



## CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司\*

(Incorporated in Bermuda with limited liability)  
(Stock Code: 384)

### RESTRUCTURING OF US\$7,000,000 1.0 PER CENT. UNLISTED AND UNSECURED CONVERTIBLE BONDS DUE 2008

Reference is made to the announcements of the Company dated 30 October 2003, 13 November 2003, 17 December 2003, 19 December 2003 and 10 June 2004 and the circular issued by the Company dated 3 December 2003.

On 7 October 2004, the Company entered into the Repurchase Agreement with Merrill Lynch in relation to (i) the repurchase of the Repurchased Bonds in the principal amount of US\$3,500,000 by the Company; and (ii) the amendment to the terms of the Outstanding Bonds in the principal amount of US\$3,500,000.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 7 October 2004 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 11 October 2004.

#### BACKGROUND

Reference is made to the announcements of the Company dated 30 October 2003, 13 November 2003, 17 December 2003, 19 December 2003 and 10 June 2004 and the circular issued by the Company dated 3 December 2003.

On 30 October 2003, the Company announced that it had on 29 October 2003 entered into the Subscription Agreement and the Subscription Letter with Merrill Lynch in relation to the subscription by Merrill Lynch of the Bonds and the grant by the Company to Merrill Lynch of the Subscription Rights.

The Tranche 1 Bonds in the principal amount of US\$6,000,000 were issued by the Company to Merrill Lynch on 13 November 2003. Pursuant to the exercise of the option to subscribe for the Tranche 2 Bonds by Merrill Lynch under the Subscription Agreement, the Company has on 10 June 2004 issued to Merrill Lynch the Tranche 2 Bonds in the aggregate principal amount of US\$7,000,000. As a result, Merrill Lynch also enjoys the Subscription Rights to subscribe for new Shares of up to 15% of the principal amount of the relevant tranches of Bonds issued divided by the Base Price, at a subscription price equal to the Fixed Conversion Price.

The Tranche 1 Bonds, the Tranche 2 Bonds and the related Subscription Rights were issued pursuant to the Original General Mandate. Since its issue, the Tranche 1 Bonds have been fully converted into 83,294,103 Shares by Merrill Lynch during the period from 10 February 2004 to 8 June 2004. As at the date of this announcement, the Tranche 2 Bonds remain unconverted and the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds remain unexercised.

Assuming the Tranche 2 Bonds are fully converted at the Assumed Floating Conversion Price based on the Assumed Exchange Rate, a maximum number of 102,973,134 Shares will be allotted and issued by the Company. The Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds will entitle Merrill Lynch to subscribe for a maximum of 7,431,319 and 8,669,872 new Shares respectively, at the Fixed Conversion Price based on the Assumed Exchange Rate.

As at the date of this announcement, a maximum of 89,187,320 new Shares may be allotted and issued under the Original General Mandate, which is insufficient to cover the number of Shares to be allotted and issued upon full conversion of the Tranche 2 Bonds and full exercise of the Subscription Rights relating to the Tranche 1 Bonds and the Tranche 2 Bonds. The issue of additional Shares in excess of the Original General Mandate will be subject to Shareholders' approval. Further, the issue of the Tranche 3 Bonds, the Tranche 4 Bonds and the Tranche 5 Bonds, and the grant of the related Subscription Rights are also subject to the approval of the Shareholders.

The proposed resolutions to approve the issue of the Shares which fall to be allotted and issued upon conversion of the Tranche 2 Bonds and the exercise of the related Subscription Rights (to the extent not covered by the Original General Mandate), and the issue of the Tranche 3 Bonds, the Tranche 4 Bonds, the Tranche 5 Bonds and the Shares to be allotted and issued upon conversion of such tranches of Bonds and the exercise of the related Subscription Rights, were considered at the special general meeting of the Company held on 19 December 2003. Such resolutions were not passed by the Shareholders.

Accordingly, the conditions precedent to the issue of the Tranche 3 Bonds, the Tranche 4 Bonds and the Tranche 5 Bonds and the grant of the related Subscription Rights have not been fulfilled and such tranches of Bonds and the related Subscription Rights will not be issued and granted under the Subscription Agreement and the Subscription Letter (as the case may be). Further, no Shares which exceed the Original General Mandate will be allotted and issued pursuant to the outstanding Tranche 2 Bonds and/or the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds.

#### REPURCHASE AGREEMENT

On 7 October 2004, the Company entered into the Repurchase Agreement with Merrill Lynch in relation to (i) the repurchase of the Repurchased Bonds in the principal amount of US\$3,500,000 by the Company; and (ii) the amendment to the terms of the Outstanding Bonds in the principal amount of US\$3,500,000.

Merrill Lynch is not a connected person of the Company as defined under the Listing Rules.

#### Repurchase of the Repurchased Bonds

Pursuant to the Repurchase Agreement, the Company agreed to purchase, and Merrill Lynch agreed to sell, the Repurchased Bonds in the principal amount of US\$3,500,000 at a repurchase price of US\$3,850,000.

The repurchase price of US\$3,850,000 represents 110% of the principal amount of the Repurchased Bonds to be purchased by the Company. The Group will finance such repurchase price by cash on hand. The Directors consider the repurchase of the Repurchase Bonds by the Company will not have any material adverse impact on the financial position of the Group.

According to the terms of the Tranche 2 Bonds, the Company may, at any time on or after 30 September 2006, redeem all, but not some only, of the Tranche 2 Bonds at 105% of their principal amount together with accrued interest. Since the repurchase of the Repurchased Bonds took place earlier than such earliest redemption date and that only a portion of the Tranche 2 Bonds were being repurchased, the Company and Merrill Lynch agreed at the repurchase price of US\$3,850,000, which represents 110% of the principal amount of the Repurchased Bonds.

Completion of the repurchase of the Repurchased Bonds was unconditional and took place on 7 October 2004.

#### Amendments to the terms of the Outstanding Bonds

Pursuant to the Repurchase Agreement, the Company and Merrill Lynch also agreed to amend certain terms of the Outstanding Bonds with effect from 7 October 2004.

The principal terms of the Outstanding Bonds are set out in the announcement of the Company dated 30 October 2003.

Pursuant to the Repurchase Agreement, the Company and Merrill Lynch agreed to amend certain terms of the Outstanding Bonds on conversion so that if for any reason, the Conversion Shares are not delivered by the Company to the holders of the Outstanding Bonds or such person(s) as they may direct in accordance with the terms of the Outstanding Bonds, the conversion rights in respect of the converted Outstanding Bonds shall instead be satisfied by the Company making payment to the holder thereof of an amount equal to 115% of the principal amount of the Outstanding Bonds converted.

Pursuant to the amended terms of the Outstanding Bonds, the Company has the rights to make payment to Merrill Lynch in full satisfaction of the conversion rights of the Outstanding Bonds converted. Should the Company exercise such rights, Merrill Lynch will not be able to benefit from the long-term return available to the Shareholders.

Having considered the above, the Company and Merrill Lynch agreed that should the Company choose to satisfy the conversion rights by way of cash payment, an amount representing 115% of the principal amount of the Outstanding Bonds converted should be paid.

Save for the amendments set out above, other terms of the Outstanding Bonds shall remain in full force and effect. No amendment has been made to the terms of the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds.

#### REASONS FOR THE REPURCHASE AGREEMENT

Pursuant to the Subscription Agreement, the Company issued the Tranche 1 Bonds and the Tranche 2 Bonds to Merrill Lynch. Pursuant to the Subscription Letter, the Company has also granted the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds to Merrill Lynch.

Since its issue, the Tranche 1 Bonds have been fully converted into 83,294,103 Shares by Merrill Lynch during the period from 10 February 2004 to 8 June 2004. As at the date of this announcement, the Tranche 2 Bonds remain unconverted and the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds remain unexercised.

The principal amount of the outstanding Tranche 2 Bonds in the sum of US\$7,000,000 is accounted for as non-current liabilities in the consolidated financial statements of the Group. By purchasing the Repurchased Bonds, the non-current liabilities of the Group will be reduced which will in turn improve the gearing ratio of the Group. As such, the Directors consider such repurchase to be in the interests of the Company and the Shareholders as a whole.

As set out in the Company's announcement dated 30 October 2003, the net proceeds from the issue of the Tranche 2 Bonds will be used for the Group's capital contribution in natural gas projects and/or for working capital purposes. However, no specific natural gas projects have yet been identified by the Group. After completion of the repurchase of the Repurchased Bonds, the net proceeds from the issue of the Tranche 2 Bonds will be reduced by half. The Company would still apply the net proceeds from the Outstanding Bonds in the sum of approximately HK\$27,000,000 for the purposes

set out in the Company's announcement dated 30 October 2003. The Directors consider that such reduction of proceeds will not have any material adverse impact on the operations of the Group.

Pursuant to the Repurchase Agreement, the terms of the Outstanding Bonds will be amended so that instead of allotting and issuing the Conversion Shares to the holder of the converted Outstanding Bonds, the Company can satisfy the conversion rights by making payment to the holder thereof of an amount equal to 115% of the principal amount of the Outstanding Bonds converted.

Having considered that (i) the rights of the Company to satisfy the conversion rights by way of cash payment would prevent any possible dilutive effect on the shareholding of the Shareholders upon conversion of the Outstanding Bonds which will in turn maximise the return to the Shareholders; (ii) the resolutions approving the issue of Shares upon conversion of the Tranche 2 Bonds and exercise of the related Subscription Rights (to the extent not covered by the Original General Mandate), and the issue of the Tranche 3 Bonds, the Tranche 4 Bonds, the Tranche 5 Bonds and the grant of the related Subscription Rights, were voted down by the Shareholders at the special general meeting of the Company held on 19 December 2003 as the Shareholders considered the terms of the Bonds and the related Subscription Rights to be too favourable to Merrill Lynch; and (iii) it would be more flexible to the Company if it can decide whether to satisfy the conversion rights of the Outstanding Bonds by way of cash payment or by way of allotment and issue of Conversion Shares, the Directors consider the amendments to the terms of the Outstanding Bonds under the terms of the Repurchase Agreement to be in the interests of the Company and the Shareholders as a whole.

#### EFFECT OF THE REPURCHASE AGREEMENT

Pursuant to the Repurchase Agreement, the Company and Merrill Lynch agreed to restructure the outstanding Tranche 2 Bonds by (i) repurchasing the Repurchased Bonds in the principal amount of US\$3,500,000; and (ii) amending certain terms of the Outstanding Bonds in the principal amount of US\$3,500,000.

The maximum number of new Shares which may be allotted and issued upon full conversion of the Outstanding Bonds based on the Assumed Floating Conversion Price, and full exercise of the Subscription Rights relating to the Tranche 1 Bonds and the Tranche 2 Bonds at the Fixed Conversion Price, in each case based on the Assumed Exchange Rate would be as follows:

	Maximum number of Shares which fall to be allotted and issued	Approximate percentage of issued share capital as at the date of this announcement (Note 1)	Approximate percentage of enlarged issued share capital (Note 2)
Subscription Rights relating to Tranche 1 Bonds	7,431,319	0.42%	0.42%
Outstanding Bonds	51,486,567	2.94%	2.85%
Subscription Rights relating to Tranche 2 Bonds	8,669,872	0.49%	0.49%

#### Notes:

- The total issued share capital of the Company as at the date of this announcement comprises 1,754,151,765 Shares.
- The enlarged issued share capital used for such calculations is the aggregate of the existing issued share capital of the Company and the maximum number of Shares which would be allotted and issued pursuant to the Outstanding Bonds or the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds (as the case may be), and no change otherwise to the issued share capital of the Company.

Assuming the Outstanding Bonds are fully converted at the Assumed Floating Conversion Price and the Subscription Rights are fully exercised at the Fixed Conversion Price, in each case based on the Assumed Exchange Rate, a maximum number of 67,587,758 Shares, covering approximately 75.78% of the available Original General Mandate, will be allotted and issued.

Investors should note that since the Floating Conversion Price is determined by reference to market prices of the Shares, the Outstanding Bonds may be converted at a price which is lower than the Assumed Floating Conversion Price, in which case the number of Conversion Shares may be more than that illustrated in the table above. The Outstanding Bonds were issued under the Original General Mandate, under which a maximum of 89,187,320 Shares may be allotted and issued as at the date of this announcement. Any issue of additional Shares in excess of the Original General Mandate will be subject to Shareholders' approval.

#### ILLUSTRATION OF POSSIBLE CHANGES OF SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 1,754,151,765 Shares in issue. Assuming full conversion of the Outstanding Bonds at the Assumed Floating Conversion Price, and full exercise of the Subscription Rights relating to the Tranche 1 Bonds and the Tranche 2 Bonds at the Fixed Conversion Price, in each case based on the Assumed Exchange Rate, the shareholding structures of the Company before and after any such conversion and exercise would be as follows:

Shareholder	As at the date of this announcement (unless indicated otherwise)		Immediately after full conversion of the Outstanding Bonds		Immediately after full conversion of the Outstanding Bonds and full exercise of the Subscription Rights relating to the Tranche 1 Bonds and the Tranche 2 Bonds	
	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
Liu Ming Hui (Note)	385,000,000	21.95%	385,000,000	21.32%	385,000,000	21.13%
Merrill Lynch	1,065,103*	0.06%*	52,551,670**	2.91%**	68,652,861**	3.77%**
Other public Shareholders	1,368,086,662	77.99%	1,368,086,662	75.77%	1,368,086,662	75.10%
Total	1,754,151,765	100%	1,805,638,332	100%	1,821,739,523	100%

\* As at 4 October 2004

\*\* Assuming Merrill Lynch continues to hold the 1,065,103 Shares held as at 4 October 2004

#### Note:

These 385,000,000 Shares represent the Shares beneficially owned by, and agreed to be acquired by, Mr. Liu Ming Hui, an executive Director.

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 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 90,000,000 Shares has been completed. Mr. Liu is currently beneficially interested in 225,000,000 Shares.

#### GENERAL INFORMATION

The Group is principally engaged in investment in, among other things, natural gas/energy projects in the PRC.

Any further alteration to the terms of the Outstanding Bonds will be subject to the approval of the Stock Exchange except where such alteration takes effect automatically under the existing terms of the Outstanding Bonds.

#### EXCEPTIONAL PRICE MOVEMENT AND TRADING VOLUME

The Directors have noted the recent increase in price and trading volume of the Shares and wish to state that save as disclosed in this announcement, they are not aware of any reasons for such movements.

The Directors also confirm that save as disclosed in this announcement, there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, nor are the Directors aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules which is or may be of a price-sensitive nature.

#### RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 7 October 2004 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 11 October 2004.

#### DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

"associates"	has the meaning ascribed to this term under the Listing Rules
"Assumed Exchange Rate"	the exchange rate of US\$1.00 to HK\$7.7616
"Assumed Floating Conversion Price"	HK\$0.527625 per Share, being 90% of the average of the lowest eight closing prices per Share during the 30 consecutive business days up to and including 28 September 2004
"Base Price"	the closing price per Share on 29 October 2003, being HK\$0.94
"Bonds"	together, the Tranche 1 Bonds, the Tranche 2 Bonds, the Tranche 3 Bonds, the Tranche 4 Bonds and the Tranche 5 Bonds and the expression "tranche of Bonds" means any one of them
"business day"	any day on which the Stock Exchange is open for trading in Hong Kong
"Company"	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to this term under the Listing Rules
"Conversion Shares"	the Shares which fall to be allotted and issue upon conversion of the Tranche 2 Bonds (or as the case may be, the Outstanding Bonds)
"Directors"	the directors of the Company
"Fixed Conversion Price"	HK\$0.792 per Share
"Floating Conversion Price"	the conversion price of the Outstanding Bonds, which is 90% of the average of any eight closing prices per Share as selected by Merrill Lynch during the 30 consecutive business days immediately prior to the date on which a conversion notice is received by 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
"Merrill Lynch"	Merrill Lynch International, an unlimited liability company established under the Laws of England and Wales
"Original General Mandate"	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 August 2003, pursuant to which a maximum of 89,187,320 new Shares may be allotted and issued as at the date of this announcement

“Outstanding Bonds”	the outstanding Tranche 2 Bonds not being the Repurchased Bonds, which aggregate principal amount is US\$3,500,000
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Repurchase Agreement”	the repurchase and amendment agreement dated 7 October 2004 and entered into between the Company and Merrill Lynch
“Repurchased Bonds”	a portion of the Tranche 2 Bonds in the principal amount of US\$3,500,000 which were repurchased by the Company in accordance with Repurchase Agreement
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 29 October 2003 and entered into between the Company and Merrill Lynch relating to the subscription of the Bonds
“Subscription Letter”	the subscription letter dated 29 October 2003 and entered into between the Company and Merrill Lynch under which the Company granted to Merrill Lynch the Subscription Rights
“Subscription Rights”	the option granted by the Company to Merrill Lynch in respect of each tranche of Bonds for the subscription of further new Shares at the Fixed Conversion Price
“Tranche 1 Bonds”	convertible bonds with an aggregate principal amount of US\$6,000,000 due 2008 issued by the Company to Merrill Lynch on 13 November 2003 pursuant to the Subscription Agreement
“Tranche 2 Bonds”	convertible bonds with an aggregate principal amount of US\$7,000,000 due 2008 issued by the Company to Merrill Lynch on 10 June 2004 on substantially the same terms as the Tranche 1 Bonds pursuant to an option granted by the Company to Merrill Lynch under the Subscription Agreement
“Tranche 3 Bonds”	convertible bonds with an aggregate principal amount of US\$8,000,000 due 2008 which are to be issued by the Company to Merrill Lynch on substantially the same terms as the Tranche 1 Bonds pursuant to an option granted by the Company to Merrill Lynch under the Subscription Agreement
“Tranche 4 Bonds”	convertible bonds with an aggregate principal amount of US\$10,000,000 due 2008 which are to be issued by the Company to Merrill Lynch on substantially the same terms as the Tranche 1 Bonds pursuant to an option granted by the Company to Merrill Lynch under the Subscription Agreement
“Tranche 5 Bonds”	convertible bonds with an aggregate principal amount of US\$10,000,000 due 2008 which are to be issued by the Company to Merrill Lynch on substantially the same terms as the Tranche 1 Bonds pursuant to an option granted by the Company to Merrill Lynch under the Subscription Agreement
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“US\$”	United States dollars, the lawful currency for the time being of the United States of America
“%”	per cent.

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

Hong Kong, 8 October 2004

\* *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.*