



CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(incorporated in Bermuda with limited liability)

DISCLOSEABLE TRANSACTION FORMATION OF A JOINT VENTURE COMPANY AND ISSUE OF CONVERTIBLE NOTE

The Board is pleased to announce that Shenzhen Natural Gas, a wholly owned subsidiary of the Company, entered into the Agreement with China Gas Development and Huainan Natural Gas on 10 June 2003, pursuant to which Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas have agreed to establish Huainan JV to principally engage in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Huainan, Anhui Province, the PRC. Huainan JV will be owned as to 40% by Shenzhen Natural Gas, 30% by China Gas Development and 30% by Huainan Natural Gas. Upon its establishment, Huainan JV will be a non-wholly owned subsidiary of the Company.

Pursuant to the terms of the Agreement, the Group will make a total investment of RMB49,000,000 (equivalent to approximately HK\$46,666,666.67), of which RMB28,000,000 will be contributed by Shenzhen Natural Gas and RMB21,000,000 will be contributed by China Gas Development in Huainan JV. The investment in the sum of RMB49,000,000 (equivalent to approximately HK\$46,666,666.67) will be contributed by the Company by way of shareholders' loans to Shenzhen Natural Gas and/or China Gas Development, respectively, which will in turn use such money to pay up the registered capital in Huainan JV (the "Proposed Investment").

Huainan JV is in the process of being set up pursuant to the Agreement. Huainan JV will be principally engaged in the Natural Gas Project.

Reference is also made to the Company's announcement dated 10 June 2002 in which it was announced that the Company and Hai Xia Finance would set up the BVI Company, owned as to 49% by the Company and 51% by Hai Xia Finance. The Directors announce that the Company has entered into the Sale and Purchase Agreement with Hai Xia Finance on 10 June 2003, pursuant to which Hai Xia Finance agreed to sell and the Company agreed to purchase the 51% equity interest in the BVI Company currently held by Hai Xia Finance for a consideration of US\$51 (equivalent to approximately HK\$400). The Sale and Purchase Agreement was completed on 10 June 2003.

The Proposed Investment constitutes a discloseable transaction under the Listing Rules. A circular containing further details of the Proposed Investment will be despatched to the shareholders of the Company as soon as practicable.

The Board further announced that pursuant to a conditional subscription agreement made between the Company as issuer and Eastern Linker Holdings Limited as subscriber on 10 June 2003, the Subscriber agreed to subscribe in cash for a US\$6,000,000 convertible note to be issued at par by the Company. The Note will carry a right to convert into new shares of HK\$0.01 each in the issued share capital of the Company at an initial conversion price of HK\$2.00 per Share (subject to adjustment).

The Conversion Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the special general meeting of the Company held on 6 February 2003.

No application will be made for listing of the Note.

Trading in the shares of the Company was suspended with effect from 9:30 a.m. on 10 June 2003 at the request of the Company pending the publication of this announcement. Application has been made by the Company for the resumption of the trading of shares of the Company with effect from 9:30 a.m. on 11 June 2003.

THE AGREEMENT

Date of the Agreement: 10 June 2003

Parties

Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas

The parties to the Agreement agreed to set up Huainan JV to principally engage in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Huainan, Anhui Province, the PRC.

Information on Huainan Natural Gas

Huainan Natural Gas, a company with limited liability, was established in the PRC in 1986 and is wholly owned by the People's Government of Huainan which is an independent third party not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective Associates.

Information on Huainan JV

Huainan JV, a sino-foreign limited company to be established in the PRC, will be owned as to 40% by Shenzhen Natural Gas, 30% by China Gas Development and 30% by Huainan Natural Gas. Huainan Natural Gas and its ultimate beneficial owners are independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective Associates.

Huainan JV will become a 70% subsidiary of the Company upon its being set up pursuant to the Agreement and be consolidated into the Group's accounts. It is principally engaged in a series of projects to be carried out by Huainan JV in Huainan, Anhui Province, the PRC, in the design, construction and operation of natural gas pipeline network and ancillary facilities, the provision of piped natural gas, repair and maintenance of natural gas equipment and facilities as well as expansion of existing natural gas facilities (the "Natural Gas Project").

The registered capital of Huainan JV will be RMB70,000,000 (equivalent to approximately HK\$66,666,666.67) which has yet to be paid up by Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas in proportion to their respective shareholdings in Huainan JV (i.e., as to RMB28,000,000 to be contributed by Shenzhen Natural Gas in cash, RMB21,000,000 to be contributed by China Gas Development in cash and RMB21,000,000 to be contributed by Huainan Natural Gas in assets in accordance with the required laws and regulations. The assets to be contributed by Huainan Natural Gas will be appraised by recognised assets valuers in the PRC and will consist of fixed assets connected with the Natural Gas Project. Huainan JV has a tenure of 30 years and it will make a total investment in the sum of RMB180,000,000 (equivalent to approximately HK\$171,428,571.42) (the "Total Huainan JV Investment Amount") in the Natural Gas Project. Pursuant to the Agreement, Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas have agreed that the difference between the Total Huainan JV Investment Amount and the registered capital of Huainan JV for which Shenzhen Natural Gas and China Gas Development are responsible will be paid up with funds drawn from the cashflow generated by the Natural Gas Project. The Directors take the view that such cashflow generated by the Natural Gas Project will be sufficient for this purpose. None of the parties to the Huainan JV has any obligation to contribute the difference between the Total Huainan JV Investment and the registered capital of Huainan JV. It has been agreed among all the parties that the injection of the registered capital will be contributed by respective parties in accordance with the required rules and regulations governed in the PRC. The Company is required to comply with all the requirements under the Listing Rules in respect of any additional financial assistance provided by the Group to Huainan JV.

Huainan City is located in the central part of Anhui Province and has a total area of approximately 2,121 square kilometre. There are six districts and one county under its direct governance. Huainan City has a population of approximately 2,060,000 of which approximately 1,080,000 reside in the urban area. At present, there are approximately 66,000 household users of gas pipelines in Huainan City of which approximately 60,000 households are liquidified gas subscribers and the remaining households are coal gas subscribers. As pollution has been a great problem in Huainan City, the Natural Gas Project has received great support.

The Huainan JV anticipates that the volume of the natural gas consumed by both industrial and domestic subscribers in Huainan City District will reach approximately 43,000,000 cubic metres in 2005 and approximately 204,000,000 cubic metres in 2010.

The board of directors of Huainan JV will comprise 7 directors, 2 of whom will be appointed by Huainan Natural Gas, 3 of whom will be appointed by Shenzhen Natural Gas, and 2 of whom will be appointed by China Gas Development. The chairman of the board of directors of Huainan JV will be nominated by Shenzhen Natural Gas. However, the persons nominated by the Group to

Huainan JV will represent the majority of the board of Huainan JV. Upon establishment of Huainan JV, parties to the Huainan JV are entitled to share the profits generated from the Natural Gas Project in proportion to its shareholding in Huainan JV.

The establishment of Huainan JV is still in progress.

The Proposed Investment

Pursuant to the terms of the Agreement, the registered capital of Huainan JV is RMB70,000,000 and shall be contributed as to RMB28,000,000 by Shenzhen Natural Gas, as to RMB21,000,000 by China Gas Development and as to RMB21,000,000 by Huainan Natural Gas. The Group's investment in Huainan JV will be funded by internal resources and bank borrowings.

Apart from paying up the registered capital of Huainan JV, the Group is not required to make any further capital contribution to Huainan JV. Any difference between the Total Huainan JV Investment Amount and the registered capital of Huainan JV will be financed with funds drawn from the profits generated by the Natural Gas Project. The Company will make further announcement and will comply with all the requirements under the Listing Rules in case the financing arrangement on the difference between Total Huainan JV Investment Amount and the registered capital of Huainan JV is changed.

The Group will obtain a legal opinion from a firm of lawyers in the PRC in relation to issues including but not limited to the legal status, validity of establishment and continued existence of Huainan JV.

THE SALE AND PURCHASE AGREEMENT

Date of the Sale and Purchase Agreement: 10 June 2003

Parties: Hai Xia Finance and the Company

Reference is made to the Company's announcements dated 10 June 2002 in which it was announced that the Company (formerly known as Hai Xia Holdings Limited) and Hai Xia Finance would set up the BVI Company, owned as to 49% by the Company and 51% by Hai Xia Finance.

The Company and Hai Xia Finance entered into the Sale and Purchase agreement pursuant to which Hai Xia Finance agreed to sell and the Company agreed to purchase 51% equity interest in BVI company currently held by Hai Xia Finance for a consideration of US\$51 (equivalent to approximately HK\$400) which was determined based on the par value of the sale shares. As at the date of this announcement, there is no shareholders' loan due by the BVI Company to its shareholders. The Sale and Purchase Agreement was completed on 10 June 2003 and was funded by internal resources of the Company. The principal activity of the BVI Company is investments holding and as at the date of this announcement, no account has been prepared. As at the date of this announcement, the BVI Company does not have any asset nor liability.

Conditions

The Sale and Purchase Agreement is conditional upon the following, which have been satisfied:

- (i) the transaction contemplated under the Sale and Purchase Agreement be in strict compliance with the Listing Rules (where applicable);
- (ii) Hai Xia Finance shall procure the fulfillment of all necessary procedures and to produce all necessary documents in relation to the transfer of the 51% interests in the BVI Company to the Company; and
- (iii) the board of directors of Hai Xia Finance approving the disposal of the 51% interests in the BVI Company in accordance with the constitution of Hai Xia Finance.

Save as to its 8.37% shareholding in the Company and the 6,298,571 preference shares of the Company beneficially owned by Hai Xia Finance, Hai Xia Finance is independent of and not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective Associates. Hai Xia Finance is not a connected person to the Company.

Reasons for the Proposed Investment and Sale and Purchase Agreement

The Group is principally engaged in investment in, among others, natural gas/energy and property projects. The Directors consider that the Proposed Investment represents a good opportunity for the Company to further invest in the natural gas business in the PRC which is in line with the Company's strategy to expand into natural gas industries in the PRC whereupon Huainan JV will be treated as a subsidiary of the Company upon establishment. Furthermore, the entering into of the Sale and Purchase Agreement allows the Group to take effective control in the Huainan JV from approximately 54.7% to 70% and the Directors consider that the acquisition of Hai Xia Finance's interests in the BVI Company would be beneficial to the Group as a whole.

The Directors take the view that given that the Natural Gas Project will be operated, managed and developed by Huainan JV on an exclusive basis and that natural gas is a household necessity, profits generated by the Natural Gas Project are certain and sufficient to cover the investment contribution.

The Directors consider the Agreement and the Proposed Investment are fair and reasonable, taking into account the prospects of development in the Natural Gas Project in Huainan, Anhui Province, the PRC.

THE CONVERTIBLE NOTE SUBSCRIPTION AGREEMENT DATED 10 JUNE 2003

Subscriber

Eastern Linker Holdings Limited and its beneficial owners Ms Ma Zheng and Mr Yuen Kim Fung are independent third parties not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates. Immediately before entering into the Subscription Agreement, the Subscriber does not have any business relationship with the Company.

Conditions

The Subscription is conditional upon:

- the Stock Exchange having approved the issue of the Note, if necessary, either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object and the satisfaction of such conditions;
- the Listing Committee of the Stock Exchange having granted (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) listing of and permission to deal in the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attached to the Note; and
- if necessary, the Bermuda Monetary Authority granting consent to the listing of and permission to deal in the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attached to the Note.

If these conditions are not fulfilled on or before 2 July 2003 or such later date as may be agreed between the Subscriber and the Company, the Subscription Agreement will lapse and become null and void.

Completion

Completion of the Subscription shall take place on the third business day following the date on which the conditions stated above are fulfilled.

Proposed terms of the Note

The terms of the Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Principal Amount of the Note

US\$6,000,000 equivalent to approximately HK\$46,800,000.

Interest

The Note shall bear interest at the rate of 2 % per annum on the outstanding principal amount of the Note, which is determined based on normal commercial terms and by reference to, among other factors, the bank lending rates.

Maturity

24 months from the date of the issue of the Note.

Denomination

In multiples of US\$600,000.

Form

Registered form only.

Conversion price

HK\$2.00 per Share (subject to adjustment), which is determined by reference to the current trading price of the Shares as quoted on the Stock Exchange. The conversion price is subject to adjustment for, among other matters, subdivision or consolidation of Shares, bonus issues, rights issues and other dilutive events.

This price represents (i) a premium of approximately 170% over the closing price of HK\$0.74 per Share on 9 June 2003, being the last trading day immediately prior to this announcement; and (ii) a premium of approximately 121% over the average closing price of HK\$0.738 per Share from 29 May 2003 to 9 June 2003, both dates inclusive, being the last five trading days immediately prior to the date of this announcement.

Conversion

The Subscriber may convert the whole or part of the principal amount of the Note (in multiple of US\$600,000) into new Shares as determined by dividing the principal amount of the Note outstanding at the time of conversion by the conversion price.

Assuming an immediate exercise in full of the conversion rights attaching to the Note at the initial conversion price, the Company will issue 23,400,000 new Shares, representing approximately 1.93% of the existing issued share capital of the Company and approximately 1.89% of the enlarged issued share capital of the Company, and the Subscriber will hold approximately 1.89% of the enlarged issued share capital of the Company immediately after the issue of the Conversion Shares in full under the Note.

Assuming the conversion rights are exercised in full, the shareholding of the Subscriber and the substantial shareholder of the Company immediately before the exercise of the conversion rights in full, and immediately after the exercise of conversion rights in full are as follows:

	Immediately before exercise of the conversion rights in full	Immediately after the exercise of conversion rights in full
Heng Fung Holdings Limited	approximately 26.41%	approximately 25.91%
The Subscriber	Nil	approximately 1.89%

Conversion period

The Subscriber shall have the right at any time after the expiry of 12 months from the date of issue of the Note to convert all or part of the principal amount of the Note outstanding at any time into new Shares at the conversion price provided that an integral multiple of US\$600,000 can be converted at any time and save that if the outstanding principal amount of the Note is less than US\$600,000, the whole (but not part only) of the outstanding principal amount of the Note must be converted.

Ranking

The Conversion Shares will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Redemption by the Company

The Company shall be entitled at any time to redeem the whole or any part of the outstanding principal amount of the Note.

Status of the Note

The Note constitutes general and unsecured obligations of the Company and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law. No application will be made for listing of the Note.

Transferability

No assignment or transfer of part only of the Note may be made.

Events of Default

The Note contains an event of default provision which provides that on the occurrence of certain events of default specified in the Note (i.e. if the Company fails to pay the principal and interest

of the Note when due, or the Group becoming insolvent or unable to pay its debts etc.), the Subscriber shall be entitled to demand for immediate repayment of the principal amount outstanding under the Note.

REASON FOR THE ISSUE OF THE NOTE AND USE OF PROCEEDS

The Directors consider that the issue of the Note is an appropriate means through which the Group can raise funds with no immediate dilutive effects on the shareholding of the shareholders of the Company.

The net proceeds to be raised by the Company from the issue of the Note will amount to approximately HK\$46,800,000. It is the intention of the Company to use the proceeds to invest in natural gas projects in the PRC. At present, the Company has no plan to use the proceeds from the issue of the Notes for its investment in the Huainan JV.

General

The Proposed Investment constitutes a discloseable under the Listing Rules. A circular containing further details of the Proposed Investment will be despatched to the shareholders of the Company as soon as practicable.

The Conversion Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the special general meeting of the Company held on 6 February 2003. An application will be made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares which may fall to be issued under the Note.

Trading in the shares of the Company was suspended with effect from 9:30 a.m. on 10 June 2003 at the request of the Company pending the publication of this announcement. Application has been made by the Company for the resumption of the trading of shares of the Company with effect from 9:30 a.m. on 11 June 2003.

Definitions

“Agreement”	the cooperative agreement dated 10 June 2003 entered into among Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas in relation to the establishment of Huainan JV and the operation of the Natural Gas Project contemplated thereunder
“Associates”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors of the Company
“BVI”	the British Virgin Islands
“BVI Company” or “China Gas Development”	China Gas Development Group Limited, a company incorporated in the British Virgin Islands with limited liability, which after the completion of the Sale and Purchase Agreement became a wholly owned subsidiary of the Company (prior to the completion of the Sale and Purchase Agreement, it was owned as to 49% by the Company and 51% by Hai Xia Finance)
“Conversion Shares”	the new Shares to be issued by the Company upon the exercise of the conversion rights attaching to the Note by the Subscriber
“Company”	China Gas Holdings Limited (中國燃氣控股有限公司), a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hai Xia Finance”	Hai Xia Finance Holdings Limited, a company incorporated in the British Virgin Islands, holding of 101,549,457 ordinary shares representing 8.37% of the issued share capital of the Company and 6,298,571 preference shares of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Huainan JV”	Huainan China Gas & City Gas Company Limited, a Sino-foreign equity joint venture company in the PRC to be established by Shenzhen Natural Gas, China Gas Development and Huainan Natural Gas pursuant to the Agreement
“Huainan Natural Gas”	淮南市燃氣總公司 (Huainan City Gas Company), a PRC company with limited liability, is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective Associates.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	Rules Governing The Listing of Securities on the Stock Exchange
“Note”	the US\$6,000,000 convertible note
“PRC”	The People's Republic of China
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement entered into between the Company and Hai Xia Finance dated 10 June 2003 pursuant to which the Company has agreed to acquire 51% equity interest in the BVI Company from Hai Xia Finance
“Shares”	shares of HK\$0.01 each in the share capital of the Company
“Shenzhen Natural Gas”	中亞燃氣實業(深圳)有限公司 (Central Asia Natural Gas (Shenzhen) Company Limited, a wholly foreign owned enterprise established in the PRC and is a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Eastern Linker Holdings Limited
“Subscription”	the subscription by the Subscriber of the Note
“Subscription Agreement”	the subscription agreement dated 10 June 2003 and entered into between the Company and the Subscriber in respect of the Subscription
“US\$”	United States dollar(s), the lawful currency of the United States
“%”	per cent.

Unless the context requires otherwise, translations of RMB into HK dollars and US dollars into HK dollars are made, for illustration purposes only, at the rate of HK\$1.00 = RMB1.05 and US\$1.00 = HK\$7.80. No representation is made that any amounts in RMB, US dollars or HK dollars could have been or could be converted at the above rate or at any other rates or at all.

By Order of the Board
Liu Ming Hui
Managing Director

Hong Kong, 10 June 2003

* for identification purpose only