
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Gas Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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CHINAGAS
中國燃氣

CHINA GAS HOLDINGS LIMITED
(中國燃氣控股有限公司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 384)

PROPOSED CAPITAL REDUCTION

A separate notice convening the special general meeting of the Company to be held at Aberdeen Room, Level 3, JW Marriott Hote Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 5 September 2006 at 10:45 a.m. is set out on page 5 of this circular. A separate form of proxy for use at the special general meeting is enclosed with this circular. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Ltd., at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. Completion and return of the form of proxy will not prevent members from attending and voting at the meeting if they so wish.

8 August 2006

* For identification purpose only

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

“Accumulated Losses”	the accumulated losses of the Company as shown in the audited financial statements of the Company made up to 31 March 2006 (the date to which the latest audited financial statements of the Company were made up) which amounted to HK\$382,038,000
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction in the capital of the Company by cancelling an approximate amount of HK\$382,038,000 standing in the Company’s share premium account so as to write off the Accumulated Losses
“Company”	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Companies Act”	Companies Act 1981 of Bermuda
“Directors”	the directors of the Company from time to time
“Result Announcement”	the result announcement of the Company dated 21 July 2006 in relation to the annual results of the Company for the year ended 31 March 2006
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Capital Reduction
“Shareholders”	holders of Shares
“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

LETTER FROM THE BOARD



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CHINA GAS HOLDINGS LIMITED

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Executive Directors:

Mr. Li Xiaoyun (*Chairman*)
Mr. Xu Ying (*Vice Chairman*)
Mr. Liu Ming Hui (*Managing Director*)
Mr. Ma Jin Long
Mr. Zhu Wei Wei

Non-executive Directors:

Mr. Feng Zhuo Zhi
Mr. Harrison Blacker
Mr. Suresh Raghavanachari

Independent non-executive Directors:

Mr. Zhao Yu Hua
Dr. Mao Er Wan
Ms. Wong Sin Yue, Cynthia

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place
of business in Hong Kong:*

Room 1601, 16th Floor
AXA Centre
No. 151 Gloucester Road
Wanchai
Hong Kong

8 August 2006

To the Shareholders

Dear Sir or Madam,

PROPOSED CAPITAL REDUCTION

INTRODUCTION

By an announcement dated 24 July 2006, the Board announced that the Company proposes to effect a Capital Reduction.

The purpose of this circular is to provide you with details of the Capital Reduction and to give you the notice of the SGM to be convened for the purpose of considering and, if thought fit, approving the Capital Reduction.

* *For identification purpose only*

LETTER FROM THE BOARD

PROPOSED CAPITAL REDUCTION

By an announcement dated 24 July 2006, the Board announced that the Company proposes to effect a capital reduction by cancelling approximately HK\$382,038,000 standing to the credit of the Company's share premium account. The credit of approximately HK\$382,038,000 arising from such cancellation will be applied to set off against the Accumulated Losses in full.

The Capital Reduction does not involve any reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the Shares or the trading arrangements in respect of the Shares.

CONDITIONS

The Capital Reduction is conditional on:

- (a) the passing of a special resolution by the Shareholders at the SGM to approve the Capital Reduction; and
- (b) compliance by the Company with the requirements of section 46(2) of the Companies Act.

Subject to the fulfillment of the above conditions, the Capital Reduction will become effective on the date of passing of the special resolution by the Shareholders at the SGM to approve the Capital Reduction. No Shareholders is required to abstain from voting in this resolution.

REASONS FOR THE CAPITAL REDUCTION

The Accumulated Losses as shown in the latest audited financial statements of the Company as at 31 March 2006 amounted to approximately HK\$382,038,000. The Capital Reduction (and the setting off of the Accumulated Losses against the credit arising from the Capital Reduction) is designed to facilitate the proposed declaration of final dividend of HK 1 cent per Share for the year ended 31 March 2006 as announced in the Result Announcement dated 21 July 2006. The Board considers that the substantial Accumulated Losses represent a permanent loss of assets of the Company and therefore proposes the reduction of the share premium account to eliminate the Accumulated Losses in full which it considers to be in the best interests of the Company and the Shareholders as a whole.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

According to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

LETTER FROM THE BOARD

- (iii) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

According to bye-law 67 of the bye-laws of the Company, unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

EFFECT OF THE CAPITAL REDUCTION

Implementation of the Capital Reduction will not of itself alter the underlying assets, business, operations, management, financial position (other than as regards the payment of relevant expenses) or the paid up share capital of the Company.

RECOMMENDATION

The Directors are of the opinion that the proposed Capital Reduction of the Company is in the best interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolution in relation to the proposed Capital Reduction to be proposed at the SGM.

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



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NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of China Gas Holdings Limited (the “**Company**”) will be held at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Tuesday, 5 September 2006 at 10:45 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as special resolution of the Company:

“THAT

- (a) the total amount of HK\$382,038,000 standing to the credit of the Company’s share premium account be cancelled and the credit arising from such cancellation will be applied to set off against the accumulated losses of the Company as shown in the audited financial statements of the Company for the year ended 31 March 2006 which amount to HK\$382,038,000 (the “**Capital Reduction**”) be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorised to take such actions as may in the opinion of the directors of the Company be necessary or desirable to give effect to the Capital Reduction.”

By Order of the Board of
China Gas Holdings Limited
Yang Yan Tung Doris
Company Secretary

Hong Kong, 8 August 2006

* *For identification purpose only*

NOTICE OF SGM

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:

Room 1601, 16/F
AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Ltd., at 46th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above Meeting or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.