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CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(incorporated in Bermuda with limited liability)

**DISCLOSEABLE TRANSACTION
PROPOSED ACQUISITION OF THE SALE SHARES**

The Board is pleased to announce that the Company as purchaser entered into the Agreement with the Vendor on 9 February 2004 for the Proposed Acquisition of the Sale Shares and the Shareholder's Loan in CDEL which in turn owns 100% equity interest in Tongbaohua. CDEL is a company incorporated in the BVI with limited liability. The Vendor is the legal and beneficial owner of the Sale Shares. As at the date of this announcement, CDEL is owned as to 30% by the Company and 70% by the Vendor. Tongbaohua is a wholly owned foreign enterprise set up in the PRC and is wholly owned by CDEL. The Vendor, its ultimate beneficial owner and their respective associates are not connected persons (as defined in the Listing Rules) and are independent of and not connected with any of the Directors, chief executive or substantial Shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Pursuant to the Agreement, the Company will acquire the Sale Shares from the Vendor. Upon Completion of the Proposed Acquisition, the Company will own 100% of the issued share capital of CDEL which in turn owns 100% equity interest in Tongbaohua. As at 15 January 2004, the net tangible asset value of CDEL was RMB13,779.00 (equivalent to approximately HK\$13,000.00). The total asset value of CDEL as at 15 January 2004 was RMB96,393,709.00 (equivalent to approximately HK\$90,937,461.32), however, taking into account the Shareholder's Loan and minority interests, the net tangible asset value of CDEL hence came down to RMB13,779.00 as at 15 January 2004.

Tongbaohua is principally engaged in the investment and development of natural gas technology, technology transfer, technology training and technology services in respect of natural gas. Tongbaohua also holds equity interest in the PRC Group Companies. The PRC Group Companies are engaged in the transmission, distribution and sale of natural gas in Xiaogan City, Hanchuan City, Yunmeng City and Yingcheng City in the PRC. As at the date of the announcement, the total registered capital of the PRC Group Companies in the aggregate amount of RMB61,200,000 (equivalent to approximately HK\$57,735,849.06) has already been paid up.

The Directors consider that the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Proposed Acquisition constitutes a discloseable transaction under the Listing Rules. A circular containing further details of the Proposed Acquisition will be despatched to the Shareholders of the Company as soon as practicable.

THE AGREEMENT

Date of the Agreement: 9 February 2004

Parties: the Company as purchaser and the Vendor as vendor.

The Company as purchaser and the Vendor as vendor entered into the Agreement on 9 February 2004 for the Proposed Acquisition of the Sale Shares and the Shareholder's Loan from the Vendor.

Information on CDEL

CDEL is a limited company incorporated in the BVI on 28 May 2003, with an authorized share capital of US\$50,000, divided into 50,000 shares of US\$1 each.

As at the date of this announcement, CDEL is owned as to 30% by the Company and 70% by the Vendor, and CDEL in turn owns 100% of the equity interest in Tongbaohua, being CDEL's sole asset, which in turn owns the PRC Group Companies. As at 12 January 2004, the total asset value of CDEL is RMB96,393,709.00 (equivalent to approximately HK\$90,937,461.32). As at 15 January 2004, CDEL recorded a loss of RMB8,925.00 (equivalent to approximately HK\$8,500.00), with a net tangible asset value of RMB13,779.00 (equivalent to approximately HK\$13,000.00). The total asset value of CDEL as at 15 January 2004 was RMB96,393,709.00 (equivalent to approximately HK\$90,937,461.32), however, taking into account the Shareholder's Loan and minority interests, the net tangible asset value of CDEL hence came down to RMB13,779.00 as at 15 January 2004.

The Company as purchaser and the Vendor as vendor entered into the Agreement for the Proposed Acquisition of the Sale Shares on 9 February 2004, upon completion of which the Company will become the sole owner of CDEL, holding 100% of the issued share capital thereof.

The Vendor, its ultimate beneficial owner and their respective associates are not connected persons (as defined in the Listing Rules) and are independent of and not connected with any of the Directors, chief executive or substantial Shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Information on Tongbaohua

Tongbaohua is a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of CDEL. Tongbaohua has equity interests in the PRC Group Companies (holding such shareholding percentages thereof as stated in the brackets), namely as follows:

- (a) Xiaogan Zhenrong Gas Co. Ltd. (孝感振戎天然氣有限公司), with a registered capital of RMB28,000,000 (Tongbaohua holding 30% of its equity interest; Great Sun Investments Co. Ltd. (嘉旭投資有限公司) holding 25% of its equity interest; Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) holding 45% of its equity interest);
- (b) Xiaogan Jiayu Gas Co. Ltd. (孝感嘉旭天然氣有限公司), with a registered capital of RMB10,000,000 (Tongbaohua holding 65% of its equity interest; Great Sun Investments Co. Ltd. (嘉旭投資有限公司) holding 25% of its equity interest; Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) holding 10% of its equity interest);
- (c) Hanchuan Jiayu Gas Co. Ltd. (漢川嘉旭天然氣有限公司), with a registered capital of RMB7,000,000 (Tongbaohua holding 65% of its equity interest; Great Sun Investments Co. Ltd. (嘉旭投資有限公司) holding 25% of its equity interest; Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) holding 10% of its equity interest);
- (d) Yumeng Jiayu Gas Co. Ltd. (雲夢嘉旭天然氣有限公司), with a registered capital of RMB6,200,000 (Tongbaohua holding 65% of its equity interest; Great Sun Investments Co. Ltd. (嘉旭投資有限公司) holding 25% of its equity interest; Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) holding 10% of its equity interest); and
- (e) Yingcheng Jiayu Gas Co. Ltd. (應城嘉旭天然氣有限公司), with a registered capital of RMB10,000,000 (Tongbaohua holding 65% of its equity interest; Great Sun Investments Co. Ltd. (嘉旭投資有限公司) holding 25% of its equity interest; Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) holding 10% of its equity interest).

Great Sun Investments Co. Ltd. (嘉旭投資有限公司) and Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) and their respective ultimate owners are not connected persons (as defined in the Listing Rules) and are independent of and not connected with any of the Directors, chief executive or substantial Shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules).

Gas project operated by the PRC Group Companies

Xiaogan Zhenrong Gas Co. Ltd. (孝感振戎天然氣有限公司) is principally engaged in the construction of main trunk gas pipelines in Changfu (常福) station, Wuhan (武漢) of the “Zhong-Wu” (忠-武) line connecting the gas network in Xiaogan City (孝感市), Hanchuan City (漢川市), Yingcheng City (應城市) and Yunmeng City (雲夢市) in the Hubei Province, the PRC, for the eastern transmission of Xichuan gas (川氣) and the distribution and sale of natural gas to Xiaogan Jiayu Gas Co. Ltd. (孝感嘉旭天然氣有限公司), Hanchuan Jiayu Gas Co. Ltd. (漢川嘉旭天然氣有限公司), Yumeng Jiayu Gas Co. Ltd. (雲夢嘉旭天然氣有限公司) and Yingcheng Jiayu Gas Co. Ltd. (應城嘉旭天然氣有限公司) which are responsible for the construction of the natural gas pipelines network within the respective cities, and the distribution and sale of natural gas to ultimate users therein.

In November 2003, Xiaogan Jiayu Gas Co. Ltd. (孝感嘉旭天然氣有限公司), Hanchuan Jiayu Gas Co. Ltd. (漢川嘉旭天然氣有限公司), Yumeng Jiayu Gas Co. Ltd. (雲夢嘉旭天然氣有限公司) and Yingcheng Jiayu Gas Co. Ltd. (應城嘉旭天然氣有限公司) (collectively, the “Four Companies”) have been granted an exclusive right by the respective local governments to operate the gas project as the sole operator in the construction of gas pipelines and the distribution and supply of natural gas in the respective cities for a period of up to thirty years.

Xiaogan Zhenrong Gas Co. Ltd. (孝感振戎天然氣有限公司) is responsible for the construction of the transmission pipeline of natural gas, the total length of which is 145 kilometres and which passes through Hanjiang (漢江), Han Beihe (漢北河) and Fuhe (府河). The said transmission pipeline is expected to be completed by the end of 2005. The designated gas transmission capacity per year is 336,490,000 cubic metres, its long term gas transmission capacity per year, with pressurized function, will reach seven hundred million cubic metres.

Before the establishment of the Four Companies, Xiaogan City (孝感市), Hanchuan City (漢川市), Yumeng City (雲夢市) and Yingcheng City (應城市) (all located in the Hubei Province, the PRC) did not have installation of any natural gas pipelines. Since the residents in these cities mainly used liquefied petroleum gas and coal as daily fuel, the development of natural gas pipelines will have high market potential. The feasibility study reports prepared in 2002 by Great Sun Investments Co. Ltd. (嘉旭投資有限公司) and Beijing Yu Long Cang Gas Technology Co. Ltd. (北京裕隆倉燃氣技術有限公司) on the potential usage of natural gas in these cities indicate that the natural gas pipelines will connect to a total of 249,000 households in these cities in 2009. Xiaogan City is also the base for chemical salt business in China, with many large-scale chemical salt enterprises set up in the city. These enterprises have a great demand for natural gas. Also, according to the feasibility reports, the long term demand for natural gas by these enterprises will reach seven hundred million cubic metres in 2009. The Four Companies have commenced the construction of the natural gas pipelines and they are currently engaged in the construction of the natural gas pipelines’ network and the supply of natural gas to the residents, industrial and commercial enterprises and transportation vehicles in their respective cities.

Contribution of registered capital in Tongbaohua

The registered capital of Tongbaohua is RMB20,000,000 (equivalent to approximately HK\$18,867,924.53) which has already been paid up. Tongbaohua is principally engaged in the investment and development of natural gas technology, technology transfer, technology training and technology services. At present, Tongbaohua carries on the sale business of natural gas and refined oil in Beijing and the nearby region.

Consideration for the sale and purchase of the Sale Shares

The consideration for the Proposed Acquisition shall be RMB106,242,000.00 (approximately HK\$100,228,301.89), of which RMB78,744,000.00 (equivalent to approximately HK\$74,286,792.45) being the consideration for the purchase of the Sale Shares and RMB27,498,000.00 (equivalent to approximately HK\$25,941,509.43) being the consideration for the purchase of the Shareholder’s Loan, which was arrived at after arm’s length negotiations between the Company and the Vendor, taking into account the business prospects of the PRC Group Companies and with reference to the valuation report dated 31 December 2003 prepared by Grant Sherman Appraisal Limited, a Hong Kong independent valuer which has previously appraised similar companies in the PRC in the related discipline, on the basis of fair market value by discounted cashflow of the PRC Group Companies, which amount shall be paid by the Company from its internal resources to the Vendor pursuant to the terms of the Agreement. The Directors consider that the consideration for the Proposed Acquisition is fair and reasonable, which has been determined on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Pursuant to the Agreement, the Purchaser will pay the consideration to the Vender by two instalments in the following manner:-

- (1) The first instalment of RMB20,000,000 (equivalent to approximately HK\$18,867,924.53) will be paid by the Purchaser to the Vendor within 2 days after signing of the Agreement; and
- (2) The second instalment of RMB86,242,000.00 (equivalent to approximately HK\$81,360,377.36), being the remaining balance of the consideration, will be paid by the Purchaser to the Vendor within 30 days after the signing of the Agreement.

Completion

Completion of the Agreement is conditional upon the following conditions being fulfilled:-

- (a) the Proposed Acquisition having complied with the requirements of the Listing Rules; and
- (b) the Purchaser being satisfied with the results of the due diligence exercise to be conducted on the PRC Group Companies (including without limitation the Vendor providing the Purchaser with documents evidencing the shareholding ownership of the PRC Group Companies).

THE PROPOSED ACQUISITION

Reasons for the Proposed Acquisition

The Group is principally engaged in the investment in, among others, natural gas/energy and property projects. The Directors consider that the Proposed Acquisition represents a good opportunity for the Company to further invest in the natural gas business in the PRC which is in line with the Company's strategy to participate in the natural gas industries in the PRC. CDEL and Tongbaohua will be treated as the wholly owned subsidiaries of the Company upon completion of the Proposed Acquisition. In addition, the Directors are of the view that the Proposed Acquisition represents a good opportunity to further expand the Group's business and enhance the Group's earning base, taking into account the increase in revenue resulting from future gas consumption in the cities aforementioned, which is expected to commence by the end of 2004 upon distribution and supply of natural gas through partially completed pipelines. The Board considers the terms of the Agreement, which have been concluded after arm's length negotiation between the parties, are fair and reasonable so far as the Company and its Shareholders are concerned.

General

The Agreement and the Proposed Acquisition contemplated thereunder are required to comply strictly with the Listing Rules. The Proposed Acquisition constitutes a discloseable transaction under the Listing Rules. A circular containing further details of the Proposed Acquisition will be despatched to the Shareholders of the Company as soon as practicable.

Definitions

“Agreement”	The agreement for the sale and purchase of the Sale Shares entered into by and between the Company as purchaser and the Vendor as vendor on 9 February 2004
“Board”	The board of Directors
“BVI”	British Virgin Islands
“CDEL”	Clever Decision Enterprises Limited (智選企業有限公司), a company established in the BVI on 28 May 2003 with limited liability, owned as to 30% by the Company and 70% by the Vendor
“Company”	China Gas Holdings Limited (中國燃氣控股有限公司), a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange
“Completion”	Completion of the Proposed Acquisition pursuant to the terms of the Agreement
“Directors”	Directors of the Company
“Group”	The Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People's Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Listing Rules”	Rules Governing The Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China
“PRC Group Companies”	Companies established in the PRC and owned by Tongbohua in the percentages stated in brackets, namely: Xiaogan Zhenrong Gas Co. Ltd. (孝感振戎天然氣有限公司) (30% of its equity interest); Xiaogan Jiayu Gas Co. Ltd. (孝感嘉旭天然氣有限公司) (65% of its equity interest); Hanchuan Jiayu Gas Co. Ltd. (漢川嘉旭天然氣有限公司) (65% of its equity interest); Yumeng Jiayu Gas Co. Ltd. (雲夢嘉旭天然氣有限公司) (65% of its equity interest); and Yingcheng Jiayu Gas Co. Ltd. (應城嘉旭天然氣有限公司) (65% of its equity interest)
“Proposed Acquisition”	The proposed acquisition of the Sale Shares contemplated under the Agreement
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Sale Shares”	70% of the issued share capital of CDEL, comprising 70 ordinary shares of US\$1 each, legally and beneficially owned by the Vendor
“Shareholder(s)”	Registered holder(s) of the Shares
“Shareholder’s Loan”	RMB27,486,000
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tongbaohua”	Beijing Tongbaohua Oil & Gas Technology Development Limited (北京通寶華油燃氣技術發展有限公司), a wholly foreign owned enterprise established in the PRC and a wholly owned subsidiary of CDEL
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Profit View International Limited (盈景國際有限公司), a company incorporated in the BVI on 2 January 2004 with limited liability
“%”	Per cent.

Note: For the purpose of this announcement, the exchange rate between HK\$ and RMB is stated at HK\$1 = RMB1.06.

By Order of the Board
Liu Ming Hui
Managing Director

Hong Kong, 11 February 2004

* *for identification purpose only*

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