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**CHINA GAS HOLDINGS LIMITED**  
**中國燃氣控股有限公司\***

*(incorporated in Bermuda with limited liability)*

(Stock Code: 384)

**FURTHER ISSUE 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 30th October, 2003 and 13th November, 2003 and the circular issued by the Company dated 3rd December, 2003.

Pursuant to the exercise of the option to subscribe for the Tranche 2 Bonds by Merrill Lynch under the Subscription Agreements, the Company has on 10th June, 2004 issued to Merrill Lynch the Tranche 2 Bonds in the aggregate principal amount of US\$7,000,000 (equivalent to approximately HK\$54,331,200). As a result Merrill Lynch also enjoys the Subscription Right to subscribe for new Shares up to 15 per cent. of the principal amount of the Tranche 2 Bonds issued divided by the Base Price, at a subscription price which is equal to the Fixed Conversion Price.

The Tranche 2 Bonds are issued and the related Subscription Rights are granted pursuant to the Original General Mandate. In the event the number of Shares to be issued upon conversion of such tranches of the Bonds and/or the exercise of the related Subscription Rights does not fall within the Original General Mandate, the Company shall immediately seek approval from the shareholders of the Company for the issue of such additional Shares.

Reference is made to the announcement of the Company dated 30th October, 2003 and 13th November, 2003 and the circular issued by the Company dated 3rd December, 2003 regarding the issue of the Bonds ("Circular"). Unless the context otherwise requires, terms used in this announcement shall have the same meanings as defined in the Circular.

Pursuant to the exercise of the option to subscribe for the Tranche 2 Bonds by Merrill Lynch under the Subscription Agreements, the Company has on 10th June, 2004 issued to Merrill Lynch the Tranche 2 Bonds in the aggregate principal amount of up to US\$7,000,000 (equivalent to approximately HK\$54,331,200). As a result Merrill Lynch also enjoys the Subscription Right to subscribe for new Shares up to 15 per cent. of the principal amount of the Tranche 2 Bonds issued divided by the Base Price, at a subscription price which is equal to the Fixed Conversion Price.

As at the date of this announcement, the Company has issued pursuant to the Subscription Agreements, the Tranche 1 Bonds and the Tranche 2 Bonds and related Subscription Rights. Since its issue, the Tranche 1 Bonds have fully been converted into 83,294,103 Shares by Merrill Lynch during the period from 10th February, 2004 to 8th June, 2004.

The Tranche 1 Bonds, the Tranche 2 Bonds and the related Subscription Rights have been issued pursuant to the Original General Mandate. If the number of Shares to be issued upon conversion of such tranches of the Bonds and/or the exercise of the related Subscription Rights does not fall within the Original General Mandate, the Company shall immediately seek approval from the shareholders of the Company for the issue of such additional Shares. As at the date of this announcement, the Tranche 1 Bonds have fully been converted into 83,294,103 Shares. The maximum number of new Shares which may be issued upon full conversion of the Tranche 2 Bonds based on the Assumed Floating Conversion Price (which is lower than the Fixed Conversion Price), and the full exercise of the Subscription Rights relating to Tranche 1 Bonds and Tranche 2 Bonds at the Fixed Conversion Price, in each case based on the Relevant Exchange Rate are as follows:–

	<b>(1) Maximum number of Shares which fall to be issued (note 1)</b>	<b>(2) Percentage of issued ordinary share capital (note 2)</b>	<b>(3) Percentage of enlarged issued ordinary share capital (note 3)</b>
Subscription Rights relating to Tranche 1 Bonds	7,431,319	0.42%	0.42%
Tranche 2 Bonds	100,853,514	5.75%	5.44%
Subscription Rights relating to Tranche 2 Bonds	8,669,872	0.49%	0.49%

*Notes:*

1. Assumes exercise in full of the conversion rights of the Tranche 2 Bonds based on the Assumed Floating Conversion Price or (as the case may be) the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds at the Fixed Conversion Price, in each case based on the Relevant Exchange Rate and the obtaining of the necessary approval from the Shareholders for the issue of Shares in excess of the Original General Mandate.
2. The total issued ordinary share capital of the Company as at the date of this announcement is 1,754,151,765 Shares.
3. The enlarged issued ordinary share capital used for such calculations is the aggregate of the existing issued ordinary share capital of the Company and the maximum number of Shares which could be issued pursuant to the Tranche 2 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 ordinary share capital of the Company.

Based on the assumptions set out above, the maximum number of Shares which could be issued upon the full conversion of the Tranche 2 Bonds and the full exercise of the Subscription Rights in respect of the Tranche 1 Bonds and the Tranche 2 Bonds are 116,954,705 Shares, representing 6.67% of the existing issued share capital of the Company and 6.25% of the issued share capital of the Company as enlarged by the issue of such Shares. As at the date of this announcement, a maximum of 89,187,320 new Shares may be issued under the Original General Mandate. The Company is required to seek approval from the Shareholders for the issue of additional Shares in excess of the Original General Mandate.

Investors should also note that since the Fixed Conversion Price is subject to adjustment and the Floating Conversion Price is determined by reference to the market prices of the Shares (in both cases, such price shall not be less than the par value of the Shares which is currently HK\$0.01), further particulars regarding which are set out in the Circular, the Bonds may be converted at a price which is significantly lower than the initial Fixed Conversion Price or (as the case may be) the Assumed Floating Conversion Price, in which case the resulting dilution of shareholdings in the Company may be more significant than that illustrated in the example contained below. In the event that the Bonds are converted at a price which results in the Original General Mandate not being sufficient to cover all or part of the Shares to be issued upon conversion, the Company is required to seek approval from the Shareholders for the issue of such additional Shares.

The net proceeds of approximately HK\$53 million derived from the issue of the Tranche 2 Bonds will be used for future investment in natural gas projects in the PRC and general working capital.

The following table summarizes the fund raising activities of the Group in the 12 months immediately preceding the date of this announcement, further particulars regarding which are set out in the Company's announcement dated 21st January, 2004 and shareholder's circular dated 16th February 2004:

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds</b>	<b>Actual use of proceeds as at the date of the announcement</b>
10th June 2003	Issue of convertible note in the principal amount of US\$6,000,000	HK\$46,800,000	As investment in natural gas projects in the PRC	The net proceeds of about HK\$46,800,000 has been applied as the Group's contribution to the registered capital of Yichang China Gas & City Gas Company Limited
9th October 2003	Placing of an aggregate of 70,000,000 new Shares	About HK\$50,000,000	As general working capital of the Group	The net proceeds of about HK\$6,000,000 has been applied as the Group's general working capital and the remaining balance of about HK\$44,000,000 has been used to repay the Group's short term liabilities
30th October 2003	Issue of the Bonds	US\$6,000,000	The net proceeds of about HK\$45,000,000 derived from the issue of the Tranche 1 Bonds will be used entirely as the second stage capital contribution in the Group's natural gas projects in Huainan and Wuhu, the PRC through Shenzhen Natural Gas	The Tranche 1 Bonds were issued on 13th November, 2003. The Company will apply the net proceeds derived from the issue of the Tranche 1 Bonds in accordance with the intended use as set out in the Company's announcement dated 30th October, 2003
11th November 2003	Top-up placing of 160,000,000 Shares	About HK\$130,000,000	As to approximately HK\$78,000,000 for the contribution of the enlarged registered capital of Shenzhen Natural Gas and as to the remaining balance as the general working capital of the Group	The net proceeds of approximately HK\$78,000,000 has been applied as the Group's contribution to the enlarged registered capital of Shenzhen Natural Gas, approximately HK\$45,000,000 has been applied to repay the Group's short term bank borrowings and approximately HK\$4,000,000 was used to acquire the Group's natural gas project in Xiaogan. The remaining balance of about HK\$42,000,000 was used as administration expenses

21st January 2004	Issue of 180,000,000 Shares	About HK\$117,000,000	Approximately HK\$35,000,000 as the general working capital of the Group and the remaining balance of the net proceeds of the Subscription for the Group's future investments in natural gas projects in the PRC	The net proceeds of approximately HK\$68,000,000 has been applied to repay the Group's short term bank borrowings, approximately HK\$13,000,000 has been applied as the Group's contribution to the enlarged registered capital of Shenzhen Natural Gas, approximately HK\$32,000,000 has been applied as the contribution in the Group's natural gas projects in Yiyang and Suizhou and the remaining balance of approximately HK\$5,000,000 was utilized as the Group's administration expenses
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As at the date of this announcement, the issued ordinary share capital of the Company is HK\$17,541,517.65 comprising 1,754,151,765 Shares. Mr. Liu Ming Hui, the single largest shareholder of the Company, currently holds 385,000,000 Shares representing approximately 21.95 per cent. of the existing issued ordinary share capital of the Company.

The shareholding structure of the Company before and after the conversion of the Tranche 2 Bonds based on the Assumed Floating Conversion Price and the exercise of the Subscription Rights in relation to the Tranche 1 Bonds and the Tranche 2 Bonds at the Fixed Conversion Price, in each case based on the Relevant Exchange Rate will be as follows:

**No. of Shares held by and approximate percentage of  
enlarged issued ordinary share capital (note 1):**

<b>Assuming exercise in full of conversion of the Tranche 2 Bonds and (as the case may be) the relevant Subscription Rights specified below</b>	<b>Mr. Liu</b>	<b>Merrill Lynch (note 2)</b>	<b>Heng Fung Holdings Limited (note 3)</b>	<b>Hai Xia Finance Holdings Ltd. (note 4)</b>	<b>Existing public shareholding (excluding Merrill Lynch)</b>
Subscription Rights relating to Tranche 1 Bonds	385,000,000 (21.86%)	104,497,526 (5.93%)	160,002,000 (9.08%)	150,000,003 (8.52%)	962,083,555 (54.61%)
Tranche 2 Bonds and Subscription Rights relating to Tranche 1 Bonds	385,000,000 (20.67%)	205,351,040 (11.03%)	160,002,000 (8.59%)	150,000,003 (8.05%)	962,083,555 (51.66%)
Tranche 2 Bonds and Subscription Rights relating to Tranche 1 Bonds and Tranche 2 Bonds	385,000,000 (20.58%)	214,020,912 (11.44%)	160,002,000 (8.55%)	150,000,003 (8.02%)	962,083,555 (51.42%)

*Notes:*

- The enlarged issued ordinary share capital used for the calculations in the above table is the aggregate of the existing issued ordinary share capital of the Company and the maximum number of shares which could be issued pursuant to the Tranche 2 Bonds or exercise of the Subscription Rights in relation to the Tranche 1 Bonds and the Tranche 2 Bonds (as the case may be), and no change otherwise to the issued ordinary share capital of the Company. It is also assumed that necessary approval from the Shareholders for the issue of Shares in excess of the Original General Mandate has been obtained.
- Assumes that save for the Shares mentioned herein, no other Shares are acquired by Merrill Lynch and Merrill Lynch does not dispose of any Shares received pursuant to any conversion of the Tranche 2 Bonds or exercise of the Subscription Rights in relation to the Tranche 1 Bonds and Tranche 2 Bonds. Based on the information which fall to be disclosed to the Company under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as at the date of this announcement, Merrill Lynch is interested in 97,066,207 Shares.

3. Assumes Heng Fung Holdings Limited will not acquire and/or dispose of any Shares.
4. Assumes Hai Xia Finance Holdings Ltd. will not acquire and/or dispose of any Shares.

The terms of the Bonds provide that the conversion rights attaching to the Bonds should not be exercised to the extent that the Bondholder will become a substantial shareholder of the Company (as defined in the Listing Rules).

Based on the above assumptions, upon the full conversion of the Tranche 2 Bonds and the full exercise of the Subscription Rights in respect of the Tranche 1 and Tranche 2 Bonds, Mr. Liu's shareholding will be reduced to 20.58% and the existing public shareholder's aggregate shareholding will be reduced to 51.42%.

As the date of this announcement, the Board comprises of five executive Directors namely Messrs. Li Xiaoyun, Xu Ying, Liu Ming Hui, Zhu Wei Wei and Ma Jian Long, one non-executive Director namely Mr. Wu Bangjie and three independent non-executive Directors namely Mr. Zhao Yuhua, Dr. Mao Erwan and Ms. Wong Sin Yue, Cynthia.

## DEFINITIONS

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

“Assumed Floating Conversion Price”	HK\$0.538714, being 90 per cent. of the average of the lowest eight closing prices per Share during the 30 consecutive business days up to and including 9th June, 2004;
“Base Price”	the closing price per Share on 29th October, 2003, being HK\$0.94;
“Bonds”	Tranche 1 Bonds, Tranche 2 Bonds, Tranche 3 Bonds, Tranche 4 Bonds and Tranche 5 Bonds and the expression “tranche of Bonds” means any one of them;
“Bondholder(s)”	holder(s) of the Bonds;
“business day”	any day on which the Stock Exchange is open for trading in Hong Kong;
“Closing price”	the closing price published in the Stock Exchange's Daily Quotation Sheet for one Share;
“Company”	China Gas Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange;
“Directors”	directors of the Company;
“First Closing Date”	the date on which the Tranche 1 Bonds are issued;
“Fixed Conversion Price”	initially HK\$1.128 (subject to adjustments) as at the date of first issue of the Tranche 1 Bonds, and currently HK\$0.792;
“Floating Conversion Price”	the conversion price of the Tranche 1 Bonds or, as the case may be, the Tranche 2 Bonds into the Shares which is set at 90 per cent. 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 of Merrill Lynch is received by the Company and such price shall not be less than the par value of the Shares (currently at HK\$0.01) on the date of conversion;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Maturity Date”	30th October, 2008, the date on which all the Bonds mature;
“Merrill Lynch”	Merrill Lynch International, an unlimited liability company established under the Laws of England and Wales;
“Original General Mandate”	the general mandate (to issue or otherwise deal in 20 per cent. of the issued ordinary share capital of the Company as at the date of passing the resolution) granted to the Directors by the shareholders of the Company pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27th August, 2003, pursuant to which a maximum of 89,187,320 new Shares may be issued as at the date of this announcement;
“Relevant Exchange Rate”	the exchange rate of US\$1.00 to HK\$7.7616;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Agreements”	the two agreements dated 29th October, 2003 entered into between the Company and Merrill Lynch relating to the subscription of the Bonds and the Subscription Rights;
“Subscription Rights”	the option granted by the Company to Merrill Lynch in respect of each of the Tranche 1 Bonds and the Tranche 2 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 13th November, 2003 pursuant to the Subscription Agreements;
“Tranche 2 Bonds”	convertible bonds with an aggregate principal amount of US\$7,000,000 issued by the Company to Merrill Lynch on 10th June, 2004 on substantially the same terms as in the Tranche 1 Bonds pursuant to an option granted by the Company to Merrill Lynch under the Subscription Agreements;

*Unless otherwise specified in this announcement, US\$1.00 = HK\$7.7616. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at such a rate or at any other rates or at all.*

By Order of the Board  
**Liu Ming Hui**  
*Managing Director*

Hong Kong, 10th June, 2004

*\* for identification purpose only*

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