Zhengshou, Henan Province
“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
“Second Supplemental Agreement”	the second supplemental land use rights lease agreement entered into on 4 January 2007 between the Company and Zhengzhou Gas Group, pursuant to which the parties thereto agreed to adjust the annual rental of the remaining portions of the three parcels of lands leased to the Company pursuant to the Land Use Rights Lease Agreements as a result of the acquisition of the Land Assets by the Company which originally formed parts of land leased to the Company under the Land Use Rights Lease Agreement

“Shares”	shares of the Company with a nominal value of RMB0.10 each, including the Domestic Shares and the H Shares, unless specified otherwise
“Shareholders”	holders of the Shares, including holders of the Domestic Shares and the H Shares, unless specified otherwise
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“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
“sq. m”	square metres
“cub. m”	cubic metres

For the purpose of this announcement and for illustration purpose only, all amounts in RMB have been translated into HK\$ at a rate of approximately RMB1.00 to HK\$1.00.

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

Zhengzhou, the PRC
4 January 2007

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and is not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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* for identification purposes only