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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)

### CONNECTED TRANSACTION ACQUISITION OF 65% EQUITY INTERESTS IN CHANG MENG GAS

On 7 June 2007, Zhongran Shi Da entered into the Share Transfer Agreement with Shi Da Property in relation to the Acquisition.

Zhongran Shi Da is principally engaged in the investment in natural gas projects. The registered capital of Zhongran Shi Da is RMB88,000,000 (equivalent to approximately HK\$90,640,000), of which 59% (being RMB51,920,000, equivalent to approximately HK\$53,477,600) was owned by Zhongran Gas and 41% (being RMB36,080,000, equivalent to approximately HK\$37,162,400) was owned by Shi Da Property.

Chang Meng Gas is principally engaged in (i) the transportation of natural gas; (ii) the design, installation, management, operation and maintenance of natural gas projects; (iii) the construction of natural gas pipeline network and provision of related facilities; and (iv) the manufacture, sale and maintenance of natural gas related facilities. The registered capital of Chang Meng Gas is RMB3,000,000 (equivalent to approximately HK\$3,090,000), of which 65% (being RMB1,950,000, equivalent to approximately HK\$2,008,500) was contributed and owned by Shi Da Property and 35% (being RMB1,050,000, equivalent to approximately HK\$1,081,500) was contributed and owned by Ordos Electric.

Since Shi Da Property is a substantial shareholder of Zhongran Shi Da, a non-wholly owned subsidiary of the Company and hence is a connected person of the Company, the Acquisition constitutes a connected transaction on the part of the Company under the Listing Rules. As each of the percentage ratios is less than 2.5%, the Acquisition is exempt from the independent shareholders' approval requirements under Rule 14A.32 of the Listing Rules and will only be subject to the reporting and announcement requirements set out in Rules 14A.45 to 47 of the Listing Rules. Details of the Acquisition will be included in the Company's next published annual report.

#### INTRODUCTION

The Board is pleased to announce that on 7 June 2007, Zhongran Shi Da, a non-wholly owned subsidiary of the Company entered into the Share Transfer Agreement with Shi Da Property in relation to the Acquisition. Details of the Share Transfer Agreement are as follows:

#### SHARE TRANSFER AGREEMENT

Date: 7 June 2007

Parties: (1) Vendor : Shi Da Property  
(2) Purchaser : Zhongran Shi Da

#### Asset to be acquired

Pursuant to the Share Transfer Agreement, Zhongran Shi Da has agreed to acquire from Shi Da Property 65% equity interests in Chang Meng Gas. Before the Acquisition, Shi Da Property and Ordos Electric own 65% and 35% equity interests in Chang Meng Gas respectively. Details of Chang Meng Gas are further elaborated under the section headed "Information on Chang Meng Gas" below.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ordos Electric is an Independent Third Party, save for being a holder of 35% equity interests in Chang Meng Gas.

Shi Da Property is principally engaged in property development and sales of building materials. As Shi Da Property is a substantial shareholder of Zhongran Shi Da, a non-wholly owned subsidiary of

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the Share Transfer Agreement with reference to the registered capital of Chang Meng Gas. In arriving at the consideration, the Directors have considered, among other factors, the following financials of Chang Meng Gas: its registered capital and the respective contributions made by the parties, its net asset value, total assets and total liabilities. In particular, the Directors have given consideration to the fact that Chang Meng Gas, which is still at its development stage, has not yet recorded any revenue or profit from its operation and any consideration based on these may be inappropriate. The Directors also noted that the net asset value of Chang Meng Gas amounted to about HK\$3 million, which is equal to its registered capital and will form the appropriate base for the consideration.

The Directors (including the independent non-executive Directors) consider that the Share Transfer Agreement is on normal commercial terms and that the consideration for the Acquisition and the terms of the Share Transfer Agreement are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

#### Effective Date

The Share Transfer Agreement takes effect on the date of execution, i.e. 7 June 2007.

#### INFORMATION ON ZHONGRAN SHI DA

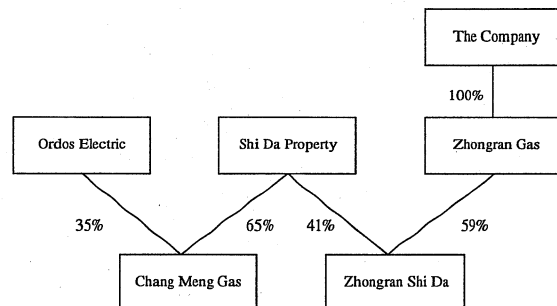
Zhongran Shi Da is principally engaged in the investment in natural gas projects. The registered capital of Zhongran Shi Da is RMB88,000,000 (equivalent to approximately HK\$90,640,000), of which 59% (being RMB51,920,000, equivalent to approximately HK\$53,477,600) was owned by

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ordos Electric is an Independent Third Party, save for being a holder of 35% equity interests in Chang Meng Gas.

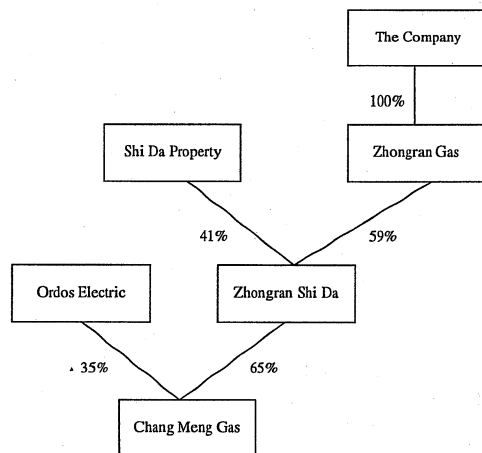
Shi Da Property is principally engaged in property development and sales of building materials. As Shi Da Property is a substantial shareholder of Zhongran Shi Da, a non-wholly owned subsidiary of the Company, Shi Da Property is regarded as a connected person of the Company under the Listing Rules.

The following diagrams illustrate the corporate structure of Chang Meng Gas before and after the Acquisition:

**Corporate Structure of Chang Meng Gas before the Acquisition:**



**Corporate Structure of Chang Meng Gas after the Acquisition:**



**Consideration**

Pursuant to the Share Transfer Agreement, Shi Da Property will transfer its 65% equity interests in Chang Meng Gas to Zhongran Shi Da at a cash consideration of RMB1,950,000 (equivalent to approximately HK\$2,008,500), which will be paid within 7 days after completion of the registration of the equity transfer with the relevant PRC governmental authorities. The consideration will be funded by internal resources of Zhongran Shi Da, which has sufficient cash for payment of the consideration.

**Effective Date**

The Share Transfer Agreement takes effect on the date of execution, i.e. 7 June 2007.

**INFORMATION ON ZHONGRAN SHI DA**

Zhongran Shi Da is principally engaged in the investment in natural gas projects. The registered capital of Zhongran Shi Da is RMB88,000,000 (equivalent to approximately HK\$90,640,000), of which 59% (being RMB51,920,000, equivalent to approximately HK\$53,477,600) was owned by Zhongran Gas and 41% (being RMB36,080,000, equivalent to approximately HK\$37,162,400) was owned by Shi Da Property.

**INFORMATION ON CHANG MENG GAS**

Chang Meng Gas was established on 6 June 2006 and is principally engaged in (i) the transportation of natural gas; (ii) the design, installation, management, operation and maintenance of natural gas projects; (iii) the construction of natural gas pipeline network and provision of related facilities; and (iv) the manufacture, sale and maintenance of natural gas related facilities.

The registered capital of Chang Meng Gas is RMB3,000,000 (equivalent to approximately HK\$3,090,000), of which 65% (being RMB1,950,000, equivalent to approximately HK\$2,008,500) was contributed and owned by Shi Da Property and 35% (being RMB1,050,000, equivalent to approximately HK\$1,081,500) was contributed and owned by Ordos Electric. According to the unaudited management account of Chang Meng Gas prepared in accordance with the PRC accounting standard, the net assets of Chang Meng Gas was RMB3,000,000 (approximately HK\$3,090,000) and the total liabilities was RMB14,757,000 (approximately HK\$15,199,710). Upon completion of the Acquisition, the accounts of Chang Meng Gas will be consolidated with Zhongran Shi Da and Chang Meng Gas will be accounted for as a subsidiary of Zhongran Shi Da.

Upon completion of the Acquisition, the board of directors of Chang Meng Gas will comprise three directors, of whom two will be appointed by Zhongran Shi Da and one will be appointed by Ordos Electric. The Group and Shi Da Property have not yet decided how many board members of Chang Meng Gas will be appointed by each of the parties. There is no chairman in Chang Meng Gas.

Chang Meng Gas obtained the approval for the construction of gas pipeline from the Government of Inner Mongolia Autonomous Region in 2006. It is expected that the total investment amount will be approximately RMB400,000,000 and the construction works are expected to be commenced in the second half of this year. There is now no funding plan for such investment amount, which however will be further discussed between the shareholders of Chang Meng Gas after Acquisition and the Company will comply with the requirements of the Listing Rules as and when appropriate.

A gas pipeline with a total length of approximately 230 kilometres and an annual natural gas capacity of 1,200,000,000 m<sup>3</sup> was planned to be constructed from 蘇裏格氣田 (SuLuiGe gas field)\* to Otag Banner, Ordos City. The natural gas is mainly supplied to 鄂爾多斯聯合化工有限公司 (Ordos United Chemical Co. Ltd)\* which has an annual demand of natural gas of 778,000,000 m<sup>3</sup>. Gas supply agreement has already been entered into between Chang Meng Gas and 中石油長慶油田 (Petrochina Zhangxing oil field)#, pursuant to which 778,000,000 m<sup>3</sup> natural gas was agreed to be supplied by 中石油長慶油田 (Petrochina Zhangxing oil field)\* in 2009 and the volume to be supplied will be increased according to the market condition. Chang Meng Gas has also signed a gas supply agreement with 鄂爾多斯聯合化工有限公司 (Ordos United Chemical Co. Ltd)\*.

Chang Meng Gas has made some preparation and research work for construction of natural gas pipeline in Inner Mongolia Autonomous Region. Further, Chang Meng Gas has not yet constructed natural gas pipelines for its operation. Therefore, Chang Meng Gas has no revenue or profit since its establishment.

**INFORMATION ON ORDOS CITY, INNER MONGOLIA AUTONOMOUS REGION**

Ordos is located in the southwestern part of Inner Mongolia Autonomous Region with rich natural resources and is the major energy chemical engineering and textiles region in the PRC. Its proved charcoal reserve is approximately 124.4 billion tones, representing one-sixth of the total charcoal reserve in the PRC. Its proved natural gas reserve is approximately 750 billion tones, representing one-third of the total natural gas reserve in the PRC.

**REASONS FOR THE ACQUISITION**

The Group is principally engaged in the investment in, and 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 actively seeking opportunities for expanding and enhancing the principal business of the Company in the PRC. The Directors (including the independent non-executive Directors) consider that the Acquisition will be a good opportunity for the Group to expand its business in the PRC which is in line with the Group's overall business objective of developing and investing in natural gas projects in the PRC. The Group now owns four constructed long distance gas pipelines and all of them are in use currently. The total annual gas transmission capacity of these pipelines is approximately 2,000,000,000 m<sup>3</sup>. Chang Meng Gas's gas pipeline will be the fifth gas pipeline to be acquired by the Group and is one with the largest annual transmission capacity among all other long distance gas pipelines. The Directors consider that the Acquisition and the construction of gas pipelines will bring significant return to the Group and benefit the Group in obtaining other long term and stable natural gas supply, and thus strengthening the Group's competitiveness in the downstream distribution market.

#### **FURTHER ACQUISITION OF THE EQUITY INTEREST IN CHANG MENG GAS**

In view of the good prospects of the construction and development of gas pipeline, the Group considers to further acquire the equity interests in Chang Meng Gas through Zhongran Shi Da so that the effective interest of the Group in Chang Meng Gas will be over 50%. However, there is now no concrete timetable for this further acquisition and the Company will comply with the requirements of the Listing Rules as and when appropriate.

#### **LISTING RULES IMPLICATION**

Since Shi Da Property is a substantial shareholder of Zhongran Shi Da, a non-wholly owned subsidiary of the Company and hence is a connected person of the Company, the Acquisition constitutes a connected transaction on the part of the Company under the Listing Rules. The Company had no prior transactions with Shi Da Property or its ultimate beneficial owners. As each of the percentage ratios is less than 2.5%, the Acquisition is exempt from all the reporting, announcement and independent shareholders' approval requirements under Rule 14A.32 of the Listing Rules and will only be subject to the reporting and announcement requirements set out in Rules 14A.45 to 47 of the Listing Rules. Details of the Acquisition will be included in the Company's next published annual report.

#### **DEFINITIONS**

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

"Acquisition"	the acquisition by Zhongran Shi Da of 65% equity interests in Chang Meng Gas from Shi Da Property subject to and upon the terms of the Share Transfer Agreement
"Board"	the board of Directors
"Chang Meng Gas"	鄂托克旗長蒙天然氣有限責任公司(Otog Banner Chang Meng Gas Company Limited)*, a limited liability company established in Otog Banner, Ordos city, Inner Mongolia Autonomous Region, the PRC on 6 June 2006
"Company"	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to this term under the Listing Rules
"Directors"	directors (including the independent non-executive directors) of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules

independent third party(ies)	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Ordos Electric"	內蒙古鄂爾多斯電力冶金股份有限公司 (Ordos Electric Metallurgy Company Limited)*, a company established in Ordos City, Inner Mongolia Autonomous Region, the PRC
"PRC"	the People's Republic of China
"percentage ratios"	has the meaning ascribed to this term under the Listing Rules, as application to a transaction
"Shi Da Property"	鄂爾多斯市時達房地產開發有限責任公司 (Ordos City Shi Da Property Development Company Limited )*, a limited liability company established in Ordos City, Inner Mongolia Autonomous Region, the PRC
"Share Transfer Agreement"	the share transfer agreement dated 7 June 2007 and entered into between Shi Da Property as vendor and Zhongran Shi Da as purchaser in respect of the transfer of shares of Chang Meng Gas
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Zhongran Shi Da"	鄂爾多斯市中燃時達燃氣投資有限責任公司 (Ordos Zhongran Shi Da Gas Investment Company Limited )*, a limited liability company established in Ordos City, Inner Mongolia Autonomous Region, the PRC on 5 June 2007
"Zhongran Gas"	中燃燃氣實業(深圳)有限公司 (Zhongran Gas (Shenzhen) Company Limited)*, a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of the Company
"HK\$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"%"	per cent.
"m <sup>3</sup> "	cubic metre

By order of the Board  
**Liu Ming Hui**  
*Managing Director*

Hong Kong, 8 June 2007

\* 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 translations of such Chinese names or words.

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of RMB1.00 to HK\$1.03. 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.

As at the date of this announcement, Mr. Li Xiao Yun, 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, Mr. Joe Yamagata and Mr. R.K. Goel 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.