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If you have sold or transferred all your shares in **The Hong Kong and China Gas Company Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0003)

DISCLOSEABLE TRANSACTION

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DEFINITIONS

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

“Acquisition”	the acquisition by Panva of the Sale Shares and the taking of the assignment of the Shareholder Loans in consideration of the Consideration Share Issue and subject to other terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement dated 4 December 2006 between Panva, HK&CG(China) and the Company in relation to the Acquisition
“Announcement”	the announcement dated 4 December 2006 jointly issued by the Company, Panva and Enerchina in relation to, among other things, the Acquisition, the Agreement and the Consideration Share Issue
“APPL”	Asia Pacific Promotion Limited, a company incorporated in BVI and which is wholly-owned by Mr. Ou
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	The Hong Kong and China Gas Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms of the Agreement
“Completion Date”	the date on which Completion shall take place, being the second business day after the date on which the last of the Conditions is fulfilled or waived
“Condition(s)”	condition(s) precedent to Completion as set out in the Agreement
“Consideration Share Issue”	the allotment and issue of the Consideration Shares to HK&CG(China) as consideration for the Acquisition
“Consideration Shares”	772,911,729 Panva Shares, representing 45% of the share capital of Panva as at the date of the Agreement as enlarged by the issue of the Consideration Shares

DEFINITIONS

“Directors”	the directors of the Company
“Enerchina”	Enerchina Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0622)
“Enerchina Shareholders”	shareholders of Enerchina
“Executive”	the executive director of the Corporate Finance Division of the SFC or his delegates
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK&CG(China)”	Hong Kong & China Gas (China) Limited, a company incorporated in BVI with limited liability and a wholly-owned subsidiary of the Company
“HKAS 28”	Hong Kong Accounting Standard 28 “Investments in Associates” issued by the Hong Kong Institute of Certified Public Accountants
“HKAS 36”	Hong Kong Accounting Standard 36 “Impairment of Assets” issued by the Hong Kong Institute of Certified Public Accountants
“HKFRS 3”	Hong Kong Financial Reporting Standard 3 “Business Combinations” issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kenson”	Kenson Investment Limited, a company incorporated in BVI and a wholly-owned subsidiary of Enerchina
“Latest Practicable Date”	19 December 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 March 2007 or such later date as the parties to the Agreement may agree in writing
“LP Gas”	liquefied petroleum gas

DEFINITIONS

“Mr. Ou”	Mr. Ou Ya Ping, Chairman and executive director of Panva, Enerchina and Sinolink who, jointly with his spouse, directly holds 0.07% of the shares in Enerchina and indirectly through APPL holds 14.2% of the shares in Enerchina and 0.54% of the shares in Panva as at the date of the Announcement
“Mr. Tang”	Mr. Tang Yui Man, Francis, Vice-Chairman of Panva and executive director of Panva, Enerchina and Sinolink and who directly holds 0.36% of the shares in Panva as at the date of the Announcement
“Panva”	Panva Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1083)
“Panva EGM”	an extraordinary general meeting of Panva to be convened for the Panva Shareholders to consider and, if thought fit, to approve the Acquisition and Consideration Share Issue and for the Panva Independent Shareholders to consider and, if thought fit, approve the Whitewash Waiver
“Panva Group”	Panva and its subsidiaries
“Panva Independent Shareholders”	Panva Shareholders who are not precluded from voting under the Takeovers Code
“Panva Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of Panva
“Panva Shareholders”	Shareholders of Panva
“PRC”	The People’s Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the entire issued share capital of each of the Target Companies
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.25 each in the capital of the Company

DEFINITIONS

“Shareholder Loans”	the outstanding loans due from the Target Companies to HK&CG(China) or its associates as at Completion, being approximately HK\$568,093,080 (being the aggregate amount of HK\$352,329,746, US\$5,000,000 and RMB178,730,000, which, for purpose of illustration in this circular only, has been converted to HK\$ based on the currency conversion rate of US\$1.00 = HK\$7.7816 and HK\$1 = RMB 1.0106), together with all interest accrued thereon, if any
“Shareholders”	holders of Shares
“Sinolink”	Sinolink Worldwide Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1168)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme All”	Supreme All Investments Limited, a company incorporated in BVI and a wholly-owned subsidiary of Enerchina
“Takeovers Code”	The Code on Takeovers and Mergers (as amended from time to time) issued by the SFC
“Target 1”	Hong Kong & China Gas (Qingdao) Limited, a company incorporated in BVI with limited liability
“Target 2”	Hong Kong & China Gas (Zibo) Limited, a company incorporated in BVI with limited liability
“Target 3”	Hong Kong & China Gas (Yantai) Limited, a company incorporated in BVI with limited liability
“Target 4”	Hong Kong & China Gas (Weifang) Limited, a company incorporated in BVI with limited liability
“Target 5”	Hong Kong & China Gas (Weihai) Limited, a company incorporated in BVI with limited liability
“Target 6”	Hong Kong & China Gas (Taian) Limited, a company incorporated in BVI with limited liability
“Target 7”	Hong Kong & China Gas (Maanshan) Limited, a company incorporated in BVI with limited liability
“Target 8”	Hong Kong & China Gas (Anqing) Limited, a company incorporated in BVI with limited liability

DEFINITIONS

“Target Companies”	Target 1, Target 2, Target 3, Target 4, Target 5, Target 6, Target 7 and Target 8
“US\$”	United States dollars, the lawful currency of the United States of America
“Whitewash Waiver”	a waiver of the obligation of HK&CG(China) and parties acting in concert with it to make a mandatory offer for all the securities of Panva (other than those already owned by them immediately after Completion) from the SFC pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code
“%”	per cent.

In this circular, RMB has been converted to HK\$ at the rate of RMB1.0106 = HK\$1 and US\$ has been converted to HK\$ at the rate of HK\$7.7816 = US\$1 for illustration purpose only. No representation is made that any amounts in RMB, HK\$ or US\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

English names of the PRC established companies/entities in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

LETTER FROM THE BOARD

THE HONG KONG AND CHINA GAS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Executive Directors:

Mr. Alfred CHAN Wing Kin (*Managing Director*)

Mr. Ronald CHAN Tat Hung

Mr. James KWAN Yuk Choi

*Registered office and principal
place of business:*

23rd Floor

363 Java Road

North Point

Hong Kong

Non-executive Directors:

Dr. LEE Shau Kee (*Chairman*)

Mr. Colin LAM Ko Yin

Mr. LEE Ka Kit

Mr. LEE Ka Shing

Independent Non-executive Directors:

Mr. LIU Lit Man

Mr. LEUNG Hay Man

Dr. The Hon. David LI Kwok Po

23 December 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

1. INTRODUCTION

The Company, Panva and Enerchina jointly announced on 4 December 2006 that on 4 December 2006, Panva entered into the Agreement with HK&CG(China) and the Company pursuant to which Panva conditionally agreed to purchase from HK&CG(China) the Sale Shares and to purchase and take assignment of the Shareholder Loans subject to the terms and conditions of the Agreement. In consideration for the purchase of the Sale Shares and the assignment of the Shareholder Loans, Panva agreed to allot and issue the Consideration Shares (each credited as fully paid) to HK&CG(China). HK&CG(China) is a wholly-owned subsidiary of the Company and the Target Companies are wholly-owned subsidiaries of HK&CG(China).

The transactions under the Agreement constitute a discloseable transaction for the Company and is subject to the announcement and reporting requirements but will be exempted from the shareholders' approval requirements under the Listing Rules. The purpose of this circular is to provide you with further information on the Agreement and the Acquisition.

LETTER FROM THE BOARD

2. THE ACQUISITION

On 4 December 2006, Panva entered into the Agreement with HK&CG(China) and the Company pursuant to which Panva conditionally agreed to purchase from HK&CG(China) the Sale Shares and to purchase and take assignment of the Shareholder Loans subject to the terms and conditions of the Agreement. The Company, being the holding company of HK&CG(China), agreed to guarantee the performance of HK&CG(China) of its obligations under the Agreement.

Set out below is a summary of the principal terms of the Agreement:

Date: 4 December 2006

Parties:

- (1) Panva (as the purchaser)
- (2) HK&CG(China) (as the vendor)
- (3) the Company (as the vendor's guarantor)

Panva was incorporated in the Cayman Islands and its principal activities are the sale and distribution of LP Gas and natural gas in the PRC, including the sale of LP Gas in bulk and in cylinders, the provision of piped gas and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale of LP Gas and natural gas household appliances.

HK&CG(China) was incorporated in BVI and is an investment holding company. HK&CG(China) holds the entire issued capital of the Target Companies which in turn hold, collectively, 27% to 100% equity interests in 10 PRC companies. These PRC companies are engaged in the operation of piped gas assets and related business in the PRC.

The Company was incorporated in Hong Kong with limited liability. It is principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and the PRC. The Company is held as to approximately 38.47% by Henderson Investment Limited, a company incorporated in Hong Kong with limited liability which shares are listed on the Main Board of the Stock Exchange (stock code: 0097), which in turn is owned as to approximately 67.94% by Henderson Land Development Company Limited, a company incorporated in Hong Kong with limited liability which shares are listed on the Main Board of the Stock Exchange (stock code: 0012).

There is no prior equity relationship or transaction between HK&CG(China) or the Company with each of Panva, Enerchina or Sinolink before the entering into of the Acquisition.

LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the directors of the Company, having made all reasonable enquiries, Panva and Enerchina and their respective ultimate beneficial owners are third parties independent from the Company and its connected persons.

Subject matter: The subjects of the Acquisition are:

(1) The Sale Shares

The entire issued share capital of each of the Target Companies, which hold, collectively, equity interests varying from 27% to 100% in 10 PRC companies. These PRC companies operate in various cities in the PRC including Qingdao, Zibo, Longkou, Weifang, Weihai, Taian, Maanshan and Anqing. They are all engaged in the operation of piped gas assets and related business in the PRC.

(2) The Shareholder Loans

The outstanding loans due from the Target Companies to HK&CG(China) or its associates as at Completion, being approximately HK\$568,093,080, together with all interest accrued thereon, if any. The Shareholder Loans will be assigned to Panva upon Completion such that Panva will become the beneficiary to whom these loans will be repaid.

Consideration: The consideration of the Acquisition is calculated by reference to the final valuation of the Target Companies, which the parties have agreed to be HK\$3,230,771,027.

The consideration of the Acquisition will be satisfied by the allotment and issue by Panva of the Consideration Shares to HK&CG(China). Such Consideration Shares will be issued at a unit price of HK\$4.18 per Panva Share. Based on the issued share capital of Panva of 944,669,891 Panva Shares as at the date of the Agreement, the Consideration Shares represent approximately 81.82% of the then existing issued share capital of Panva and represent 45% of the issued share capital of Panva as at the date of the Agreement as enlarged by the issue of the Consideration Shares. There is no lockup arrangement regarding the trading of the Consideration Shares.

The closing price of the Panva Shares as quoted on the Stock Exchange on 30 November 2006, being the last trading day in respect of the Panva Shares immediately prior to the date of the Announcement was HK\$3.96 per Panva Share ("Last Closing Price"). The issue price of the Consideration Shares, being HK\$4.18 per Panva Share, represents a premium of approximately 5.56% over the Last Closing Price, and a

LETTER FROM THE BOARD

premium of approximately 11.82% and a premium of approximately 12.70% over the average closing price of the Panva Shares as quoted on the Stock Exchange for the last five and ten consecutive trading days in respect of the Panva Shares immediately prior to and including the last trading day prior to the date of the Announcement respectively.

The consideration of the Acquisition has been determined after arm's length negotiations among parties, taking into account the following factors:

- (a) the future prospects of the Target Companies, including the expected profit-generating capability of these companies;
- (b) the price to book ratios of the other piped gas companies;
- (c) the operational synergies anticipated to be achieved through the Acquisition;
- (d) the expected improvement of Panva's market and competitive position as a result of the Acquisition; and
- (e) the prospective benefits associated with the Company's shareholding in Panva including the sharing of piped gas expertise and managerial support.

The Consideration Shares will rank *pari passu* in all respects with the Panva Shares in issue as at the Completion Date. Panva will apply to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Conditions precedent: Completion of the Agreement is conditional upon the satisfaction of the following Conditions on or before the Long Stop Date:

- (a) the passing by the Panva Shareholders of the resolutions approving the purchase of the Sale Shares, the taking of assignment of the Shareholder Loans and the Consideration Share Issue in accordance with the Agreement and the relevant requirements of the Listing Rules;
- (b) the passing by the Panva Independent Shareholders of the resolution approving the Whitewash Waiver in accordance with the relevant requirements of the Takeovers Code;

LETTER FROM THE BOARD

- (c) the passing by the Enerchina Shareholders of the resolution approving the purchase of the Sale Shares, the taking of assignment of the Shareholder Loans by Panva and the Consideration Share Issue in accordance with the requirements of the Listing Rules;
- (d) the listing of and permission to deal in the Consideration Shares on the Main Board of the Stock Exchange having been granted by the Stock Exchange with or without conditions;
- (e) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that restrict or prohibit the implementation of the transactions contemplated in the Agreement;
- (f) the SFC granting the Whitewash Waiver;
- (g) the warranties given by HK&CG(China) under the Agreement remaining true and not misleading in all material respects at Completion; and
- (h) the warranties given by Panva under the Agreement remaining true and not misleading in all material respects at Completion.

HK&CG(China) and the Company shall provide all reasonable assistance to Panva with respect to the performance of its obligations to fulfil the Conditions (a) to (d) above by no later than the Long Stop Date.

Neither Panva nor HK&CG(China) has the right to waive any of the Conditions (a) to (f). Panva may waive Condition (g) at its discretion and HK&CG(China) may waive Condition (h) at its discretion.

Completion:

Panva shall not be obliged to complete the purchase of and HK&CG(China) shall not be obliged to complete the sale of any of the Sale Shares and the Shareholder Loans unless the sale and purchase of all the Sale Shares and the Shareholder Loans are completed simultaneously.

The Agreement shall be completed on the Completion Date.

If any of the Conditions is not satisfied on or before the Long Stop Date, the Agreement shall terminate (save and except otherwise stated in the Agreement) and no party shall have any claim against the others except in respect of any antecedent breach of the terms of the Agreement.

Guarantee:

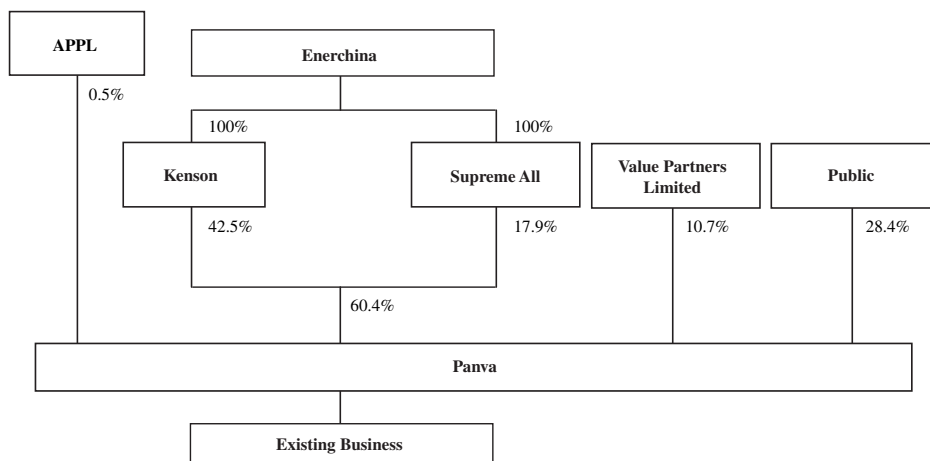
The Company entered into the Agreement to guarantee the performance by HK&CG(China) of its obligations under the Agreement.

LETTER FROM THE BOARD

3. SHAREHOLDING STRUCTURE OF PANVA AND THE TARGET COMPANIES

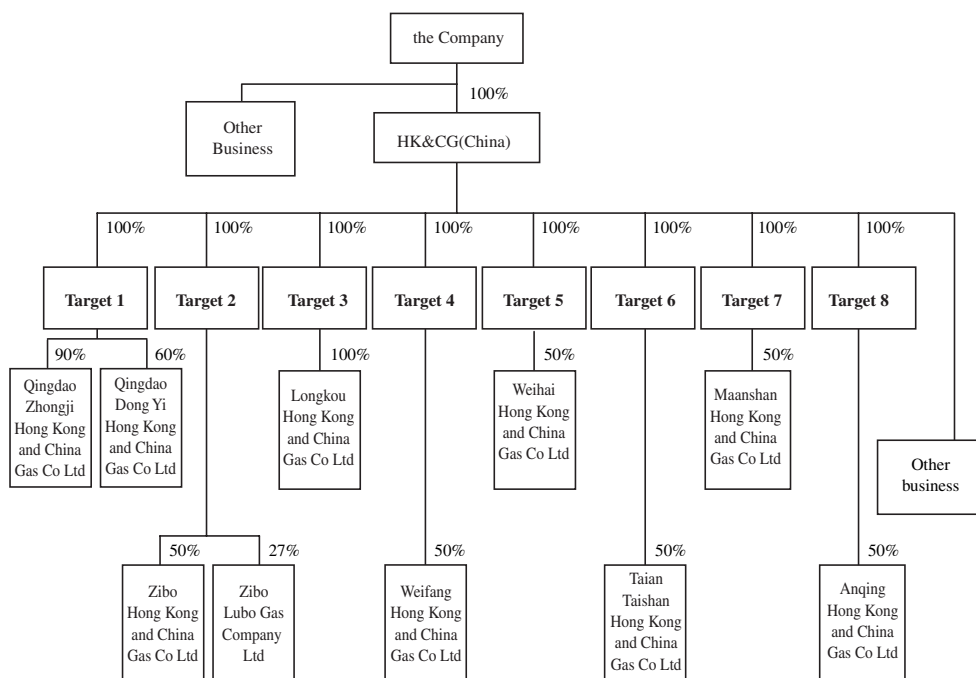
The diagrams below illustrate the simplified corporate structure of Panva and the Target Companies as at the date of the Agreement and immediately after Completion.

Corporate structure of Panva as at the date of the Agreement:



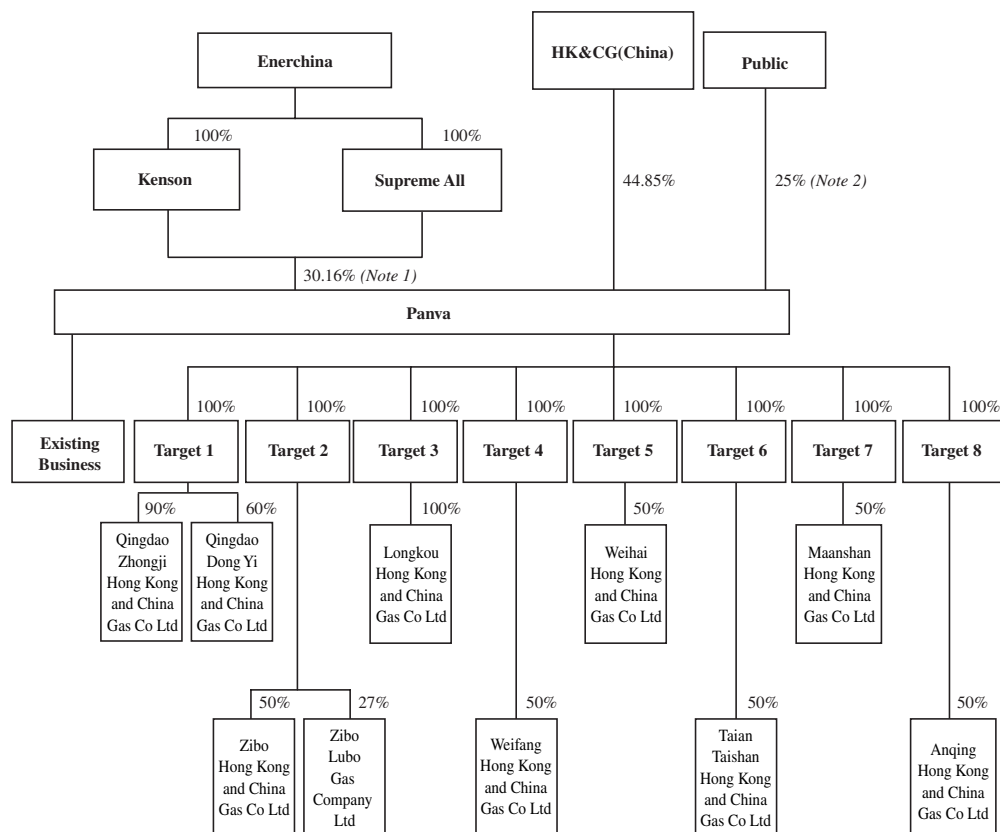
Note: The figures in the above corporate structure graph have been rounded to one decimal place.

Simplified corporate structure of the Target Companies as at the date of the Agreement:



LETTER FROM THE BOARD

Corporate structure of Panva immediately after Completion:



Notes:

1. 9.84% interest and 20.32% interest of which will be held by Supreme All and Kenson respectively (assuming that Kenson has placed down 2.96% interest in Panva as a result of Enerchina's undertaking to the Stock Exchange to maintain the public float of Panva) on or before Completion.
2. It assumes that 0.30% interest (being the entire interest of APPL in Panva immediately after the Consideration Share Issue) and 2.96% interest in Panva have been placed down by APPL and Kenson respectively, on or before Completion (as a result of the respective undertakings of APPL and Enerchina to the Stock Exchange to maintain the public float of Panva) and the 100,906,538 Panva Shares currently held by Value Partners Limited will have been proportionately diluted upon Completion as a result of the Consideration Share Issue.

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The following table illustrates the shareholdings of Panva before and immediately after the Acquisition and the Consideration Share Issue:

	Before the Acquisition and the Consideration Share Issue		Immediately after the Acquisition and the Consideration Share Issue	
	Number of Panva Shares held as at the date of the Latest Practicable Date	Approx. % share capital as at the date of the Latest Practicable Date	Number of Panva Shares held	Approx. % share capital as enlarged by the Consideration Share Issue
Kenson	401,233,462	42.22	350,222,842 <i>(Note 1)</i>	20.32 <i>(Note 1)</i>
Supreme All	169,491,525	17.83	169,491,525	9.84
APPL	5,081,600	0.53	0 <i>(Note 2)</i>	0 <i>(Note 2)</i>
HK&CG(China)	0	0	772,911,729	44.85
Value Partners Limited	100,906,538	10.62	100,906,538 <i>(Note 3)</i>	5.86 <i>(Note 3)</i>
Public shareholders	273,706,766	28.80	329,798,986 <i>(Note 4)</i>	19.14 <i>(Note 4)</i>
Total number of Panva Shares	<u>950,419,891</u>	<u>100.00%</u>	<u>1,723,331,620</u>	<u>100.00%</u>

Note 1: It assumes that Kenson has placed down 2.96% interest in Panva (as a result of Enerchina's undertaking to the Stock Exchange to maintain the public float of Panva) on or before Completion.

Note 2: It assumes that APPL has placed down its 0.30% interest in Panva (as a result of APPL's undertaking to the Stock Exchange to maintain the public float of Panva) on or before Completion.

Note 3: As at the Latest Practicable Date, Value Partners Limited is a substantial shareholder (as defined under the Listing Rules) of Panva and its shareholding in Panva is therefore not regarded as being held in public hands. Such shareholding, however, will have been proportionately diluted upon Completion as a result of the Consideration Share Issue and will accordingly be qualified as part of the public float.

Note 4: The number excludes the Panva Shares held by Value Partners Limited and assuming that 0.30% interest and 2.96% interest in Panva have been placed down by APPL and Kenson respectively on or before Completion.

LETTER FROM THE BOARD

4. INFORMATION ON THE TARGET COMPANIES

The Target Companies are private companies incorporated in BVI and are wholly-owned subsidiaries of HK&CG(China). The Target Companies hold, collectively, equity interests varying from 27% to 100% in 10 PRC companies. These PRC companies operate in various cities in the PRC including Qingdao, Zibo, Longkou, Weifang, Weihai, Taian, Maanshan and Anqing, which are all engaged in the operation of piped gas assets and related business in the PRC.

The aggregate audited net assets value of the Target Companies as at 30 September 2006 was approximately HK\$80.1 million.

The aggregate audited net profit before and after taxation and extraordinary items of the Target Companies were approximately HK\$5.1 million and HK\$2.5 million respectively for the financial year ended 31 December 2004 and the aggregate audited net profit before and after taxation and extraordinary items of the Target Companies were approximately HK\$22.6 million and HK\$22.0 million respectively for the financial year ended 31 December 2005.

As at Completion, Shareholder Loans in the aggregate amount of approximately HK\$568,093,080 will be due and owing from the Target Companies to HK&CG(China). Of such Shareholder Loans, approximately HK\$476.7 million are non-interest bearing and approximately HK\$91.4 million are interest bearing, with interest rates ranging from 4.25% per annum to 5.86% per annum. The maturity schedule of the Shareholder Loans is set out below:

Maturity	Approximate amount (HK\$) <i>(Note)</i>
No definite repayment term	352,329,746
By December 2007	38,908,000
2008 to 2010	52,444,093
2011 to 2016	124,411,241
	<hr/>
	568,093,080

Note: For purpose of illustration in this circular only, the amount has been converted to HK\$ based on the currency conversion rate of US\$1.00 = HK\$7.7816 and HK\$1 = RMB1.0106. No representation is made that any amounts in RMB, US\$ or HK\$ could have been converted at such rate or any other rates.

After Completion, those PRC companies in which the Target Companies have more than 50% equity interests (Qingdao Zhongji Hong Kong and China Gas Co. Ltd., Qingdao Dong Yi Hong Kong and China Gas Co. Ltd. and Longkou Hong Kong and China Gas Co. Ltd.) will be treated as subsidiaries and their results will be consolidated by purchase method of accounting into the accounts of Panva. Those PRC companies in which the Target Companies have no more than 50% equity interests will be treated as either associated company (Zibo Lubo Gas Company Limited) or jointly controlled entities (Zibo Hong Kong and China Gas Co. Ltd., Weihai Hong Kong and China Gas Co. Ltd., Weifang Hong Kong and China Gas Co. Ltd., Taian Taishan Hong Kong and China Gas Co. Ltd., Maanshan Hong Kong and China Gas Co. Ltd. and Anqing Hong Kong and China Gas Co. Ltd.) and their results will be equity accounted for in the books of Panva.

LETTER FROM THE BOARD

5. INFORMATION ON PANVA

The audited consolidated net assets value of Panva as at 31 December 2005 was approximately HK\$2,032 million.

The audited consolidated net profit before and after taxation and extraordinary items of Panva were approximately HK\$332 million and HK\$312 million respectively for the financial year ended 31 December 2004 and the aggregate audited consolidated net profit before and after taxation and extraordinary items of Panva were approximately HK\$241 million and HK\$206 million respectively for the financial year ended 31 December 2005.

The unaudited consolidated net assets value of Panva as at 30 June 2006 were approximately HK\$1,910 million and the aggregate unaudited consolidated net loss before and after taxation and extraordinary items of Panva were approximately HK\$184 million and HK\$191 million respectively for six months ended 30 June 2006.

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents a significant milestone in achieving the Company's goal of becoming the premier piped gas operator in Asia and will allow the Company to gain exposure to Panva's valuable network of gas projects across the PRC. On a combined basis, the Company and Panva will have 60 projects spanning 55 cities and 12 provinces across the PRC. The Company believes that the combination of its piped gas operations and its approximately 45% interest in Panva will improve its ability to capitalize on the rapid development of piped gas infrastructure in the PRC.

The Company will not have injected all its piped gas and related business in the PRC into Panva after Completion and will continue to maintain its piped gas and related business in other parts of the PRC such as Guangdong province, Central China, Eastern China, Northern China and Northwestern China. Particulars of the gas projects of the Group in the PRC are disclosed in the 2005 annual report as well as the 2006 interim report of the Company. No non-competition undertaking has been given by the Company to Panva not to compete with Panva's business in respect of piped gas and related business.

Notwithstanding the above, it is the intention of the Company to promote Panva as a leading piped gas operator in the PRC. The Company intends to support Panva as an acquisition platform for future piped gas projects in the PRC. The Company and Panva intend to coordinate on future acquisitions and evaluate the most appropriate acquisition platform on a by-project basis. Factors to be considered will include, among others, the ability to extract operational synergies with existing operations, legal requirements of the project, familiarity with the local business environment and scale of the investment. The Company and Panva's cooperation may also include the possibility of jointly pursuing piped gas project acquisitions. In light of the above and that the existing piped gas business of the Company and Panva are situated in different locations of the PRC serving different customers, the Board is of the view that competition between the Company and Panva in respect of similar business could be avoided.

No particular piped gas project has been identified by the parties for future acquisition as at the date of this circular.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) believe that the Agreement is entered into on normal commercial terms and the terms of the Agreement are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

7. FINANCIAL EFFECTS OF THE ACQUISITION

As at the Latest Practicable Date, the Target Companies are wholly-owned subsidiaries of HK&CG(China), which is a wholly-owned subsidiary of the Company. Immediately after Completion, the Target Companies will cease to be subsidiaries of the Group. The Company, through HK&CG(China), will be interested in approximately 45% of the Panva Group upon Completion (on the basis that other than the Consideration Shares, no further Panva Shares will be issued from the Latest Practicable Date up to Completion) and will treat Panva as an associated company. The Company will determine the amount of goodwill arising from the Acquisition in accordance with the HKFRS 3 “Business Combinations” which will be included in the investment in associated company. Such goodwill is subject to impairment assessment as required by the HKAS 28 “Investments in Associates” and the HKAS 36 “Impairment of Assets”. After Completion, the results of the Panva Group will be accounted for by the Company by equity method of accounting.

The Company expects that, after Completion, the Group would record a gain on disposal of approximately HK\$3,095 million as a result of the disposal of its interest in the Target Companies.

The above gain on disposal is determined based on the difference in the fair value of the Consideration Shares as at 15 December 2006 of HK\$4.90 per Panva Share over the aggregate audited net assets value of the Target Companies attributable to the Company as at 30 September 2006 and the Shareholder Loans. Since the fair value of the Consideration Shares as at the Completion Date may be substantially different from the fair value as at 15 December 2006, and the aggregate net assets value of the Target Companies as at the Completion Date may also be different from their aggregate audited net assets value as at 30 September 2006, the final amount of the gain on disposal will be different from the amount presented above.

8. PROPOSED CHANGE OF BOARD COMPOSITION OF PANVA

Upon Completion, HK&CG(China) will appoint 4 persons, namely, Mr. Chan Wing Kin, Alfred (“Mr. Chan”), Mr. Kwan Yuk Choi, James (“Mr. Kwan”), Mr. Ho Hon Ming, John and Mr. Wong Wai Yee, Peter to the board of directors of Panva as executive directors of Panva, while Enerchina will cause 3 executive directors (namely, Mr. Tang, Mr. Li Fujun and Mr. Zhang Keyu) to resign from the board of directors of Panva. Accordingly, the board of directors of Panva will have 11 members upon Completion, comprising 7 executive directors, 1 non-executive director and 3 independent non-executive directors. Mr. Ou will resign as chairman of Panva and HK&CG(China) will appoint Mr. Chan as chairman of Panva upon Completion.

Notwithstanding that Mr. Chan and Mr. Kwan are also Directors, they will have sufficient time also act as the executive directors of Panva after Completion. Mr. Chan and Mr. Kwan will likely be less involved in the day-to-day management of Panva after they are appointed to the board of Panva but will be involved in major decision making processes and will continue to perform and discharge their duties as directors of Panva, while the other two executive directors appointed by HK&CG(China) to the board

LETTER FROM THE BOARD

of Panva, namely, Mr. Ho Hon Ming, John and Mr. Wong Wai Yee, Peter will take on more management responsibilities of Panva. It is therefore expected that there should not be any conflict for Mr. Chan and Mr. Kwan in the discharge of their duties as the respective directors of the Company and Panva. Mr. Chan and Mr. Kwan will comply with applicable provisions of the Listing Rules and the constitutional documents of the Company and Panva in case any conflict exists in the discharge of their duties as directors of both companies.

Other than the change in the board composition of Panva set out above, there will not be any other changes in the senior management member of Panva as a result of the Acquisition.

9. DISCLOSEABLE TRANSACTION

The transactions under the Agreement constitute a discloseable transaction for the Company and is subject to the announcement and reporting requirements but will be exempted from the shareholders' approval requirements under the Listing Rules.

10. WHITEWASH WAIVER APPLICATION

HK&CG(China) will acquire the Consideration Shares upon Completion. An obligation on the part of HK&CG(China) and parties acting in concert with it to make a mandatory general offer for all the securities of Panva not already owned by HK&CG(China) and parties acting in concert with it will accordingly arise under Rule 26 of the Takeovers Code. In this regard, an application has been made by HK&CG(China) to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Panva Independent Shareholders at the Panva EGM by way of poll. The SFC has indicated that APPL, Kenson, Supreme All and Enerchina should abstain from voting in respect of the resolution to approve the Whitewash Waiver at the Panva EGM on the basis that they may not be regarded as sufficiently independent for the purpose of the Takeovers Code. The Company understands that each of APPL, Kenson, Supreme All and Enerchina will abstain from voting in respect of the resolution to approve the Whitewash Waiver at the Panva EGM.

11. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Alfred CHAN Wing Kin
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than that relating to Panva, Enerchina and Sinolink) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular (other than relating to Panva, Enerchina and Sinolink) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular (other than that relating to Panva, Enerchina and Sinolink), the omission of which would make any statement herein misleading.

The information contained herein relating to Panva, Enerchina and Sinolink has been supplied by the directors of Panva who collectively and individually accept full responsibility for the accuracy of the information contained in this circular relating to Panva, Enerchina and Sinolink only and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular relating to Panva, Enerchina and Sinolink only have been arrived at after due and careful consideration, and there are no other facts not contained in this circular relating to Panva, Enerchina and Sinolink only, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, to be notified to the Company and Stock Exchange, were as follows:

Long positions in Shares

Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approx. % (Note 1)
Dr. Lee Shau Kee	3,226,174	-	2,203,861,776 (Note 7)	-	2,207,087,950	40.07
Mr. Liu Lit Man	1,778,681	-	-	-	1,778,681	0.03
Dr. The Hon. David Li Kwok Po	15,000,000	-	-	-	15,000,000	0.27
Mr. Ronald Chan						
Tat Hung	1,940	-	-	-	1,940	0.00
Mr. Lee Ka Kit	-	-	-	2,203,861,776 (Note 6)	2,203,861,776	40.01
Mr. Alfred Chan						
Wing Kin	102,825 (Note 2)	-	-	-	102,825	0.00
Mr. James Kwan						
Yuk Choi	36,300	41,129	-	-	77,429	0.00
Mr. Lee Ka Shing	-	-	-	2,203,861,776 (Note 6)	2,203,861,776	40.01

Long positions in shares of associated corporations of the Company*Lane Success Development Limited*

Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approx. % (Note 1)
Dr. Lee Chau Kee	-	-	9,500 (Note 8)	-	9,500	95
Mr. Lee Ka Kit	-	-	-	9,500 (Note 8)	9,500	95
Mr. Lee Ka Shing	-	-	-	9,500 (Note 8)	9,500	95

Primeland Investment Limited

Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approx. % (Note 1)
Dr. Lee Chau Kee	-	-	95 (Note 9)	-	95	100
Mr. Lee Ka Kit	-	-	-	95 (Note 9)	95	100
Mr. Lee Ka Shing	-	-	-	95 (Note 9)	95	100

Yieldway International Limited

Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approx. % (Note 1)
Dr. Lee Chau Kee	-	-	2 (Note 10)	-	2	100
Mr. Lee Ka Kit	-	-	-	2 (Note 10)	2	100
Mr. Lee Ka Shing	-	-	-	2 (Note 10)	2	100

Panva

Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approx. % (Note 1)
Dr. Lee Chau Kee	-	-	772,911,729 (Note 11)	-	772,911,729	81.32
Mr. Lee Ka Kit	-	-	-	772,911,729 (Note 11)	772,911,729	81.32
Mr. Lee Ka Shing	-	-	-	772,911,729 (Note 11)	772,911,729	81.32

- (b) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) or corporations had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions

Name of company	No. of Shares in which interested	% (Note 1)
Disralei Investment Limited (Note 3)	1,159,024,597	21.04
Timpani Investments Limited (Note 3)	1,643,249,599	29.83
Henderson Investment Limited (Note 3)	2,119,415,545	38.47
Kingslee S.A. (Note 3)	2,119,415,545	38.47
Henderson Land Development Company Limited (Note 3)	2,119,415,545	38.47
Henderson Development Limited (Note 4)	2,123,382,017	38.55
Hopkins (Cayman) Limited (Note 5)	2,203,861,776	40.01
Riddick (Cayman) Limited (Note 6)	2,203,861,776	40.01
Rimmer (Cayman) Limited (Note 6)	2,203,861,776	40.01
Macrostar Investment Limited (Note 3)	476,165,946	8.64
Medley Investment Limited (Note 3)	484,225,002	8.79

Notes:

1. Approximate percentage which the aggregate long position in the shares represents to the issued share capital of the Company or any of its associated corporations.
2. These Shares were jointly held by Mr. Alfred Chan Wing Kin and his spouse.

3. These 2,119,415,545 Shares were beneficially owned by Macrostar Investment Limited (“Macrostar”), Medley Investment Limited (“Medley”) and Disralei Investment Limited (“Disralei”). Macrostar was a wholly-owned subsidiary of Henderson Investment Limited (“HI”). Medley and Disralei were wholly-owned subsidiaries of Timpani Investments Limited, which was in turn, a wholly-owned subsidiary of HI. Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited (“HLD”), owned 67.94% of the total issued shares in HI.
4. Henderson Development Limited (“HD”) beneficially owned 57.80% of the total issued shares in HLD. Of these 2,123,382,017 Shares, 2,119,415,545 Shares represented the Shares described in Note 3 and the other Shares were beneficially owned by a wholly-owned subsidiary of HD.
5. Of these 2,203,861,776 Shares, 2,123,382,017 Shares represented the Shares described in Notes 3 and 4 and 80,479,759 Shares were beneficially owned by Fu Sang Company Limited (“Fu Sang”). Hopkins (Cayman) Limited (“Hopkins”) owned all the issued ordinary shares which carry the voting rights in the share capital of HD and Fu Sang as trustee of a unit trust (“Unit Trust”).
6. These 2,203,861,776 Shares are duplicated in the interests described in Note 5. Rimmer (Cayman) Limited (“Rimmer”) and Riddick (Cayman) Limited (“Riddick”), as trustees of the respective discretionary trusts, held units in the Unit Trust. Mr. Lee Ka Kit and Mr. Lee Ka Shing, as discretionary beneficiaries of the discretionary trusts, were taken to have duties of disclosure in relation to these Shares by virtue of Part XV of the SFO.
7. These 2,203,861,776 Shares included the Shares described in Notes 3 to 6. Dr. Lee Shau Kee beneficially owned all the issued shares in Rimmer, Riddick and Hopkins and was taken to be interested in these Shares by virtue of Part XV of the SFO.
8. These 9,500 shares in Lane Success Development Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 4,500 shares) and a wholly-owned subsidiary of HLD (as to 5,000 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 3 to 7 by virtue of Part XV of the SFO.
9. These 95 shares in Primeland Investment Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 30 shares) and a wholly-owned subsidiary of HLD (as to 65 shares). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 3 to 7 by virtue of Part XV of the SFO.
10. These 2 shares in Yieldway International Limited were beneficially owned by a wholly-owned subsidiary of the Company (as to 1 share) and a wholly-owned subsidiary of HLD (as to 1 share). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in HLD and the Company as set out in Notes 3 to 7 by virtue of Part XV of the SFO.
11. HK&CG(China), a wholly-owned subsidiary of the Company, was deemed to have acquired 772,911,729 Panva Shares by virtue of its entering into the Agreement with Panva and the Company on 4 December 2006 pursuant to which Panva agreed to acquire the Sale Shares and Shareholder Loans in consideration of the allotment and issue of 772,911,729 Panva Shares to HK&CG(China). Dr. Lee Shau Kee, Mr. Lee Ka Kit and Mr. Lee Ka Shing were taken to be interested in the Company as set out in Notes 3 to 7 by virtue of Part XV of the SFO.

- (c) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director, chief executive of the Company or a member of the Group) were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

Name of member of the Group	Name of the shareholder	percentage interest
丹陽港華燃氣有限公司 (Danyang Hong Kong and China Gas Company Limited)	丹陽市煤氣公司	20%
ECO Aviation Fuel Services Limited	Shell Hong Kong Limited	33%
廣州東永港華煤氣有限公司 (Guangzhou Dongyong Hong Kong & China Gas Limited)	廣州世星投資有限公司	20%
廣州港華燃氣有限公司 (Guangzhou Hong Kong and China Gas Company Limited)	廣州市番禺煤氣有限公司	20%
廣州建科港華燃氣有限公司 (Guangzhou Jianke Hong Kong and China Gas Company Limited)	廣州開發區建設發展集團有限公司	30%
吉林港華燃氣有限公司 (Jilin Hong Kong and China Gas Company Limited)	吉林市燃氣公司	37%
金壇港華燃氣有限公司 (Jintan Hong Kong and China Gas Co., Ltd.)	金壇市鹽業化學工業總公司有限公司	40%
南京化學工業園港華燃氣有限公司 (Nanjing Chemical Industry Park Hong Kong and China Gas Company Limited)	南京化學工業園公用事業有限責任公司	20%
青島東億港華燃氣有限公司 (Qingdao Dong Yi Hong Kong and China Gas Co., Ltd.)	青島東億實業總公司	40%

Name of member of the Group	Name of the shareholder	percentage interest
青島中即港華燃氣有限公司 (Qingdao Zhongji Hong Kong and China Gas Company Limited)	即墨市市政工程建设總公司	10%
山西港華煤層氣有限公司 (Shanxi Hong Kong & China Coalbed Gas Co., Ltd.)	山西晉城無煙煤礦業集團 有限責任公司	30%
佛山市順德區港華燃氣有限公司 (Shunde Hong Kong and China Gas Company Limited)	佛山市順德區南華投資有限公司 何炳坤	30% 10%
蘇州港華燃氣有限公司 (Suzhou Hong Kong and China Gas Co., Ltd.)	蘇州工業園區市政公用 發展集團有限公司	45%
泰州港華燃氣有限公司 (Taizhou Hong Kong and China Gas Company Limited)	泰州城市燃氣有限公司	35%
銅陵港華燃氣有限公司 (Tongling Hong Kong and China Gas Company Limited)	銅陵市燃氣總公司	30%
桐鄉港華天然氣有限公司 (Tongxiang Hong Kong and China Gas Company Limited)	桐鄉市天然氣投資有限公司	24%
Uticom Limited	Innocom Limited	40%
蕪湖華衍水務有限公司 (Wuhu Hong Kong and China Water Company Limited)	蕪湖市建設投資有限公司	25%
吳江港華燃氣有限公司 (Wujiang Hong Kong and China Gas Company Limited)	吳江城市投資發展有限公司	20%
吳江華衍水務有限公司 (Wujiang Hong Kong and China Water Company Limited)	吳江市區域自來水投資有限公司	20%

Name of member of the Group	Name of the shareholder	percentage interest
徐州港華燃氣有限公司 (Xuzhou Hong Kong and China Gas Company Limited)	徐州市燃氣總公司	20%
宜興港華燃氣有限公司 (Yixing Hong Kong and China Gas Company Limited)	江蘇萬峰燃氣股份有限公司	20%
張家港港華燃氣有限公司 (Zhangjiagang Hong Kong and China Gas Company Limited)	張家港市能源投資發展有限公司 張家港市燃氣總公司	39% 10%
中山港華燃氣有限公司 (Zhongshan Hong Kong and China Gas Limited)	中山市城市建設投資集團有限公司	30%
中山小欖港華燃氣有限公司 (Zhongshan Xiaolan Hong Kong and China Gas Limited)	中山市小欖鎮城建資產經營有限公司	20%

(d) Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors nor the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, to be notified to the Company and Stock Exchange; and
- (ii) none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

4. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, there were no material litigations or claims of material importance pending or threatened against any member of the Group.

5. COMPETING INTEREST

So far as the Directors are aware, as at the Latest Practicable Date, none of the Directors or their respective associates had any interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. GENERAL

- (a) The registered office and principal place of business of the Company is situated at 23rd Floor, 363 Java Road, North Point, Hong Kong.
- (b) The Company's share registrars is Computershare Hong Kong Investor Services Limited situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The secretary and qualified accountant of the Company is Mr. Chan Tat Hung, Ronald, *F.C.P.A., F.C.C.A., F.C.M.A., F.C.P.A.(Aust), F.C.I.S., M.H.K.S.I.*
- (d) In case of discrepancies between the English version and the Chinese version of this circular, the English version shall prevail.