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ZHENGZHOU GAS COMPANY LIMITED*

鄭州燃氣股份有限公司

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

(Stock Code: 8099)

CONNECTED TRANSACTION

Property Purchase Agreement

On 20 March 2007, the Company entered into the Property Purchase Agreement with the Zhengzhou Gas Group for the acquisition from the Zhengzhou Gas Group of the Property Assets for an aggregate consideration of RMB17.00 million (equivalent to approximately HK\$17.00 million) to be satisfied by cash from internal resources of the Group. The consideration to be paid by the Company for the Property Assets pursuant to the Property Purchase Agreement was determined after arm's length negotiations between the Company and the Zhengzhou Gas Group with reference to the valuation of the Property Assets by the Valuer.

The 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 its equity interest in the Company, the Zhengzhou Gas Group is a connected person of the Company under Rule 20.11 of the GEM Listing Rules and the Property Purchase Agreement constitutes a connected transaction for the Company. Further, as announced on 8 September 2006, the Company and the Zhengzhou Gas Group also entered into the Land Purchase Agreements on 26 July 2006 and 8 September 2006, pursuant to which the Company agreed to purchase the Land Assets for a consideration for RMB5.48 million (equivalent to approximately HK\$5.48 million). The Land Purchase Agreements were approved by the independent shareholders of the Company on 22 November 2006. Pursuant to Rule 20.25 of the GEM Listing Rules the transactions under the Property Purchase Agreement and the Land Purchase Agreements (though already duly approved by the independent Shareholders at a general meeting of the Company) constitute a series of transactions and accordingly the amounts of consideration respectively payable under the Property Purchase Agreement and the Land Purchase Agreements are liable to be aggregated.

Since the aggregate consideration payable in respect of the Property Purchase Agreement and the Land Purchase Agreements is more than 2.5% of the relevant percentage ratios (i.e. assets ratio and consideration ratio, as defined in the GEM Listing Rules) and HK\$10 million, the Property Purchase Agreement and the Land Purchase Agreements constitute connected transactions subject to the independent shareholders' approval requirement set out in Chapter 20 of the GEM Listing Rules. Since the Land Purchase Agreements have already been approved by the independent Shareholders on 22 November 2006, independent Shareholders' approval will only be sought in respect of the Property Purchase Agreement.

An independent board committee will be formed to advise the independent shareholders of the Company on the terms of the Property Purchase Agreement and an independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in relation to the terms and conditions of the Property Purchase Agreement.

A circular containing details of the Property Purchase Agreement, a letter from the independent financial adviser providing their advice to the independent board committee, a letter from the independent board committee and the notice to convene an extraordinary general meeting to approve the Property Purchase Agreement will be despatched to the shareholders as soon as practicable.

PROPERTY PURCHASE AGREEMENT

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

Property Purchase Agreement Date

20 March 2007

Parties to the Property Purchase Agreement

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 (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 Property Purchase Agreement, the Company has conditionally agreed, among other things, to acquire the Property Assets from the Zhengzhou Gas Group for an aggregate consideration of RMB17.00 million (equivalent to approximately HK\$17.00 million), which was determined after arm's length negotiations between the Company and the Zhengzhou Gas Group with reference to the valuation of the Property Asset 2 and Property Asset 1 by the Valuer on 31 December 2006 and 5 March 2007 respectively. The valuation of Property Asset 1 was approximately RMB11.6 million and the valuation of Property Asset 2 was approximately RMB5.4 million.

The basis of valuation of the market value of the Property Assets was the estimated amount for which a property should be 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. The Valuer has adopted the direct comparison approach and made reference to the actual/asking sales evidences as available to them in the locality.

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 within ten days upon the completion of the relevant registration procedures in relation to the transfers of Property Asset 1 and Property Asset 2 with the relevant authority and receiving of the relevant land use rights certificates and building ownership certificates of the Property Assets by the Company.

Conditions Precedent to the Property Purchase Agreement

Completion of the Property Purchase Agreement is conditional upon, among other things, the following conditions being fulfilled on or before 30 June 2007 or a later date as agreed by both the Company and the Zhengzhou Gas Group in writing:

- (i) a legal opinion being issued by a firm of PRC lawyers, in relation to, among other things, the title to the Property Assets and the legality of the acquisition of the Property Assets and the transfer of the Property Assets to the Company, the contents of which are satisfactory to the Company;
- (ii) there being no laws, regulations and judgments which may
 - materially affect the acquisition of the Property Assets; or
 - materially amend the nature and scope of the rights and obligations of any parties to the Property Purchase Agreement;
- (iii) no person or entity having raised any objections to materially affect the acquisition of the Property Assets;
- (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 transactions contemplated under the Property Purchase Agreement;
- (v) the obtaining of the relevant approvals from the relevant PRC government bodies in relation to the transfer of the Property Assets;
- (vi) the completion of all the obligations and duties by Zhengzhou Gas Group under the Property 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 Property Assets.

If all of the above conditions precedent to the Property Purchase Agreement have not been fulfilled or, in the case of condition (i) above, waived by the Company on or before 30 June 2007 or on a later date as agreed by both the Company and the Zhengzhou Gas Group in writing, the Property Purchase Agreement shall lapse, and all obligations and liabilities of the parties to the Property Purchase Agreement shall cease except for the liability of any party in respect of any antecedent breach.

Completion

Completion of the Property Purchase Agreement shall be subject to the fulfilment of the conditions precedent to the Property Purchase Agreement above and shall take place upon the Company obtaining the relevant land use rights certificates and building ownership certificates of the Property Assets.

INFORMATION ON THE PROPERTY ASSETS

The Property Assets mainly comprises two separate properties, namely Property Asset 1 and Property Asset 2. Property Asset 1 is the land use rights in respect of a parcel of land with a total site area of approximately 5,631 sq.m. located at the junction of Dongming Road West and Zhengbian Road South, Jinshui District, Zhengzhou City and certain buildings erected thereon which include a 5-storey office building and two single storey warehouses with a total gross floor area of approximately 2,138.74 sq.m..

Property Asset 2 is the land use rights in respect of a parcel of land with a total site area of approximately 10,554.1 sq.m. located at the junction of Xisanhuan Road West and Laozhengmi Road West, Zhongyuan District, Zhengzhou City and certain buildings erected thereon which include a single storey warehouse and 1/F of a 2-storey warehouse with a total gross floor area of approximately 1,306.02 sq.m..

The original cost of the buildings incurred by the Zhengzhou Gas Group as part of the Property Assets was RMB3.13 million (equivalent to approximately HK\$3.13 million) and they were all built by the Zhengzhou Gas Group. As part of the Property Asset 1, the 5-storey office building and one of the warehouses were built in 1990 while the other warehouse was built in 1994. In addition, all the buildings in Property Asset 2 were built in 1990. The aggregate net book value of the buildings as part of the Property Assets was approximately RMB1.61 million (equivalent to approximately HK\$1.61 million) as at 31 December 2006.

The original cost of the Lands incurred by the Zhengzhou Gas Group as part of the Property Assets was zero because the land were administratively allocated to the Zhengzhou Gas Group. Then, an aggregate amount of approximately RMB3.98 million (equivalent to approximately HK\$3.98 million) was paid by the Zhengzhou Gas Group to the Zhengzhou City Government as premium in November 2006 to convert the Lands from administratively allocated land to transferable land. As such, the book value of the Lands is approximately RMB3.98 million.

REASONS FOR THE PROPERTY PURCHASE AGREEMENT

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

Currently, the land use rights in respect of two parcels of land comprising the Property Assets are allocated to the Zhengzhou Gas Group and are occupied by the Group with the consent of the Zhengzhou Gas Group free of consideration. On the two parcels of land, the Company has built a gas station on the land of the Property Asset 1 and a single storey office building on the land of the Property Asset 2 (the "Owned Properties"). The Owned Properties are currently occupied by the Company free of any consideration under the consent of the Zhengzhou Gas Group. There may be potential legal consequences relating to the Owned Properties built by the Company. According to the PRC legal adviser to the Company, the Company is not entitled to freely transfer, pledge, or

dispose of the Owned Properties and the potential actions that may be taken by the relevant authorities against the Company include:

1. Ordering the Company to demolish the Owned Properties; and/or
2. Imposing a fine on the Company.

However, the Directors consider that after the Company has completed the acquisition of the Property Asset 1 and Property Asset 2 and applied for and obtained the land use right certificate in respect of the Lands where the Owned Properties are built on, the Company will be able to obtain the relevant building ownership certificates in respect of the Owned Properties and anticipate that the Company will thereby be relieved from the potential actions mentioned above. The PRC legal adviser to the Company has opined that the possibility of retrospective action, being taken by the relevant authorities, is remote. In order to obtain the title document in respect of the buildings and gas station, the Group has to own the land use rights in respect of the Lands. Thus, the Group decided to enter into the Property Purchase Agreement. Once the Group has completed the acquisitions of the Property Assets, it will meet the necessary legal requirements for applying for the title documents of the one office building and the gas station situated on the Lands built by the Company.

In addition, the Group currently leases certain properties from the Zhengzhou Gas Group under three property lease agreements dated 5 November 2004 (the “Property Lease Agreements”) which formed part of the Property Assets, namely, the office building and two warehouses under Property Asset 1 and two warehouses under Property Asset 2. The Group believes that the purchases of part of the currently leased properties can help to save an estimated amount of approximately RMB1.15 million of annual rental expenses in the future.

Upon the completion of the Property Purchase Agreement, the Group and the Zhengzhou Gas Group will enter into supplemental agreements to amend the terms of the Property Lease Agreements to adjust the annual rentals as a result of the reduced floor area of the property under the amended Property Lease Agreement.

The annual rentals will be adjusted according to the reduced floor area under the Property Lease Agreements. The Company will comply with the relevant GEM Listing Rules requirements when annual rentals under the Property Lease Agreements are adjusted. Details of the Property Lease Agreements had been disclosed in the Company’s announcement dated 5 November 2004.

IMPLICATION OF THE GEM LISTING RULES

Since Zhengzhou Gas Group is a connected person of the Company under Rule 20.11 of the GEM Listing Rules, the transaction under the Property Purchase Agreement constitutes a connected transaction.

Further, as announced on 8 September 2006, the Company and the Zhengzhou Gas Group also entered into the Land Purchase Agreements on 26 July 2006 and 8 September 2006, pursuant to which the Company agreed to purchase the Land Assets for a consideration of RMB5.48 million (equivalent to approximately HK\$5.48 million). The Land Purchase Agreements were approved by the independent Shareholders at the extraordinary general meeting of the Company held on 22 November 2006. Pursuant to Rule 20.25 of the GEM Listing Rules, the transactions under the Property Purchase Agreement and the Land Purchase Agreements (though already duly approved by independent Shareholders at a general meeting of the Company) constitute a series of transactions and accordingly the amounts of consideration respectively payable under the Property Purchase Agreement and the Land Purchase Agreements are liable to be aggregated.

Since the aggregate consideration in respect of the Property Purchase Agreement and the Land Purchase Agreements is more than 2.5% but less than 5.0% of the relevant percentage ratios (i.e. assets ratio and consideration ratio, as defined in the GEM Listing Rules) and HK\$10 million, the Property Purchase Agreement and the Land Purchase Agreements constitute connected transactions subject to the independent shareholders' approval requirement set out in Chapter 20 of the GEM Listing Rules. Since the Land Purchase Agreements have already been approved by the independent Shareholders on 22 November 2006, independent Shareholders' approval will only be sought in respect of the Property Purchase Agreement.

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.

GENERAL

An independent board committee will be formed to advise the independent shareholders of the Company on the terms of the Property Purchase Agreement and an independent financial adviser will be appointed to advise the independent board committee and the independent shareholders in relation to the terms and conditions of the Property Purchase Agreement.

A circular containing details of the Property Purchase Agreement, a valuation report on the Property Assets, a letter from the independent financial adviser providing their advice to the independent board committee, a letter from the independent board committee and the notice to convene an extraordinary general meeting to approve the Property Purchase Agreement will be despatched to the Shareholders within 21 days from the date of this announcement.

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), Ms. Yu Shulian (余恕蓮) and Mr. Wong Ping (王平).

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
“Lands”	two parcels of land under Property Asset 1 and Property Asset 2
“Land Assets”	three parcels of land of which the first parcel is located at the junction of Juyuan Road East and Hongtu Street South, Zhengzhou City, the second parcel is located at the junction of Fengqing Road and Guihua Road, and the third parcel is located at the junction of Ruhe Road North and Huashan Road West, Zhengzhou City, all of which were purchased from Zhengzhou Gas Group pursuant to Land Purchase Agreements
“Land Purchase Agreements”	the two agreements dated 26 July 2006 entered into between the Company and the Zhengzhou Gas Group in relation to the acquisition of Land Assets
“Property Assets”	Property Asset 1 and Property Asset 2, further details of which are set out in the paragraph headed “Information on the Property Assets” in this announcement
“Property Asset 1”	the land use rights in respect of a parcel of land located at the junction of Dongming Road West and Zhengbian Road South, Jinshui District, Zhengzhou City and certain buildings erected thereon which include a 5-storey office building and two single storey warehouses
“Property Asset 2”	the land use rights in respect of a parcel of land located at the junction of Xisanhuan Road West and Laozhengmi Road West, Zhongyuan District, Zhengzhou City and certain buildings erected thereon which include a single storey warehouse and 1/ F of a 2-storey warehouse
“Property Purchase Agreement”	the agreement dated 20 March, 2007 entered into between the Company and the Zhengzhou Gas Group in relation to the acquisition of the Property Assets
“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

“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
“Valuer”	CB Richard Ellis Limited, an independent valuer
“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 HK\$1.00 per RMB1.00.

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

Zhengzhou, the PRC
20 March, 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*