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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)

ISSUE OF US\$20,000,000 2 PER CENT. CONVERTIBLE BONDS DUE 2008, SPECIAL MANDATE AND RESUMPTION OF TRADING OF SHARES

The Directors are pleased to announce that on 7 September, 2005, the Company and Equator entered into the Subscription Agreement, under which, subject to certain conditions, the Company agreed to issue, and Equator agreed to subscribe for, the Bonds with an aggregate principal amount of US\$20,000,000 (equivalent to approximately HK\$155,600,000).

The Bonds are convertible into Shares at a conversion price equal to the lower of the Fixed Conversion Price or the Floating Conversion Price. If the conversion price is less than the par value of each Share, the conversion price shall be the par value of each Share. The Conversion Shares to be issued pursuant to the Bonds will be issued under the Special Mandate to be sought from Shareholders. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be issued pursuant to the Bonds.

Upon full conversion of the Bonds, and based on the Fixed Conversion Price (assuming no adjustment to the Fixed Conversion Price), a total of 453,247,888 new Shares will be issued, representing approximately 17.3% of the existing issued share capital of the Company and 14.8% of the issued share capital of the Company as enlarged by the issue of such Shares. The maximum number of new Shares which may be issued upon conversion of the Bonds based on the Floating Conversion Price can only be determined when the Conversion Notice for all the then outstanding Bonds is issued. For illustrative purposes, assuming the conversion price is HK\$0.07 (being the par value of each Share), a total of 2,222,857,142 new Shares will be issued, representing approximately 85.01% of the existing issued share capital of the Company and 45.95% of the issued share capital of the Company as enlarged by the issue of such Shares.

The net proceeds of the issue of the Bonds are estimated to be an aggregate amount of approximately HK\$145,000,000. The Group intends to apply the net proceeds for funding the relevant acquisitions of the Group as referred to in the announcements of the Company dated 3 August, 2005, 5 August, 2005 and 24 August 2005, respectively, and any suitable investment opportunities that may become available to the Group, and/or use as its general working capital.

The terms and conditions of the Bonds were negotiated between the Company and Equator on an arm's length basis and the Directors consider that they are fair and reasonable so far as the Company is concerned and in the interest of the Shareholders.

A circular containing, among other matters, further particulars relating to the issue of the Bonds, the letter from the Independent Board Committee, the letter from an independent financial adviser and a notice of the SGM will be despatched to Shareholders as soon as practicable. The controlling shareholders of the Company and their respective associates will abstain from voting at the SGM on the relevant resolution(s) approving the issue of the Bonds and the Conversion Shares.

At the request the Company, trading in the Shares was suspended on the Stock Exchange from 9:30 a.m. on 29 August, 2005 pending release of this announcement. Application for the resumption of trading in the Shares has been made by the Company to the Stock Exchange to the effect that trading in the Shares will resume at 9:30 a.m. on 9 September, 2005.

SUBSCRIPTION AGREEMENT

Date:

7 September, 2005

Issuer:

The Company

Bonds to be issued:

US\$20,000,000 (equivalent to approximately HK\$155,600,000) 2 per cent. convertible bonds due 2008.

Subscriber of the Bonds:

Equator, a third party independent of the Company and any connected person of the Company and not a connected person of the Company.

Principal amount of the Bonds:

US\$20,000,000 (equivalent to approximately HK\$155,600,000), payable in cash by Equator to the Company on the Issue Date.

Principal terms of the Bonds:

Maturity:

The third anniversary of the Issue Date.

Unless previously redeemed, converted or purchased and cancelled, the Bonds shall be redeemed by the Company at 100 % of their principal amount at the Maturity Date.

Interest:

The Bonds bear interest from the Issue Date at the rate of 2 per cent. per annum. Interest is payable semi-annually in arrears.

Transferability:

Equator agrees with the Company that it shall not assign or transfer any of the Bonds registered in its name to any third party other than its subsidiary or holding company without the prior written consent of the Company and, if so required, subject to the prior approval of the Stock Exchange.

Conversion price:

The lower of the Fixed Conversion Price or the Floating Conversion Price, provided that if the conversion price is less than the par value of each Share, the conversion price shall be the par value of each Share.

Conversion Period:

Subject to and upon compliance with the conditions under the Instrument, Bondholder shall have the right at any time during the Conversion Period (or, with the prior written consent of the Company, from any time following the Issue Date up to the expiry of the Conversion Period) to convert the Bonds held by such Bondholder.

Conversion shares:

The Bonds are convertible into new Shares at the lower of either the Fixed Conversion Price or the Floating Conversion Price, in each case at any time during the relevant Conversion Period. Such new Shares which fall to be issued on conversion of the Bonds shall rank pari passu in all respects with existing Shares in issue on the date of issue of such new Shares.

Early Redemption:

- (A) If during the Conversion Period, on each of ten (10) consecutive Trading Days falling within the Conversion Period (a "Reference Period"), the closing price per Share is equal to or less than an amount representing 40% of the Fixed Conversion Price for the time being, the entitlement of the Bondholders to exercise the Conversion Rights shall be suspended until the average closing price per Share for ten (10) consecutive Trading Days is more than 40% of the Fixed Conversion Price but each Bondholder shall be entitled, by giving a written notice (the "Accelerated Redemption Notice") to the Company by not later than thirty (30) days after the last Trading Day in the Reference Period, to the intent that if Accelerated Redemption Notice is not given within the said time limit, such entitlement of the Bondholders shall lapse, to require the Company to,
- (i) within six (6) months from the date of the Accelerated Redemption Notice or on the Maturity Date (whichever is earlier) redeem an aggregate of 50% of the outstanding Bonds held by that Bondholder as at the time of such redemption in cash in an amount equal to the principal amount of the said Bonds plus all the interest accrued on such Bonds to the date of redemption in accordance with conditions of the Instrument;
 - (ii) within nine (9) months from the date of the Accelerated Redemption Notice or on the Maturity Date (whichever is earlier) redeem an aggregate of 25% of the outstanding Bonds held by that Bondholder as at the time of such redemption in cash in an amount equal to the principal amount of the said Bonds plus all the interest accrued on such Bonds to the date of redemption in accordance with the conditions of the Instrument; and
 - (iii) within twelve (12) months from the date of the Accelerated Redemption Notice or on the Maturity Date (whichever is earlier) redeem the remaining outstanding Bonds held by that Bondholder as at the time of such redemption in cash in an amount equal to the principal amount of said Bonds plus all the interest accrued on such Bonds to the date of redemption in accordance with the conditions of the Instrument,

Provided that following the delivery of the Accelerated Redemption Notice by the relevant Bondholder to the Company, if the average closing price per Share for ten (10) consecutive Trading Days is more than 40% of the Fixed Conversion Price, the relevant Bondholder shall notwithstanding the Accelerated Redemption Notice previously given by him still be entitled to exercise the Conversion Rights in respect of any outstanding Bonds held by such Bondholder.

- (B) If during the Conversion Period, a Bondholder presents Bonds for conversion and the closing price per Share is equal to or less than an amount representing 65 % of the Fixed Conversion Price for the time being, the Company may (but is not obliged to) redeem such Bonds so presented in cash on the immediately following date in an amount equal to the sum of (a) a premium equal to 6 % per annum calculated from the date of the issue of the Bonds to the date of redemption of the Bonds; (b) the principal amount of the Bonds; and (c) all the interest accrued on the Bonds presented for conversion to the date of redemption in accordance with the conditions of the Instrument.
- (C) If, during the period of six months immediately following the Issue Date, the aggregate amount of the Bonds converted falls short of US\$5,000,000, the Company may (but is not obliged to) redeem (pro rata in respect of each Bondholder's holding of Bonds) Bonds with a principal amount equal to such shortfall in accordance with the conditions of the Instrument.
- (D) If, during the period of twelve months immediately following the Issue Date, the aggregate amount of the Bonds converted falls short of US\$10,000,000, the Company may (but is not obliged to) redeem (pro rata in respect of each Bondholder's holding of Bonds) Bonds with a principal amount equal to such shortfall in accordance with the conditions of the Instrument.

The above terms have been agreed between the Company and Equator after arm's length negotiations.

Conditions:

The obligation of Equator to subscribe for the Bonds is conditional on, among other things, (i) the passing by the Shareholders (other than the controlling shareholders of the Company and their respective associates) in general meeting entitled to vote thereat of all necessary resolution(s) to approve the issue of the Bonds and the Conversion Shares; and (ii) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares.

Special Mandate:

The Conversion Shares to be issued pursuant to the Bonds will be issued under the Special Mandate. The maximum number of new Shares which may be issued upon conversion of the Bonds based on the Fixed Conversion Price (assuming no adjustment) is 453,247,888, representing approximately 17.3 % of the existing issued share capital of the Company and approximately 14.8 % of the enlarged issued share capital of the Company, respectively. The maximum number of new Shares which may be issued upon conversion of the Bonds based on the Floating Conversion Price can only be determined when the Conversion Notice for all the then outstanding Bonds is issued. For illustrative purposes, assuming the conversion price is HK\$0.07 (being the par value of each Share), a total of 2,222,857,142 new Shares will be issued, representing approximately 85.01% of the existing issued share capital of the Company and 45.95% of the issued share capital of the Company as enlarged by the issue of such Shares.

USE OF PROCEEDS AND REASONS FOR THE ISSUE OF THE BONDS

The net proceeds of the issue of the Bonds are estimated to be an aggregate amount of approximately HK\$145,000,000. The Group intends to apply the net proceeds for funding (i) as to RMB12,954,500 (approximately HK\$12,456,250) for the acquisition of a 99% equity interest in Chongqing Tong Nan Tongfa Gas Co. Ltd. as referred to in the announcement of the Company dated 3 August, 2005; (ii) as to RMB5,291,000 (approximately HK\$5,087,500) for the acquisition of a 70% equity interest in Fu Ping Natural Gas Co. Ltd. as referred to in the announcement of the Company dated 5 August, 2005 and (iii) as to RMB3,000,000 (approximately HK\$2,884,615) for the acquisition of a 50% equity interest in Yongning Boneng Natural Gas Co. Ltd. as referred to in the announcement of the Company dated 24 August 2005, respectively, and as to the balance of approximately HK\$124,571,635 for any suitable investment opportunities that may become available to the Group, and/or use as its general working capital. As at the date of this announcement, the Group has not made any commitment on such investment opportunities.

The terms and conditions of the Bonds were negotiated between the Company and Equator on an arm's length basis and the Directors consider that they are fair and reasonable so far as the Company is concerned and in the interest of the Shareholders.

SHAREHOLDING STRUCTURE

As at the date of this announcement, the issued share capital of the Company is HK\$183,030,101.52 comprising 2,614,715,736 Shares. Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited, being parties acting in concert, are currently the controlling shareholders of the Company (as defined in the Listing Rules), collectively holding 1,386,798,538 Shares, representing approximately 53.04 % of the existing issued share capital of the Company. If the maximum possible number of Shares are issued pursuant to the full conversion of the Bonds at the Fixed Conversion Price (assuming no adjustment), 453,247,888 new Shares will be issued based on the Fixed Conversion Price, representing approximately 17.3% and approximately 14.8% of the existing issued share capital and the enlarged issued share capital respectively. The aggregate shareholding interest of Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited will be diluted correspondingly from approximately 53.04% now to approximately 45.20 % of the enlarged issued share capital of the Company.

The shareholding structure of the Company before and after the conversion of the Bonds based on the Fixed Conversion Price will be as follows:

	Total no. of issued Shares (assuming no further Shares are issued)	No. of Shares held by Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited (assuming Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited will not acquire further Shares and approximately percentage of shareholding)	No. of Shares held by Equator (assuming Equator has not disposed of any Shares received pursuant to such conversion) and approximately percentage of shareholding	No. of Shares held by public (assuming no further Shares are issued) and approximately percentage of shareholding
As at the date of this announcement	2,614,715,736	1,386,798,538 (53.04%)	0 (0%)	1,227,917,198 (46.96%)
Upon full conversion of the Bonds (assuming no Shares are issued in the interim)	3,067,963,624	1,386,798,538 (45.20%)	453,247,888 (14.78%)	1,227,917,198 (40.02%)

The change in shareholding structure of the Company before and after the conversion of the Bonds based on the Floating Conversion Price cannot be ascertained at present because the Floating Conversion Price can only be determined when the Conversion Notice is issued for all the then outstanding Bonds.

For illustrative purposes, the maximum dilution effect of the full conversion of the Bonds at the minimum conversion price (i.e. HK\$0.07, the par value of each Share), will be as follows:—

	Total no. of issued Shares (assuming no further Shares are issued)	No. of Shares held by Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited (assuming Mr. Mo Shikang, Mr. Yuan Yakang and Asian Allied Limited will not acquire further Shares and approximately percentage of shareholding)	No. of Shares held by Equator (assuming Equator has not disposed of any Shares received pursuant to such conversion) and approximately percentage of shareholding	No. of Shares held by public (assuming no further Shares are issued) and approximately percentage of shareholding
As at the date of this announcement	2,614,715,736	1,386,798,538 (53.04%)	0 (0%)	1,227,917,198 (46.96%)
Upon full conversion of the Bonds (assuming no Shares are issued in the interim)	4,837,572,878	1,386,798,538 (28.67%)	2,222,857,142 (45.95%)	1,227,917,198 (25.38%)

Note: In the event of full conversion of the Bonds at the minimum conversion price where the shareholding interest of Equator in the Company will become approximately 45.95%, Equator will be required to comply with the Hong Kong Code on Takeovers and Mergers.

To maintain the listing status of the Shares, the Company will procure that not less than 25% of the issued Shares, from time to time, will be held by the public. As soon as the Company is aware that the public float falls below 25% of the issued Shares, it will inform the Stock Exchange and the public immediately and will take, and will procure to take, all possible actions to maintain the public float not less than 25% of the issued Shares.

As at the date of the announcement, there are outstanding options entitling the holders to subscribe for up to an aggregate of 400,000,000 Shares at a subscription price of HK\$0.105 per Share at any time during the period from 28 October, 2004 to 27 October, 2006 and outstanding share options, granted under the Company's share option scheme entitling the holders to subscribe for up to 90,800,000 Shares at a subscription price of HK\$0.365 per Share at any time from 12 October, 2005 to 3 April, 2007, respectively. Save as disclosed herein, the Company does not have any options or convertible securities outstanding as at the date of the announcement.

LISTING

No application will be made for the listing of, or permission to deal in, the Bonds on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon conversion of the Bonds.

DILUTION EFFECT ON SHAREHOLDERS

As the Company foresees the future dilution effect on Shareholders resulting from the exercise of the Conversion Rights attaching to the Bonds, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion in the following manner:

- (a) the Company will make a monthly announcement (the “**Monthly Announcement**”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
 - (i) whether there is any conversion of the Bonds during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - (ii) the number of outstanding Bonds after the conversion, if any;
 - (iii) the total number of Shares issued and/or cancelled pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company and/or Shares cancelled pursuant to repurchase of Shares by the Company, with a breakdown of the Shares concerned by the relevant transactions; and
 - (iv) the total issued share capital of the Company announced in the previous Monthly Announcement and the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be) and the Company will disclose the total issued share capital of the Company as at the date of any announcement which is published in-between any Monthly Announcement.

GENERAL

The Company will ensure that no connected person of the Company will subscribe for any of the Bonds at the issue of such securities and that, after the issue of the Bonds, the Company will disclose to the Stock Exchange any dealings by any of connected persons of the Company from time to time in the Bonds immediately upon the Company becoming aware of such dealings.

An Independent Board Committee has been appointed to advise the Independent Shareholders of the Company on the issue of the Bonds and the Conversion Shares. The Company will appoint an independent financial adviser to advise the Independent Board Committee in respect of the issue of the Bonds and the Conversion Shares.

A circular containing, among other matters, further particulars relating to the issue of the Bonds, the letter from the Independent Board Committee, the letter from an independent financial adviser and a notice of the SGM will be despatched to Shareholders as soon as practicable. The controlling shareholders of the Company and their respective associates will abstain from voting at the SGM on the relevant resolution(s) approving the issue of the Bonds and the Conversion Shares.

Save for the transactions as disclosed in this announcement, the Company has not carried out any fund raising activities during the 12-month period immediately preceding the date of this announcement.

SUSPENSION AND RESUMPTION OF TRADING OF SHARES

At the request the Company, trading in the Shares was suspended on the Stock Exchange from 9:30 a.m. on 29 August, 2005 pending release of this announcement. Application for the resumption of trading in the Shares has been made by the Company to the Stock Exchange to the effect that trading in the Shares will resume at 9:30 a.m. on 9 September, 2005.

DEFINITIONS

Unless otherwise defined herein, capitalised terms used in this announcement shall have the following meanings.

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bonds”	convertible bonds with an aggregate principal amount of US\$20,000,000 which are to be issued by the Company, the principal terms of which are set out in the section headed “Principal terms of the Bonds” of this announcement
“Bondholder(s)”	holder(s) of the Bonds
“Company”	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
“Conversion Notice”	a notice of conversion to be given by a Bondholder to the Company in relation to conversion of the Bonds
“Conversion Period”	the period commencing from the date falling two calendar months after the date of issue of the Bonds and ending on day falling three weeks prior to the Maturity Date

“Conversion Rights”	the rights of the Bondholder(s) to subscribe for fully paid Shares pursuant to the Bonds as set out in the Instrument
“Conversion Shares”	Shares to be issued upon conversion of the Bonds
“Directors”	directors of the Company
“Equator”	Equator View Capital, a company incorporated in the Cayman Islands and a third party independent of the Company and any connected person of the Company and not a connected person of the Company
“Fixed Conversion Price”	in respect of any particular exercise of Conversion Rights, the amount that is equal to 130% of the average of the closing prices per Share during the thirty (30) consecutive Trading Days immediately prior to the date of the Subscription Agreement, HK\$0.3433 (subject to adjustment) per Share
“Floating Conversion Price”	in respect of any particular exercise of Conversion Rights, the amount (rounded to the nearest Hong Kong cent.) that is equal to 90 % of the average of the closing prices per Share on any four (4) consecutive Trading Days as selected by the Bondholder(s) during the 30 consecutive Trading Days immediately prior to the date on which the Conversion Notice is received by the Company
“Group”	the Company and its subsidiaries
“HK\$” (and cents)	Hong Kong dollars (and cents), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Liu Junmin, Mr. Tan Qinglian and Mr. Wong Shing Kay, Oliver, established to advise the Independent Shareholders
“Independent Shareholders”	Shareholders other than Mr. Mo Shikang, Mr. Yuan Yakang, Asian Allied Limited and their respective associates
“Instrument”	the deed to be executed by the Company constituting the Bonds;
“Issue Date”	the date on which the Bonds are issued
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the third anniversary of the Issue Date
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened to approve the issue of the Bonds and the Conversion Shares
“Shareholders”	shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.07 each in the capital of the Company
“Special Mandate”	a special mandate proposed to be sought from Shareholders to authorize the Directors to issue the Bonds and the Conversion Shares at the forthcoming SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the agreement dated 7 September, 2005 entered into between the Company and Equator relating to, among other matters, the subscription of the Bonds
“subsidiary”	has the meaning given to it under the Listing Rules and “subsidiaries” shall be construed accordingly
“Trading Day”	any day on which the Stock Exchange is open for regular securities trading
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	%

Unless otherwise specified in this announcement, US\$1.00 = HK\$7.78; RMB104=HK\$100. No representation is made that any amounts in US\$ or HK\$ or RMB could have been or could be converted at such a rate or at any other rates or at all.

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

Hong Kong, 8 September, 2005

As at the date of this announcement, the Board comprises seven executive directors are Mr. Xu Ruixin, Mr. Liu Jing, Mr. Mo Shikang, Mr. Zhu Peifeng, Mr. Zhang Hesheng, Mr. Jin Song and Mr. Yan Wing Cheung, and three independent non-executive directors are Mr. Liu Junmin, Mr. Tan Qinglian and Mr. Wong Shing Kay, Oliver.

** for identification purpose only*

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