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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)

Rich Legend International Limited

(Incorporated in the British Virgin Islands with limited liability)



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

JOINT ANNOUNCEMENT

Conditional voluntary general offer by

Macquarie Capital Securities Limited

on behalf of

Rich Legend International Limited, a wholly-owned subsidiary of China Gas Holdings Limited

to acquire all of the issued shares in the share capital of

Zhongyu Gas Holdings Limited

(other than those shares already held by Rich Legend International Limited

and parties acting in concert with it)

and

to acquire all of the outstanding convertible bonds of Zhongyu Gas Holdings Limited

and

for the cancellation of all the outstanding share options of

Zhongyu Gas Holdings Limited

and

Resumption of Trading

**Financial adviser to
China Gas Holdings Limited and
Rich Legend International Limited**



MACQUARIE CAPITAL (HONG KONG) LIMITED

**Financial adviser to
Zhongyu Gas Holdings Limited**



FIRST SHANGHAI CAPITAL LIMITED

* *For identification purpose only*

SUMMARY

1. INTRODUCTION

On 17 January 2010 (and as supplemented on 22 January 2010), the Offeror proposed to the board of directors of Zhongyu that it intends to make a voluntary conditional cash and securities exchange offer (i) to acquire all of the issued shares in the share capital of Zhongyu (other than those shares already held by the Offeror and the Concert Parties); (ii) for the acquisition of all the Convertible Bonds; and (iii) for the cancellation of all the outstanding Share Options.

2. CONSIDERATION FOR THE OFFERS

The Offers will be made on the following basis:

The Share Offer:

**For each Zhongyu Share HK\$0.1743 in cash and
0.1512 new China Gas Share**

The Convertible Bond Offer:

**For each US\$10,000 nominal amount
of the outstanding Convertible Bonds HK\$19,480.0170 in cash and
16,898.3280 new China Gas Shares**

The Option Offer:

(A) In respect of Share Options with exercise price of HK\$0.80:

**For each Zhongyu Share which
may be subscribed HK\$0.0202 in cash and
0.0175 new China Gas Share**

(B) In respect of Share Options with exercise price of HK\$0.56:

**For each Zhongyu Share which
may be subscribed HK\$0.0664 in cash and
0.0576 new China Gas Share**

(C) In respect of Share Options with exercise price of HK\$0.31:

**For each Zhongyu Share which
may be subscribed HK\$0.1146 in cash and
0.0994 new China Gas Share**

The consideration payable under the Convertible Bond Offer and the Option Offer are derived from the consideration payable under the Share Offer, and the consideration payable under each of the Offers has equal value on a per share basis based on the closing price for each China Gas Share of HK\$4.83 on the Last Trading Date and all bear the same proportions as between the cash and scrip components.

As at the date of this announcement, there are 1,969,501,684 Zhongyu Shares in issue, outstanding Convertible Bonds with an aggregate nominal amount of US\$20,000,000 which may be converted into 223,522,856 Zhongyu Shares and Share Options involving 147,218,000 Zhongyu Shares outstanding. Other than the above, Zhongyu has no other convertible bonds, Share Options, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Zhongyu Shares.

The China Gas Shares will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends declared, and will rank pari passu with the existing China Gas Shares. There will be no restrictions on the transfer of the China Gas Shares to be issued under the Offers, other than in respect of Hezhong and the Management Owners who have granted a non-disposal undertaking in favour of China Gas and the Offeror under the Irrevocable Undertaking. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the new China Gas Shares to be issued in connection with the Offers.

3. CONDITIONS OF THE OFFERS

The Offers will be conditional on the satisfaction or (if applicable) waiver of the following Conditions:

- (A) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Zhongyu Shares which would result in the Offeror and the Concert Parties holding more than 50% of the voting rights in Zhongyu;
- (B) the Stock Exchange granting the listing of and permission to deal (subject only to allotment and other procedural matters required under the Listing Rules) in the China Gas Shares to be issued as consideration under the Offers and the same not having been withdrawn;
- (C) the Zhongyu Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Zhongyu Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Zhongyu Shares on the Stock Exchange is or is likely to be withdrawn;

- (D) (i) all Consents (including the PRC Anti-trust Clearance, if any) as are necessary for the acquisition of the Zhongyu Shares and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the Zhongyu Group that has been granted the concession rights or licences to carry out its operations having been obtained in form and substance satisfactory to the Offeror and remaining in full force and effect without variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the Zhongyu Group possessing or having obtained all licences and permits from the Relevant Authority(ies) that are necessary to carry on its business; and (iii) all mandatory consents from third parties having been obtained for the acquisition of the Zhongyu Shares;
- (E) no event having occurred which would make the Offers or the acquisition of any of the Zhongyu Shares void, unenforceable, illegal or prohibit implementation of the Offers;
- (F) no Relevant Authority(ies) in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions or obligations with respect to the Offers (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers);
- (G) since the date of the last audited consolidated financial statements of Zhongyu, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of Zhongyu or any member of the Zhongyu Group, whether or not arising in the ordinary course of business; and
- (H) no material breach of any covenants, representations and warranties given by Hezhong and each of the Management Owners in favour of the Offeror under the Irrevocable Undertaking.

The Offeror reserves the right to waive all or any of the Conditions to the Offers set out above (except for Conditions (A), (B) and (E) which may not be waived), in whole or in part.

In addition to the Conditions set out above, the Convertible Bond Offer and the Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers will be made in compliance with the Takeovers Code, which is administered by the Executive.

4. IRREVOCABLE UNDERTAKING

On 17 January 2010, Hezhong and each of the Management Owners executed an Irrevocable Undertaking in favour of China Gas and the Offeror, pursuant to which Hezhong and the Management Owners undertook to, within three business days following the despatch of the Composite Document, accept or procure to accept the Share Offer in respect of all of the Zhongyu Shares owned by them as at the date of the Irrevocable Undertaking, and any Zhongyu Shares of which they will become the legal or beneficial owners thereafter. As at the date of this announcement, 945,755,542 Zhongyu Shares are held by Hezhong and 1,166,000 Zhongyu Shares are held by Mr. Wang, together representing approximately 48.08% of the issued share capital of Zhongyu (assuming no Share Options or Convertible Bonds are exercised since the end of the Last Trading Date). Based on the Share Offer Consideration of (i) HK\$0.1743 in cash, and (ii) 0.1512 new China Gas Share, per Zhongyu Share, pursuant to the Irrevocable Undertaking, the Offeror shall acquire from (a) Hezhong the 945,755,542 Zhongyu Shares held by it, and (b) Mr. Wang the 1,166,000 Zhongyu Shares held by him, at a total consideration of approximately HK\$165,048,424.77 in cash and 143,174,537 new China Gas Shares.

The Irrevocable Undertaking given by Hezhong and the Management Owners shall terminate if the Share Offer lapses or is withdrawn without having become wholly unconditional on or before the Long Stop Date.

5. NON-DISPOSAL UNDERTAKING

Pursuant to the Irrevocable Undertaking, each of Hezhong and the Management Owners has further undertaken in favour of China Gas and the Offeror that, among other things, it/he shall not and will procure that none of its associates or companies controlled by it/him or any nominee or trustee holding in trust for it/him will, without the prior written consent of China Gas and the Offeror, at any time from the Completion Date until the expiry of 12 months therefrom, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the China Gas Shares it/he receives pursuant to the Offers or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or offer or agree or announce any intention to do any of the foregoing.

6. GENERAL INFORMATION

6.1 Discloseable transaction of China Gas

The Offers together constitute a discloseable transaction for China Gas under the Listing Rules. A separate announcement containing details in relation to such discloseable transaction was issued by China Gas on the same date of this announcement.

6.2 Independent board committee of Zhongyu

Under Rule 2.1 of the Takeovers Code, a board which receives an offer must establish an independent committee of the board to make a recommendation (i) as to whether the offer is, or is not, fair and reasonable and (ii) as to acceptance or voting. Mr. Xu Yongxuan, a non-executive Zhongyu Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Zhongyu Directors, have been appointed as members of the independent board committee of Zhongyu in respect of the Offers.

An independent financial adviser will be appointed, subject to approval by the independent board committee of Zhongyu, to advise the independent board committee of Zhongyu in respect of the Offers in due course. A further announcement will be made by Zhongyu upon the appointment of the independent financial adviser.

6.3 No dividend or other distribution

Zhongyu does not intend to declare or pay any dividend or other distribution on the Zhongyu Shares during the Offer Period.

6.4 China Gas's intentions in relation to Zhongyu and the Enlarged Group

China Gas intends to continue with the existing business of the China Gas Group, as well as with the existing business of the Zhongyu Group, following completion of the Offers. Neither China Gas nor the Offeror intends to make any changes to the current business operations of the Zhongyu Group following completion of the Offers. It is also the intention of China Gas and the Offeror that there will not be any material changes in the management or employees of the Zhongyu Group as a result of the Offers.

China Gas and the Offeror intend to nominate additional directors to the board of Zhongyu following completion of the Offers. Any changes to the board of Zhongyu will be made in compliance with the Takeovers Code, the Listing Rules and the constitutional documents of Zhongyu. Further announcement(s) will be made upon the appointment of new directors of Zhongyu accordingly.

Subject to market conditions, China Gas will explore various opportunities to further develop and expand the business of the China Gas Group and the Zhongyu Group, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

Maintaining listing/public float

China Gas will, together with Zhongyu, use reasonable endeavours to maintain the listing of the Zhongyu Shares on the Stock Exchange and will ensure that not less than 25% of the Zhongyu Shares will be held by the public in compliance with the Listing Rules.

If, at the close of the Offers, less than 25% of the Zhongyu Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Zhongyu Shares, or**
- **there are insufficient Zhongyu Shares in public hands to maintain an orderly market,**

then the Stock Exchange may exercise its discretion to suspend dealings in the Zhongyu Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Zhongyu Shares and, therefore, trading in the Zhongyu Shares may be suspended until a prescribed level of public float is attained.

6.5 General matters relating to the Offers

Availability of the Offers

The Offeror intends to make available the Offers to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders, including those who are resident outside Hong Kong, to the extent practicable. The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

Composite Document

Pursuant to Rule 8.2 of the Takeovers Code, the Composite Document should be posted within 35 days of the date of this announcement. The Composite Document will contain details of, among other things, the Offers, a letter from the independent board committee of Zhongyu in relation to the Offers and a letter from an independent financial adviser to the independent board committee of Zhongyu in respect of the Offers. An expected timetable in relation to the Offers will be included in the Composite Document.

7. SUSPENSION AND RESUMPTION OF TRADING

At the respective request of China Gas and Zhongyu, trading in the shares in China Gas and Zhongyu on the Stock Exchange was suspended from 9:30 a.m. on 18 January 2010 (Hong Kong time), pending the issue of this announcement. Applications have been made by China Gas and Zhongyu to the Stock Exchange for the resumption of trading in the shares in China Gas and Zhongyu on the Stock Exchange with effect from 9:30 a.m. on 27 January 2010 (Hong Kong time).

WARNING: The Offers are conditional upon the satisfaction of the Conditions described in this announcement. Zhongyu Shareholders, Zhongyu Bondholders, Zhongyu Optionholders and shareholders of China Gas, and investors or potential investors of Zhongyu and China Gas should therefore exercise caution when dealing in shares, convertible bonds and/or options of Zhongyu and China Gas.

1. INTRODUCTION

On 17 January 2010 (and as supplemented on 22 January 2010), the Offeror proposed to the board of directors of Zhongyu that it intends to make a voluntary conditional cash and securities exchange offer (i) to acquire all of the issued shares in the share capital of Zhongyu (other than those shares already held by the Offeror and the Concert Parties); (ii) for the acquisition of all the Convertible Bonds; and (iii) for the cancellation of all the outstanding Share Options.

As at the date of this announcement, Hezhong (which is Zhongyu's controlling shareholder as defined in the Listing Rules) and Mr. Wang are interested in 945,755,542 and 1,166,000 Zhongyu Shares, respectively, together representing approximately 48.08% of the total issued share capital of Zhongyu.

On 17 January 2010, Hezhong and each of the Management Owners executed an Irrevocable Undertaking in favour of China Gas and the Offeror, pursuant to which Hezhong and the Management Owners undertook to, within three business days following the despatch of the Composite Document, accept or procure to accept the Share Offer in respect of all of the Zhongyu Shares owned by them as at the date of the Irrevocable Undertaking, and any Zhongyu Shares of which they will become the legal or beneficial owners thereafter. As at the date of this announcement, 945,755,542 Zhongyu Shares are held by Hezhong and 1,166,000 Zhongyu Shares are held by Mr. Wang, together representing approximately 48.08% of the issued share capital of Zhongyu (assuming no Share Options or Convertible Bonds are exercised since the end of the Last Trading Date).

2. THE OFFERS

2.1 Consideration for the Offers

The Offers will be made on the following basis:

The Share Offer:

**For each Zhongyu Share HK\$0.1743 in cash and
0.1512 new China Gas Share**

The Convertible Bond Offer:

**For each US\$10,000 nominal amount
of the outstanding Convertible Bonds HK\$19,480.0170 in cash and
16,898.3280 new China Gas Shares**

The Option Offer:

(A) In respect of Share Options with exercise price of HK\$0.80:

**For each Zhongyu Share which
may be subscribed. HK\$0.0202 in cash and
0.0175 new China Gas Share**

(B) In respect of Share Options with exercise price of HK\$0.56:

**For each Zhongyu Share which
may be subscribed. HK\$0.0664 in cash and
0.0576 new China Gas Share**

(C) In respect of Share Options with exercise price of HK\$0.31:

**For each Zhongyu Share which
may be subscribed. HK\$0.1146 in cash and
0.0994 new China Gas Share**

The Share Offer values each Zhongyu Share at HK\$0.9046, based on the closing price of each China Gas Share of HK\$4.83 on the Last Trading Date multiplied by 0.1512 new China Gas Share being offered for each Zhongyu Share, plus the cash amount of HK\$0.1743 being offered for each Zhongyu Share.

The consideration payable under the Convertible Bond Offer and the Option Offer are derived from the consideration payable under the Share Offer, and the consideration payable under each of the Offers has equal value on a per share basis based on the closing price for each China Gas Share of HK\$4.83 on the Last Trading Date and all bear the same proportions as between the cash and scrip components.

As at the date of this announcement, there are 1,969,501,684 Zhongyu Shares in issue, outstanding Convertible Bonds with an aggregate nominal amount of US\$20,000,000 which may be converted into 223,522,856 Zhongyu Shares and Share Options involving 147,218,000 Zhongyu Shares outstanding. Other than the above, Zhongyu has no other Zhongyu Shares, convertible bonds, Share Options, options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Zhongyu Shares.

The China Gas Shares will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends declared, and will rank pari passu with the existing China Gas Shares. There will be no restrictions on the transfer of the China Gas Shares to be issued under the Offers, other than in respect of Hezhong and the Management Owners who have granted a non-disposal undertaking in favour of China Gas and the Offeror under the Irrevocable Undertaking. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the new China Gas Shares to be issued in connection with the Offers.

2.2 Fractions

Fractions of new China Gas Shares will not be issued to accepting Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders. Fractional entitlements to new China Gas Shares will be aggregated and sold in the market with the proceeds distributed pro rata to the Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders entitled to them. However, individual entitlements of less than HK\$100 will not be paid to such Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders but will be retained for the benefit of China Gas.

For illustration purposes, for every board lot of 2,000 Zhongyu Shares acceded to the Share Offer by a Zhongyu Shareholder, that Zhongyu Shareholder would be entitled to receive a total amount of HK\$348.60 in cash and 302 new China Gas Shares (rounded down to the nearest China Gas Share and subject to fractional entitlements as described above) under the Share Offer.

2.3 Comparisons of value

The value which the Share Offer attributes to each Zhongyu Share under the Share Offer represents:

	Share price of Zhongyu HK\$	Premium/(Discount) of the Share Offer Consideration to the share price %
Closing price on the Last Trading Date	HK\$0.89	1.64%
Average closing price for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	HK\$0.91	(0.59)%
Average closing price for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	HK\$0.89	1.64%
Average closing price for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	HK\$0.80	13.07%
Average closing price for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	HK\$0.75	20.61%

The total outstanding nominal value of the Convertible Bonds is US\$20,000,000. The Convertible Bond Offer Consideration for each US\$10,000 nominal amount of the Convertible Bonds represents the ascribed value of HK\$0.9046 for each Zhongyu Share payable in respect of the number of Zhongyu Shares that would be issued upon the conversion of each US\$10,000 nominal amount of the Convertible Bonds based on the current conversion price of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233 for the purpose of such conversion.

The Option Offer Consideration represents the difference between the exercise price for each Zhongyu Share under the Share Options and the ascribed value of the Share Offer Consideration of HK\$0.9046 for each Zhongyu Share which may be subscribed thereunder.

2.4 Highest and lowest prices

During the six-month period preceding the Last Trading Date, the highest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$4.99 on 13 January 2010 and the lowest closing price of the China Gas Shares as quoted on the Stock Exchange was HK\$1.95 on 22 July 2009, and the highest closing price of the Zhongyu Shares as quoted on the Stock Exchange was HK\$0.94 on 12 January 2010 and the lowest closing price of the Zhongyu Shares as quoted on the Stock Exchange was HK\$0.455 on 2 September 2009.

2.5 Consideration for the Zhongyu Shares, Convertible Bonds and the Share Options

Based on the Share Offer Consideration and 1,969,501,684 Zhongyu Shares in issue (representing the Zhongyu Shares not already held by the Offeror and the Concert Parties) as at the date of this announcement, the maximum value of the Share Offer (assuming none of the Convertible Bonds are converted into Zhongyu Shares, no Share Options are exercised and the Share Offer is accepted in full and there is no change in the share capital of Zhongyu) is approximately HK\$1,781,603,338.

Based on the Convertible Bond Offer Consideration, being the ascribed value of HK\$0.9046 for each Zhongyu Share payable in respect of the number of Zhongyu Shares that would be issued upon the conversion of each US\$10,000 of the nominal amount of the Convertible Bonds based on the current conversion price of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233 for the purpose of such conversion, in respect of 223,522,856 Zhongyu Shares which may be issued upon full conversion of the Convertible Bonds outstanding as at the date of this announcement, the maximum value of the Convertible Bond Offer (assuming no Convertible Bonds are converted into Zhongyu Shares or are otherwise redeemed prior to the Closing Date and the Convertible Bond Offer is accepted in full) is approximately HK\$202,197,882.

Based on the Option Offer Consideration of (i) HK\$0.0202 in cash and 0.0175 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.80, (ii) HK\$0.0664 in cash and 0.0576 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.56, and (iii) HK\$0.1146 in cash and 0.0994 new China Gas Share per Zhongyu Share which may be subscribed under the Share Options with an exercise price of HK\$0.31, and Share Options involving 147,218,000 Zhongyu Shares outstanding as at the date of this announcement, the maximum value of the Option Offer (assuming no Share Options are exercised or otherwise cancelled prior to the Closing Date and the Option Offer is accepted in full) is approximately HK\$47,319,227.

In the event all the Convertible Bonds are converted into Zhongyu Shares, all the Share Options are exercised in full by Zhongyu Optionholders prior to the Closing Date and the Share Offer is accepted in full (including all Zhongyu Shares issued and allotted as a result of the exercise of the Share Options and the Convertible Bonds), the maximum value

of the Share Offer will be increased to approximately HK\$2,116,974,031. In that case, no amount will be payable under the Convertible Bond Offer and the Option Offer and Zhongyu shall receive an aggregate subscription price of approximately HK\$156,466,000 and HK\$85,853,580 from the conversion of the Convertible Bonds and the exercise of the Share Options respectively.

Based on the Share Offer Consideration, the Convertible Bond Consideration and the Option Offer Consideration (and assuming that each of the Share Offer, Option Offer and Convertible Bond Offer is accepted in full), the maximum number of new China Gas Shares that may fall to be issued in connection with the Offers is 339,494,549. This represents approximately 10.11% of the 3,358,636,151 existing issued China Gas Shares as at the end of the Last Trading Date, and approximately 9.18% of the enlarged issued share capital of 3,698,130,700 China Gas Shares immediately following the issue of the aforesaid number of new 339,494,549 China Gas Shares.

The consideration payable under the Offers was determined on the basis of the most recent published financial information of Zhongyu, China Gas's review of Zhongyu's business and potential synergies arising from the acquisition of control by China Gas.

2.6 Settlement of consideration

Settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within ten days of the date of receipt of a complete and valid acceptance in respect of the Offers or of the Unconditional Date, whichever is the later.

2.7 Share Option Scheme

As at the date of this announcement, Zhongyu had Share Options entitling Zhongyu Optionholders to subscribe for up to an aggregate of 147,218,000 Zhongyu Shares at an exercise price of: (i) HK\$0.80, in respect of 48,400,000 Zhongyu Shares, (ii) HK\$0.56, in respect of 66,000,000 Zhongyu Shares, and (iii) HK\$0.31, in respect of 32,818,000 Zhongyu Shares. If the Share Options are exercised in full, Zhongyu will have to issue 147,218,000 Zhongyu Shares, representing approximately 6.96% of the enlarged issued share capital of Zhongyu (assuming no conversion of the Convertible Bonds).

Pursuant to the terms of the Share Option Scheme, if the Share Offer becomes or is declared unconditional, the Zhongyu Optionholders shall be entitled to exercise their Share Options at any time after the date on which the Share Offer becomes or is declared unconditional and up to the end of the Offer Period. Any Share Options outstanding thereafter will lapse automatically (to the extent not already exercised) at the end of the Offer Period, pursuant to the terms of the Share Option Scheme.

2.8 The Convertible Bonds

Zhongyu has in issue Convertible Bonds with an outstanding nominal amount of US\$20,000,000 as at the date of this announcement. The Convertible Bonds are convertible into Zhongyu Shares at a price of HK\$0.70 per Zhongyu Share and an exchange rate of US\$1.00 to HK\$7.8233, and if so converted would result in the aggregate of 223,522,856 new Zhongyu Shares being issued. Pursuant to the Convertible Bond Offer, China Gas will make a voluntary cash and securities exchange offer to acquire all of the outstanding Convertible Bonds.

In the event that the Convertible Bonds or part thereof are converted after the date of this announcement and new Zhongyu Shares are issued pursuant to such conversion, such Zhongyu Shares will form part of the Share Offer and the Zhongyu Shareholders holding such Zhongyu Shares shall be eligible to receive the Share Offer Consideration in respect of such Zhongyu Shares under the Offers.

The Convertible Bonds are not held by China Gas, the Offeror or parties acting or presumed to be acting in concert with any of them.

Further information on the Convertible Bond Offer will be set out in the Composite Document and the Convertible Bond Offer will be made by or on behalf of the Offeror in a letter to the Zhongyu Bondholders to be despatched on the same day as the date of despatch of the Composite Document.

2.9 Confirmation of financial resources

The maximum amount of aggregate cash consideration to be paid to Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers (assuming (i) all the Share Options are exercised in full prior to the Closing Date; (ii) all the holders of Zhongyu Shares, including those which have subscribed for Zhongyu Shares as a result of the exercise of the Share Options accede to the Share Offer; and (iii) all the Zhongyu Bondholders accede to the Convertible Bond Offer, and excluding the Zhongyu Shares not already held by the Offeror and the Concert Parties) is approximately HK\$407,904,275. It is presently intended that this amount will be funded by China Gas (through the Offeror) from funds made available from its internal resources.

The maximum cash requirement of HK\$407,904,275 is calculated by adding together (i) cash in the sum of HK\$343,284,144 required to satisfy acceptances under the Share Offer based on the number of total issued Zhongyu Shares as of the date of this announcement; (ii) cash in the sum of HK\$38,960,034 required to satisfy acceptances for all Convertible Bonds outstanding as at the date of this announcement under the Convertible Bond Offer; and (iii) cash in the sum of HK\$25,660,097 required to satisfy acceptances for Zhongyu Shares to be issued pursuant to the exercise of all Share Options outstanding as at the date of this announcement.

Macquarie has been appointed as the financial adviser to China Gas and the Offeror in respect of the Offers. Macquarie is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers as described above.

3. CONDITIONS OF THE OFFERS

The Offers will be conditional on the satisfaction or (if applicable) waiver of the following Conditions:

- (A) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Zhongyu Shares which would result in the Offeror and the Concert Parties holding more than 50% of the voting rights in Zhongyu;
- (B) the Stock Exchange granting the listing of and permission to deal (subject only to allotment and other procedural matters required under the Listing Rules) in the China Gas Shares to be issued as consideration under the Offers and the same not having been withdrawn;
- (C) the Zhongyu Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Zhongyu Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Zhongyu Shares on the Stock Exchange is or is likely to be withdrawn;
- (D) (i) all Consents (including the PRC Anti-trust Clearance, if any) as are necessary for the acquisition of the Zhongyu Shares and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the Zhongyu Group that has been granted the concession rights or licences to carry out its operations having been obtained in form and substance satisfactory to the Offeror and remaining in full force and effect without variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the Zhongyu Group possessing or having obtained all licences and permits from the Relevant Authority(ies) that are necessary to carry on its business; and (iii) all mandatory consents from third parties having been obtained for the acquisition of the Zhongyu Shares;
- (E) no event having occurred which would make the Offers or the acquisition of any of the Zhongyu Shares void, unenforceable, illegal or prohibit implementation of the Offers;
- (F) no Relevant Authority(ies) in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any

material conditions or obligations with respect to the Offers (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers);

- (G) since the date of the last audited consolidated financial statements of Zhongyu, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of Zhongyu or any member of the Zhongyu Group, whether or not arising in the ordinary course of business; and
- (H) no material breach of any covenants, representations and warranties given by Hezhong and each of the Management Owners in favour of the Offeror under the Irrevocable Undertaking.

The Offeror reserves the right to waive all or any of the Conditions to the Offers set out above (except for Conditions (A), (B) and (E) which may not be waived), in whole or in part.

In addition to the Conditions set out above, the Share Offer is made on the basis that acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Zhongyu Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the date of the Composite Document or subsequently becoming attached to them, including the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of the Composite Document.

In addition to the Conditions set out above, the Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers will be made in compliance with the Takeovers Code, which is administered by the Executive.

4. IRREVOCABLE UNDERTAKING

On 17 January 2010, Hezhong and each of the Management Owners executed an Irrevocable Undertaking in favour of China Gas and the Offeror, pursuant to which Hezhong and the Management Owners undertook to, within three business days following the despatch of the Composite Document, accept or procure to accept the Share Offer in respect of all of the Zhongyu Shares owned by them as at the date of the Irrevocable Undertaking, and any Zhongyu Shares of which they will become the legal or beneficial owners thereafter. As at the date of this announcement, 945,755,542 Zhongyu Shares are held by Hezhong and 1,166,000 Zhongyu Shares are held by Mr. Wang, together representing approximately 48.08% of the issued share capital of Zhongyu (assuming no Share Options or Convertible Bonds are exercised since the end of the Last Trading Date).

The Irrevocable Undertaking given by Hezhong and the Management Owners also provides that unless and until the Share Offer lapses or is withdrawn without having become wholly unconditional on or before the Long Stop Date, each of Hezhong and the Management Owners shall not, among other things, sell or transfer or otherwise dispose of or charge or pledge or otherwise encumber or grant any option or other right over or otherwise deal with all or any of the Zhongyu Shares or the Share Options held by the Management Owners or any interest in all or any thereof (whether conditionally or unconditionally), nor will it/he accept or undertake to accept any other offer or give any indication to any third party of an intention to accept any other offer in any respect of all or any of the Zhongyu Shares or the Share Options held by the Management Owners (whether conditionally or unconditionally) by whatever means, or vote in favour of (or undertake to vote in favour of) any resolution to approve a compromise or arrangement under the Cayman Islands Companies Law with the members and creditors of Zhongyu (or any amalgamation under the Cayman Islands Companies Law) and with any third party other than with the Offeror or its parent company, subsidiaries or fellow subsidiaries. The Irrevocable Undertaking executed by Hezhong and the Management Owners also provides that each of the Management Owners shall undertake to procure the performance by Hezhong of its obligations under such Irrevocable Undertaking.

Assuming the Share Offer proceeds and based on the Share Offer Consideration, pursuant to the Irrevocable Undertaking, the Offeror shall acquire from Hezhong and the Management Owners an aggregate of 946,921,542 Zhongyu Shares held by them at a total consideration of approximately HK\$165,048,424.77 in cash and 143,174,537 China Gas Shares.

The Irrevocable Undertaking shall terminate if the Share Offer lapses or is withdrawn without having become wholly unconditional on or before the Long Stop Date.

As of the date of this announcement, apart from the Irrevocable Undertaking, the Offeror and its Concert Parties have not received any irrevocable undertaking from any other Zhongyu Shareholders, Zhongyu Optionholders or Zhongyu Bondholders in connection with the Offers.

5. NON-DISPOSAL UNDERTAKING

Pursuant to the Irrevocable Undertaking, each of Hezhong and the Management Owners has further undertaken in favour of China Gas and the Offeror that, among other things, it/he shall not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it/him will, without the prior written consent of China Gas and the Offeror, at any time from the Completion Date until the expiry of 12 months therefrom, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the China Gas Shares it/he receives pursuant to the Offers or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise or offer or agree or announce any intention to do any of the foregoing.

6. GENERAL INFORMATION

6.1 Discloseable transaction for China Gas

The Offers together constitute a discloseable transaction for China Gas under the Listing Rules. A separate announcement containing details in relation to such discloseable transaction was issued by China Gas on the same date of this announcement.

6.2 Information on the Offeror and China Gas

The Offeror is a company incorporated in the British Virgin Islands on 10 December 2009 and is a direct wholly-owned subsidiary of China Gas. The directors of the Offeror are Xu Ying, Liu Ming Hui and Zhu Wei Wei, who are also directors of China Gas. The main business of the Offeror is investment holding.

China Gas was incorporated in Bermuda on 22 August 1995 as an exempted company with limited liability under Bermuda law. China Gas was listed on the Main Board of the Stock Exchange on 20 October 1995, trading under the stock code 384. China Gas is a natural gas services operator and is principally engaged in the investment, operation and management of city gas pipeline infrastructure, distribution of natural gas and liquefied petroleum gas to residential, commercial and industrial users, construction and operation of oil stations and gas stations, and development and application of natural gas and liquefied petroleum gas related technologies in the PRC.

Shareholding structure of the Offeror

The Offeror is a direct wholly-owned subsidiary of China Gas as at the date of this announcement, and there will be no change in its shareholding structure following the Completion Date.

Shareholding structure of China Gas

The shareholding structure of China Gas (i) as at the date of this announcement; and (ii) immediately following the completion of the Offers is as follows:

Name of China Gas Shareholder	As at the date of this announcement		Immediately following completion of the Offers (assuming minimum acceptances) ⁽¹⁾		Immediately following completion of the Offers (assuming full acceptances) ⁽²⁾	
	No. of China Gas Shares held	Approx. % of issued China Gas Shares	No. of China Gas Shares held	Approx. % of issued China Gas Shares	No. of China Gas Shares held	Approx. % of issued China Gas Shares
Hai Xia Finance Holdings Limited	346,000,003	10.30	346,000,003	9.86	346,000,003	9.36
Liu Ming Hui	273,124,000	8.13	273,124,000	7.79	273,124,000	7.39
Oman Oil Company S.A.O.C.	237,567,060	7.07	237,567,060	6.77	237,567,060	6.42
China Petroleum & Chemical (Sinopec)	210,000,000	6.25	210,000,000	5.99	210,000,000	5.68
Gail India Limited	210,000,000	6.25	210,000,000	5.99	210,000,000	5.68
Hezhong	-	-	142,998,238	4.08	142,998,238	3.86
Mr. Wang	-	-	176,299	0.01	1,170,343	0.03
Mr. Hao	-	-	-	-	4,078,559	0.11
Public Shareholders	<u>2,081,945,088</u>	<u>62.00</u>	<u>2,087,962,666</u>	<u>59.51</u>	<u>2,273,192,497</u>	<u>61.47</u>
Total	<u>3,358,636,151</u>	<u>100.00</u>	<u>3,507,828,266</u>	<u>100.00</u>	<u>3,698,130,700</u>	<u>100.00</u>

Note:

- (1) Assuming that (i) each of Hezhong and the Management Owners agrees to accept the Offers as provided in the Irrevocable Undertaking in full, (ii) neither the Option Offer nor the Convertible Bond Offer has been accepted, and (iii) that the Offeror and the Concert Parties will hold 50.1% of Zhongyu Shares in issue following the Completion Date.
- (2) Assuming that (i) each of Hezhong and the Management Owners agrees to accept the Offers as provided in the Irrevocable Undertaking in full, (ii) none of the Share Options are exercised and none of the Convertible Bonds are converted into Zhongyu Shares, and (iii) that the Offers are accepted in full.

6.3 Information on the Zhongyu Group and Hezhong

Zhongyu was incorporated in the Cayman Islands on 12 February 2001 as an exempted company with limited liability under the Cayman Islands Companies Law. Zhongyu was listed on GEM on 5 June 2001, trading under the stock code 8070.

Zhongyu is a vertically integrated gas operator from upstream resource development to downstream distribution in the PRC. Its principal business includes exploration, exploitation and development of coalbed methane, sales of piped gas, natural gas from CNG filling stations for vehicles and bottled liquefied petroleum gas as well as the development, construction of gas pipeline network.

Based on audited financial statements of the Zhongyu Group as set out in its annual report for the year ended 31 December 2008, Zhongyu recorded consolidated total revenue of approximately HK\$703,020,000, consolidated net loss before tax and extraordinary items of approximately HK\$78,242,000 and consolidated net loss after tax and extraordinary items of approximately HK\$91,565,000, for the year ended 31 December 2008. Based on unaudited financial statements of the Zhongyu Group as set out in its third quarterly report for the nine months ended 30 September 2009, Zhongyu recorded consolidated total revenue of approximately HK\$543,787,000, consolidated net profit before tax and extraordinary items of approximately HK\$78,558,000 and consolidated net profit after tax and extraordinary items of approximately HK\$58,511,000 for the nine months ended 30 September 2009.

Hezhong, being the controlling shareholder of Zhongyu, is an investment company incorporated in the British Virgin Islands in which the Management Owners, namely Mr. Wang and Mr. Hao, own 60% and 40% of its issued share capital respectively. The Management Owners are also executive directors of Zhongyu.

Shareholding structure of Zhongyu

The shareholding structure of Zhongyu (i) as at the date of this announcement; and (ii) for illustration only, immediately following completion of the Offers is as follows:

Name of Zhongyu Shareholder	As at the date of this announcement		For illustration purpose only					
			Immediately following completion of the Offers (assuming minimum acceptance) ⁽¹⁾		Immediately following completion of the Offers (assuming maximum acceptance) ⁽²⁾		Immediately following completion of the Offers (assuming minimum level of public float) ⁽³⁾	
	No. of Zhongyu Shares held	Approx. % of issued Zhongyu Shares	No. of Zhongyu Shares held	Approx. % of issued Zhongyu Shares	No. of Zhongyu Shares held	Approx. % of issued Zhongyu Shares	No. of Zhongyu Shares held	Approx. % of issued Zhongyu Shares
Offeror (and its Concert Parties)	-	-	986,720,344	50.10	1,969,501,684	100.00	1,477,126,263	75.00
Hezhong	945,755,542	48.02	-	-	-	-	-	-
Mr. Wang	1,166,000	0.06	-	-	-	-	-	-
Zhongyu Shareholders	<u>1,022,580,142</u>	<u>51.92</u>	<u>982,781,340</u>	<u>49.90</u>	<u>-</u>	<u>-</u>	<u>492,375,421</u>	<u>25.00</u>
Total	<u>1,969,501,684</u>	<u>100.00</u>	<u>1,969,501,684</u>	<u>100.00</u>	<u>1,969,501,684</u>	<u>100.00</u>	<u>1,969,501,684</u>	<u>100.00</u>

Note:

- (1) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Zhongyu Shares prior to completion of the Share Offer, and that the Offeror and the Concert Parties will hold 50.1% of Zhongyu Shares in issue following the Completion Date.
- (2) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Zhongyu Shares prior to completion of the Share Offer, and that the Offers are accepted in full. The information is before any action required to restore the minimum public float of 25%.
- (3) Assuming that none of the Share Options are exercised and none of the Convertible Bonds are converted into Zhongyu Shares prior to completion of the Share Offer, and that the Offeror and the Concert Parties will hold 75% of the Zhongyu Shares in issue following the Completion Date.

Save as disclosed above, none of China Gas, the Offeror nor any of the Concert Parties owns or controls any Zhongyu Shares or any convertible securities, warrants, options or Share Options (or other outstanding derivatives) in respect of the Zhongyu Shares.

The holders of the Convertible Bonds as at the date of this announcement are as follows:

Name of Zhongyu Bondholder	Principal amount outstanding of Convertible Bonds (US\$)	Number of Zhongyu Shares convertible into	Approx. % of issued Zhongyu Shares ⁽¹⁾
CQS Asia Master Fund Limited	1,500,000	16,764,214	0.85
CQS Convertible and Quantitative Strategies Master Fund Limited	3,500,000	39,116,500	1.99
Perry Capital LLC	10,200,000	113,996,657	5.79
TRG Special Opportunity Master Fund, Ltd	<u>4,800,000</u>	<u>53,645,485</u>	<u>2.72</u>
Total	<u>20,000,000</u>	<u>223,522,856</u>	<u>11.35</u>

Note ⁽¹⁾: Based on 1,969,501,684 issued Zhongyu Shares, being the existing issued share capital of Zhongyu as at the date of this announcement.

6.4 Independent board committee of Zhongyu

Under Rule 2.1 of the Takeovers Code, a board which receives an offer must establish an independent committee of the board to make a recommendation (i) as to whether the offer is, or is not, fair and reasonable and (ii) as to acceptance or voting. Mr. Xu Yongxuan, a non-executive Zhongyu Director, and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, all of whom are independent non-executive Zhongyu Directors, have been appointed as members of the independent board committee of Zhongyu in respect of the Offers.

An independent financial adviser will be appointed, subject to approval by the independent board committee of Zhongyu, to advise the independent board committee of Zhongyu in respect of the Offers in due course. A further announcement will be made by Zhongyu upon the appointment of the independent financial adviser.

6.5 No dividend or other distribution

Zhongyu does not intend to declare or pay any dividend or other distribution on the Zhongyu Shares during the Offer Period.

6.6 Reasons for the Offers

Zhongyu is a vertically integrated gas operator from upstream resource development to downstream distribution in the PRC.

Zhongyu Group's upstream business includes exploration, exploitation and development of coalbed methane. Zhongyu entered into the coalbed methane market in 2007 via a joint venture. As at 30 September 2009, Zhongyu Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, in the PRC to explore, exploit, develop and produce coalbed methane.

Zhongyu Group's downstream business includes sales of piped gas, natural gas from CNG filling stations for vehicles and bottled liquefied petroleum gas. Approximately 90% of total sales of piped gas for the nine months ended 30 September 2009 was derived from provision of natural gas.

Further, Zhongyu Group is also principally involved in the development and construction of gas pipeline network. As at 30 September 2009, Zhongyu has the accumulated number of residential households of 282,813 and industrial/commercial customers of 1,195. As at 30 September 2009, Zhongyu Group's penetration rate reached 32%.

The Offeror believes there are compelling commercial reasons for a merger between China Gas and Zhongyu as set out below:

Entry into the natural gas market in Henan province, PRC

As at 30 September 2009, China Gas's city piped gas projects covers 18 provinces, autonomous regions and directly administered cities which does not include the Henan province, PRC, whereas Zhongyu currently operates eight downstream natural gas distribution projects and CNG vehicle refilling stations in such province and has a market presence within the province. The completion of the Offers will enable China Gas Group to gain entry into the Henan market through Zhongyu.

Expansion of China Gas Group's business in Shandong province, PRC

The completion of the Offers will enable China Gas Group to expand its business in Shandong province through Zhongyu, which is currently operating three downstream natural gas distribution projects. This will enable the Enlarged Group to expand its market share in the province and result in higher penetration rate following completion of the Offers.

Management efficiency and business synergy

The completion of the Offers will enable the integration of the business of Zhongyu Group with China Gas Group, both of which currently operate under similar business models, and will provide business synergy opportunities, due to cost-efficiency and economies of scale. In particular, the completion of the Offers will strengthen the management of the Enlarged Group, which will be able to leverage on China Gas Group's existing management experience in the industry. The integration will also provide opportunities for resource sharing and result in greater management efficiency within the Enlarged Group.

Entry into a complimentary business

The completion of the Offers will provide China Gas Group with greater access to the untapped potential of the coalbed methane industry. Currently, China Gas Group has one coalbed methane exploration project, while Zhongyu Group is principally engaged in the exploration, exploitation and development of coalbed methane (in addition to its interest in natural gas).

The completion of the Offers will provide opportunities for business synergy within the Enlarged Group to further develop into the coalbed methane business in which China Gas Group and Zhongyu Group are engaged. This will compliment the Enlarged Group's natural gas business as coalbed methane is an alternative natural resource to natural gas.

6.7 China Gas's intentions in relation to Zhongyu and the Enlarged Group

China Gas intends to continue with the existing business of China Gas Group, as well as with the existing business of Zhongyu Group, following completion of the Offers. Neither China Gas nor the Offeror intends to make any changes to the current business operations of Zhongyu Group following completion of the Offers. It is also the intention of China Gas and the Offeror that there will not be any material changes in the management or employees of Zhongyu Group as a result of the Offers.

China Gas and the Offeror intend to nominate additional directors to the board of Zhongyu following completion of the Offers. Any changes to the board of Zhongyu will be made in compliance with the Takeovers Code, the Listing Rules and the constitutional documents of Zhongyu. Further announcement(s) will be made upon the appointment of new directors of Zhongyu accordingly.

Subject to market conditions, China Gas will explore various opportunities to further develop and expand the business of China Gas Group and Zhongyu Group, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

Maintaining listing/public float

China Gas will, together with Zhongyu, use reasonable endeavours to maintain the listing of the Zhongyu Shares on the Stock Exchange and will ensure that not less than 25% of the Zhongyu Shares will be held by the public in compliance with the Listing Rules.

If, at the close of the Offers, less than 25% of the Zhongyu Shares are held by the public or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Zhongyu Shares, or**
- **there are insufficient Zhongyu Shares in public hands to maintain an orderly market,**

then the Stock Exchange may exercise its discretion to suspend dealings in the Zhongyu Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Zhongyu Shares and, therefore, trading in the Zhongyu Shares may be suspended until a prescribed level of public float is attained.

6.8 Further terms of the Offers

Zhongyu Shares

Under the terms of the Share Offer, the Zhongyu Shares will be acquired with all rights attached thereto as at the date of the Composite Document or which subsequently become attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid, on or after the date of this announcement, and free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights.

The Option Offer will be made on the basis that acceptance of the Option Offer by any person will constitute a warranty by such person or persons to the Offeror that the Share Options are free from all third party rights, liens, charges, equities, adverse interests and encumbrances and are to be cancelled and renounced together with all rights attaching thereto as at the date of the Composite Document or subsequently becoming attaching to them.

The Convertible Bond Offer will be made on the basis that acceptance of the Convertible Bond Offer by any person will constitute a warranty by such person or persons to the Offeror that the Convertible Bonds are free from all third party rights, liens, charges, equities, adverse interests and encumbrances and are to be acquired together with all rights attaching thereto as at the date of the Composite Document or subsequently becoming attaching to them.

Hong Kong stamp duty

Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Zhongyu Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Zhongyu Shares and will be deducted from the cash amount due to such accepting Zhongyu Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf. No stamp duty is payable in connection with the Convertible Bond Offer and the Option Offer.

6.9 General matters relating to the Offers

Availability of the Offers

The Offeror intends to make available the Offers to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders, including those who are resident outside Hong Kong, to the extent practicable. The availability of the Offers to persons not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

In the event that the receipt of the Composite Document by overseas Zhongyu Shareholders, Zhongyu Bondholders or Zhongyu Optionholders is prohibited by any relevant law or may only be effected after compliance with conditions or requirements that would be unduly burdensome in such overseas jurisdictions, the Composite Document, subject to the Executive's consent, will not be despatched to such overseas Zhongyu Shareholders, Zhongyu Bondholders or Zhongyu Optionholders. Zhongyu will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time.

Any arrangements for overseas Zhongyu Shareholders, Zhongyu Bondholders or Zhongyu Optionholders to collect the Composite Document will be set out in a further announcement.

Composite Document

Pursuant to Rule 8.2 of the Takeovers Code, the Composite Document should be posted within 35 days of the date of this announcement. The Composite Document will contain details of, among other things, the Offers, a letter from the independent board committee of Zhongyu in relation to the Offers and a letter from an independent financial adviser to the independent board committee in respect of the Offers. An expected timetable in relation to the Offers will be included in the Composite Document.

Further agreements or arrangements

As at the date of this announcement, except the Irrevocable Undertaking, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Zhongyu Shares or the China Gas Shares which might be material to the Offers.

As at the date of this announcement, there are no agreements or arrangements to which China Gas or the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers.

As at the date of this announcement, there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Zhongyu which any of the Offeror or the Concert Parties has borrowed or lent.

The Offeror and the Concert Parties have not dealt for value in any Zhongyu Shares, convertible securities or options in respect of any Zhongyu Shares during the six-month period up to and including the date of this announcement.

Completion of the Offers

If the Conditions are not satisfied (or not waived where applicable) on or before the Closing Date, the Offers will lapse.

In that case, China Gas will issue an announcement in relation to the revision, extension, expiry or unconditionality of the Offers in accordance with the Takeovers Code and Listing Rules by 7:00 p.m. on the Closing Date. The latest time on which the Offeror can declare the Offers unconditional as to acceptances is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

If the Conditions are satisfied (or, if permissible, waived), Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders will be notified by an announcement in accordance with the Takeovers Code and Listing Rules as soon as practicable thereafter.

7. SUSPENSION AND RESUMPTION OF TRADING

At the respective request of China Gas and Zhongyu, trading in the shares in China Gas and Zhongyu on the Stock Exchange was suspended from 9:30 a.m. on 18 January 2010 (Hong Kong time), pending the issue of this announcement. Applications have been made by China Gas and Zhongyu to the Stock Exchange for the resumption of trading in the shares in China Gas and Zhongyu on the Stock Exchange with effect from 9:30 a.m. on 27 January 2010 (Hong Kong time).

WARNING: The Offers are conditional upon the satisfaction of the Conditions described in this announcement. Zhongyu Shareholders, Zhongyu Bondholders, Zhongyu Optionholders and shareholders of China Gas and/or potential investors of Zhongyu and China Gas should therefore exercise caution when dealing in shares, convertible bonds and/or options of Zhongyu and China Gas.

8. DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“associates”	has the meaning ascribed to it in the Listing Rules;
“Cayman Islands Companies Law”	means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“China Gas”	means China Gas Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 384);
“China Gas Group”	means China Gas and its subsidiaries;
“China Gas Shares”	means ordinary shares of HK\$0.01 each in the issued share capital of China Gas;
“Closing Date”	means the date to be stated in the Composite Document as the first closing date of the Offers or any subsequent closing date as may be announced by the Offeror and approved by the Executive;
“CNG”	means compressed natural gas;
“Completion Date”	means the date on which the transfer of the Zhongyu Shares to the Offeror, the acquisition of the Convertible Bonds and the cancellation of the Share Options are completed in full pursuant to the Takeovers Code and the terms of the Offers;
“Composite Document”	means the composite document to be issued jointly by China Gas and Zhongyu to all Zhongyu Shareholders, Zhongyu Bondholders and Zhongyu Optionholders in connection with the Offers in accordance with the Takeovers Code containing, inter alia, details of the Offers, the terms and conditions of the Offers and the board circular of Zhongyu;

“Concert Parties”	means parties acting in concert with the Offeror and/or China Gas, as determined in accordance with the Takeovers Code;
“Conditions”	means the conditions of the Offers, as set out under the paragraph headed “Conditions of the Offers” of this announcement;
“Consent(s)”	means any consent, approval, authorisation, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies), including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) to Zhongyu Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies), or otherwise;
“Convertible Bond Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror to acquire all the outstanding Convertible Bonds at the Convertible Bond Offer Consideration;
“Convertible Bond Offer Consideration”	means the payment of HK\$19,480.0170 in cash and 16,898.3280 new China Gas Shares for each US\$10,000 nominal amount of the Convertible Bonds;
“Convertible Bonds”	means the convertible bonds with a current outstanding nominal amount of US\$20,000,000 issued by Zhongyu to the Zhongyu Bondholders on 25 June 2007 (and as amended pursuant to an amendment agreement dated 25 March 2009);
“Enlarged Group”	means China Gas and its subsidiaries (which will include Zhongyu Group) following completion of the Offers;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“GEM”	means the Growth Enterprise Market of the Stock Exchange;
“Hezhong”	means Hezhong Investment Holding Company Limited, a limited company incorporated in the British Virgin Islands with limited liability, in which Mr. Wang and Mr. Hao own 60% and 40% of its issued share capital, respectively;
“HK\$”	means Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;

“Irrevocable Undertaking”	means the irrevocable undertaking dated 17 January 2010 given by Hezhong and each of the Management Owners in favour of China Gas and the Offeror;
“Last Trading Date”	means 15 January 2010, being the last trading day prior to the suspension of trading in the Zhongyu Shares and the China Gas Shares pending the publication of this announcement;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange, or the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, as the case may be;
“Long Stop Date”	means, in relation to the Irrevocable Undertaking, the date which is 365 days after the date of the Irrevocable Undertaking, unless the date is extended by China Gas with the consent of Hezhong;
“Macquarie”	means, Macquarie Capital (Hong Kong) Limited, a licensed corporation under the SFO licensed to conduct Type 6 (advising on corporate finance) regulated activity, which is the financial advisor to China Gas and the Offeror in connection with the Offers;
“Management Owners”	means Mr. Wang and Mr. Hao, each being a director of Zhongyu, who own 60% and 40% respectively and together collectively own all of the issued share capital of Hezhong;
“MCSL”	means, Macquarie Capital Securities Limited, a licensed corporation under the SFO licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities;
“Mr. Hao”	means Mr. Hao Yu, a director of Zhongyu and the beneficial owner of 40% of the issued share capital of Hezhong;
“Mr. Wang”	means Mr. Wang Wenliang, a director of Zhongyu and the beneficial owner of 60% of the issued share capital of Hezhong;
“Offer Period”	has the meaning given to it in the Takeovers Code;
“Offeror”	means Rich Legend International Limited, an investment holding company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of China Gas;
“Offers”	means the Share Offer, the Convertible Bond Offer and the Option Offer;

“Option Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror for cancellation of the Share Options at the Option Offer Consideration;
“Option Offer Consideration”	means (i) the amount of HK\$0.0202 in cash and the allotment and the issue of 0.0175 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.80, (ii) the amount of HK\$0.0664 in cash and the allotment and issue of 0.0576 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.56, and (iii) the amount of HK\$0.1146 in cash and the allotment and issue of 0.0994 new China Gas Share per Zhongyu Share which may be subscribed for under the Share Options at an exercise price of HK\$0.31, for each Share Option accepted under the Option Offer;
“PRC”	means the People’s Republic of China and, for the purposes of this announcement, excluding Hong Kong, Taiwan and Macau;
“PRC Anti-trust Clearance”	means the submission of the formal notification and any related filings pursuant to the Anti-Monopoly Laws of the PRC to the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC, in connection with the Offers, and the obtaining of clearance or deemed clearance from the Anti-Monopoly Bureau in respect of such filings;
“Relevant Authority(ies)”	means any government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
“RMB”	means Renminbi, the lawful currency of the PRC;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share Offer”	means the voluntary conditional cash and securities exchange offer by MCSL on behalf of the Offeror at the Share Offer Consideration to acquire all of the issued shares in the share capital of Zhongyu other than those Zhongyu Shares already held by the Offeror and the Concert Parties;
“Share Offer Consideration”	means (i) the amount of HK\$0.1743 in cash, and (ii) the allotment and issue of 0.1512 new China Gas Share for each Zhongyu Share accepted under the Share Offer;

“Share Option Scheme”	means the share option scheme adopted by Zhongyu on 30 September 2003, as amended from time to time;
“Share Options”	means the outstanding options granted pursuant to the Share Option Scheme and “Share Option” shall be construed accordingly;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in the Listing Rules;
“Takeovers Code”	means The Codes on Takeovers and Mergers and Share Repurchases published by the SFC;
“Unconditional Date”	means the date on which the Offers become or are declared unconditional in all respects;
“Zhongyu”	means Zhongyu Gas Holdings Limited, a limited company incorporated in the Cayman Islands with limited liability whose shares are listed on GEM (Stock Code: 8070);
“Zhongyu Bondholders”	means holders of the Convertible Bonds;
“Zhongyu Director(s)”	means the director(s) for the time being of Zhongyu;
“Zhongyu Group”	means Zhongyu and its subsidiaries;
“Zhongyu Optionholders”	means registered grantees/holders for the time being of the Share Options;
“Zhongyu Shareholders”	means registered holders for the time being of the Zhongyu Shares;
“Zhongyu Shares”	means ordinary shares of HK\$0.01 each in the issued share capital of Zhongyu; and
“%”	means per cent.

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

By order of the board of
Zhongyu Gas Holdings Limited
Wang Wenliang
Chairman

By order of the board of
Rich Legend International Limited
Liu Ming Hui
Director

Hong Kong, 26 January 2010

The directors of each of China Gas and the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to Zhongyu Group, Hezhong and the Management Owners) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by Zhongyu Group, Hezhong and the Management Owners) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

As at the date of this announcement, the board of directors of China Gas comprises 13 directors, of whom Mr. Li Xiao Yun (Chairman), Mr. Xu Ying (Vice-Chairman), Mr. Liu Ming Hui (Managing Director), Mr. Zhu Wei Wei and Mr. Ma Jin Long are executive directors, Mr. Feng Zhuo Zhi, Mr. Joe Yamagata, Mr. R.K. Goel, Mr. Kim Joong Ho and Mr. William Rackets are non-executive directors, Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue Cynthia are independent non-executive directors.

As at the date of this announcement, the board of directors of the Offeror comprises 3 directors, namely Mr. Xu Ying, Mr. Liu Ming Hui and Mr. Zhu Wei Wei.

The Zhongyu Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to China Gas Group, the Offeror, the Concert Parties, MCSL and Macquarie) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the China Gas Group, the Offeror, the Concert Parties, MCSL and Macquarie) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

As at the date of this announcement, the board of directors of Zhongyu comprises 8 directors, of whom Mr. Wang Wenliang (Chairman), Mr. Hao Yu (Chief Executive Officer) and Mr. Lu Zhaoheng and Mr. Lui Siu Keung (Chief Financial Officer) are executive directors, Mr. Xu Yongxuan (Vice-Chairman) is a non-executive director, Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen are independent non-executive directors.

In accordance with Rule 3.8 of the Takeovers Code, the associates (as defined under the Takeovers Code) of China Gas and Zhongyu are hereby reminded to disclose their dealings in any securities of China Gas and Zhongyu under Rule 22 of the Takeovers Code.

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise

draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligations of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that cooperation.”

The announcement, for which the directors of Zhongyu collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Zhongyu. The directors of Zhongyu, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for 7 days from the date of its publication and on the Company’s website at <http://www.zygas.com.cn>.