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CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 384)

DISCLOSEABLE TRANSACTION INVOLVING FORMATION OF A JOINT VENTURE COMPANY

The Board is pleased to announce that on 6 June 2006, the Investment Agreement is entered into between Dalian SOA Administration Bureau and Zhongran Investment, pursuant to which the Dalian JV will be established in Dalian City, Liaoning Province, PRC.

The Dalian JV will be engaged principally in the natural gas business in Dalian City, Liaoning Province, PRC. The Dalian JV will be owned beneficially as to 75% by Zhongran Investment and as to the balance of 25% by Dalian SOA Administration Bureau. Upon establishment, the Dalian JV will become a 75% owned subsidiary of the Company.

Pursuant to the terms of the Investment Agreement, the registered capital of the Dalian JV will be RMB1,000,000,000 (equivalent to about HK\$970,873,786). RMB750,000,000 (equivalent to about HK\$728,155,340) will be contributed by Zhongran Investment by way of cash. RMB 250,000,000 (equivalent to about HK\$242,718,446) will be contributed by Dalian SOA Administration Bureau by way of contribution in kind.

The Investment Agreement constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. A circular containing further details of the Investment Agreement will be sent to the Shareholders within 21 days after publication of this announcement.

The Board is pleased to announce that on 6 June 2006 the Investment Agreement is entered into between Dalian SOA Administration Bureau and Zhongran Investment pursuant to which the Dalian JV will be established in Dalian City, Liaoning Province, PRC. The Investment Agreement is a legally binding agreement containing a framework and the principal terms of the establishment of the Dalian JV subject to a formal agreement and the articles of association to be signed by the parties within 60 days from the date of the Investment Agreement. The Dalian JV will be engaged principally in the natural gas business in Dalian City, Liaoning Province, PRC. The Dalian JV will be owned beneficially as to 75% by Zhongran Investment and as to the balance of 25% by Dalian SOA Administration Bureau. Upon establishment, the Dalian JV will become a 75% owned subsidiary of the Company.

The Investment Agreement constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

THE INVESTMENT AGREEMENT

Date : 6 June 2006

Parties: : (a) Zhongran Investment
(b) Dalian SOA Administration Bureau

Dalian SOA Administration Bureau and its ultimate beneficial owners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined under the Listing Rules) and are not connected persons (as defined under the Listing Rules) of the Company.

The parties to the Investment Agreement agreed that the Dalian JV will be established in Dalian City, Liaoning Province, PRC. The Dalian JV will be engaged principally in the natural gas business in Dalian City, Liaoning Province, PRC. As at the date of this announcement, no application has been made to the relevant PRC authorities for the necessary permits and business licences for the establishment of the Dalian JV and the same will be made in due course.

Registered capital

Pursuant to the terms of the Investment Agreement, the registered capital of the Dalian JV will be RMB1,000,000,000 (equivalent to about HK\$970,873,786) and will be contributed by the parties in proportion to their respective shareholdings in the Dalian JV. As at the date of the Investment Agreement, no contribution has been made by the parties to the Investment Agreement yet. The amount of the registered capital of Dalian JV was determined and specified by Dalian Municipal Government taking into account the size and nature of Dalian City.

RMB750,000,000 (equivalent to about HK\$728,155,340) will be contributed by Zhongran Investment by way of cash and in two instalments: the first instalment of RMB554,000,000 (equivalent to about HK\$537,864,078) shall be payable by the Group to an escrow account maintained by Dalian SOA Administration Bureau upon issue of the approval letter by Dalian Municipal Government of the establishment of the Dalian JV and such amount will be transferred by Dalian SOA Administration Bureau to Dalian JV within 40 days upon issue of the business licence. The second instalment of RMB196,000,000 (equivalent to about HK\$190,291,262) shall be payable by the Group within 30 days after the date of issue of the business licence of the Dalian JV. All amounts paid by the Group are refundable.

RMB 250,000,000 (equivalent to about HK\$242,718,446) will be contributed by Dalian SOA Administration Bureau by way of contribution in kind (including gas piped networks and related facilities), the net asset value of which shall be valued by an independent valuer in the PRC. Any shortfalls will be made up for by other appropriate assets by Dalian SOA Administration Bureau and agreed by Zhongran Investment.

The Group intends to finance the capital contribution of Zhongran Investment to the Dalian JV from its internal resources which is sufficient for the present purpose.

Principal obligations of the parties to the Investment Agreement

Dalian SOA Administration Bureau shall, among other matters:

1. assist and arrange to obtain all necessary approvals and consents from the PRC government in relation to the establishment of the Dalian JV;
2. co-ordinate and liaise with the Dalian Municipality Government for the implementation and promotion of the usage of natural gas in Dalian with a view to increase the coverage of natural gas in Dalian; and
3. co-ordinate and liaise with the Dalian Municipality Government for the implementation of and collection from, the end-users the connection and other related charges for the use and installation of natural gas facilities in Dalian.

Zhongran Investment shall, among other matters:

1. contribute its contributions to the registered capital of the Dalian JV in accordance with the Investment Agreement;
2. arrange and assist Dalian JV to obtain any necessary financing and credits in excess of its registered capital;
3. develop and promote jointly with Dalian SOA Administration Bureau the business and other activities of the Dalian JV; and
4. develop jointly with Dalian SOA Administration Bureau the corporate management and administration systems of the Dalian JV.

Apart from the principal obligations above, there are no further material commitments that are required to be contributed by the parties to the Investment Arrangement at this stage. Further announcements will be made if there is any further material commitments to be put up by the parties to the Investment Agreement if and when appropriate to comply with the relevant requirements of the Listing Rules.

Profits sharing in the Dalian JV

Dalian SOA Administration Bureau and Zhongran Investment will be entitled to share the net profits of the Dalian JV in proportion to their equity interests in the Dalian JV upon its establishment.

Board of directors of the Dalian JV

The board of directors of the Dalian JV will comprise seven directors, of which two will be appointed by Dalian SOA Administration Bureau and five will be appointed by Zhongran Investment.

The chairman of the board of directors of Dalian JV will be appointed by Zhongran Investment and the vice chairman of the board of directors of the Dalian JV will be appointed by Dalian SOA Administration Bureau.

Formal agreement and articles of association of the Dalian JV

Within 60 working days from the date of the Investment Agreement, the parties to the Investment Agreement will sign and execute the formal agreement and articles of association for the establishment of the Dalian JV. It is expected all the material terms to be contained in the formal agreement will be the same as contained in the Investment Agreement and as disclosed in this announcement. The articles of association will contain the provisions governing the running of the Dalian JV.

Further announcements will be made by the Company as and when such formal agreement and articles of association of the Dalian JV are signed and executed by the parties to the Investment Agreement and set out any material change or additions to the terms as contained in the Investment Agreement and as disclosed in this Announcement.

INFORMATION ON DALIAN CITY

Dalian City is situated in the southern part of the Liaodong Peninsula in Liaoning Province, PRC and is one of the largest cities in the north-eastern part of PRC. As a city equipped with port facilities and flourished with trading, industrial and tourism business activities, Dalian City occupies a total area of approximately 12,574 sq. km. and has a total population of ordinary residents of approximately 6.02 million.

According to the statistics compiled by the State Statistics Bureau, in 2004, Dalian was ranked seventh amongst the cities in PRC in terms of its strength in general. Dalian has now some 650,000 household users and 6,000 industrial users of coal gas and with the proposed installation of liquefied natural gas reception stations by 中國石油天然氣集團公司 (China National Petroleum Company)[#] in Dalian City, natural gas will be introduced to Dalian in the near future and it is intended that the use of coal gas in Dalian will gradually be replaced by natural gas.

REASONS FOR THE INVESTMENT AGREEMENT

The Group is principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped natural gas and compressed natural gas in the PRC.

The Directors have always been proactive in seeking opportunities for expanding and enhancing its natural gas business in the PRC. The Directors consider that the entering into the Investment Agreement offers the Group a good business opportunity to expand its natural gas business in the PRC as Dalian city is the Group's first natural gas project in the north-eastern part of the PRC which is in line with the Group's objective of developing and investing in natural gas projects in the PRC.

The Directors consider that the investment in Dalian JV will enhance the earnings ability to the Group in the near future and accord the Group with a steady income stream. The Directors, including the independent non-executive Directors, also consider that the terms of the Investment Agreement are entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the Investment Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GENERAL

The Investment Agreement constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. A circular containing further details of the Investment Agreement and the transactions contemplated thereby will be sent to the Shareholders within 21 days after publication of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Board”	the board of Directors
“Company”	China Gas Holdings Limited (中國燃氣控股有限公司)*, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Dalian JV”	大連中燃城市燃氣發展有限公司 (Dalian Zhongran City Gas Development Co., Limited)# a Chinese-foreign equity joint venture to be established in Dalian City, Liaoning Province, PRC to be engaged principally in the natural gas business pursuant to the Investment Agreement
“Dalian SOA Administration Bureau”	大連市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Dalian Municipal Government, Liaoning Province)#, an organization established by the Dalian Municipal Government for the administration of the state owned assets
“Directors”	directors (including the independent non-executive directors) of the Company from time to time
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investment Agreement”	the investment agreement dated 6 June 2006 and entered into between Dalian SOA Administration Bureau and Zhongran Investment
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People's Republic of China

“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongran Investment”	中燃投資有限公司 (Zhongran Investment Limited)#, a limited liability company incorporated and subsisting in Shenzhen, PRC, and a wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“sq. km.”	square kilometres
“%”	per cent.

By order of the Board
China Gas Holdings Limited
Liu Ming Hui
Managing Director

Hong Kong, 6 June 2006

* *for identification purpose only*

the English translations of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words

As of the date of this announcement, Mr. Li Xiaoyun, Mr. Xu Ying, Mr. Liu Ming Hui, Mr. Ma Jin Long and Mr. Zhu Wei Wei are the executive Directors, Mr. Feng Zhuo Zhi, Mr. Harrison Blacker and Mr. Suresh Raghavanachari are the non-executive Directors and Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue, Cynthia are the independent non-executive Directors.

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB1.03. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

Please also refer to the published version of this announcement in The Standard.