

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 384)

PLACING OF NEW SHARES AND RESUMPTION OF TRADING

On 19 February 2005, the Company entered into the Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 210,000,000 Subscription Shares in cash at a subscription price of HK\$1.158 per Subscription Share.

The Subscriber undertakes that it will not dispose of any of the Subscription Shares within a period of two years from the date of completion of the Subscription.

The Subscription Price represents (i) a discount of approximately 23.3% to the closing price of HK\$1.51 per Share as quoted on the Stock Exchange on 18 February 2005, being the last trading day before the date of the Agreement; (ii) a discount of approximately 21.8% to the average closing price of HK\$1.48 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 18 February 2005; and (iii) a discount of approximately 20.1% to the average closing price of HK\$1.449 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 18 February 2005. The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber. The Directors consider that the Subscription Price is fair and reasonable so far as the Shareholders as a whole are concerned.

The Subscription Shares represent (i) approximately 9.9% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 9.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The net proceeds of the Subscription of about HK\$242 million will be applied as the general working capital of the Group and for future investment in natural gas projects.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

At the SGM, a specific mandate for the allotment and issue of the Subscription Shares will be sought from the Shareholders. A circular containing, among other things, further information about the Subscription together with a notice of SGM will be despatched to the Shareholders as soon as practicable.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 21 February 2005 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 22 February 2005.

Reference is made to the announcement made by the Company dated 1 February 2005 in relation to the non-binding memorandum of understanding entered into between the Company and the Subscriber for the possible subscription new Shares by the Subscriber and the proposed formation of joint venture for investment in natural gas and/or other energy related projects in the PRC. The Board is pleased to announce that the Agreement is entered into, details of which are set out below:

THE AGREEMENT

Date: 19 February 2005

Parties: (i) Issuer: the Company
(ii) Subscriber: the Subscriber

The Subscriber is not connected person of the Company as defined under the Listing Rules. The Subscriber is independent of and not connected with the Company or its connected persons as defined in the Listing Rules.

Number of Subscription Shares

The Subscription Shares represent (i) approximately 9.9% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 9.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscriber undertakes that it will not dispose of any of the Subscription Shares (or any securities issued by the Company in accordance with the anti-dilution provision set out below) within a period of two years from the date of Completion unless there occurs any of the following events in which case the Subscriber shall not be subject to any lock up restriction:

- (a) there occurs a material change in shareholding of the three largest Shareholders as at the date of the Agreement following any disposal by such Shareholders such that their shareholding in the Company decreases by 25% or more as calculated from the date of the Agreement; or
- (b) any significant change in the nature of business of the Group; or
- (c) the joint venture agreement is not finalised and entered into within six months from the date of the Agreement (or an extended period of another six months if mutually agreed by the Company and the Subscriber); or
- (d) any material breach of warranties given by the Company; or
- (e) failure by the Company to appoint the person nominated by the Subscriber as a Director in accordance with and within the time periods specified in the Agreement; or
- (f) any policy announcement of the PRC government which has a profound effect on the viability and profitability of the business of the Group.

In the event of any subscription agreement(s) entered into between the Company and strategic investor(s) within six months from the date of Completion whereby the lock up period is less than two years, then the lock up period for the Subscription Shares and/or any securities issued by the Company to and held by the Subscriber shall be the same as that specified in such agreement(s).

Subscription Price

The subscription price of HK\$1.158 per Subscription Share represents:

- (i) a discount of approximately 23.3% to the closing price of HK\$1.51 per Share as quoted on the Stock Exchange on 18 February 2005, being the last trading day before the date of the Agreement;
- (ii) a discount of approximately 21.8% to the average closing price of HK\$1.48 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 18 February 2005; and
- (iii) a discount of approximately 20.1% to the average closing price of HK\$1.449 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 18 February 2005.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the closing prices as shown above. Given that the Subscriber will be a valuable strategic business partner of the Group and the introduction of it as a strategic investor of the Company could strengthen the Group's position as a leading natural gas investor in the PRC, the Directors consider that the Subscription Price and the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Rights

The Subscription Shares, when allotted and issued, will rank equally in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares.

Anti-dilution provision

The Company undertakes to the Subscriber under the Agreement that:

- (a) any equity share issuance to potential strategic investors that the Company is in discussion with as at the date of the Agreement, being Korea Gas Corporation and City Gas Pte Ltd., shall be at a price not less than the Subscription Price (as may be adjusted for any stock split, subdivision, share consolidation and bonus share issuance, if any);
- (b) it shall not issue any warrants or options to any person within a period of 12 months from the date of the Agreement save and except that it may grant share option to its eligible employees in accordance with its share option scheme, its bye-laws and all applicable laws;
- (c) the Subscriber's shareholding in the Company on a fully diluted basis will not be less than 6% (unless otherwise agreed by the Subscriber) from time to time. In the event of any potential dilution of the Subscriber's shareholding in the Company below 6% on account of any new issue of securities by the Company (otherwise than as a result of disposal by the Subscriber), the Subscriber shall be entitled to participate in and subscribe to such issue of securities on a proportionate basis at the same terms and conditions and at the same price as is offered to any third party in order to ensure that the Subscriber's shareholding in the Company is maintained and restored at 6%, subject to compliance with all applicable rules, laws and regulations. In this regard, both the Company and the Subscriber agree under the Agreement to comply with the Listing Rules and other applicable rules, laws and regulations in the event of any issue of securities to the Subscriber to fulfil the Company's obligations under this anti-dilution provision.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under the specific mandate to be granted to the Directors to issue the Subscription Shares under the SGM.

Conditions of the Subscription

The Subscription is conditional upon the following conditions having been fulfilled by 12:00 noon on 15 May 2005 (or such other date as may be agreed between the Company and the Subscriber):

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subscription Shares;
- (ii) all necessary consents and approvals as may be required in respect of the transactions contemplated under the Agreement having been obtained by the Company and the Subscriber;
- (iii) the passing of the necessary resolutions by the Board and the passing by the Shareholders of an ordinary resolution at the SGM to approve the Subscription; and
- (iv) the passing of the necessary resolutions by the board of directors of the Subscriber authorising the investment by the Subscriber at the Subscription Price for the subscription of the Subscription Shares.

In the event that the conditions of the Subscription are not fulfilled in full by the time and date stipulated, the Agreement shall cease and determine and neither the Company nor the Subscriber shall have any obligations and liabilities under the Agreement.

Completion of the Subscription

Completion will take place on the next business day after all the conditions of the Subscription are fulfilled (or such other date as may be agreed between the Company and the Subscriber).

Application for listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

JOINT VENTURE

It is the intention of the Company and the Subscriber to incorporate a joint venture company in the British Virgin Islands (or any jurisdiction as agreed by both parties) for the purpose of investing in natural gas and/or other energy related projects in the PRC which will be owned as to 50% by the Company and as to 50% by the Subscriber. The Company and the Subscriber shall negotiate in good faith towards each other, with a view to finalise the terms and enter into the joint venture agreement as soon as reasonably practicable, but no later than 6 months from the date the Agreement (or an extended period of another 6 months if mutually agreed by the parties). Such joint venture agreement will include, among other matters, the following:

- (a) the details and purpose of the joint venture projects such as (i) the operation and management of city gas pipeline networks including the sale and distribution of natural gas through these networks, (ii) the construction, management and/or operation of long distance natural gas and/or other energy fuel pipelines; and (iii) the purchase, imports, production, sale and distribution of LPG, LNG, CNG and/or other energy fuels;

- (b) the initial registered capital;
- (c) the composition of the board of directors of the joint venture which will be in direct proportion to the shareholding of the Company and the Subscriber in the joint venture;
- (d) the Subscriber will provide certain senior management with project planning, execution, operational and technical expertise for the project(s); and
- (e) the Company will assist the joint venture to secure banking facilities for the project company(ies) to be formed.

It is also agreed between the Company and the Subscriber in relation to the joint venture that:

- (a) the Company and the Subscriber may form other joint venture(s) and/or invest together in energy fuel related opportunities in the PRC where the percentage shareholding of the parties in the project shall be determined by their respective capital contribution and/or level of technical expertise that the parties may contribute to the project. In the area of supplying CNG to motor vehicles, the Subscriber shall be favourably considered for control over the management and operations of such joint venture(s);
- (b) the Subscriber shall provide training programmes for the employees of the Group in the aspects of the gas business where the Subscriber has the requisite experience, and in the process to accelerate the business growth of the Group and the terms of such training programmes would be formulated by the Subscriber in consultation with the Company;
- (c) the parties will exchange market information in relation to natural gas;
- (d) the senior management of both parties agree to meet periodically to discuss the progress of the formation of the joint venture and explore the potential for future cooperation opportunities;
- (e) in the existing project companies, in which the Company has a controlling interest (directly or indirectly) and where such project companies have the rights to supply CNG to motor vehicles, the Company shall partner with the Subscriber in such projects such that the Subscriber has the opportunity to have management and operational control, subject to necessary regulatory approvals and permissions;
- (f) where there is an opportunity for an affiliate of the Company to be awarded a project by way of grant of concession or otherwise or implement such project that such affiliate: (i) is so structured that the joint venture owns the entire shareholding of such affiliate; or (ii) is so structured that in addition to an ownership interest of the Company, directly or indirectly, the balance ownership interest can be owned by the Subscriber (having management and operational control), except to the extent that both parties agree to include other investors; and
- (g) the Subscriber shall have the opportunity to invest in future projects relating to the supply of natural gas to motor vehicles.

Further announcement will be made by the Company on formation of the joint venture. The Company will comply with the Listing Rules requirement in relation to the formation of the joint venture and all transactions relating thereto.

INFORMATION ON THE SUBSCRIBER

The Subscriber was established in 1984 by the Indian Government as a state-owned company. It is the largest energy conglomerate in India. The Subscriber is a major player in India's gas and petrochemical industries, with operations cover businesses such as construction of natural gas pipeline networks, operation of urban area gas pipeline networks, construction of gas stations, import and distribution of natural gas, production of petrochemical products, and offshore oil and gas fields exploration. The Subscriber has natural gas pipelines with total length over 5,340km, and owns the world's longest LNG pipeline with length of 1,922km. It has also built the world's largest gas refill system for public business using compressed gas in New Delhi, capital of India. The system provides gas station services for more than 200,000 public buses in the cities of New Delhi and Bombay. The Subscriber had also expanded its business to other regions including Europe, Middle East and Asia.

REASONS FOR THE SUBSCRIPTION

The Group is principally engaged in investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped natural gas and compressed natural gas in the PRC.

By entering into the Agreement, the Group can raise further capital for future investment. The Board considers that the introduction of the Subscriber as a strategic investor of the Company could strengthen the shareholders base of the Company. Given the expertise of the Subscriber especially in the supply of CNG to motor vehicles, it is expected that a synergy may be resulted from the possible joint venture and/or cooperation to be entered into between the Company and Subscriber in future, thereby strengthening the Group's position as a leading natural gas investor in the PRC.

The net proceeds of the Subscription of about HK\$242 million will be applied as the Group's general working capital and for future investment in natural gas projects. The Board considers that the Agreement is entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscriber and that the terms of the Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

After Completion, the Subscriber shall be entitled to appoint a nominee (as well as his/her replacement) as non-executive Director throughout the period that the Subscriber continually holds not less than 150,000,000 Shares. Save and except the above, the Directors have no intention to change the composition of the Board and the principal business engaged by the Group as a result of the Subscription.

The following table summaries the fund raising activities of the Group for the 12 months immediately preceding the date of this announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the date of this announcement
5 October 2004	Placing of a total of 260,000,000 Warrants at an issue price of HK\$0.01 per Warrant	About HK\$2,500,000	As general working capital of the Group	As the Group's general working capital
5 October 2004	Placing of a 90,000,000 new Shares at HK\$0.52 per new Share	About HK\$46,700,000	As general working capital of the Group	Approximately HK\$25.3 million was used in the projects located in Dangyang, Nanpi Xian, Beijing and Wuhuxian; approximately HK\$14 million was used as the repayment of short-term loans; approximately HK\$3.4 million was used as the repayment of convertible notes and the remaining of HK\$4 million was used as the Group's general working capital
1 November 2004	Placing of a 210,000,000 new Shares at HK\$0.61 per new Share	About HK\$128,000,000	As general working capital of the Group	Approximately HK\$36 million was used in the projects located in Yangzhong, Suzhou and Dangyang; approximately HK\$10 million was used as the repayment of short-term loan; approximately HK\$7 million was used as the Group's general working capital and approximately HK\$75 million remained unused

CHANGES OF SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 2,117,932,338 Shares in issue. The shareholding structure of the Company as at the date of this announcement and immediately after Completion, are as follows:

Shareholder	As at the date of this announcement		Immediate after the Completion	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
Liu Ming Hui (Note 1)	385,000,000	18.18%	385,000,000	16.54%
Sinopec Corp.	210,000,000	9.91%	210,000,000	9.02%
The Subscriber	Nil	Nil	210,000,000	9.02%
Other public Shareholders	1,522,932,338	71.91%	1,522,932,338	65.42%
Total	<u>2,117,932,338</u>	<u>100%</u>	<u>2,327,932,338</u>	<u>100%</u>

Note 1: These 385,000,000 Shares represent the Shares beneficially owned by, and agreed to be acquired by, Mr. Liu Ming Hui, an executive Director. Mr. Liu Ming Hui is also interested in 135,000,000 options granted by the Company.

Pursuant to a sale and purchase agreement dated 16 January 2004 and entered into between Heng Fung Holdings Limited and its subsidiaries (together the “Heng Fung Group”) as vendor and Mr. Liu Ming Hui as purchaser, Heng Fung Group has agreed to sell and Mr. Liu has agreed to acquire an aggregate of 250,000,000 Shares. As at the date of this announcement, the sale and purchase of 138,000,000 Shares has been completed and Mr. Liu is beneficially interested in 273,000,000 Shares.

The above table has not taken into account any new Shares which may fall to be allotted and issued upon conversion of the Tranche 2 Bonds and the exercise of the subscription rights attaching to the Tranche 1 Bonds, the Tranche 2 Bonds and the Warrants.

GENERAL

A circular containing, among other things, further information about the Subscription together with a notice of SGM will be despatched to the Shareholders as soon as practicable.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 21 February 2005 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 22 February 2005.

DEFINITIONS

Terms or expressions used in this announcement shall, unless the context otherwise requires, have the meanings ascribed to them below:

“Agreement”	the share subscription agreement dated 19 February 2005 and entered into between the Company and the Subscriber in relation to the Subscription Shares and the formation of joint venture company
“Board”	the board of Directors
“CNG”	compressed natural gas
“Company”	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“LNG”	liquefied natural gas
“LPG”	liquefied petroleum gas
“PRC”	the People’s Republic of China
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the allotment and issue of the Subscription Shares
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	GAIL (India) Limited, a company incorporated in India and the issued shares of which are listed on the Stock Exchange of Mumbai, the National Stock Exchange and the Delhi Stock Exchange
“Subscription”	the subscription for the Subscription Shares by the Subscriber pursuant to the Agreement
“Subscription Price”	the subscription price of HK\$1.158 per Subscription Share
“Subscription Shares”	a total number of 210,000,000 Shares for which the Subscriber has conditionally agreed to subscribe pursuant to the Agreement
“Tranche 1 Bonds”	convertible bonds with an aggregate principal amount of US\$6,000,000 due 2008 issued by the Company to Merrill Lynch International on 13 November 2003
“Tranche 2 Bonds”	convertible bonds with an aggregate principal amount of US\$7,000,000 due 2008 issued by the Company to Merrill Lynch International on 10 June 2004
“Warrant(s)”	260,000,000 non-listed warrants to be issued by the Company at HK\$0.01 per unit, each entitles the holder thereof to subscribe for one new Share at the initial exercise price of HK\$0.66 (subject to adjustment) at any time during a period of five years commencing from the date of issue of the warrants, pursuant to (i) a conditional placing agreement dated 28 September 2004 made between the Company and Mr. Kan Che Kin, Billy Albert; and (ii) a conditional placing agreement dated 28 September 2004 made between the Company and Mr. Liu Zhi He
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 21 February 2005

* *for identification purpose only*

As at the date of this announcement, Mr. Li Xiaoyun, Mr. Xu Ying, Mr. Liu Ming Hui, Mr. Ma Jin Long and Mr. Zhu Wei Wei are the executive Directors, Mr. Wu Bangjie is the non-executive Director and Mr. Zhao Yu Hua, Dr. Mao Er Wan and Ms. Wong Sin Yue, Cynthia are the independent non-executive Directors.

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