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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)

ISSUE OF US\$40 MILLION 2% CONVERTIBLE BONDS DUE 2009

Further to the announcement by the Company on 10 May 2006, the Directors are pleased to announce that on 30 May 2006, the Company and Indopark, an indirect wholly-owned subsidiary of Merrill Lynch, entered into the Subscription Agreement, under which, subject to certain conditions, the Company agreed to issue, and Indopark agreed to subscribe for, the Bonds with an aggregate principal amount of US\$40 million (HK\$310 million).

The Bonds are convertible into Shares at a Conversion Price of HK\$0.60 per Share, subject to adjustments under the Conditions. The Conversion Shares will be issued under the General Mandate granted by the Shareholders at the annual general meeting of the Company held on 15 September 2005.

Upon full conversion of the Bonds, and based on the Conversion Price of HK\$0.60 per Share (assuming no adjustments), a total of 516,666,666 new Shares, representing 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, will be issued. The maximum number of new Shares issuable upon conversion of the Bonds in any event will be limited to 522,943,147, being the maximum number of new Shares which the Directors have been authorised to deal with under the General Mandate. The Directors have not to date utilised their authority under the General Mandate.

The net proceeds of the issue of the Bonds are estimated to be an aggregate amount of US\$38.3 million (approximately HK\$297 million) of which approximately US\$32 million (approximately HK\$248 million) is expected to be applied towards funding acquisition(s) of natural gas projects and/or companies in the PRC as and when appropriate acquisition targets are identified (the Company is currently in preliminary negotiations in connection with possible investments in two PRC companies.) and the balance as working capital for the Group.

The terms and conditions of the Bonds were negotiated between the Company and Indopark on an arm's length basis and the Directors (including the independent non-executive Directors) consider that they are fair and reasonable, so far as the Company is concerned, and in the best interest of the Shareholders.

SUBSCRIPTION AGREEMENT

Date

30 May 2006

Issuer

The Company

Bonds to be issued

US\$40 million (equivalent to HK\$310 million) 2% convertible bonds due 2009

Subscriber of the Bonds

Indopark.

Indopark is an indirect wholly-owned subsidiary of Merrill Lynch and to the best knowledge, information and belief of the Directors, having made all reasonable enquires, each of Indopark and Merrill Lynch is a third party independent of the Company and any connected person of the Company, not a connected person of the Company and does not currently have any interest in any Shares.

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 106% of their principal amount at the Maturity Date.

Interest

The Bonds bear interest from the Issue Date at the rate of 2% per annum of the principal amount of the Bonds. Interest is payable semi-annually in arrear.

Transferability

The Bonds may be transferred or exchanged by delivery of the bond certificate, together with a duly completed form of transfer to the Issuer; however, no transfer of title will be valid unless and until entered on the register of Bondholders. No Bondholder may require the transfer of a Bond to be registered during certain “closed periods” which include (i) the period of seven business days ending on (and including) the dates for redemption pursuant to the Conditions and (ii) after a notice of conversion has been delivered with respect to a Bond.

The Company will notify the Exchange upon becoming aware of any dealings in the Bonds by connected persons.

Conversion Price

HK\$0.60 per Share, subject to adjustments under the Conditions.

The Conversion Price represents a premium of 22.45% to the closing price per Share of HK\$0.49 on 30 May 2006 (the last trading day before the date of the Subscription Agreement), a premium of 20% to the average closing price per Share for the 30 trading days up to and including 30 May 2006 of approximately HK\$0.50 and a premium of 9.09% to the average closing price per Share for the three months up to and including 30 May 2006 of approximately HK\$0.55.

Conversion Price reset

If on each anniversary of the Issue Date of the Bonds 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 at the fixed exchange rate of US\$1 = HK\$7.75 provided in the Subscription Agreement, full conversion of the Bonds 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 Period

The Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period.

Conversion Shares

The Bonds are convertible into new Shares at the Conversion Price, subject to adjustments, during the Conversion Period.

Under the Conditions, adjustments will be made to the Conversion Price if one or more of the following events or circumstances occur:

- (a) an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification;
- (b) the Company pays or makes any Extraordinary Dividend (as defined in the Conditions);
- (c) the Company issues Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share less than 95% of the Current Market Price (as defined in the Conditions);
- (d) the Company issues any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class, by way of rights, or grants to all or substantially all Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares);
- (e) the Company issues (otherwise than as mentioned in paragraph (c) above) wholly for cash, any Shares or issue or grant wholly for cash or for no consideration, any options, warrants or other rights to subscribe or purchase Shares, in each case, at a price per Share which is less than 95% of the Current Market Price on the date before the first public announcement of the terms of such issue or grant;
- (f) the Company or any other company, person or entity (at the direction or request of the Company), issues wholly for cash (otherwise than as mentioned in paragraphs (c), (d) or (e) above) any securities which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration which is less than 95% of the Current Market Price on the date before the first public announcement of the terms of issue of such securities;
- (g) any modification of the rights of conversion, exchange or subscription attached to the securities mentioned in paragraph (f) above so that the consideration per Share is less than 95% of the Current Market Price on the date before the first public announcement of the proposals for such modification; or
- (h) the Company or any other company, person or entity (at the direction or request of the Company), issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders (being holders of at least 60% of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them.

Redemption prior to Maturity

- (a) Under the Conditions, the Issuer may redeem the Bonds prior to the Maturity Date at 106% of their principal amount if the Issuer has or will become obliged to pay additional tax, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Hong Kong or Bermuda or any authority thereof or therein having the power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or Bermuda, or any political subdivision or any authority thereof or therein having power to tax or any change in the general application or official interpretation of such laws or regulations which becomes effective on or after 30 May 2006 and such obligation cannot be avoided by the Issuer taking reasonable measures.
- (b) The Bondholders will have the right to require the Issuer to redeem such Bondholder’s Bonds if the Shares cease to be listed or admitted to trading on the Stock Exchange or an alternative stock exchange (if applicable) or upon a change of control of the nature as described in the Conditions.

Conditions and Completion

The obligation of the Company to issue, and of Indopark to subscribe for, the Bonds is conditional on, among other things, approval having been obtained by the Company from the Stock Exchange for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.

Subject to fulfillment of the conditions, completion is expected to take place on or about 14 June 2006.

General Mandate

The Bonds are convertible into Shares at a Conversion Price of HK\$0.60 per Share, subject to adjustments under the Conditions. The Conversion Shares will be issued under the General Mandate granted by the Shareholders at the annual general meeting of the Company held on 15 September 2005. The Directors have not to date utilised their authority under the General Mandate.

Upon full conversion of the Bonds, and based on the Conversion Price of HK\$0.60 per Share (assuming no adjustments), a total of 516,666,666 new Shares, representing 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, will be issued. The maximum number of New Shares issuable upon conversion of the Bonds in any event will be limited to 522,943,147, being the maximum number of Shares which the Directors have been authorised to deal with under the General Mandate.

Use of Proceeds

The net proceeds of the issue of the Bonds are estimated to be an aggregate amount of US\$38.3 million (approximately HK\$297 million) of which approximately US\$32 million (approximately HK\$248 million) is expected to be applied towards funding acquisition(s) of natural gas projects and/or companies in the PRC as and when appropriate acquisition targets are identified and the balance as working capital for the Group. The Company is currently in preliminary negotiations to acquire interests in certain companies carrying on oil and gas related businesses in the PRC. However, no agreement has been signed to date in this regard and the Company will comply with all applicable disclosure and, if necessary, shareholders approval requirements under the Listing Rules in this regard if and when any such agreement is signed.

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 Shares to be issued upon conversion of the Bonds.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company before any conversion and after conversion in full of the Bonds is as follows:

Name of Shareholders	No. of shares/ Approximate shareholding percentages before any conversion	No. of shares/ Approximate shareholding percentages after 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%)
Indopark	—	516,666,666 (15.19%)	522,943,147 (15.34%)
Total percentage:	<u>2,885,559,946 (100%)</u>	<u>3,402,226,612 (100%)</u>	<u>3,408,503,093 (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

The Group is principally engaged in the distribution, supply and installation of piped natural gas business in the PRC, the holding and leasing of properties in the PRC and the provision of welfare lottery operating systems and ancillary services. The long term development strategy of the Company is to enhance its market presence and further expand its market share in the natural gas industry in the PRC through further investments in its existing business and/or through acquisitions of suitable projects and/or companies. The Directors (including the independent non-executive Directors) are of the view that the issue of the Bonds, the terms and conditions of which were negotiated between the Company and Indopark on an arm's length basis, represents an appropriate opportunity for the Company to raise funds and, upon conversion of the Bonds, broaden its shareholder and capital base.

Given the above considerations, the Directors (including the independent non-executive directors) are of the view that the terms and conditions of the Bonds are fair and reasonable, so far as the Company is concerned, and in the best interest of the Shareholders.

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.

DEFINITIONS

“Bondholder”	a person in whose name a Bond is registered
“Bonds”	US\$40 million 2% convertible bonds due 2009
“Company”	Chinese People Gas Holdings Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Conditions”	the terms and conditions of the Bonds
“Conversion Period”	the period commencing the day falling six months from the Issue Date and up to the tenth trading day before the Maturity Date
“Conversion Shares”	Shares to be issued upon conversion of the Bonds
“Directors”	the directors of the Company
“General Mandate”	the General Mandate granted by the Shareholders at the annual general meeting of the Company held on 15 September 2005

“Group”	the Company and its subsidiaries
“Indopark”	Indopark Holdings Limited, an indirect wholly-owned subsidiary of Merrill Lynch
“Issue Date”	the date on which the Bonds are issued
“Maturity Date”	the third anniversary of the Issue Date
“Merrill Lynch”	Merrill Lynch & Co, Inc.
“PRC”	the People’s Republic of China
“Shareholders”	shareholders of the Company
“Shares”	ordinary shares of HK\$0.07 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the agreement dated 30 May 2006 entered into between the Company and Indopark relating to, among other matters, the issue and subscription of the Bonds
“%”	per cent.

For the purposes of currency conversions in this announcement, the rate of US\$1 = HK\$7.75 is used.

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, 30 May 2006

* *for identification purposes*

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