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CHINESE PEOPLE GAS HOLDINGS COMPANY LIMITED

中民燃氣控股有限公司*

(Incorporated in Bermuda with limited liability)

(stock code: 681)

ANNOUNCEMENT

ACQUISITION OF 50% EQUITY INTEREST

IN YAN BIAN HUA XIN OIL EXPLOITATION COMPANY LIMITED

The Board is pleased to announce that on 1 June, 2006, the Vendor and the Company, as the Purchaser, entered into the Equity Transfer Contract whereby the Company agreed to acquire a 50% equity interest in the Target Company from the Vendor at a consideration of HK\$30,000,000.

The Target Company is principally engaged in the exploration and extraction of oil and natural gas in the Yanji Basin located in the Yan Bian Korean Nation Autonomous Area in Jilin province, the PRC in cooperation with Daqing Oilfield Company (of the PetroChina group).

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

INTRODUCTION

The Board is pleased to announce that on 1 June, 2006, the Vendor and the Company, as the Purchaser, entered into the Equity Transfer Contract whereby the Company agreed to acquire a 50% equity interest in the Target Company from the Vendor at a consideration of HK\$30,000,000.

THE EQUITY TRANSFER CONTRACT

Date: 1 June, 2006

Parties:

- (i) the Vendor (an Independent Third Party) whose principal business is investment holding; and
- (ii) the Company, as the Purchaser

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Consideration

Pursuant to the Equity Transfer Contract, the Purchaser has agreed to acquire a 50% equity interest in the Target Company from the Vendor at a consideration of HK\$30,000,000 (the "Consideration") payable within 20 days after the signing of the Equity Transfer Contract.

The Consideration was determined by commercial negotiations between the parties on an arm's length basis having regard to:

- (1) the Target Company's oil and natural gas exploration and extraction right at the Yanji Basin, in cooperation with Daqing Oilfield Company (part of the PetroChina group and an Independent Third Party);
- (2) the oil and natural gas development potential at Yanji Basin; and
- (3) the market prospects for oil and natural gas and the potential investment return to the Company.

The payment for the Consideration will be funded by the Group out of its existing internal cash resources. Following the Acquisition, the Target Company will be equity accounted for in the Group's financial results of the Company.

INFORMATION ON THE OIL AND NATURAL GAS INDUSTRIES

International Market

The price of international crude oil remained at a high level in recent years. The Brent spot price of crude oil rose from US\$31/barrel at the beginning of 2003 to US\$70/barrel at the beginning of May 2006, representing a dramatic increase of 125%. The oil demand in various countries around the world, especially the USA and the PRC, remain high. According to the report from the International Energy Agency (IEA), the world's demand for crude oil was 82.2 million, 83.3 million and 84.7 million barrels each day in 2004, 2005 and 2006, respectively. Despite of the high oil price, such daily demand is still expected to increase by 1.4 million barrels as compared with last year. Moreover, due to unstable political situation of some major oil production countries, many countries have set up strategic oil reserve which has further fueled the demand for crude oil. According to the statistics published by US Oil & Gas Journal at the end of 2005, the aggregate global output of crude and condensate oil was 3.59 billion tons, representing an increase of 0.77% from the 3.56 billion tons in 2004. It has been proved that the remaining known oil reserve around the world was 177.06 billion tons, representing only a slight increase of 1.16% from the previous year. Although major oil-producing countries are producing oil at full capacity due to the high oil price, the remaining oil reserve in the world falls short of its demand. The remaining oil reserve of OPEC is approaching its limit. During the past 10 years, the remaining oil reserve had dropped from 6 million barrels per day to approximately 1.5 million barrels per day, representing the lowest level in the past 30 years, the situation of which is not likely to be improved in the short term. With the constant growth of the global economy, such supply and demand will remain imbalanced.

PRC Market

In recent years, the PRC economy has been growing at a rapid pace and China is in strong need of energies resources such as oil and natural gas, resulting it to become the second largest oil consuming country (following USA) in the world. However, the PRC's oil supply is far beneath its consumption. In recent years, the difference between oil supply and demand is increasingly evident. According to the 2005 National Economy and Social Development Statistics published by the China National Statistics Bureau and the information from the PRC Customs in 2005, China produced approximately 181 million tons of crude oil, and imported approximately 119 million tons. Its national consumption of crude oil during the same year was around 300 million tons, which meant that around 40% of its consumption relied on imports. The oil production in the PRC fell far short of its demand.

INFORMATION ON YANJI BASIN

Yanji Basin is located in Yanji, Long Jing and Long City of Yan Bian Korean Nation Autonomous Area in the eastern part of Jilin Province. The total area of the basin is 1,670 sq. km. The area is like a basin, the eastern side is higher than the western side and it is surrounded by mountains. Plenty of oil and natural gas resources are deposited in the basin. Two east-to-west railways are running cross the basin. Therefore the transportation network is sound and expedient for the operation of oil & gas exploitation and extraction.

Yan Bian Area is a relatively well-developed area in the Jilin Province. Its strong need for oil and gas is favorable for the growth of the business of the exploitation and extraction of oil and gas in the Yanji Basin. Since 1950's, geologic reconnaissance in the basin have been commenced, and relevant departments have conducted various gravity, magnetism and electric surveys. In 1970's, Jilin Oil Administration carried out field geologic exploration. In 1986, Daqing Oil Administration carried out oil prospecting activities in the basin, conducting highly-precised through aeromagnetic surveys, petro-photochemistry explorations, earthquake examinations, digitized two-dimensional and three-dimensional earthquake demonstrations. They drilled the parameter well, tested the well and evaluated the well. At the same time they pumped oil from the wells as an experiment. Because of all these activities conducted in the past 20 years, all aspects of the structure, terrain, oil production condition and deposit features of the basin were examined and proven, and Yanji Basin was identified as an oil-containing basin with promising oil and gas reserve which has laid a sound foundation for development of Yanji Basin.

According to the prospecting and geologic information provided by Daqing Oilfield Company of PetroChina, 129 segment structures were currently discovered in Yanji Basin, including 68 favorable encirclements which are the prime locations for exploitation. Two sets of crude oil stratum and oil storage stratum exist in the basin, where dark mudstones are well-developed and have rich organic matter, indicating they have entered the mature stage and are under good oil and gas production condition. Two sets of segment cap rocks were developed with strong capability of closing. The deposit rock stratum is approximately 3,900 meter thick, the depth of major target stratum is 500 to 2,500 meter, and the oil rock stratum is 500 meter thick. Relevant parameters indicate that Yanji Basin is lying within the range of "good to excellent" oil-source bedrocks. The geologic prospecting result shows that the basin is now in the mature stage and is able to provide plentiful oil and gas resources.

At present Yanji Basin is in the phase of exploration. The total volume of oil resource in the basin is estimated 50 million tons (calculated by PetroChina in second resource evaluation for the basin) or 121.6 million tons (calculated by basin analog method) in the basin. In addition, the deliverable natural gas reserve in the basin is identified as 1 to 5 billion cubic meters in the designated area. Such gas and oil resources are quite abundant for a small deposit basin like Yanji Basin.

INFORMATION ON THE TARGET COMPANY

The Target Company was established in the Yan Bian Korean Nation Autonomous Area in Jilin Province, the PRC (中國吉林省延邊朝鮮族自治州) in March, 2005 and is principally engaged in the extraction and sale of oil and natural gas. The Target Company is currently engaged in oil and natural gas exploration and extraction at Yanji Basin (延吉盆地) covering an area of approximately 403 sq. km. in cooperation with Daqing Oilfield Company, a subsidiary of PetroChina, for a period of 25 years.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the distribution, supply and installation of piped natural gas business in the PRC, the holding and leasing of properties in the PRC and the provision of welfare lottery operating systems and ancillary services.

The Directors have been seeking appropriate opportunities to invest in the oil and natural exploration and extraction and related businesses. Under the 《外商投資產業指導目錄》(Catalogue Guiding Foreign Investment In Industry) issued by 中國國家發展改革委員會 (National Development and Reform Commission) and 商務部 (Ministry of Commerce), foreign investments, on a cooperation basis, in the trial exploration and extraction of oil and natural gas in the PRC. The Acquisition would allow the Group to gain a 50% interest in the Target Company's cooperative project with Daqing Oilfield Company for the exploration and development of oil and natural gas at Yanji Basin, thus giving the Group an entry into the industry of the cooperative development of oil and natural gas resources. The Board expects that the demand for oil and natural gas in the PRC would continue to grow as the economy in the PRC continue to prosper, and the continue increase in the global oil price would act as a major revenue source to the Group's business.

The Directors expect that, in step with the continuing growth of the economy, oil and natural gas consumption in the PRC will continue to increase. Strengthening the domestic exploration and extraction of oil and natural gas is one of the important measures to resolve oil supply shortage in the PRC and reduce the degree of reliance on the foreign supplies of this strategic resource. Accordingly the Directors are optimistic about the development prospects of the oil and natural gas exploration and extraction business. With the raising of the oil and natural gas extraction volume at Yanji Basin and the maintenance of the trend for high oil prices globally, the Directors are hopeful that the Acquisition will bring considerable profit and cashflow to the Group and significant return to the Shareholders of the Company. The Directors (including the independent non-executive directors of the Company) consider that the terms of the Equity Transfer Contract, which were concluded by the parties after arm's length negotiations, are fair and reasonable and are on normal commercial terms and that the Equity Transfer Contract is in the interests of the Company and its shareholders as a whole.

DEFINITIONS USED IN THIS ANNOUNCEMENT

“Acquisition”	the acquisition by the Company from the Vendor of a 50% equity interest in the Target Company pursuant to the terms of the Equity Transfer Contract
“Company” and “Purchaser”	Chinese People Gas Holdings Company Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Equity Transfer Contract”	the equity transfer contract dated 1 June, 2006 entered into between the Vendor and the Company relating to the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“Independent Third Party(ies)”	third party(ies) (and its ultimate beneficial owner) who are independent of, and not connected with, the Company or any connected persons of the Company and who are not connected person(s) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PetroChina”	PetroChina Company Limited (中國石油天然氣股份有限公司*), a joint stock company limited by shares incorporated in the PRC, the H shares of which are listed on the Stock Exchange, through American Depositary Shares on the New York Stock Exchange, and an Independent Third Party

“PRC”	the People’s Republic of China (for the purpose of this announcement excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	延邊州華新石油開發有限公司 (Yan Bian Zhou Hua Xin Oil Exploitation Company Limited), a limited liability company established in the PRC which is presently owned as to 100% by the Vendor which is an Independent Third Party
“Vendor”	Sinobright Investments Group Limited, a company incorporated in the British Virgin Islands with limited liability and an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

List of all Directors of the Company as of the date of this announcement:

Executive Directors:

Mr. Xu Ruixin
 Mr. Liu Jing
 Mr. Mo Shikang
 Mr. Zhu Peifeng
 Mr. Zhang Hesheng
 Mr. Jin Song
 Mr. Yan Wing Cheung

Independent non-executive Directors:

Mr. Liu Junmin
 Mr. Tan Qinglian
 Mr. Wong Shing Kay, Oliver

On behalf of the board of
Chinese People Gas Holdings Company Limited
Mo Shikang
Managing and Executive Director

Hong Kong, 1 June, 2006

* for identification purposes

Please also refer to the published version of this announcement in The Standard.