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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 )*

*( Website : [www.xinaogas.com](http://www.xinaogas.com) )*

### **ANNOUNCEMENT IN RELATION TO NEWSPAPER ARTICLES ON VALUE ADDED TAX ISSUES**

In light of certain newspaper articles published recently in relation to the introduction of value added tax on gas pipeline connection fees, the Company is currently clarifying certain issues in relation thereto with the relevant tax authorities of the PRC.

At the Company's request, the trading of the shares in the Company was suspended on 22 May 2003 with effect from 9:30 a.m. pending release of this announcement. The Company has made an application to The Stock Exchange of Hong Kong Limited for the resumption of the trading of the shares from 9:30 a.m. on 23 May 2003.

**Shareholders and potential investors should exercise caution before dealings in any shares in the Company.**

The board of directors ("Board") of Xinao Gas Holdings Limited ("Company") has noted certain articles appeared in newspaper recently ("Articles") in relation to the introduction of certain value added tax ("VAT") on gas pipeline connection fees of gas companies, in replacement of the existing 3% business tax, by the relevant tax authorities of the People's Republic of China ("PRC").

The Board has noted that pursuant to the "Notice regarding business tax and certain policies issues" ("Notice") issued by the Ministry of Finance and the State Tax Bureau of the PRC on 15 January 2003, it was stated, amongst other matters, that "when gas companies, manufacturers, sellers and units providing VAT taxable services are selling goods or providing VAT taxable services, the collective money (including gas pipeline connection fees), service charges and receivables from the buyers etc. all collected on behalf of the relevant departments are VAT additional charges ( 增 值 稅 價 外 收 費 ) and should be subject to the levy of VAT instead of business tax."

The Board wishes to make the following clarifications:

So far, the Company and its subsidiaries (together, "Group") have been paying business tax on gas pipeline connection fees. The Company is uncertain as to whether the Notice is applicable to the Group and if so, the details on the VAT levy (including the rate chargeable as well as how the VAT will be levied

etc.). Currently, the Group is seeking clarification from the relevant tax authorities in relation to this matter. However, in anticipation of the possibility that the Notice may be applicable to the Group, the Group has been trying to work out a group restructuring plan in order to obtain a more advantageous tax position for the Group since it received the Notice from the PRC Government last month. The Group is now weighing the pros and cons of different restructuring plans but at present, no plan has been finalised. There is no assurance that the Group will come up with a satisfactory restructuring plan but before implementing any such restructuring plan, the Group will ensure that it will be legal under all applicable laws and regulations and will be for the best interests of the shareholders of the Company as a whole. At this stage, the Company is unable to quantify the impacts of the Notice and relevant regulations, if any, on the Group's business and revenues.

The gas pipeline connection fees attributable to approximately 60% of the Company's consolidated total revenue for the year ended 31 December 2002. Currently, the principal activities of the Group are the investment in gas pipeline infrastructure and the provision of piped gas and bottled liquefied petroleum gas.

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Appropriate announcement will be made in due course if and when disclosure is deemed necessary or appropriate.

**Shareholders and potential investors should exercise caution before dealings in any shares in the Company.**

By order of the Board  
**CHENG Chak Ngok**  
*Executive Director and Company Secretary*

Hong Kong, 22 May 2003

\* *For identification only*

*Please also refer to the published version of this announcement in  
The Standard and Hong Kong Economic Times.*