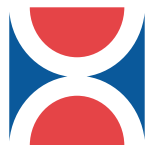


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## **XINAO GAS HOLDINGS LIMITED**

**新奧燃氣控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

### **CONNECTED TRANSACTIONS**

The Board is pleased to announce that Langfang BVI has, on 21 December 2001, entered into the Acquisition Agreement with Langfang City Gas whereby Langfang BVI has agreed to acquire and Langfang City Gas has agreed to dispose its 5% interest in Langfang Xiniao for a consideration of RMB10,000,000 (equivalent to approximately HK\$9,434,000).

The Board also announces that, on the same day, Langfang Xiniao has entered into the Assembling Agreements with Xiniao Machinery whereby Langfang Xiniao has contracted Xiniao Machinery to assemble a total of 13 CNG truck trailers and gas storage facility for an aggregate contract value of RMB4,403,000 (equivalent to approximately HK\$4,154,000).

The Board further announces that certain subsidiaries of the Group have entered into the Purchasing Agreements with Xiniao Machinery between August and September 2001 to acquire pressure regulating equipments from Xiniao Machinery at an aggregate consideration of RMB3,200,000 (equivalent to approximately HK\$3,019,000).

As Langfang City Gas and Xiniao Machinery are both controlled by Mr. Wang, the substantial shareholder of the Company, Langfang City Gas and Xiniao Machinery are connected persons as defined in the GEM Listing Rules. Hence, the signing of the Acquisition Agreement, Assembling Agreements and Purchasing Agreements constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. However, as the consideration for each of the Acquisition Agreement, Assembling Agreements and Purchasing Agreements is less than HK\$10,000,000, no independent shareholders' approval is required. Details of the Acquisition Agreement, Assembling Agreements and Purchasing Agreements will be disclosed in the next published annual report of the Company.

The failing to inform the Stock Exchange and to make an announcement on the Purchasing Agreements promptly was due to inadvertent mistake by the Company for not aggregating a series of connected transactions pursuant to Rules 20.18 and 20.19 of the GEM Listing Rules. As a result, the Stock Exchange has indicated that they will look into this matter further and will take appropriate action if necessary.

## **ACQUISITION AGREEMENT DATED 21 DECEMBER 2001**

### **Parties**

Purchaser: Langfang BVI.

Vendor: Langfang City Gas.

### **Assets to be acquired**

Langfang City Gas' 5% interest in Langfang Xinao. Langfang Xinao is a Sino-foreign equity joint venture established on 28 March 1993 and is currently owned as to 95% by Langfang BVI and 5% by Langfang City Gas. Langfang Xinao has an exclusive right to supply gas to the Langfang city centre (which includes the Langfang Economic and Technical Development Zone). The registered capital of Langfang Xinao is US\$9,333,900 (equivalent to approximately HK\$72,804,000) and each of Langfang BVI and Langfang City Gas has contributed in accordance with its proportional interest.

The unaudited net profit before tax of Langfang Xinao for the two financial years ended 31 December 2000 was approximately RMB25,572,000 and RMB42,983,000 respectively (equivalent to approximately HK\$24,125,000 and HK\$40,550,000). The unaudited net profit after tax of Langfang Xinao for the two financial years ended 31 December 2000 was approximately RMB21,736,000 and RMB36,536,000 respectively (equivalent to approximately HK\$20,506,000 and HK\$34,468,000). There were no extraordinary items for each of the two financial years ended 31 December 2000. The unaudited net asset value of Langfang Xinao was RMB86,260,000 (equivalent to approximately HK\$81,377,000) as at 31 December 2000.

### **Consideration**

RM10,000,000 (equivalent to approximately HK\$9,434,000). The consideration will be satisfied as to 50% in cash from internal resources of the Group and the remaining 50% funded by the net proceeds raised from the placing of shares of the Company in May 2001 pursuant to the prospectus of the Company dated 27 April 2001. The consideration was arrived at after arm's length negotiations and based on a price earnings multiple of approximately 5.5 times (which is the industrial market average after taking into account discount on privately-held companies and minority interests of the Company) the net profit after tax of Langfang Xinao for the financial year ended 31 December 2000.

### **Conditions**

Completion of the Acquisition is conditional on, among other things, all necessary approvals and licence being obtained in relation to the transfer of the equity interest and the conversion of Langfang Xinao into a wholly foreign owned enterprise (including the approval from the relevant local foreign trade and economic co-operation departments in the PRC).

### **Reasons for and effects of the Acquisition**

The Acquisition Agreement is aimed to eliminate technical connected transactions arise from the mere fact that Langfang Xinao is a connected person to the Group due to the owning of 5% interest in Langfang Xinao by Langfang City Gas. Upon completion of the Acquisition, Langfang Xinao will become a wholly-owned subsidiary of Langfang BVI and Langfang Xinao will change its legal status to a wholly foreign owned enterprise.

The Board, including independent non-executive directors of the Company, is of the view that the Acquisition Agreement is entered into on normal commercial terms after arm's length negotiations and that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

As Langfang City Gas is controlled by Mr. Wang, the substantial shareholder of the Company, Langfang City Gas is a connected person as defined in the GEM Listing Rules. Hence, the signing of the Acquisition Agreement constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. However, as the consideration for the Acquisition is less than HK\$10,000,000, no independent shareholders' approval is required.

### **ASSEMBLING AGREEMENTS DATED 21 DECEMBER 2001**

Pursuant to the Assembling Agreements, Langfang Xinao has contracted Xinao Machinery to assemble a total of 13 CNG truck trailers and gas storage facility in accordance with the standards set out in the Assembling Agreements. Under the Assembling Agreements, Langfang Xinao will be responsible to provide components and raw materials purchased from independent third parties to Xinao Machinery and Xinao Machinery will be responsible for the assembling of the CNG truck trailers and gas storage facility. Xinao Machinery is required to deliver the assembled CNG truck trailers and gas storage facility to Langfang Xinao by no later than 31 January 2002.

#### **Parties**

Langfang Xinao and Xinao Machinery.

#### **Contract value**

RMB4,403,000 (equivalent to approximately HK\$4,154,000). The contract value was agreed after arm's length negotiations with reference to market comparables and is similar to those charged by independent third parties for assembly of similar CNG trucks. The contract value is payable by Langfang Xinao upon delivery of the CNG truck trailers. The contract value will be satisfied in cash by internal resources of Langfang Xinao.

#### **Reasons for the Assembling Agreements**

Langfang Xinao is principally engaged in the sale and distribution of gas, gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply to the Langfang city centre (which includes the Langfang Economic and Technical Development Zone). Xinao Machinery is principally engaged in the manufacture, sale, distribution and assembly of petrochemical and gas machinery and equipment, the assembly of pressurised containers and the sale and distribution of dangerous petrochemical products.

As Langfang Xinao also supplies CNG to other Group companies, which is delivered by way of CNG trucks, the assembling of new CNG truck trailers will expand the fleet of CNG truck trailers owned by Langfang Xinao and hence increasing Langfang Xinao's CNG transportation capacity by way of trucks. The Directors believe that such expansion is beneficial and essential to the growth of the Group.

The Board, including independent non-executive directors of the Company, is of the view that the Assembling Agreements are entered into on normal commercial terms after arm's length negotiations and that the terms of the Assembling Agreements are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

As Xinao Machinery is controlled by Mr. Wang, the substantial shareholder of the Company, Xinao Machinery is a connected person as defined in the GEM Listing Rules. Hence, the signings of the Assembling Agreements constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. However, as the contract value is less than HK\$10,000,000, no independent shareholders' approval is required.

## **PURCHASING AGREEMENTS DATED IN AUGUST AND SEPTEMBER 2001**

### **Parties**

Purchasers: (1) Qingdao Xinao  
(2) Xincheng Xinao  
(3) Zhucheng Xinao  
(4) Yantai Xinao

Vendor: Xinao Machinery

### **Assets acquired and consideration**

Pursuant to the Purchasing Agreements, each of Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao and Yantai Xinao has purchased from Xinao Machinery pressure regulating equipments at a consideration of RMB800,000 (equivalent to approximately HK\$754,700) (aggregate consideration of RMB3,200,000 (equivalent to approximately HK\$3,019,000)). Such consideration was arrived at after arm's length negotiation based on market comparables and is similar to those charged by independent third parties, and was satisfied by payment in cash to Xinao Machinery.

### **Reasons for the purchases**

Each of Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao and Yantai Xinao was at the time of signing of the Purchasing Agreements newly-established company and is principally engaged in the sale and distribution of gas, gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply, and the pressure regulating equipments are essential for these companies to carry on their gas-related businesses.

The Board, including independent non-executive directors of the Company, is of the view that the Purchasing Agreements are entered into on normal commercial terms after arm's length negotiations and that the terms of the Purchasing Agreements are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

As Xinao Machinery is controlled by Mr. Wang, the substantial shareholder of the Company, Xinao Machinery is a connected person as defined in the GEM Listing Rules. Hence, the signings of the Purchasing Agreements constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. However, as the contract value is less than HK\$10,000,000, no independent shareholders' approval is required.

The failing to inform the Stock Exchange and to make an announcement on the Purchasing Agreements promptly was due to inadvertent mistake by the Company for not aggregating a series of connected transactions pursuant to Rules 20.18 and 20.19 of the GEM Listing Rules. As a result, the Stock Exchange has indicated that they will look into this matter further and will take appropriate action if necessary.

## **GENERAL**

The Group is one of the first non state-owned piped gas distributors in the PRC. The Group is engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

Details of the Acquisition Agreement will be disclosed in the next published annual report of the Company.

## **DEFINITIONS**

|                         |   |
|-------------------------|---|
| “Acquisition”           | the acquisition of 5% interest in Langfang Xinao by Langfang BVI pursuant to the Acquisition Agreement  |
| “Acquisition Agreement” | a conditional agreement dated 21 December 2001 entered into between Langfang BVI and Langfang City Gas  |
| “Assembling Agreements” | two assembling agreements both dated 21 December 2001 entered into between Langfang Xinao and Xinao Machinery   |
| “Board”                 | the board of Directors  |
| “Chengyang BVI”         | Xinao Chengyang Investment Limited, a company incorporated in the British Virgin Islands on 15 August 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company  |
| “CNG”                   | compressed natural gas  |
| “Company”               | Xinao Gas Holdings Limited, a exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange                                      |
| “Director(s)”           | the director(s) of the Company  |
| “GEM Listing Rules”     | the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange   |
| “Group”                 | the Company and its subsidiaries  |
| “Huangdao BVI”          | Xinao Huangdao Investment Limited, a company incorporated in the British Virgin Islands on 19 December 2000 with limited liability which is an indirect wholly-owned subsidiary of the Company and is an investment holding company |
| “Langfang BVI”          | Xinao Langfang Investment Limited, an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 21 February 2000 with limited liability and is an investment holding company                  |

|                         |  |
|-------------------------|--|
| “Langfang City Gas”     | 廊坊市天然氣有限公司 (Langfang City Natural Gas Company Limited*), a company established in the PRC on 26 October 1992 and is indirectly wholly-owned by Mr. Wang’s family (with Mr. Wang owning an indirect interest of approximately 96.4% and with Mr. Wang’s father, Mr. Wang Bao Zhong, owning the remaining 3.6% indirect interest)  |
| “Langfang Xinao”        | 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited), a Sino-foreign equity joint venture established in the PRC on 28 March 1993 in which Langfang BVI has a 95% interest and Langfang City Gas has the remaining 5% interest  |
| “Mr. Wang”              | Mr. Wang Yusuo (王玉鎖先生), the chairman of the Company and an executive Director  |
| “PRC”                   | the People’s Republic of China   |
| “Purchasing Agreements” | four agreements dated 16 August 2001, 17 August 2001, 19 August 2001 and 20 September 2001 respectively entered into by each of Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao and Yantai Xinao respectively with Xinao Machinery   |
| “Qingdao Xinao”         | 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited), a Sino-foreign equity joint venture established in the PRC on 12 June 2001 in which Huangdao BVI has a 90% interest and 青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest   |
| “Stock Exchange”        | The Stock Exchange of HongKong Limited   |
| “Xinao Machinery”       | 新奧集團石家莊化工機械股份有限公司 (Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited*), a company established in the PRC on 31 December 1996 and is owned as to 67.2% by Mr. Wang, with the remaining 32.8% owned as to 4.7% by Mr. Wang Bao Zhong (Mr. Wang’s father), as to 5% by 北京鼎昌元公司 (Beijing Dingchangyuan Company*, an independent third party not associated with the connected persons of the Company), as to 17.8% by the individual shareholders of Xinao Gas Company Limited and as to 5.3% by a State-owned enterprise |
| “Xincheng Xinao”        | 青島新奧新城燃氣有限公司 (Qingdao Xinao Xincheng Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 13 June 2001 in which Chengyang BVI has a 90% interest and 青島市城陽區建設工程監理處 (Qingdao City Chengyang District Construction Engineering Supervisory Office*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest  |

|                  |   |
|------------------|---|
| “Yantai BVI”     | Xinao Yantai Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 22 March 2001 with limited liability and is an investment holdings company  |
| “Yantai Xinao”   | 煙台新奧燃氣有限公司 (Yantai Xinao Gas Company Limited*), a wholly foreign owned enterprise of Yantai BVI established in the PRC on 16 July 2001  |
| “Zhuchang BVI”   | Xinao Zhucheng Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 10 August 2000 with limited liability and is an investment holding company  |
| “Zhucheng Xinao” | 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 30 May 2001 in which Zhucheng BVI has an 80% interest and 諸城市燃氣熱力總公司 (Zhucheng City Gas and Heating Corporation*, an independent third party not associated with the connected persons of the Company) has the remaining 20% interest |
| “HK\$”           | Hong Kong dollars   |
| “RMB”            | Renminbi  |

In this announcement, the following exchange rates have been used:

|         |   |         |
|---------|---|---------|
| HK\$1   | = | RMB1.06 |
| HK\$7.8 | = | US\$1   |

By order of the board  
**XINAO GAS HOLDINGS LIMITED**  
**CHENG Chak Ngok**  
*Company Secretary*

Hong Kong, 24 December 2001

*This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of its posting.*

\* For identification only