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新奥燃气控股有限公司
XinAo Gas Holdings Limited

(incorporated in the Cayman Islands with limited liability)
(Website : www.xinaogas.com)

PLACING OF EXISTING SHARES
AND
SUBSCRIPTION FOR NEW SHARES

On 9 February 2004, the Vendor, the Controlling Shareholder and the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to purchase or procure purchasers to purchase, and the Vendor has agreed to sell, in aggregate 122,000,000 existing Shares at the Placing Price of HK\$3.84 per Share on a fully underwritten basis to not less than six independent investors. Pursuant to the Placing Agreement, the Vendor has also conditionally agreed to subscribe from the Company for 122,000,000 new Shares at the Placing Price.

The Placing Shares represent approximately 16.55% of the existing issued share capital of 737,000,000 Shares of HK\$0.10 each of the Company or approximately 14.20% of the issued share capital of the Company as enlarged by the Subscription. The net proceeds from the Subscription receivable by the Company are expected to amount to approximately HK\$456 million. It is intended that the net proceeds will be applied as follows:

- (a) as to approximately HK\$335 million for investment in new piped gas distribution projects and the construction and operation of natural gas stations for usage primarily by public transportation; and
- (b) as to the balance for general working capital of the Group.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 9 February 2004, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading of Shares with effect from 9:30 a.m. on 10 February 2004.

PLACING AGREEMENT DATED 9 FEBRUARY 2004

Parties

- (a) The Vendor (as vendor), a substantial shareholder of the Company and who has an interest of approximately 55.36% in the existing issued share capital of the Company;
- (b) Mr. Wang Yusuo;
- (c) The Company; and
- (d) The Hongkong and Shanghai Banking Corporation Limited (as placing agent).

The placing commission to be received by the Placing Agent in relation to the Placing is to be paid by the Company and was determined based on current market practice and arm's length negotiations between the parties.

The Placing Shares

122,000,000 Shares, representing approximately 16.55% of the existing issued share capital of the Company or approximately 14.20% of the issued share capital of the Company as enlarged by the Subscription. The Placing Shares are to be fully underwritten by the Placing Agent.

The Placing Price

HK\$3.84 per Share, representing a discount of approximately 8% to the closing price of HK\$4.175 per Share as quoted on the Stock Exchange on 6 February 2004 (being the last trading day in the Shares before suspension of trading with effect from 9:30 a.m. on 9 February 2004) and a discount of approximately 7.2% to the average closing price of approximately HK\$4.138 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 February 2004. The Placing Price was arrived at after arm's length negotiations between the Vendor, the Controlling Shareholder, the Company and the Placing Agent.

The Placing Shares to be placed under the Placing will be sold free and clear of all liens, charges and encumbrances, claims, options and third party rights and together with all rights attaching thereto as at the date of this announcement, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after the date of this announcement. The Placing Shares rank equally among themselves and with Shares in issue as at the date of this announcement.

Independence of placees and the Placing Agent

The placees (being not less than six institutional, corporate and/or individual investors), together with their beneficial owners, will be independent third parties who are not persons connected with the Vendor, the Controlling Shareholder, the Company, any of their subsidiaries, directors, chief executives or substantial shareholders or an associate of any of them (as such terms are defined in the Listing Rules). It is expected that none of the placees will become a substantial shareholder of the Company immediately following completion of the Placing and the Subscription.

The Placing Agent is an independent third party who is not a person connected with the Vendor, the Controlling Shareholder, the Company, any of their subsidiaries, directors, chief executives or substantial shareholders or an associate of any of them (as such terms are defined in the Listing Rules).

Completion of the Placing

The Placing is unconditional, however the Placing Agreement does contain a force majeure provision (which provides, inter alia, any new laws or regulations which in the opinion of the Placing Agent has or is likely to have a material adverse effect on the financial position of the Group, or any significant change in local, national or international economic, financial, political or military conditions). Completion is expected to be at 10:00 a.m. on or around 12 February 2004.

SUBSCRIPTION

The Subscription Shares

122,000,000 new Shares, representing approximately 16.55% of the existing issued share capital of the Company or 14.20% of the issued share capital of the Company as enlarged by the Subscription of 122,000,000 new Shares.

The Subscription Shares will be issued pursuant to the general mandate granted to the Directors pursuant to a resolution of the shareholders of the Company passed on 21 May 2003.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares to be issued pursuant to the Subscription.

The Subscription price

HK\$3.84 per Share, which is equivalent to the Placing Price, was determined after arm's length negotiations between the parties. Pursuant to the Placing Agreement, the Company shall bear the costs and expenses of the transaction of approximately HK\$12 million (including the expenses relating to the Placing and the Subscription).

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, will rank equally among themselves and with Shares in issue at the time of issue and allotment of the Subscription Shares.

Conditions of the Subscription

Completion of the Subscription is conditional upon:

- (a) the completion of the Placing; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the Subscription Shares.

Completion of the Subscription shall take place on the second business day after the date upon which the last of the conditions stated above have been fulfilled, and in any event not later than a date falling 14 days after the date of the Placing Agreement (which is expected or be on or around 23 February 2004), or such other date as the Company and the Vendor may agree in writing.

There is no provision in the Placing Agreement for any of the above conditions to be waived by the parties so in the event that the conditions to the Subscription are not fulfilled by 23 February 2004 (or such other date as the Company and the Vendor may agree in writing), the obligations and liabilities of the Vendor and the Company under the Subscription shall be null and void.

If the Subscription is not completed within 14 days after the date of the Placing Agreement, then the Subscription will constitute a connected transaction for the Company under the Listing Rules and the Company will comply fully with the relevant requirements of the Listing Rules.

Reasons for the Subscription and use of proceeds

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

In order to further strengthen the Group's market position in the gas distribution industry in the PRC and leveraging on the PRC government's policy to encourage the use of clean energy, the Board is committed to increase the Group's market share and gas penetration rate in the locations where the Group's existing gas projects are situated as well as accelerating the infrastructure of new gas projects. Also, taking into consideration that the Placing and the Subscription will broaden the shareholder base and the capital base of the Company, the Board considers that raising further capital from the equity market by way of the Placing and the Subscription will provide additional capital to fund investment into new gas projects in the future and will be in the best interests of the Group. The Board considers that the terms of the Placing and the Subscription are fair and reasonable and in the best interests of the shareholders of the Company as a whole.

The Company will bear all costs and expenses in connection with the Placing and the Subscription. The net proceeds from the Subscription are estimated to amount to approximately HK\$456 million. Although the Company does not at present have any concrete plans, it is intended that the net proceeds will be applied as follows:

- (a) as to approximately HK\$335 million for investment in new piped gas distribution projects and the construction and operation of natural gas stations for usage primarily by public transportation; and
- (b) as to the balance for general working capital of the Group.

If and when the above investments materialise, further announcements will be issued by the Company as and when required by the Listing Rules.

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company immediately before and after completion of the Placing and the Subscription:

Shareholder	Before completion of the Placing		Immediately after completion of the Placing		Immediately after completion of the Placing and the Subscription	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
The Vendor (<i>Note</i>)	408,000,000	55.36	286,000,000	38.81	408,000,000	47.50
Mr. Wang Yusuo	3,044,000	0.41	3,044,000	0.41	3,044,000	0.35
Public shareholders	<u>325,956,000</u>	<u>44.23</u>	<u>447,956,000</u>	<u>60.78</u>	<u>447,956,000</u>	<u>52.15</u>
Total	<u>737,000,000</u>	<u>100.00</u>	<u>737,000,000</u>	<u>100.00</u>	<u>859,000,000</u>	<u>100.00</u>

Note: The Vendor is the controlling shareholder of the Company and is owned as to 50% by Mr. Wang Yusuo and 50% by Ms. Zhao Baoju (the spouse of Mr. Wang Yusuo). Mr. Wang is an executive Director and chairman of the Company, whereas Ms. Zhao is a non-executive Director of the Company.

GENERAL

The Company has not conducted any equity fund raising activities in the past 12 months.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:30 a.m. on 9 February 2004, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading of Shares with effect from 9:30 a.m. on 10 February 2004.

DEFINITIONS

“associate(s)”	as such term is defined under the Listing Rules
“Board”	the board of the Directors
“Company”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the Shares of which are listed on the Stock Exchange
“connected person(s)”	as such term is defined under the Listing Rules
“Controlling Shareholder”	Mr. Wang Yusuo, being the owner of 50% of the shareholding of Vendor, which in turn is the controlling shareholder of the Company

“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agent”	The Hongkong and Shanghai Banking Corporation Limited, the placing agent for the Placing and a deemed registered institution under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
“Placing Agreement”	the placing, underwriting and subscription agreement dated 9 February 2004 entered into between the Vendor, the Controlling Shareholder, the Company and the Placing Agent
“Placing Price”	HK\$3.84 per Placing Share
“Placing Shares”	up to 122,000,000 existing Shares, representing approximately 16.55% of the existing issued share capital of the Company
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the conditional subscription by the Vendor of the Subscription Shares pursuant to the Placing Agreement
“Subscription Shares”	a total of 122,000,000 new Shares to be issued to the Vendor pursuant to the Subscription
“subsidiaries”	as such term is defined under the Listing Rules
“substantial shareholder”	as such term is defined under the Listing Rules

“Vendor”

Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability and which is owned as to 50% by Mr. Wang Yusuo and 50% by Ms. Zhao Baoju and is an investment holding company, being a substantial shareholder of the Company both before and after the completion of the Placing and Subscription

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

By order of the Board
XINAO GAS HOLDINGS LIMITED
CHENG Chak Ngok
Executive Director and Company Secretary

Hong Kong, 9 February 2004

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