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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 liabilities)
(Stock Code: 681)

**PROPOSED ISSUE OF US\$40 MILLION 2%
CONVERTIBLE BONDS DUE 2009
AND RESUMPTION OF TRADING**

The Company has signed a commitment agreement with Indopark Holdings Limited (the “Subscriber”), an indirectly wholly owned subsidiary of Merrill Lynch & Co, Inc. (“Merrill Lynch”) in regard to a proposed issue of US\$40 million 2% convertible bonds due 2009.

At the request of the Company, trading in the Shares was suspended on the Stock Exchange from 9:30 a.m. on 10 May 2006 pending the 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 11 May 2006.

As the proposed issue of the convertible bonds may or may not materialize, shareholders of the Company and investors are advised to take caution when dealing in Shares.

The directors of the Company (the “Directors”) are pleased to announce that the Company has on 9 May 2006 signed a commitment agreement (the “Agreement”) with the Subscriber in relation to a potential issue by the Company of US\$40 million 2% convertible bonds due 2009 (the “CBs”) to the Subscriber, a wholly-owned subsidiary of Merrill Lynch, which will carry rights of conversion into

ordinary shares in the Company (“Shares”). The Company has entered the Agreement with a view to raising funds for suitable acquisitions (currently no specific acquisitions have been identified and there is no commitment made by the Group in regard to any such acquisition) and as working capital for the Company and its subsidiaries (the “Group”).

Pursuant to the terms of the Agreement, the Subscriber has committed to subscribe for the CBs, either directly or indirectly through its designated affiliates. The Subscriber’s commitment to purchase the CBs is conditional upon, among others, the negotiation and execution of definitive documentation on or before 30 June 2006.

An announcement containing further information on the transaction will be released once the details of the definitive documentation are finalised.

PROPOSED TERMS

The Agreement sets out certain principal terms which are envisaged for the proposed CBs (which are subject to change as agreed by the Company and the Subscriber):

Principal amount: US\$40 million (approximately HK\$310 million at the exchange rate of US\$1 = HK\$7.75).

Maturity and redemption: 3 years, at 106% of the principal amount of any outstanding CBs.

Coupon: 2% per annum.

Conversion price: Fixed conversion price of HK\$0.60 per Share (subject to adjustments as agreed by the Company and the Subscriber for, among other things, consolidation and sub-division of the Shares and capital distribution).

This represents a premium of 9.09% to the closing price per Share of HK\$0.55 on 9 May 2006 (the last trading day before the date of the Agreement), a premium of 12.36% to the average closing price per Share for the 30 trading days up to and including 9 May 2006 of approximately HK\$0.534 and a premium of 6.01% to the average closing price per Share for the three months up to and including 9 May 2006 of approximately HK\$0.566.

Conversion period: Any time after 6 months from the date of issue up to 10 trading days prior to the maturity date.

Conversion price reset: If on each anniversary of the issue date of the CBs the average volume-weighted closing price per Share for the 15 trading days up to and including the trading day immediately prior to such anniversary (the “Reset Reference Price”) is less than the then current conversion price, the conversion price will be reset to the Reset Reference Price, subject to the floor price of HK\$0.50 per Share.

At the conversion price of HK\$0.50 per Share and assuming a constant exchange rate of US\$1 = HK\$7.75, full conversion of the CBs would result in the issue of the maximum number of 522,943,147 new Shares (as described below) which would represent approximately 18.12% of the existing issued share capital of the Company and approximately 15.34% of the issued share capital of the Company as enlarged by the issue of such new Shares (assuming no other issue of Shares in the interim).

Conversion shares: At the initial conversion price of HK\$0.60 per Share and assuming a constant exchange rate of US\$1 = HK\$7.75, full conversion of the CBs would result in the issue of an aggregate of 516,666,666 new Shares which would represent approximately 17.91% of the existing issued share capital of the Company and approximately 15.19% of the issued share capital of the Company as enlarged by the issue of such new Shares (assuming no other issue of Shares in the interim). The maximum number of new Shares issuable upon conversion of the CBs in any event will be limited to 522,943,147, being the maximum number of Shares which the Directors have been authorized to deal with under the general mandate (the “General Mandate”) granted by the shareholders of the Company at the Annual General Meeting of the Company held on 15 September 2005 (currently, no shares have been issued under the General Mandate). Any balance of the CBs which would as a result not be converted into Shares would be redeemed by the Company at 106%.

It is expected that issue of the CBs, if it proceeds, will generate net proceeds of approximately HK\$297 million for the Group which will be applied towards funding any suitable acquisition(s) of, among other things, natural gas companies in China which may have been identified (currently no specific acquisitions have been identified and there is no commitment made by the Group in regard to any such acquisition) and as working capital for the Group.

LISTING

No application will be made for the listing of, or permission to deal in, the CBs 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 Shares to be issued upon conversion of the CBs.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company before any conversion and after conversion in full of the CB:

Name of Shareholders	No. of shares/Approximate shareholding percentages before any conversion		No. of shares/Approximate shareholding percentages after initial conversion at HK\$0.60 per share		No. of shares/Approximate shareholding percentages if the maximum number of shares are issued	
Super Win Development Limited ⁽¹⁾	1,100,798,538	(38.15%)	1,100,798,538	(32.35%)	1,100,798,538	(32.30%)
Public	1,784,761,408	(61.85%)	1,784,761,408	(52.46%)	1,784,761,408	(52.36%)
The Subscriber	-	-	516,666,666	(15.19%)	522,943,147	(15.34%)
Total percentage:	<u>2,885,559,946</u>	<u>(100%)</u>	<u>3,402,226,612</u>	<u>(100%)</u>	<u>3,408,503,093</u>	<u>(100%)</u>

Notes:

- (1) Super Win Development Limited is a wholly owned subsidiary of Asian Allied Limited. Asian Allied Limited is 42.75% owned by Mr. Mo Shikang (Managing Director), 22.39% owned by Mr. Zhu Peifeng (Deputy Chairman and Executive Director), 22.39% owned by Mr. Zhang Hesheng (Deputy Chairman and Executive Director) and 12.47% owned by Mr. Yuan Yakang.
- (2) The above table is for illustration purposes and does not take into account any other outstanding convertible instruments of the Company.

GENERAL

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Subscriber and its parent company Merrill Lynch is independent of, and not connected with, the Company and connected persons of the Company.

In October 2005, the Company issued US\$20 million 2% convertible bonds which generated net proceeds of approximately HK\$145 million, of which approximately HK\$46 million was used for investment purposes and approximately HK\$99 million as general working capital.

Save for the above issue of US\$20 million 2% convertible bonds and the transaction 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 of the Company, trading in the Shares was suspended on the Stock Exchange from 9:30 a.m. on 10 May 2006 pending the 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 11 May 2006.

As the proposed issue of the CBs is subject to certain conditions including the negotiation and execution of definitive documentation and may or may not materialize, shareholders of the Company and investors are advised to take caution when dealing in Shares.

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

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

Executive Directors:

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

Independent non-executive Directors:

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

Hong Kong, 10 May 2006

* *For identification only*

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