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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: RESTRUCTURING THE ZHONGYOU GROUP WITH OMAN OIL**

#### **THE JOINT VENTURE AGREEMENT**

The Board is pleased to announce that on 26 November 2010, the conditional JV Agreement is entered into between (i) the Company and (ii) Oman Oil in relation to the Zhongyou Group Restructuring with introduction of Oman Oil as a strategic investor in the Zhongyou Group.

The Zhongyou Group Restructuring is subject to the fulfillment and/or waiver of conditions precedent of the JV Agreement as set out in this announcement.

Immediately after the Closing, the interests of the Company in the Zhongyou Group will decrease from 100% to 55%. Whereas each member of the Zhongyou Group will continue to be treated as non-wholly owned subsidiaries of the Company and its results will continue be consolidated with the results of the Group, the Zhongyou Group Restructuring will be regarded as a deemed disposal of 45% interests in the Zhongyou Group.

Immediately after Closing, the indirect interests of the Company in the Zhongyou Group will be held through its 55% direct interest in Newco and Newco will be treated as a non-wholly owned subsidiary of the Company.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As the relevant percentage ratios of the deemed disposal of interests in the Zhongyou Group as a result of the Zhongyou Group Restructuring as contemplated under the JV Agreement exceed 5% but are less than 25%, the Zhongyou Group Restructuring and the entering into of the JV Agreement constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

## **THE ZHONGYOU GROUP RESTRUCTURING**

### **The JV Agreement**

**Date** : 26 November 2010

**Parties** : (i) the Company; and  
(ii) Oman Oil

Zhongran Gas is a wholly-owned subsidiary of the Company and is an investment company established in the PRC. Immediately prior to the entering into of the JV Agreement, Zhongran Gas holds the entire registered capital of Shanghai Zhongyou Energy and Shanghai Zhongyou Energy holds the entire registered capital of Zhejiang Zhongyou Hua Dian.

Oman Oil is incorporated in the Sultanate of Oman which is a commercial company beneficially owned by the government of the Sultanate of Oman. Oman Oil invests in oil and gas projects in Oman, natural gas exploration, processing and transportation in the Middle East, Europe and Central Asia.

As at the date of this announcement, Oman Oil holds 237,567,060 Shares, representing approximately 5.45% of the issued share capital of the Company. Mr. Mulham Al Jarf was nominated by Oman Oil to act as a non-executive Director on 13 April 2010 and he does not hold any shares in Oman Oil nor is he interested in any Shares.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed, Oman Oil and its ultimate beneficial owner(s) are Independent Third Parties.

Newco will be an investment holding company to be incorporated in Hong Kong and will be wholly owned by the Company prior to the Closing.

Pursuant to the JV Agreement, the Zhongyou Group Restructuring involves (i) the Company Subscription; (ii) the SZE Transfer; (iii) the Agreed Further Acquisitions; (iv) the Oman Oil Subscription and the entering into of the Shareholders Agreement.

Please refer to the section headed "Group structure before and after the Zhongyou Group Restructuring" for more details of the shareholding structure of the Zhongyou Group.

## **Assets being involved**

### ***(i) The Company Subscription***

Subject to the terms and conditions of the JV Agreement, the Company will subscribe for Ordinary Newco Shares to fund Newco's acquisition of the entire registered capital of Shanghai Zhongyou Energy.

### ***(ii) The SZE Transfer***

Subject to the terms and conditions of the JV Agreement, Newco will acquire the entire registered capital of Shanghai Zhongyou Energy on terms that following completion of such acquisition Newco will have no outstanding liabilities or obligations to Zhongran Gas.

### ***(iii) The Agreed Further Acquisitions***

It is being contemplated under the JV Agreement that prior to Closing, Newco or its subsidiaries will have entered into binding sale and purchase agreement(s) to make the Agreed Further Acquisitions on terms and conditions that have been approved by the Company and Oman Oil with the aggregate consideration payable in respect of the Agreed Further Acquisitions to be funded solely with the proceeds of the Oman Oil Subscription.

### ***(iv) The Oman Oil Subscription and entering into of the Shareholders Agreement***

Subject to the terms and conditions of the JV Agreement, Oman Oil will subscribe for Preferred Newco Shares for a consideration equal to the Oman Investment Amount representing 45% of the issued share capital of Newco immediately after Closing. Upon Closing, each of the Company, Oman Oil and Newco will enter into the Shareholders Agreement which shall set out rights and obligations of the Company and Oman Oil in respect of Newco.

The Oman Oil Subscription and the entering into of the Shareholders Agreement will be carried out simultaneously upon Closing of the JV Agreement.

## **Conditions precedent to the SZE Transfer**

The Company will not be obliged to procure that Newco implements the SZE Transfer unless the following conditions shall have been satisfied:

- (a) the SZE Transfer shall have been approved in general meeting by the Shareholders, if and to the extent such approval is required pursuant to the Listing Rules;
- (b) all governmental, regulatory and other approvals (including the approval of MOFCOM) necessary for the completion of the SZE Transfer shall have been obtained;

- (c) the warranties given by Oman Oil in the JV Agreement shall be true and correct in all material respects and Oman Oil shall have complied in all material respects with its other obligations under the JV Agreement (to the extent that such obligations shall have been required to have been performed);
- (d) there shall not be in effect, published, introduced or otherwise formally proposed any law, order or regulation, and there shall not have been commenced or threatened by any third party any action, suit or other proceedings, which in any case may prohibit or make illegal the completion of the SZE Transfer contemplated by the JV Agreement; and
- (e) the Company, Oman Oil and the Escrow Bank shall have entered into the Escrow Agreement in accordance with the terms of the JV Agreement and the Escrow Agreement shall be in full force and effect.

### **Conditions precedent to the Oman Oil Subscription**

The Company will not be obliged to procure that Newco issues and allots Preferred Newco Shares to Oman Oil under the Oman Oil Subscription unless the warranties given by Oman Oil in the JV Agreement shall be true and correct in all material respects and Oman Oil shall have complied in all material respects with its other obligations under the JV Agreement on or before the Long Stop Date (which condition may be waived by the Company).

Oman Oil will not be obliged to subscribe for Preferred Newco Shares under the Oman Oil Subscription unless the following conditions shall have been satisfied on or before the Long Stop Date (any of which conditions may be waived by Oman Oil except that the conditions set forth in paragraph (a) and (h) below may only be waived by written agreement of both Oman Oil and the Company):

- (a) there shall not be in effect, published, introduced or otherwise formally proposed any law, order or regulation, and there shall not have been commenced or threatened by any third party any action, suit or other proceedings, which in any case may prohibit or make illegal the consummation by either the Company or Oman Oil or by Newco of the transactions contemplated by this Agreement;
- (b) Newco shall have been established by the Company in accordance with the terms of the JV Agreement;
- (c) Oman Oil and the Company shall have agreed the terms of the Articles of Association, which shall have been adopted by the Company in accordance with the terms of the JV Agreement;
- (d) the SZE Transfer shall have been completed in accordance with the terms of the JV Agreement;
- (e) there shall be one or more Agreed Further Acquisitions which the Company and Oman Oil shall have confirmed in writing;

- (f) having regard to the identity and purchase price of the Agreed Further Acquisitions, the Company and Oman Oil shall have agreed in writing:
  - (i) that the Oman Investment Amount remains a fair and reasonable consideration for a 45% shareholding in Newco; or
  - (ii) an amendment to the Oman Investment Amount and any amendment to the other terms of the JV Agreement;
- (g) in respect of each such Agreed Further Acquisitions:
  - (i) the seller under the relevant acquisition agreement shall have complied in all material respects with its obligations under such agreement;
  - (ii) no event or circumstance shall have occurred or arisen (including any default by the seller, adverse change in the business to be acquired or any other event or circumstance) which would entitle the purchaser to terminate such agreement; and
  - (iii) such agreement shall have become unconditional in all respects, except to the extent of conditions which have been approved by Oman Oil and the Company;
- (h) the Oman Oil Subscription and the Agreed Further Acquisitions shall have been approved in general meeting by the Shareholders, to the extent such approval is required pursuant to the Listing Rules;
- (i) the warranties given by the Company in the JV Agreement shall be true and correct in all material respects and the Company shall have complied in all material respects with its other obligations under the JV Agreement; and
- (j) there shall not have occurred any material adverse change in the business, operations, assets, position (financial, trading or otherwise) or prospects of any member of the Zhongyou Group or any event or circumstance that is reasonably likely to result in such a material adverse change, including changes in laws, regulations or accounting practices.

## **Closing**

It is expected that Closing will take place on the fifth business day after the conditions precedent to the Oman Oil Subscription have been satisfied or waived (or at such other time and location as the Company and Oman Oil may agree).

Immediately after the Closing, the interests of the Company in the Zhongyou Group will decrease from 100% to 55%. Whereas each member of the Zhongyou Group will continue to be treated as non-wholly owned subsidiaries of the Company and its results will continue be consolidated with the results of the Group, the Zhongyou Group Restructuring will be regarded as a deemed disposal of 45% interests in the Zhongyou Group.

Immediately after the Closing, the indirect interests of the Company in the Zhongyou Group will be held through its 55% direct interest in Newco and Newco will be treated as a non-wholly owned subsidiary of the Company.

## **REASONS FOR THE ZHONGYOU GROUP RESTRUCTURING**

The Group is principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of gas in the PRC while the Zhejiang Zhongyou Hua Dian and Shanghai Zhongyou Energy are principally engaged in LPG business.

Zhongyou Group was under internal restructuring during the financial period ended 31 March 2010 pursuant to which Shanghai Zhongyou Energy became the holding company of Zhongyou Group. Before that, Zhejiang Zhongyou Hua Dian was the holding company of Zhongyou Group. Details of the internal restructuring of Shanghai Zhongyou Energy to become the holding company of Zhongyou Group were disclosed in the announcements of the Company dated 24 August 2009 and 10 September 2009.

According to the audited financial statements of Zhongyou Group, the net loss (before and after taxation) was approximately HK\$10,644,000 for the year ended 31 March 2010. Zhongyou Group has a net asset of approximately HK\$29,425,000 as at 31 March 2010. The net loss of Zhongyou Group for the year ended 31 March 2009 (before and after taxation) was approximately HK\$68,064,773.

Oman Oil has extensive business worldwide network. Oman Oil has been a strategic investor of the Company since 2005 and the Zhongyou Group Restructuring will reinforce the existing strategic cooperation relationship between Oman Oil and the Company. In light of the network and operations of Oman Oil, it is expected that the Zhongyou Group Restructuring will allow both the Company and Oman Oil to further explore synergy and cooperation amongst their respective businesses to further enhance the benefits of both parties.

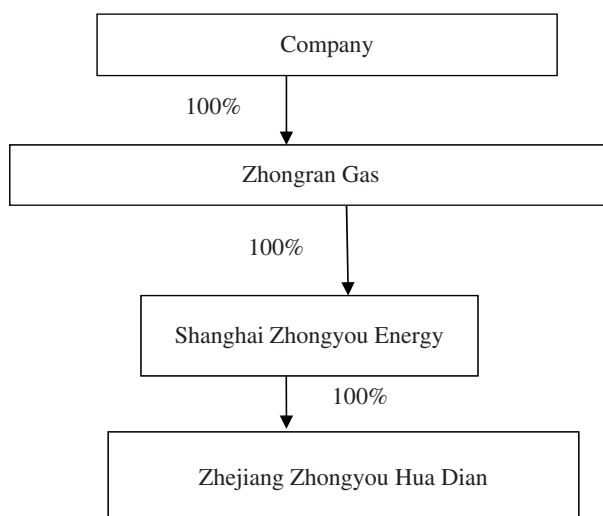
Furthermore, the proceeds from the Oman Oil Subscription will be utilized for the acquisition of further business of Newco and the Zhongyou Group. With such additional funds, it is reasonable to contemplate the future growth in the business of the Newco and Zhongyou Group.

The terms of the JV Agreement were arrived at after arm's length negotiations between the parties and the Directors (including the independent non-executive Directors) consider that the terms and conditions of the JV Agreement (including the consideration for the Oman Oil Subscription) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

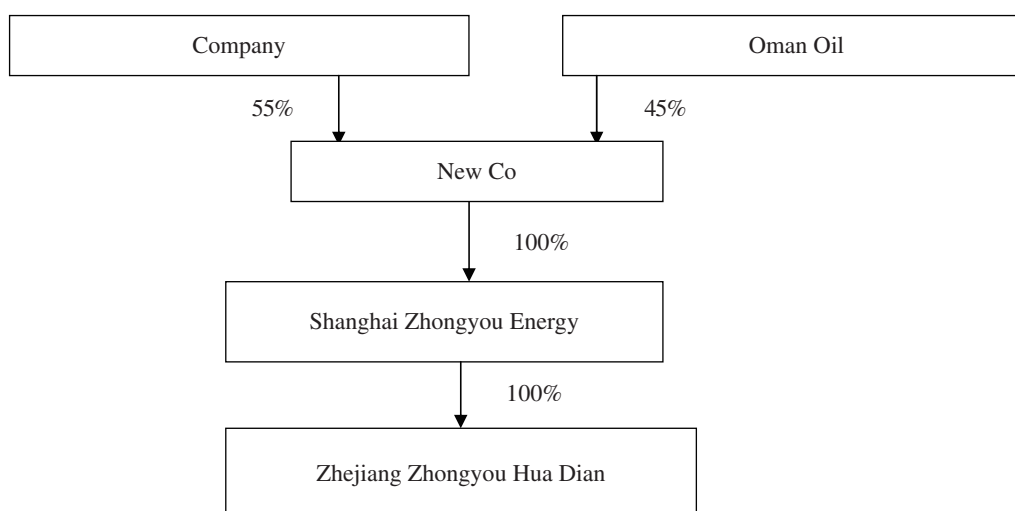
## **GROUP STRUCTURE BEFORE AND AFTER THE ZHONGYOU GROUP RESTRUCTURING**

Set out below is the Zhongyou Group structure before and after the Zhongyou Group Restructuring:

### **Present Structure**



### **Immediately after Closing of the Investment Agreement**



## **IMPLICATIONS UNDER THE LISTING RULES**

As the relevant percentage ratios of the deemed disposal of interests in the Zhongyou Group as a result of the Zhongyou Group Restructuring as contemplated under the JV Agreement exceed 5% but are less than 25%, the Zhongyou Group Restructuring constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

## **DEFINITIONS**

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

“Agreed Further Acquisitions”	one or more proposed acquisitions by Newco or its subsidiaries of companies or businesses (in addition to the SZE Transfer) that are engaged in the business of trading LPG in the PRC as contemplated under the JV Agreement
“Board”	the board of Directors
“Closing”	the closing of the JV Agreement
“Company”	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Company Subscription”	the subscription of Ordinary Newco Shares by the Company as contemplated under the JV Agreement
“Directors”	directors of the Company from time to time
“Escrow Agreement”	the agreement providing for the deposit, holding and release of subscription monies in an escrow account in connection with the Oman Oil Subscription as contemplated under the JV Agreement
“Escrow Bank”	the bank to be appointed as the escrow agent under the Escrow Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry are third parties independent of the Company and its connected persons (as defined under the Listing Rules)
“JV Agreement”	the conditional joint venture agreement dated 26 November 2010 and entered into between the Company and Oman Oil in relation to the Zhongyou Group Restructuring
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 August 2011 or such other date as the Company and Oman Oil may agree
“LPG”	liquefied petroleum gas
“Newco”	a company to be incorporated by the Company in Hong Kong
“Oman Investment Amount”	a sum of US\$131,500,000 or its equivalent in Hong Kong dollars (which is subject to adjustment as may be agreed between the Company and Oman Oil according to the total amount of consideration payable by Newco in respect of the Agreed Further Acquisitions)
“Oman Oil”	Oman Oil Company S.A.O.C., a company incorporated in the Sultanate of Oman
“Oman Oil Subscription”	the subscription of Preferred Newco Shares by Oman Oil as contemplated under the JV Agreement
“Ordinary Newco Shares”	ordinary shares in the capital of Newco, each having a nominal value of HK\$1
“PRC”	People’s Republic of China

“Preferred Newco Shares”	preferred ordinary shares in the capital of Newco, each having a nominal value of HK\$1 and having such rights as are described in the Articles of Association of Newco
“Shanghai Zhongyou Energy”	上海中油能源控股有限公司 (Shanghai Zhongyou Energy Holdings Co. Ltd.), a company established and subsisting in the PRC and a wholly-owned subsidiary of Zhongran Gas
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Shareholders Agreement”	the shareholders agreement to be entered into among the Company, Oman Oil and Newco upon Closing in relation to the rights and obligations of the shareholders of Newco
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZE Transfer”	the sale by Zhongran Gas and the purchase by Newco of the entire registered capital of Shanghai Zhongyou Energy in accordance with the JV Agreement
“Zhejiang Zhongyou Hua Dian”	浙江中油華電能源有限公司 (Zhejiang Zhongyou Hua Dian Energy Co. Ltd.), a limited liability company established in Dongtouxian, Zhejiang province, the PRC
“Zhongran Gas”	中燃燃氣實業(深圳)有限公司 (Zhongran Gas Industrial (Shenzhen) Limited#), a limited liability company established and subsisting in Shenzhen, the PRC and a wholly-owned subsidiary of the Company
“Zhongyou Group”	Shanghai Zhongyou Energy and its subsidiaries
“Zhongyou Group Restructuring”	the restructuring of the Zhongyou Group involving the entering into of the JV Agreement, the Company Subscription, the SZE Transfer, the Agreed Further Acquisitions, the Oman Oil Subscription and the entering into of the Shareholder Agreement as contemplated under the JV Agreement

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

By order of the Board of  
**CHINA GAS HOLDINGS LIMITED**  
**Liu Ming Hui**  
*Managing Director*

Hong Kong, 26 November 2010

# *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 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. Joe Yamagata, Mr. R.K. Goel, Mr. Moon Duk Kyu and Mr. Mulham Al Jarf 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 identification purpose only*