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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

A letter from the board of directors of the Company is set out on pages 5 to 18 of this circular.

9 July 2007

* *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 when used herein:

“associates”	has the meaning ascribed to this term under the Listing Rules
“Agreements”	the Baotou Gas Agreement, the Pipeline Engineering Agreement, the Gas Station Agreement and the Cooperation Agreement
“Baotou Gas”	包頭市燃氣有限公司(Baotou City Gas Limited)#, a company established in Baotou City, the PRC, an Independent Third Party
“Baotou Gas Agreement”	the share transfer agreement dated 20 June 2007 entered into between Zhongran Investment, Zhongran Gas and Mr. Wang, relating to the sale and purchase of 80% equity interest in Baotou Gas
“Baotou Gas Interest”	80% equity interest of Baotou Gas
“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, whose issued Shares are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cooperation Agreement”	the cooperative agreement dated 20 June 2007 entered into between Zhongran Investment, Zhongran Gas, Shenyin Holding, Mr. Wang, Mr. Guo and Mr. Wang Yu, in relation to, among others matters, the existing business of the Target Companies and their related gas projects
“Directors”	directors (including the independent non-executive directors) of the Company from time to time
“Gas Station Agreement”	the share transfer agreement dated 20 June 2007 entered into between Zhongran Investment and Mr. Wang Yu relating to the sale and purchase of Shenyin Natural Gas Station Interest
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

* *for identification purpose only*

DEFINITIONS

“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
“Latest Practicable Date”	6 July 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wang”	Wang Huyun (汪虎雲), one of the vendors to the Pipeline Engineering Agreement and the majority shareholder of Shenyin Engineering holding 90% of the equity interest thereof, an Independent Third Party
“Mr. Guo”	Guo Hulin (郭虎林), one of the vendors to the Pipeline Engineering Agreement and one of the shareholders of Shenyin Engineering holding 10% of the equity interest thereof, an Independent Third Party
“Mr. Wang Yu”	Wang Yu (汪宇), the vendor to the Gas Station Agreement and the ultimate beneficial owner of Shenyin Natural Gas Station holding 100% of the equity interest thereof, an Independent Third Party
“Operating Right”	50-years of exclusive operating right from the date of the establishment of Baotou Gas
“Pipeline Engineering Agreement”	the share transfer agreement dated 20 June 2007 entered into between Zhongran Investment, Mr. Wang and Mr. Guo relating to the sale and purchase of Shenyin Engineering Interest
“PNG Project”	the project to be carried out in Baotou City, the PRC, in relation to (i) the sale and distribution of piped natural gas; (ii) the operation and construction of, gas pipeline infrastructure; and (iii) supply of gas for vehicles and operation of refilling stations and other gas related business

DEFINITIONS

“Purchasers”	together, Zhongran Investment and Zhongran Gas, both are wholly owned subsidiaries of the Company and the purchasers under the Baotou Gas Agreement and the PNG Cooperation Agreement
“PRC”	the People’s Republic of China
“Registration Completion Date”	the date on which all the approval of the registration of each of the Purchasers as members of the Target Companies in accordance with the Agreements have been obtained
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shenyin Engineering”	包頭市申銀管道工程有限公司 (Baotou City Shenyin Pipeline Engineering Limited) [#] , a company established in Baotou City, the PRC, an Independent Third Party
“Shenyin Engineering Interest”	80% equity interest of Shenyin Engineering
“Shenyin Holding”	包頭市申銀產業集團有限公司 (Baotou City Shenyin Chan Ye Holding Limited) [#] , a company established in Baotou City, the PRC, an Independent Third Party
“Shenyin Natural Gas Station”	包頭市申銀天然氣加氣站有限公司 (Baotou City Shenyin Natural Gas Station Limited) [#] , a company established in Baotou City, the PRC, an Independent Third Party
“Shenyin Natural Gas Station Interest”	80% equity interest of Shenyin Natural Gas Station
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	Baotou Gas, Shenyin Natural Gas Station and Shenyin Engineering
“Total Consideration”	the aggregate consideration in a sum of RMB179,040,000 (equivalent to approximately HK\$184,411,200), being aggregate consideration of the Transactions

DEFINITIONS

“Transactions”	the acquisitions under the Baotou Gas Agreement, Pipeline Engineering Agreement and Gas Station Agreement when aggregated
“Vendors”	together, Shenyin Holding, Mr. Wang, Mr. Guo, and Mr. Wang Yu, the vendors under the Cooperation Agreement
“Zhongran Investment”	中燃投資有限公司 (Zhongran Investment Limited) [#] , a limited liability company established and subsisting in Shenzhen, PRC, and a wholly owned subsidiary of the Company
“Zhongran Gas”	中燃燃氣實業(深圳)有限公司 (Zhongran Gas (Shenzhen) Company Limited) [#] , a limited liability company established 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”	Renminbi, the lawful currency of the PRC
“m ³ ”	cubic metre
“%”	per cent.
“sq.km.”	square kilometer

[#] *the English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

For the purpose of this circular, 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.

LETTER FROM THE BOARD



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)

Executive Directors:

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

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-executive Directors:

Mr. Feng Zhuo Zhi
Mr. Harrison Blacker
Mr. Joe Yamagata
Mr. R. K. Goel

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

Room 1601, 16th Floor
AXA Centre
151 Gloucester Road
Wanchai
Hong Kong

Independent non-executive Directors:

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

9 July 2007

To the Shareholders

Dear Sir or Madam,

DISCLOSABLE TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 22 June 2007 in which the Board announced that on 20 June 2007, Zhongran Investment, a wholly owned subsidiary of the Company, has separately entered into the Agreements for the acquisition of the 80% interests in each of the Target Companies respectively.

* for identification purpose only

LETTER FROM THE BOARD

The Transactions constitute discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with further details regarding the Agreements and the Group.

(1) BAOTOU GAS AGREEMENT

Date: 20 June 2007

Parties: (1) Zhongran Investment, a wholly owned subsidiary of the Company;

(2) Zhongran Gas, a wholly owned subsidiary of the Company, (together with Zhongran Investment) as the Purchasers; and

(3) Shenyin Holding, as vendor.

As at the date of the Baotou Gas Agreement, Baotou Gas was wholly and beneficially owned as to 100% by Shenyin Holding.

Shenyin Holding was established on 11 March 1998 in Baotou City, the PRC. Its registered capital was RMB80,000,000 (equivalent to approximately HK\$82,400,000). Shenyin Holding is beneficially owned by Mr. Wang and Mr. Guo Aihou as to 95% and 5% respectively. It is principally engaged in business investment and management consultancy, sale of machinery and communication facilities, development of computer software, development of city based infrastructure facilities. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Shenyin Holding and its beneficial owners is an Independent Third Party.

Save for the Baotou Gas Agreement, Shenyin Holding has had no business dealings with the Group.

Assets to be acquired

The Baotou Gas Interest, which represents 80% equity interests in the registered capital of Baotou Gas, in which Zhongran Investment and Zhongran Gas are entitled to 50% and 30% equity interests in the registered capital of Baotou Gas respectively. Further details of Baotou Gas is set out under the paragraphs headed "Information on Baotou Gas" below.

Consideration

The total consideration for the Baotou Gas Interest is RMB147,040,000 in cash (equivalent to approximately HK\$151,451,200), which shall be paid to the vendor in accordance with the Cooperation Agreement. Further details of the consideration regarding Baotou Gas Agreement is set out under the paragraphs headed "Consideration for the Transactions" below.

LETTER FROM THE BOARD

The consideration will be funded by internal resources of the Group.

The consideration was determined after arm's length negotiation between the Company and the Vendors with reference to the total assets of Baotou Gas which is further elaborated under the sections headed "Information on Baotou Gas", its net asset value and the business prospect of Baotou Gas. The Board (including the independent non-executive Directors) considers that the Baotou Gas Agreement was entered into on normal commercial terms and its terms are fair and reasonable and the entering into of the Baotou Gas Agreement is in the interests of the Company and the Shareholders as a whole.

Transfer effective date

The effective date for the transfer of the Baotou Gas Interest shall be the date on which all legal procedures for vesting the Baotou Gas Interest in the Company have been completed.

Defaults

In the event Shenyin Holding breaches any obligations, undertakings or warranties under the Baotou Gas Agreement, Shenyin Holding shall indemnify the Purchasers on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

In the event the Purchasers breach any obligations, undertakings or warranties under the Baotou Gas Agreement, the Purchasers shall indemnify Shenyin Holding on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

Termination

The Baotou Gas Agreement provides that should Shenyin Holding not be able to assist the Purchasers to complete all legal procedures for the transfer of the Baotou Gas Interest within two months from the date on which the Baotou Gas Agreement was entered into (i.e. on or before 20 August 2007), the Purchasers are entitled to terminate the Baotou Gas Agreement.

Upon termination of the Baotou Gas Agreement, Shenyin Holding shall return all consideration received and indemnify the Purchasers on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

LETTER FROM THE BOARD

(2) PIPELINE ENGINEERING AGREEMENT

Date: 20 June 2007

Parties: (1) Zhongran Investment, a wholly owned subsidiary of the Company, as purchaser;

(2) Mr. Wang; and

(3) Mr. Guo, together with Mr. Wang, as vendors.

As at the date of the Pipeline Engineering Agreement, Shenyin Engineering was wholly and beneficially owned as to 10% and 90% by Mr. Guo and Mr. Wang respectively. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Mr. Wang and Mr. Guo is an Independent Third Party and save for being holders of the equity interest in Shenyin Engineering, each of Mr. Wang and Mr. Guo does not have relationship with each other.

Save for the Pipeline Engineering Agreement, Mr. Guo has had no business dealings with the Group. Save for the Pipeline Engineering Agreement, and being one of the beneficial owners of Shenyin Holding, Mr. Wang has had no business dealings with the Group.

Assets to be acquired

The Shenyin Engineering Interest, which represents 80% equity interests in the registered capital of Shenyin Engineering. Zhongran Investment will acquire 10% equity interests in the registered capital of Shenyin Engineering from Mr. Guo and the remaining 70% equity interests from Mr. Wang. Further details of Shenyin Engineering is set out under the paragraphs headed "Information on Shenyin Engineering" below.

Consideration

The total consideration for the Shenyin Engineering Interest is RMB8,000,000 in cash (equivalent to approximately HK\$8,240,000), which shall be paid to the vendors in accordance with the Cooperation Agreement. Further details of the consideration regarding Pipeline Engineering Agreement is set out under the paragraphs headed "Consideration for the Transactions" below.

The consideration will be funded by internal resources of the Group.

The consideration was determined after arm's length negotiation between the Company and the vendors with reference to the registered capital of Shenyin Engineering which is further elaborated under the sections headed "Information on Shenyin Engineering", its net asset value and the business prospect of Shenyin Engineering. The Board (including the independent non-

LETTER FROM THE BOARD

executive Directors) considers that the Pipeline Engineering Agreement was entered into on normal commercial terms and its terms are fair and reasonable and the entering into of the Pipeline Engineering Agreement is in the interests of the Company and the Shareholders as a whole.

Transfer Effective Date

The effective date for the transfer of the Shenyin Engineering Interest shall be the date on which all legal procedures for vesting the Shenyin Engineering Interest in the Company have been completed.

Defaults

In the event Mr. Wang and Mr. Guo breach any obligations, undertakings or warranties under the Shenyin Engineering Agreement, Mr. Wang and Mr. Guo shall indemnify Zhongran Investment on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

In the event Zhongran Investment breaches any obligations, undertakings or warranties under the Shenyin Engineering Agreement, Zhongran Investment shall indemnify Mr. Wang and Mr. Guo on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

Termination

The Pipeline Engineering Agreement provides that should Mr. Wang and Mr. Guo not be able to assist Zhongran Investment to complete all legal procedures for the transfer of the Shenyin Engineering Interest within two months from the date on which the Pipeline Engineering Agreement was entered into (i.e. on or before 20 August 2007), Zhongran Investment is entitled to terminate the Pipeline Engineering Agreement. Upon termination of the Pipeline Engineering Agreement, Mr. Wang and Mr. Guo shall return all consideration received and indemnify Zhongran Investment on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

(3) GAS STATION AGREEMENT

Date: 20 June 2007

Parties: (1) Zhongran Investment, a wholly owned subsidiary of the Company, as purchaser;
and
(2) Mr. Wang Yu, as vendor.

LETTER FROM THE BOARD

As at the date of the Gas Station Agreement, Shenyin Natural Gas Station was beneficially owned as to 100% by Mr. Wang Yu, who to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is an Independent Third Party.

Save for the Gas Station Agreement, Mr. Wang Yu has had no business dealings with the Group.

Assets to be acquired

The Shenyin Natural Gas Station Interest, which represents 80% interest in the registered capital of Shenyin Natural Gas Station. As at the Latest Practicable Date, Mr. Wang Yu holds 100% of the registered capital of Shenyin Natural Gas Station. For further details of Shenyin Natural Gas Station, please refer to the paragraphs headed "Information on Shenyin Natural Gas Station" below.

Consideration

The total cash consideration for the Shenyin Natural Gas Station Interest is RMB24,000,000 (equivalent to approximately HK\$24,720,000), which shall be paid to Mr. Wang Yu in accordance with the Cooperation Agreement. Further details of the consideration regarding Gas Station Agreement is set out under the paragraphs headed "Consideration for the Transactions" below.

The consideration will be funded by internal resources of the Group.

The consideration was determined after arm's length negotiation between Zhongran Investment and Mr. Wong Yu with reference to the registered capital of Shenyin Natural Gas Station, its net asset value and the business prospect of Shenyin Natural Gas Station. The Board (including the independent non-executive Directors) considers that the Gas Station Agreement was entered into on normal commercial terms and its terms are fair and reasonable and the entering into of the Gas Station Agreement is in the interests of the Company and the Shareholders as a whole.

Transfer Effective Date

The effective date for the transfer of the Shenyin Natural Gas Station Interest shall be the date of completion of the procedures to be carried out at the relevant PRC governmental authorities for the transfer of the Shenyin Natural Gas Station Interest to Zhongran Investment.

Defaults

In the event Mr. Wang Yu breaches any obligations, undertakings or warranties under the Gas Station Agreement, Mr. Wang Yu shall indemnify Zhongran Investment on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

LETTER FROM THE BOARD

In the event Zhongran Investment breaches any obligations, undertakings or warranties under the Gas Station Agreement, Zhongran Investment shall indemnify Mr. Wang Yu on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

Termination

The Gas Station Agreement provides that should Mr. Wang Yu not be able to assist Zhongran Investment to complete all legal procedures for the transfer of the Shenyin Natural Gas Station Interest within two months from the date on which the Gas Station Agreement was entered into (i.e. on or before 20 August 2007), Zhongran Investment is entitled to terminate the Gas Station Agreement. Upon termination of the Gas Station Agreement, Mr. Yu shall return all consideration received and indemnify Zhongran Investment on all damages directly or indirectly incurred (including but not limited to all the litigation costs and legal costs).

(4) COOPERATION AGREEMENT

Date: 20 June 2007

- (1) Zhongran Investment, a wholly owned subsidiary of the Company,
- (2) Zhongran Gas, a wholly owned subsidiary of the Company, together with Zhongran Investment, as the Purchasers; and
- (3) Shenyin Holding;
- (4) Mr. Wang;
- (5) Mr. Guo; and
- (6) Mr. Wang Yu, (3) to (6) together, as the Vendors.

Contents

The parties to the Cooperation Agreement agreed that:

- (a) Shenyin Holding, shall transfer the Baotou Gas Interest to the Purchasers, in which Zhongran Investment and Zhongran Gas shall be entitled to 50% and 30% equity interests of the registered capital of Baotou Gas respectively;
- (b) Mr. Wang and Mr. Guo, shall transfer the Shenyin Engineering Interest to Zhongran Investment, in which Mr. Wang shall transfer 70% equity interests of the registered capital of Shenyin Engineering and Mr. Guo shall transfer 10% equity interests of the registered capital of Shenyin Engineering; and

LETTER FROM THE BOARD

- (c) Mr. Wang Yu, shall transfer the Shenyin Natural Gas Station Interest to Zhongran Investment, being 80% equity interests of the registered capital of Shenyin Natural Gas Station.

Upon acquisition of the Baotou Gas Interest, Shenyin Engineering Interest and Shenyin Natural Gas Station Interest, the Purchasers shall in aggregate, be entitled to 80% equity interests of each of the Target Companies.

Consideration for the Transactions

- (a) Shenyin Holding, shall transfer the Baotou Gas Interest to the Purchasers in a consideration of RMB147,040,000 in cash (equivalent to approximately HK\$151,451,200);
- (b) Mr. Wang and Mr. Guo, shall transfer the Shenyin Engineering Interest to Zhongran Investment in a consideration of RMB8,000,000 in cash (equivalent to approximately HK\$8,240,000); and
- (c) Mr. Wang Yu, shall transfer the Shenyin Natural Gas Station Interest to Zhongran Investment in a consideration of RMB24,000,000 in cash (equivalent to approximately HK\$24,720,000).

According to the Cooperation Agreement, the Total Consideration, shall be paid in cash, in the following manner:

- (i) as to RMB100,000,000 (equivalent to approximately HK\$103,000,000) payable within fifteenth day upon approval from the Registration Completion Date;
- (ii) as to RMB79,040,000 (equivalent to approximately HK\$81,411,200) payable in two instalments within four months from the Registration Completion Date.

Although the consideration for the Transactions will be funded by internal resources of the Group, the Directors consider that there will not be any material adverse impact on the working capital position of the Group as a result of the Transactions.

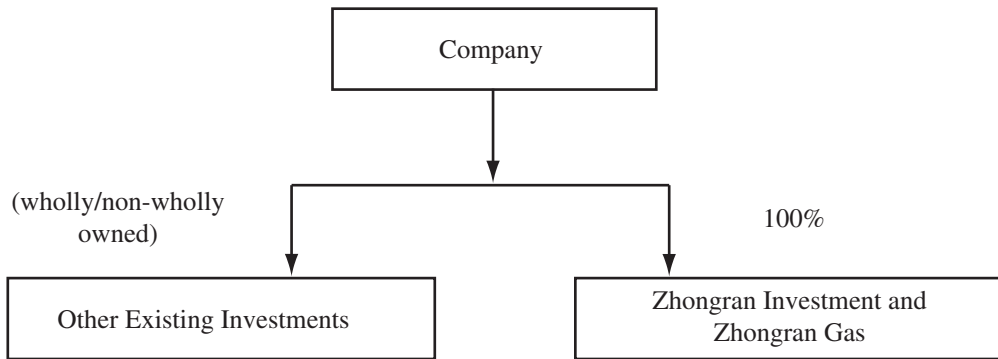
The consideration was determined after arm's length negotiation between the relevant parties with reference to the registered capital of each of the Target Companies, their respective net asset values, together with the prospect of the project. The Board (including the independent non-executive Directors) considers that each of the Agreements was entered into on normal commercial terms and its terms are fair and reasonable and the entering into of each of the Agreements is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

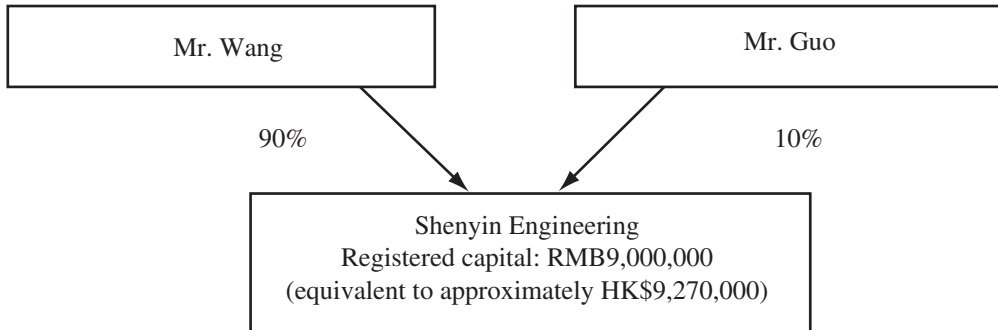
GROUP STRUCTURE

The diagram below shows the structure of the Group, Shenyin Engineering, Shenyin Natural Gas Station and Baotou Gas immediately before and after completion of the transfers under the Transactions:

The structure of the Group immediately before completion of the transfers under the Transactions is as follows:

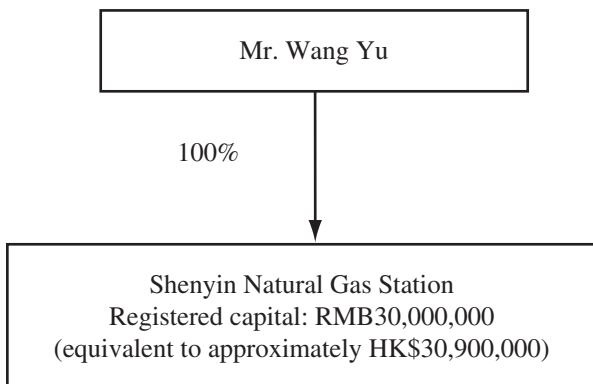


The structure of Shenyin Engineering immediately before completion of the transfers under the Pipeline Engineering Agreement is as follows:

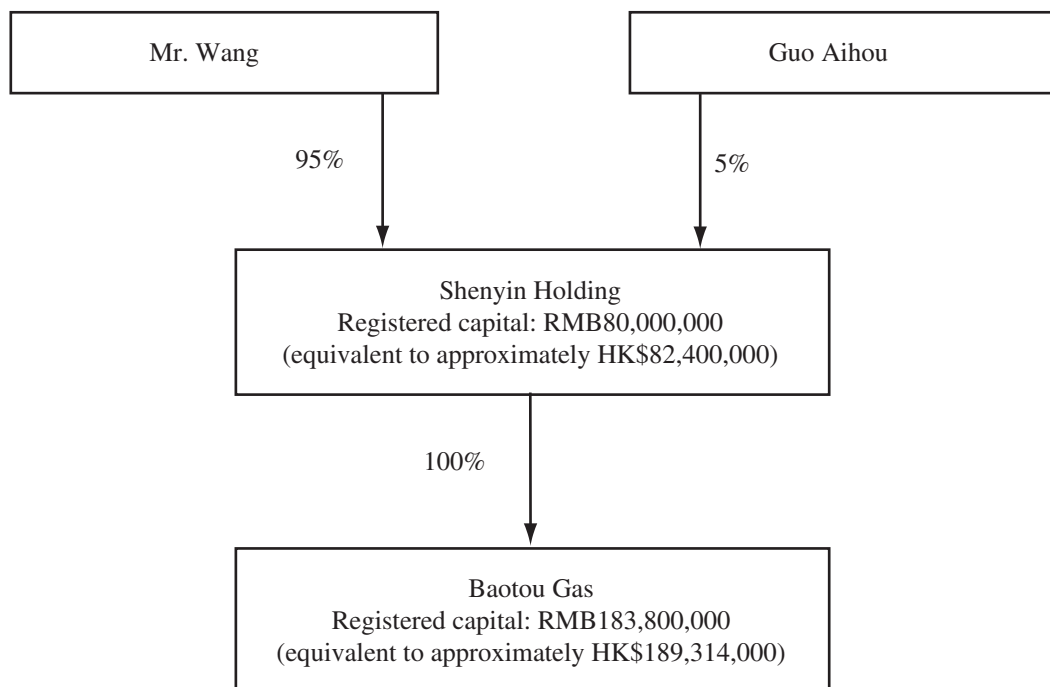


LETTER FROM THE BOARD

The structure of Shenyin Natural Gas Station immediately before completion of the transfers under the Gas Station Agreement is as follows:

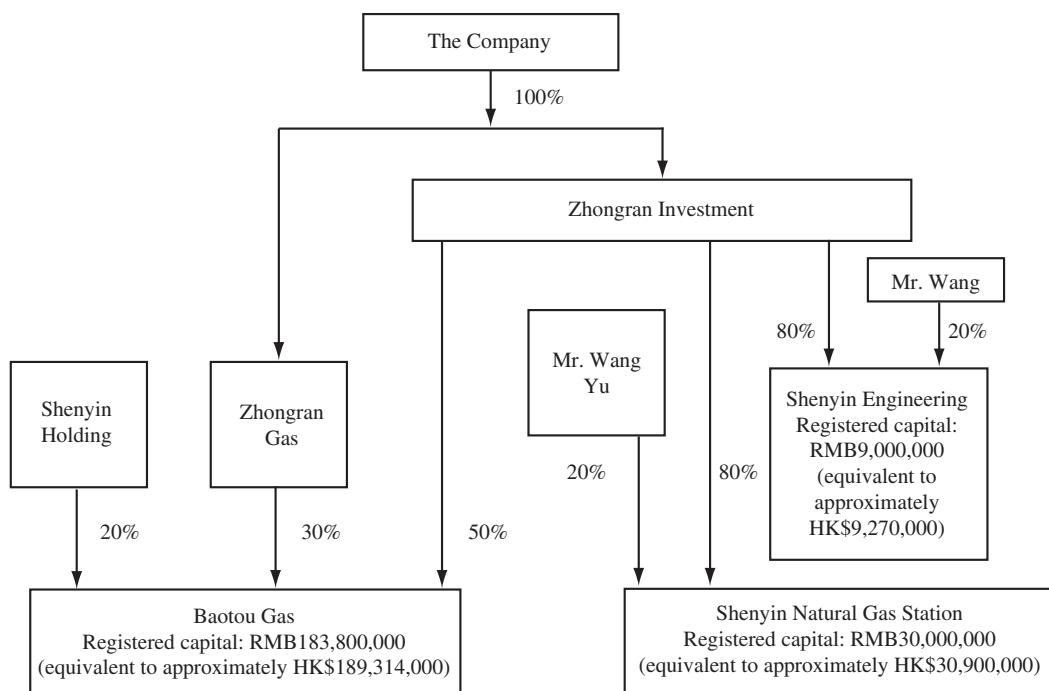


The structure of Baotou Gas immediately before completion of the transfers under the Baotou Gas Agreement is as follows:



LETTER FROM THE BOARD

Immediately after completion of the Transactions:



There were no prior transactions with Mr. Wang, Mr. Guo, Mr. Wang Yu and Shenyin Holdings and its ultimate beneficial owners with the Group which requires aggregation under Chapter 14 of the Listing Rules.

The 80% equity interests in each of the Target Companies upon acquisition was determined after arm's length negotiations with the relevant parties to the Baotou Gas Agreement, the Pipeline Engineering Agreement and Gas Station Agreement respectively.

Each of the Baotou Gas Agreement, the Pipeline Engineering Agreement, the Gas Station Agreement and the Cooperation Agreement is not inter-conditional upon each other.

INFORMATION ON SHENYIN ENGINEERING

Shenyin Engineering was established on 6 August 2004 in Baotou City in the PRC with a registered capital of RMB9,000,000 (equivalent to approximately HK\$9,270,000). The registered capital of Shenyin Engineering has been paid up in full. The principal business of Shenyin Engineering is the design, construction and maintenance of city pipeline projects in the PRC.

LETTER FROM THE BOARD

According to the unaudited financial statements of Shenyin Engineering, which were prepared under Generally Accepted Accounting Principles of the PRC, the unaudited total assets of Shenyin Engineering as at 31 May 2007 was approximately RMB11,452,000 (equivalent to approximately HK\$11,795,560). The net profits before taxation for the year ended 31 December 2005 and 31 December 2006 were RMB165,282 (equivalent to approximately HK\$170,240) and RMB1,390,648 (equivalent to approximately HK\$1,432,367) respectively. The net profits after taxation for the year ended 31 December 2005 and 31 December 2006 were RMB110,739 (equivalent to approximately HK\$114,061) and RMB931,734 (equivalent to approximately HK\$959,686) respectively.

INFORMATION ON SHENYIN NATURAL GAS STATION

Shenyin Natural Gas Station was established on 19 July 2006 in Baotou City in the PRC with a registered capital of RMB30,000,000 (equivalent to approximately HK\$30,900,000). The registered capital of Shenyin Natural Gas Station has been paid up in full. The principal business of Shenyin Natural Gas Station is natural gas refill services and gas station administration in the PRC.

According to the unaudited financial statements of Shenyin Natural Gas Station, which were prepared under Generally Accepted Accounting Principles of the PRC, the unaudited total assets of Shenyin Natural Gas Station as at 31 May 2007 was approximately RMB31,450,000 (equivalent to approximately HK\$32,393,500). As Shenyin Natural Gas Station was established on 19 July 2006, apart from the registered capital which was paid up in full, Shenyin Natural Gas Station has no operation; there was no net profit for the year ended 31 December 2005 and 2006.

INFORMATION ON BAOTOU GAS

Baotou Gas was established on 24 July 2003 in Baotou City, the PRC with a registered capital of RMB183,800,000 (equivalent to approximately HK\$189,314,000) of which all has been paid up in full. Baotou Gas principally engages in production and sale of liquefied natural gas, coal gas, natural gas and their respective side products, design and operation of the liquefied natural gas and coal gas projects; charging of service fee for the production of liquefied natural gas, coal gas and natural gas in the PRC.

According to the unaudited financial statements of Baotou Gas, which were prepared under Generally Accepted Accounting Principles of the PRC, the unaudited total assets of Baotou Gas as at 31 May 2007 was approximately RMB611,277,000 (equivalent to approximately HK\$629,615,310). The net loss/profits before taxation for the year ended 31 December 2005 and 31 December 2006 were RMB16,204,992 (equivalent to approximately HK\$16,691,142) and RMB777,350 (equivalent to approximately HK\$800,671) respectively. The net profits after taxation for the year ended 31 December 2006 was RMB777,350 (equivalent to approximately HK\$800,671).

INFORMATION ON THE USAGE OF NATURAL GAS IN BAOTOU CITY

Baotou City is situated in central Inner Mongolia Autonomous Region. It governs nine administrative regions and counties.

LETTER FROM THE BOARD

Baotou City has a total population of 2.1 million in an area of 27,768,000 sq.km. After nearly 40 years of development, Baotou City has become an industrial economy with metallurgy, large-sized machinery, large-sized vehicles, electricity and power, chemical engineering, coal and charcoal, etc., as its major industries.

Baotou Gas has been granted 50 years of pipeline gas operation right for the city area of Baotou City. At present, Baotou Gas has established two city processing stations, three distribution stations and a comprehensive high, medium and low pressure pipeline network which covers all major areas with Baotou City. There are three industrial consumers who consumed over 100,000 m³ of natural gas every day. Baotou City's major source of natural gas comes from Petrochina Zhangxing gas field, which supplies sufficient amount of natural gas. In 2006, Baotou Gas sold a total of 110 million m³ of natural gas, among which industrial consumers consumed 80%, natural gas vehicle users consumed 10% and households and commercial users consumed the remaining 10%. The total sale of natural gas has increased 100% compared to 2005 in the corresponding period of time.

As more and more industrial consumers switch to natural gas and according to the natural gas supply agreement, we expect the sale of gas will reach 0.2 billion m³ in 2007, and it will reach 0.35 billion m³ in 2008. Shenyin Natural Gas Station has, at present, established one natural gas mother refilling station and three daughter refilling stations, and will build another four natural gas daughter refilling stations to ease the frequent queuing demand from Baotou City public transport and vehicles for refilling. The major responsibility of Shenyin Engineering is to provide Baotou Gas with services including design, construction, installation and repair of urban pipeline engineering project. It has been in operation since 2007.

REASONS FOR THE TRANSACTIONS

The Group is principally engaged in 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 active in seeking opportunities for expanding and enhancing its principal business in the PRC. The Directors (including the independent non-executive Directors) consider that the entering into of the Agreements represents a good opportunity to expand the Group's 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.

Given the operation right attached to Baotou Gas and the principal business of each of the Target Companies where were all in line with the Group's overall business, the Directors consider that the entering into of the Agreements will enhance the earnings ability of the Group and accord the Group with a steady income stream. Upon the Registration Completion Date, the parties to the Agreements shall continue the existing principal businesses of the Target Companies and the PNG Projects in accordance with the regulations of Baotou City government and the operation right.

LETTER FROM THE BOARD

For reasons described above, the Directors (including the independent non-executive Directors) view that the entering into of the Transactions as investments with great potential and will provide an enhanced revenue base and a good opportunity for the Company to participate in gas related business in other cities in the PRC. Taking into account the benefits of the Transactions as described above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Transactions, are fair and reasonable and the Transactions are in the interests of the Company and the Shareholders as a whole.

Upon completion of the Transactions, the Target Companies become non-wholly owned subsidiaries of the Group. The Group will recognize its 80% indirect interest in the Target Companies and the accounts of the Target Companies will be fully consolidated with that of the Group.

FINANCIAL EFFECT

Upon completion of the transfers under the Transactions, the accounts of the Target Companies will be consolidated with that of the Group. Given the earning ability and prospects of the Target Companies, the Group's assets and liabilities will thereby be increased by approximately HK\$673,804,000 and HK\$419,111,000 respectively and the Group expects its earnings will be enhanced as a result of the Transactions.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

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

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(i) Shares:

Name of Director	Note	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Liu Ming Hui ("Mr. Liu")	1	Personal	507,424,000 (L) 118,500,000 (S)	16.20 3.78
(L)		Long position		
(S)		Short position		

Notes:

1. Among these 507,424,000 Shares, 253,924,000 Shares are beneficially owned by Mr. Liu, 135,000,000 Shares represent options held by Mr. Liu and 118,500,000 Shares are to be delivered to Hai Xia Finance Holdings Limited (“**Hai Xia**”). Pursuant to a sale and purchase agreement dated 8 March 2005 and entered into between Hai Xia and Mr. Liu, Mr. Liu agreed to sell and Hai Xia agreed to purchase 190,000,000 Shares from Mr. Liu in five tranches for a cash consideration in the aggregate amount of HK\$330,000,000. Details of the transaction were set out in the announcement of the Company dated 9 March 2005. As at the Latest Practicable Date, the sale and purchase of 71,500,000 Shares had been completed.

(ii) Share options:

Name of Director	Number of options held	Nature of interest	Number of underlying Shares	Approximate Percentage of the issued share capital of the Company (%)
Mr. Li Xiaoyun	5,000,000 (<i>Note 1</i>)	Personal	5,000,000	0.16
	5,000,000 (<i>Note 5</i>)	Personal	5,000,000	0.16
Mr. Xu Ying	5,000,000 (<i>Note 1</i>)	Personal	5,000,000	0.16
	90,000,000 (<i>Note 3</i>)	Personal	90,000,000	2.87
Mr. Liu Ming Hui	5,000,000 (<i>Note 1</i>)	Personal	5,000,000	0.16
	130,000,000 (<i>Note 3</i>)	Personal	130,000,000	4.15
Mr. Ma Jin Long	9,240,711 (<i>Note 1</i>)	Personal	9,240,711	0.29
Mr. Zhu Wei Wei	4,000,000 (<i>Note 1</i>)	Personal	4,000,000	0.13
	6,000,000 (<i>Note 2</i>)	Personal	6,000,000	0.19
Mr. Mao Er Wan	1,000,000 (<i>Note 1</i>)	Personal	1,000,000	0.03
Ms. Wong Sin Yue Cynthia	1,000,000 (<i>Note 1</i>)	Personal	1,000,000	0.03
	700,000 (<i>Note 4</i>)	Personal	700,000	0.02
Mr. ZhaoYu Hua	1,000,000 (<i>Note 1</i>)	Personal	1,000,000	0.03
	700,000 (<i>Note 4</i>)	Personal	700,000	0.02

Notes:

1. These options were granted under the share option scheme (the “**Share Option Scheme**”) adopted by the Company on 6 February 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per Share during the period from 1 September 2004 to 8 January 2014.
2. These options were granted under the Share Option Scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from 20 March 2005 to 5 October 2014.
3. These options were granted under the Share Option Scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from 22 November 2004 to 5 October 2014. The exercise of options will be subject to the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK\$1 billion.
4. These options were granted under the Share Option Scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.71 per Share during the period from 1 January 2005 to 5 October 2014.
5. These options were granted under the Share Option Scheme and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$1.50 per Share during the period from 20 October 2010 to 19 October 2015.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Substantial shareholders of the Company:

Name of Shareholders	Notes	interest	Nature of Total	Approximate percentage or attributable percentage of shareholdings (%)
Ms. Xu Xau Lan	1	Deemed interest	507,424,000 (L) 118,500,000 (S)	16.20 3.78
Hai Xia	2	Beneficial owner	340,000,003 (L) 150,000,003 (S)	10.85 4.79
China Petroleum & Chemical Corporation		Beneficial owner	210,000,000 (L)	6.70
GAIL (India) Limited		Beneficial owner	210,000,000 (L)	6.70
Oman Oil Company S.A.O.C.		Beneficial owner	237,567,060 (L)	7.58

(L) Long position

(S) Short position

Notes:

- Ms. Xu Xau Lan is deemed to be interested in the Shares held by her spouse, Mr. Liu.
- Among these 340,000,003 Shares 211,500,003 Shares are beneficially owned by Hai Xia and 118,500,000 Shares are to be delivered by Mr. Liu to Hai Xia pursuant to the sale and purchase agreement dated 8 March 2005 and entered into between Hai Xia and Mr. Liu. Details of the transaction were set out in the announcement of the Company dated 9 March 2005.

(ii) Substantial shareholders of other members of the Group:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding (%)
Yichang Zhongran City Gas Company Limited	宜昌天然氣有限責任公司 (Yichang City Natural Gas Company Limited) [#]	30
Wuhu City Natural Gas Development Company Limited	安徽省蕪湖市燃氣總公司 (Anhui Province Wuhu City Natural Gas Head Company) [#]	10
Yiyang Central Gas & City Gas Development Company Limited	益陽市城市建設投資開發有限責任公司 (Yiyang City Construction, Investments and Development Company Limited) [#]	20
Suzhou Zhongran City Gas Development Company Limited	宿州市燃氣有限公司 (Suzhou Gas Company Limited) [#]	25
Shouxian Zhongran City Gas Development Limited	壽縣建設投資公司 (Shouxian Construction Investment Co) [#]	10
Beijing Zhongran Xiangke Oil Gas Technology Company Limited	北京中燃偉業投資有限公司 (Beijing Zhongran Wei Yip Investment Co. Limited) [#]	40
Baoji Zhongran City Gas Development Co. Ltd.	寶雞市天然氣總公司 (Baoji City Gas Company) [#]	36
Yangzhou Zhongran City Gas Development Company Ltd.	揚州市城建國有資產控股(集團)有限責任公司 (Yangzhou City Construction National Assets Holdings (Group) Company Limited) [#]	50
Liuzhou Zhongran City Gas Development Company Ltd.	柳州市投資控股有限公司 (Liuzhou City Investment Holdings Limited) [#]	50

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding (%)
Dalian Zhongran City Gas Development Co., Limited	大連市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Dalian Municipal Government, Liaoning Province)#	25
Fu Shun Zhongran City Gas Development Company Ltd.	撫順市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the Fushun Municipal Government, Liaoning Province)#	30
Hohhot Zhongran City Gas Development Company Limited	呼和浩特煤氣有限責任公司 (Hohhot City Coal Gas Company Limited)#	50
Dezhou Zhongran City Gas Development Company Limited	德州市燃氣總公司 (Dezhou Gas Company)#	49
Taineng Natural Gas Co. Ltd.	青島泰能燃氣集團有限公司 (Qingdao Taineng Gas Group Limited)#	49
China Oman Energy Co. Ltd.	Oman Oil Company S.A.O.C.	50

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

Each of Mr. Xu Ying and Mr. Liu Ming Hui had entered into a service agreement with the Company commencing from 1 April 2005 for a period of three years.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group, which will expire or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries had engaged in any litigation, arbitration or claim of material importance and there is no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

5. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or, any other conflicts of interest within the Group.

6. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is located at Room 1601, 16th Floor, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The secretary of the Company is Ms. Yang Yan Tung Doris, *ACS, ACIS*.
- (e) The qualified accountant of the Company is Mr. Huang Chao Fei, *FCCA, CPA*.
- (f) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.