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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)

ANNOUNCEMENT PURSUANT TO RULE 13.09(1) OF THE LISTING RULES (1) UPDATES ON THE INCIDENT; (2) ELIGIBILITY OF MR. LIU AND MR. HUANG; AND (3) RESUMPTION OF TRADING

Updates on the Incident

On 24 January 2011, Zhongran Gas, a wholly owned subsidiary of the Company, was notified by the PRC Legal Counsel that it received from the respective family members of Mr. Liu and Mr. Huang on 23 January 2011 copies of the Notices of Arrest dated 21 January 2011 in respect of Mr. Liu and Mr. Huang. The Notices of Arrest stated that Mr. Liu and Mr. Huang have respectively been arrested for the Suspected Offence and are detained at the detention centre in Shenzhen. The Company has tried but has not been able to contact Mr. Liu and Mr. Huang so far. However, to the best of the knowledge of the Board, no formal charges have yet been made against Mr. Liu or Mr. Huang.

According to a status report dated 20 January 2011 issued by the PRC Legal Counsel to Zhongran Gas, on 6 January 2011, certain officers of the Shenzhen PSB attended the office of Zhongran Gas in Shenzhen and requested Zhongran Gas to provide certain documentation relating to, amongst other things, (1) the appointment of Mr. Liu and Mr. Huang with the Company; and (2) the acquisition of Clever Decision, a holding company which then owned and operated four City Projects and a Pipeline Project. The status report was prepared based on information provided by Zhongran Gas and Shenzhen PSB. In addition, the Shenzhen PSB issued the 27/1 Notice to the Company on 27 January 2011 requesting for further evidence relating to, among other things, the Acquisition and the Hubei Projects. Save for the 27/1 Notice and the information contained in the status report, none of the members of the Group (other than Zhongran Gas) or the PRC Legal Counsel has been able to obtain any information directly from Shenzhen PSB.

Based on the extent and the nature of the information requested by the Shenzhen PSB on 6 January 2011, as stated in the status report, the PRC Legal Counsel deduced that the primary focus of the investigation by the Shenzhen PSB was on the performance of the acquisition and construction contracts relating to the Hubei Projects.

Based on (i) the same reason, (ii) the information requested by the Shenzhen PSB under the 27/1 Notice, (iii) the view of the PRC Legal Counsel stated in the status report, the Company has reasonable grounds to believe that the Suspected Offence may be related to the Hubei Projects. Further, as there is no indication that the operation of the Group has been adversely affected so far and based on the current status of the review of the cash position of the Company and its principal subsidiaries conducted by PwC (for further details of such review, please refer to the section headed "Results of Review by PwC" below) which is still in progress, the Company has reasonable grounds to believe that the Suspected Offence is not in relation to any other assets or projects of the Group.

Eligibility of Mr. Liu and Mr. Huang and Termination of Mr. Liu as Managing and Executive Director of the Company and Termination of Mr. Huang as Executive President of the Company

In view of the allegations made against Mr. Liu and Mr. Huang, the possible connection of the Suspected Offence with the Hubei Projects and the continued absence of Mr. Liu and Mr. Huang from their offices and positions pending investigation of the Suspected Offence, the Board has unanimously resolved that, based on the current circumstances, each of Mr. Liu and Mr. Huang is not eligible to carry out his duties in the Company.

As regards Mr. Liu's position as the managing director of the Company, the Board has unanimously resolved that it be terminated with effect from 25 January 2011. As regards Mr. Liu's position as an executive director of the Company, given that the Service Agreement (which will expire on 31 March 2011) is of a fixed term nature and that the relevant termination provisions contained therein are not applicable under the current circumstances, the Company will endeavour to contact Mr. Liu and request for his resignation from such position as soon as practicable or will not renew his Service Agreement upon its expiration. As regards Mr. Liu's office as a director of the Company, given that the relevant termination provisions contained in the Bye-laws of the Company are not applicable under the current circumstances, the Company will endeavour to contact Mr. Liu and request for his resignation from such office. If the Company is still unable to establish contact with Mr. Liu by 31 March 2011, it will take all necessary actions immediately thereafter to remove Mr. Liu as a director by obtaining ordinary shareholders' approval pursuant to the Bye-laws of the Company. The removal procedures contained in the Bye-laws of the Company are in compliance with the Listing Rules. Considering that Mr. Liu's eligibility hinges on the Suspected Offence and the current circumstances, the Board further unanimously resolved that if Mr. Liu is subsequently released without any charges or conviction, the Board will then consider reappointing him as a director of the Company and re-engaging him as managing director and executive director of the Company.

As regards the position of Mr. Huang as the executive president of the Company, given that the termination provisions of the employment contract between Mr. Huang and the Company are not applicable under the current circumstances, the Company will endeavour to contact Mr. Huang and request for his resignation from such position. If the Company is still unable to establish contact with Mr. Huang by 31 March 2011, it will give a one month notice to Mr. Huang to terminate his position. Considering that Mr. Huang's eligibility hinges on the Suspected Offence and the current circumstances, the Board further unanimously resolved that if Mr. Huang is subsequently released without any charges or conviction, the Board will then consider re-engaging him for the position as executive president of the Company.

Since Mr. Liu and Mr. Huang have been detained for investigation by the Shenzhen PSB and have remained uncontactable by the Company since 18 December 2010, the Board considers that Mr. Liu and Mr. Huang cannot cause any harm to the Company or take part in the business operation of the Company and execute any documents for and on behalf of the Company during this period.

As advised by Zhongyu Gas, a subsidiary of the Company, the board of directors of Zhongyu Gas considers that it is in the best interest of Zhongyu Gas to hold a general meeting as soon as possible to remove Mr. Huang as a director of Zhongyu Gas by way of a special resolution in accordance with articles of association of Zhongyu Gas. Zhongyu Gas will make an announcement to convene such a general meeting before the end of February 2011. In the event Mr. Huang is released without any charges or conviction, the board of directors of Zhongyu Gas will then consider re-appointing Mr. Huang to his position as an executive director of Zhongyu Gas.

Miscellaneous

If the Company is aware of any update or development on the Suspected Offence, or if the Company is able to contact Mr. Liu and Mr. Huang, the Company will make a further announcement in accordance with the Listing Rules as soon as practicable. The Company will also make an announcement in respect of the key findings in the PwC's report on its work performed on the Ex-Zhongyu Group.

Save as disclosed above, the Board confirms that there is no other price sensitive information required to be disclosed in accordance with the Listing Rules as at the date of this announcement.

Resumption of trading

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 20 December 2010 pending the release of a further announcement on the Incident. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 1 February 2011.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to the announcements made by China Gas Holdings Limited (the “**Company**”) on 24 December 2010 (the “**First Announcement**”) and 4 January 2011 (the “**Second Announcement**”) respectively (collectively referred to as the “**Announcements**”). Unless the context requires otherwise, terms used in this announcement shall have the same meanings as defined in the Announcements.

1. Updates on the Incident

On 24 January 2011, Zhongran Gas Industrial (Shenzhen) Limited (中燃燃氣實業(深圳)有限公司) (“**Zhongran Gas**”), a wholly owned subsidiary of the Company, was notified by the PRC Legal Counsel that it received from the respective family members of Mr. Liu and Mr. Huang on 23 January 2011 copies of the Notices of Arrest (the “**Notices**”) dated 21 January 2011 in respect of Mr. Liu and Mr. Huang. The Notices stated that Mr. Liu and Mr. Huang have respectively been arrested for the suspected “embezzlement of the assets of an organisation in which they have duties” (職務侵佔罪) (the “**Suspected Offence**”) and are detained at the detention centre in Shenzhen. The Company has tried but has not been able to contact Mr. Liu and Mr. Huang so far. However, to the best of the knowledge of the Board, no formal charges have yet been made against Mr. Liu or Mr. Huang.

According to a status report dated 20 January 2011 issued by the PRC Legal Counsel to Zhongran Gas, on 6 January 2011, certain officers of the Shenzhen PSB attended the office of Zhongran Gas in Shenzhen and requested Zhongran Gas to provide certain documentation relating to, amongst other things, (1) the appointment of Mr. Liu and Mr. Huang with the Company; and (2) the acquisition by the Company in 2004 (the “**Acquisition**”) of Clever Decision Enterprises Limited (“**Clever Decision**”), a holding company which then owned and operated four city gas projects in Xiaogan City, Hanchuan City, Yunmeng City and Yingching City in the Hubei Province (together the “**City Projects**”) and a long-distance pipeline project also in the Hubei Province (the “**Pipeline Project**”, and together with the City Projects, the “**Hubei Projects**”). The status report was prepared based on information provided by Zhongran Gas and Shenzhen PSB. In addition, the Shenzhen PSB issued a notice (the “**27/1 Notice**”) to the Company on 27 January 2011 requesting for further evidence relating to, among other things, the Acquisition and the Hubei Projects. Save for the 27/1 Notice and the information contained in the status report, none of the members of the Group (other than Zhongran Gas) or the PRC Legal Counsel has been able to obtain any information directly from Shenzhen PSB. For further details of the Acquisition, please refer to the section headed “The Hubei Projects and their Financial Impact on the Group”.

Based on the extent and the nature of the information requested by the Shenzhen PSB on 6 January 2011, as stated in the status report, the PRC Legal Counsel deduced that the primary focus of the investigation by the Shenzhen PSB was on the performance of the acquisition and construction contracts relating to the Hubei Projects.

Based on the extent and nature of the information requested by the Shenzhen PSB on (i) 6 January 2011 and (ii) under the 27/1 Notice, (iii) the view of the PRC Legal Counsel stated in the status report, the Company has reasonable grounds to believe that the Suspected Offence may be related to the acquisition of and the construction contracts in relation to the Hubei Projects. Further, as there is no indication that the operation of the Group has been adversely affected so far and based on the current status of the review of the cash position of the Company and its principal subsidiaries conducted by PricewaterhouseCoopers (“**PwC**”) (for further details of such review, please refer to the section headed “Results of Review by PwC” below) which is still in progress, the Company has reasonable grounds to believe that the Suspected Offence is not in relation to any other assets or projects of the Group. Because of this development of the Incident, the Company is making this announcement further to the Announcements.

2. The Hubei Projects and their Financial Impact on the Group

The acquisition of the Hubei Projects was completed through two transactions, which were announced by the Company on 11 February 2004 and 23 August 2004, respectively. The first transaction took place in February 2004 (the **"First Acquisition"**) under which the Company acquired 70% interest in Clever Decision (the remaining 30% of which was then already owned by the Company) in order to indirectly obtain 65% interest in each of the City Projects, and 30% interest in the Pipeline Project. The consideration for the First Acquisition was approximately HK\$100,228,301.89. The second transaction took place in August 2004 (the **"Second Acquisition"**) under which the Company acquired the entire equity interest in Great Sun Investments Co. Ltd in order to indirectly acquire a further 25% interest in each of the City Projects, and a further 25% interest in the Pipeline Project. The consideration for the Second Acquisition was approximately HK\$77,714,000. At the same time of the Second Acquisition, the Company also acquired from a third party a further 10% interest in each of the City Projects, so that after the Second Acquisition, the Company owned the entire equity interest in each of the City Projects. At the time when the First Acquisition and the Second Acquisition were made, Mr. Liu was the managing and executive director of the Company and Mr. Huang was the executive president of the Company. Please refer to the Company's announcements dated 11 February 2004 and 23 August 2004, respectively, for the First Acquisition and the Second Acquisition for further details.

Prior to the First Acquisition and the Second Acquisition, there had been in place construction contracts for the construction and engineering works of the Hubei Projects. Two main contractors were appointed to perform the work, namely Henan Oilfield Construction and Engineering Co. Limited (**"Henan Oilfield"**) and Central China Oil Exploration Bureau Construction General Company (**"Central Oil"**). Both Henan Oilfield and Central Oil were involved in the construction of the Pipeline Project, and the final approved contract prices were RMB393,649,596 in aggregate. Henan Oil was also involved in the construction of the city gas projects in Hanchuan City, Yunmeng City and Yingching City with final approved contract prices of RMB8,775,181, RMB8,975,842 and RMB9,950,367 respectively. Central Oil was also involved in the construction of the city gas project in Xiaogan City, and its final approved contract price was RMB59,719,471. All the contract prices abovementioned were paid by the respective project companies to the contractors from their own financial resources.

According to a status report dated 20 January 2011 issued by the PRC Legal Counsel to Zhongran Gas, based on the extent and the nature of the information requested by the Shenzhen PSB on 6 January 2011, the PRC Legal Counsel deduced that the primary focus of the investigation by the Shenzhen PSB was on the performance of the acquisition and construction contracts relating to the Hubei Projects. Based on (i) the same reason, (ii) the information requested by the Shenzhen PSB under the 27/1 Notice, (iii) the view of the PRC Legal Counsel stated in the status report, the Company has reasonable grounds to believe that the Suspected Offence may be related to the Hubei Projects. Further, as there is no indication that the operation of the Group has been adversely affected so far and based on the current status of the review of the cash position of the Company and its principal subsidiaries conducted by PwC (for further details of such review, please refer to the section headed "Results of Review by PwC" below) which is still in progress, the Company has reasonable grounds to believe that the Suspected Offence is not in relation to any other assets or projects of the Group.

The Company has assessed that, if Mr. Liu and Mr. Huang were to be proven guilty of the Suspected Offence, the most adverse financial impact on the Group as a result thereof would not be material to the operational and financial conditions of the Group. In making such assessment, the Company adopts the assumption that it would have to completely write-off its total consideration of approximately HK\$177,942,301.89 paid for the Hubei Projects in 2004. During the financial year 2010, the Hubei Projects contributed HK\$ 1,062,510,000 or approximately 4.62%, HK\$ 383,353,000 or approximately 3.75%, HK\$45,216,000 or approximately 4.45% and 144,428,439 m³ or approximately 4.02% to the Group's consolidated total assets, revenue, net profit and gas volume sale, respectively.

As at the date of this announcement, none of the members of the Group has received any notice from the local governmental authorities in the PRC for the investigation, suspension or termination of the Hubei Projects save for the 27/1 Notice. The Company confirms that the operation in relation to the Hubei Projects has not been affected and the Board has not received any indication that it will be adversely affected.

3. Eligibility of Mr. Liu and Mr. Huang and Termination of Mr. Liu as Managing and Executive Director of the Company and Termination of Mr. Huang as Executive President of the Company

In view of the allegations made against Mr. Liu and Mr. Huang, the possible connection of the Suspected Offence with the Hubei Projects and the continued absence of Mr. Liu and Mr. Huang from their offices and positions pending investigation of the Suspected Offence, the Board has unanimously resolved that, based on the current circumstances, each of Mr. Liu and Mr. Huang is not eligible to carry out his duties in the Company.

As regards Mr. Liu's position as the managing director of the Company, the Board has unanimously resolved that it be terminated with effect from 25 January 2011. As regards Mr. Liu's position as an executive director of the Company, given that the service agreement between Mr. Liu and the Company (the "**Service Agreement**") (which will expire on 31 March 2011) is of a fixed term nature and that the relevant provisions contained therein which governs termination are not applicable under the current circumstances, the Company will endeavour to contact Mr. Liu and request for his resignation from such position as soon as practicable or will not renew his Service Agreement upon its expiration. As regards Mr. Liu's office as a director of the Company, given the relevant termination provisions contained in the Bye-laws of the Company are not applicable under the current circumstances, the Company will endeavour to contact Mr. Liu and request for his resignation from such office. If the Company is still unable to establish contact with Mr. Liu by 31 March 2011, it will take all necessary actions immediately thereafter to remove Mr. Liu as a director by obtaining ordinary shareholders' approval pursuant to the Bye-laws of the Company. The removal procedures contained in the Bye-laws of the Company are in compliance with the Listing Rules.

Considering that Mr. Liu's eligibility hinges on the Suspected Offence and the current circumstances, the Board further unanimously resolved that if Mr. Liu is subsequently released without any charges or conviction, the Board will then consider reappointing him as a director of the Company and re-engaging him as managing director and executive director of the Company.

As regards the position of Mr. Huang as the executive president of the Company, given that the termination provisions contained in the employment contract between Mr. Huang and the Company are not applicable under the current circumstances, the Company will endeavour to contact Mr. Huang and request for his resignation from such position. If the Company is still unable to establish contact with Mr. Huang by 31 March 2011, it will give a one month notice to Mr. Huang to terminate his position.

Considering that Mr. Huang's eligibility hinges on the Suspected Offence and the current circumstances, the Board further unanimously resolved that if Mr. Huang is subsequently released without any charges or conviction, the Board will then consider re-engaging him for the position as executive president of the Company.

Since Mr. Liu and Mr. Huang have been detained for investigation by the Shenzhen PSB and have remained uncontactable by the Company since 18 December 2010, the Board considers that Mr. Liu and Mr. Huang cannot cause any harm to the Company or take part in the business operation of the Company and execute any documents for and on behalf of the Company during this period.

As at the date of this announcement, Mr. Liu is a shareholder of the Company and holds 356,624,000 shares in the Company, representing approximately 8.14% of the total issued share capital of the Company and has 235,000,000 share options of the Company. Mr. Huang has 122,000,000 share options of the Company.

As advised by Zhongyu Gas Holdings Limited ("**Zhongyu Gas**"), a subsidiary of the Company, the board of directors of Zhongyu Gas considers that it is in the best interest of Zhongyu Gas to hold a general meeting as soon as possible to remove Mr Huang as a director of Zhongyu Gas by way of a special resolution in accordance with articles of association of Zhongyu Gas. Zhongyu Gas will make an announcement to convene such a general meeting before the end of February 2011. In the event Mr Huang is released without any charges or conviction, the board of directors of Zhongyu Gas will then consider re-appointing Mr Huang to his position as an executive director of Zhongyu Gas. Please refer to the announcement made by Zhongyu Gas on the same date as this announcement.

4. Candidates for Managing Director Position

As set out in the First Announcement, Mr. Leung and Mr. Zhu have been appointed as Joint Managing Directors (Acting) of the Company with effect from 23 December 2010 and an Ad Hoc Committee has been set up to oversee the Group's operating activities. On 28 January 2011, the Board resolved to appoint Mr. Pang Ying Xue as an executive director of the Company with immediate effect. The Board further resolved to terminate Mr. Leung and Mr. Zhu as Joint Managing Directors (Acting) of the Company, instead, Mr. Leung and Mr. Pang Ying Xue have been appointed as Joint Managing Directors of the Company with immediate effect. Please refer to the announcement of the Company dated 28 January 2011.

5. Results of Review by PwC

As set out in the Second Announcement, the Company has engaged a reputable international accounting firm, PwC, to carry out a review of the cash position of the Company and that of its principal subsidiaries (excluding Zhongyu Gas and its subsidiaries) (the "**Ex-Zhongyu Group**"), based on their most up-to-date management accounts and bank statements together with a high level review of the related key internal controls which the management has put in place to safeguard the Ex-Zhongyu Group's cash and bank balances.

As at 31 December 2010, unaudited management accounts of the Ex-Zhongyu Group indicated cash and bank balances of approximately HK\$6.36 billion, of which HK\$3.49 billion was held in bank accounts of the Company and certain of its intermediate holding companies and HK\$2.87 billion was held by Ex-Zhongyu Group's operating subsidiaries and joint ventures in the PRC. As of the date of this announcement, PwC has checked approximately 95% of the HK\$3.49 billion of the cash and bank balances held by the Company and certain of its intermediate holding companies against the relevant bank statements and other supporting documents and confirms that no major exceptions have been found. To the extent PwC considers necessary, further work will be conducted to obtain independent confirmations from the banks where these balances were held. PwC is working on and will continue to work on the procedures in relation to (i) the checking of the cash and bank balances of the Ex-Zhongyu Group's PRC operating entities; and (ii) high level review of the key internal controls over the Ex-Zhongyu Group's cash and bank balances set up by the management.

6. Operation of the Group

Despite the absence of Mr. Liu and Mr. Huang from the Group since the Incident, the business activities of the Group have been conducted as usual.

According to the unaudited operating figures of the Group for the three months ended 31 December 2010, the Group connected approximately 261,267 domestic households for piped gas supply, an increase of approximately 64.7% over the same period of last year.

During the same period, the Group sold a total of approximately 1,228,306,400 m³ of piped gas and approximately 249,100 tons of LPG, representing an increase of approximately 39.4% and approximately 0.1% respectively over the same period of last year. The gross profit margin of the LPG business increased to approximately 6.6% during that period from approximately -0.14% in the first half of the current financial year 2011.

During the same period, the Group secured four city gas projects in Cangzhou Development Zone in Hebei Province, Xinfeng County in Jiangxi Province, Huazhou in Guangdong Province and Maoji Development Zone in Anhui Province.

7. Miscellaneous

If the Company is aware of any update or development on the Suspected Offence, or if the Company is able to contact Mr. Liu and Mr. Huang, the Company will make a further announcement in accordance with the Listing Rules as soon as practicable. The Company will also make an announcement in respect of the key findings in the PwC's report on its work performed on the Ex-Zhongyu Group.

Save as disclosed above, the Board confirms that there is no other price sensitive information required to be disclosed in accordance with the Listing Rules as at the date of this announcement.

8. Amendment to the Articles of Association of Zhongyu Gas

It is noted that the articles of association of Zhongyu Gas do not comply with paragraph 4(3) of Appendix 3 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**") which require that, where not otherwise provided by law, an issuer in general meeting shall have power by ordinary resolution to remove any director (including a managing or other executive director, but without prejudice to any claim for damages under any contract) before the expiration of his term of office. The articles of association of Zhongyu Gas currently require such a removal of a director to be done by way of a special resolution of shareholders. Zhongyu Gas will therefore seek to amend its articles of association by way of a special resolution to ensure that it complies with Appendix 3 of the GEM Listing Rules at the same general meeting to be held to remove Mr Huang as a director of Zhongyu Gas. Zhongyu Gas will make an announcement to convene such a general meeting before the end of February 2011.

9. Resumption of trading in the Shares

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 20 December 2010 pending the release of a further announcement on the Incident. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 1 February 2011.

By the order of the Board of
China Gas Holdings Limited
Li Xiao Yun
Chairman

Hong Kong, 31 January 2011

** for identification purpose only*

As of the date of this announcement, Mr. Li Xiao Yun, Mr. Xu Ying, Mr. Liu Ming Hui, Mr. Leung Wing Cheong, Eric, Mr. Ma Jin Long, Mr. Zhu Wei Wei and Mr. Pang Ying Xue are the executive Directors, Mr. Feng Zhuo Zhi, Mr. Joe Yamagata, Mr. R.K. Goel, Mr. Moon Duk Kyu and Mr. Mulham Al Jarf are the non-executive Directors, and Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue, Cynthia are the independent non-executive Directors.