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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 26 August 2006, the JV Agreement was entered into between Hohhot Partner and Zhongran Investment, a wholly-owned subsidiary of the Company, pursuant to which Hohhot JV will be established in Hohhot city, Inner Mongolia Autonomous Region, the PRC.

Hohhot JV will be engaged principally in the natural gas business established in Hohhot city, Inner Mongolia Autonomous Region, the PRC. Hohhot JV will be owned beneficially as to 50% by Zhongran Investment and as to the balance of 50% by Hohhot Partner. Upon establishment, Hohhot JV will become a jointly-controlled entity of the Company.

Pursuant to the terms of the JV Agreement, the registered capital of Hohhot JV will be RMB800,000,000 (equivalent to approximately HK\$776,699,029). RMB400,000,000 (equivalent to approximately HK\$388,349,514) will be contributed by Zhongran Investment by way of cash and RMB400,000,000 (equivalent to approximately HK\$388,349,514) will be contributed by Hohhot Partner by way of contribution in kind.

The JV 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 JV Agreement will be sent to the Shareholders within 21 days after publication of this announcement.

The Board is pleased to announce that on 26 August 2006 the JV Agreement was entered into between Hohhot Partner and Zhongran Investment with details as follows:

THE JV AGREEMENT

Date : 26 August 2006
Parties : (i) Zhongran Investment
(ii) Hohhot Partner

Hohhot Partner 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.

Hohhot Partner has no past relationship with the Group and did not engage in any other transaction with the Group.

Formation of joint venture company

The parties to the JV Agreement agreed that Hohhot JV will be established in Hohhot city, Inner Mongolia Autonomous Region, the PRC and will own as to 50% by each of Zhongran Investment and Hohhot Partner. Hohhot JV will be engaged principally in the natural gas business in Hohhot city, Inner Mongolia Autonomous Region, the PRC.

Registered capital

The registered capital of Hohhot JV will be RMB800,000,000 (equivalent to approximately HK\$776,699,029) and will be contributed as to RMB400,000,000 (equivalent to approximately HK\$388,349,514), by each of Zhongran Investment and Hohhot Partner within three months after the certificate of approval of Hohhot JV has been granted. Upon establishment, Hohhot JV will become a jointly-controlled entity of the Company and the Group will recognise its interests in Hohhot JV using proportionate consolidation.

The Group intends to finance the capital contribution of Zhongran Investment to Hohhot JV from its internal resources.

The total investment of Hohhot JV has not been specified in the JV Agreement. Apart from the contribution towards the registered capital set out above, there are no further capital commitments that are required to be contributed by the parties to the JV Agreement at this stage. If there is any further capital commitments to be put up by the parties to the Hohhot JV, further announcement will be made if and when appropriate to comply with the requirements under the Listing Rules.

Principal obligations of the parties to the JV Agreement

Hohhot Partner represents and warrants to Zhongran Investment, among other matters, that:

1. it shall obtain a 30-year franchise and other relevant qualifications for Hohhot JV in relation to its piped natural gas business in Hohhot city;
2. after granting the 30-year franchise to Hohhot JV for its piped natural gas business, the Hohhot government shall not grant any approval for other enterprise engaging in piped natural gas business or for any other project relating to piped natural gas, or granting any franchise of piped natural gas business to any other enterprise or investor during the existence of franchise of Hohhot JV;
3. after obtaining the approval from the relevant department, Hohhot JV can charge for instalment fee of the piped natural gas and reconstruction fee for any future replacement of the piped natural gas;
4. it shall assist Hohhot JV to obtain necessary approval and registration from relevant government departments;
5. it shall assist Hohhot JV to handle all legal procedures for the reconstruction or expansion of natural gas pipelines and coordinate the relevant departments to handle the necessary procedures timely in accordance with relevant regulations; and
6. it, its holding company or its subsidiaries shall not establish any other enterprise in Hohhot city competing with Hohhot JV.

Zhongran Investment represents and warrants to Hohhot Partner, among other matters, that:

1. it shall assist Hohhot JV to obtain necessary approval and registration from relevant government departments by providing necessary documents; and
2. it, its holding company or its subsidiaries shall not establish any other enterprise in Hohhot city competing with Hohhot JV.

Board of directors of Hohhot JV

The board of directors of Hohhot JV will comprise seven directors, of which three will be appointed by Hohhot Partner and three will be appointed by Zhongran Investment, one independent director will be jointly nominated by both parties. The chairman of Hohhot JV will be nominated by Zhongran Investment and the vice chairman will be appointed by Hohhot Partner.

INFORMATION ON HOHHOT CITY

Hohhot city, the capital of Inner Mongolia Autonomous Region, the PRC, is situated in the central region of Inner Mongolia Autonomous Region, the PRC. It occupies a total area of approximately 17,000 sq. km. and has a total population of approximately 3 million residents.

Hohhot city used piped natural gas from Changqing Gas Field since 2003. Until June 2006, Hohhot city has approximately 170,000 household users, approximately 2,300 industrial users of piped natural gas. There are 10 pipe natural gas stations to serve the demand of approximately 3,400 compressed natural gas bus and taxi. Following the construction of new natural gas stations, the reconstruction of the old coal and petrol stations together with the increase in consumption of the natural gas in the winter, it is expected that the amount of natural gas usage at Hohhot city will reach to approximately over 200 million m³ by 2008.

REASONS FOR THE JV AGREEMENT

The Group is principally engaged in 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 entering into the JV Agreement offers the Group a good business opportunity to expand its natural gas business in the PRC as Hohhot city is the Group's first natural gas project in Inner Mongolia Autonomous Region, the PRC which is in line with the Group's objective of developing and investing in natural gas projects in the PRC.

The Directors, including the non-executive Directors, consider that the terms of the JV Agreement are entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the JV Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GENERAL

The JV 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 JV Agreement 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:

| | |
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| “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 |
| “connected persons” | has the meaning ascribed to it under the Listing Rules |
| “Directors” | directors (including the independent non-executive directors) of the Company from time to time |
| “Hohhot Partner” | 呼和浩特市煤氣有限責任公司 (Hohhot City Coal Gas Company Limited)#, a limited liability company incorporated and subsisting in Hohhot city, Inner Mongolia Autonomous Region, the PRC |
| “Hohhot JV” | 呼和浩特中燃城市燃氣發展有限公司 (Hohhot Zhongran City Gas Development Company Limited)#, a joint venture to be established pursuant to the JV Agreement in Hohhot city, Inner Mongolia Autonomous Region, the PRC to be engaged principally in natural gas business, which name is subject to the approval of the relevant authorities |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “JV Agreement” | the joint venture agreement dated 26 August 2006 and entered into between Hohhot Partner and Zhongran Investment with respect to the formation of Hohhot JV |
| “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, the PRC, and a wholly owned subsidiary of the Company |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “RMB” | Reminbi, the lawful currency of the PRC |

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|-------------------|-------------------|
| “sq. km.” | square kilometres |
| “m ³ ” | cubic metres |
| “%” | per cent. |

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

Hong Kong, 28 August 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.