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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)

(Stock Code: 2688)

(Website: www.xinaogas.com)

ANNOUNCEMENT

**(1) DISCLOSEABLE TRANSACTION –
ESTABLISHMENT OF A NEW PRC EQUITY JOINT VENTURE
IN ZHANJIANG, GUANGDONG PROVINCE, PRC**

**(2) CONNECTED TRANSACTION –
ACQUISITION OF EQUITY INTERESTS IN ZHUCHENG XINAO
FROM A CONNECTED PERSON**

The Board is pleased to announce that on 28 May 2004, the Group (through XinAo China, a wholly-owned subsidiary of the Company) entered into the Zhanjiang Agreement with Zhanjiang Gas to set up Zhanjiang XinAo. Upon its establishment, Zhanjiang XinAo will become a subsidiary of the Company.

As the registered capital of Zhanjiang XinAo exceeds 5% of the total assets of the Company, the signing of the Zhanjiang Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing particulars of the establishment of Zhanjiang XinAo to the shareholders of the Company as soon as practicable.

The Board is also pleased to announce that on 28 May 2004, the Group (through Langfang XinAo Gas, a wholly-owned subsidiary of the Company) has entered into the Equity Transfer Agreement with Zhucheng Gas whereby Langfang XinAo Gas has agreed to acquire and Zhucheng Gas has agreed to dispose its 20% equity interest in Zhucheng XinAo for a consideration of RMB5,000,000 (equivalent to approximately HK\$4,717,000).

As Zhucheng Gas is a substantial shareholder of Zhucheng XinAo, a subsidiary of the Company, in which the Group owns 80% equity interests, Zhucheng Gas is a connected person as defined in the Listing Rules. Hence, the signing of the Equity Transfer Agreement shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting and announcement requirements pursuant to Rule 14A.45 to Rule 14A.47 of the Listing Rules.

(1) ZHANJIANG AGREEMENT DATED 28 MAY 2004

Parties

- (a) Xinao China, a wholly-owned foreign enterprise established in PRC and a wholly-owned subsidiary of the Company; and
- (b) Zhanjiang Gas

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Zhanjiang Gas and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Business of Zhanjiang Xinao

Upon establishment, Zhanjiang Xinao will engage in the provision of piped gas for a period of 50 years to the whole of Zhanjiang City (湛江市) (including the Economic and Technical Development Zone), Guangdong Province, PRC. The Company will own 60% equity interests in Zhanjiang Xinao and Zhanjiang Xinao will become a subsidiary of the Company.

Total investment for 2004 – 2005

RMB212,000,000 (equivalent to approximately HK\$200,000,000). The total investment of Zhanjiang Xinao for the period from the year 2004 to the year 2005 was determined on an arm's length basis between the parties and represents the expected total investment of Zhanjiang Xinao for its first term from the year 2004 to the year 2005. Other than the amount of the registered capital to be invested by the parties under the Zhanjiang Agreement, as at the date of this announcement, the parties do not have any further commitment to invest in Zhanjiang Xinao. Should there be any future commitment to invest in Zhanjiang Xinao, the Company will comply with all such relevant requirements under the Listing Rules accordingly.

Registered capital

RMB85,000,000 (equivalent to approximately HK\$80,189,000) of which:

- (a) 60% (being RMB51,000,000 or approximately HK\$48,114,000) will be contributed in cash by Xinao China; and
- (b) 40% (being RMB34,000,000 or approximately HK\$32,075,000) will be contributed by Zhanjiang Gas in the form of assets. It is expected that the original assets of Zhanjiang Gas will be injected into Zhanjiang Xinao but the particulars of which assets will be injected by Zhanjiang Gas are subject to further discussions by the parties.

Xinao China's contribution to the registered capital will be funded by internal resources of the Group and possibly bank borrowings. The registered capital is to be paid by the respective parties within three months of the issuance of the business license of Zhanjiang Xinao. The Company expects that the business license of Zhanjiang Xinao should be issued within around three months from the date of this announcement.

Board of directors

The board of directors of Zhanjiang Xinao will comprise seven directors. Xinao China is entitled to appoint four directors and Zhanjiang Gas is entitled to appoint three directors.

Term

50 years from the date of issue of the business licence of Zhanjiang Xinao and the term can be extended upon agreement between the parties.

Profits

Profits will be distributed to Xinao China and Zhanjiang Gas in proportion to their respective equity interests in Zhanjiang Xinao.

Dissolution

Upon early termination of the Zhanjiang Agreement or the expiry of the term of Zhanjiang Xinao, the remaining assets of Zhanjiang Xinao (after the payment of all its debts) will be distributed to Xinao China and Zhanjiang Gas in proportion to their respective equity interests in Zhanjiang Xinao.

Reasons for and effects of the establishment of Zhanjiang Xinao

The Directors consider that the Zhanjiang Agreement to be an important milestone for the Group since Zhanjiang Xinao is the second operational location the Group has secured in Guangdong Province, PRC, thereby signifies the success of the Group's marketing efforts into establishing a stronger foothold in Guangdong Province, PRC. Since Zhanjiang is an industrial city with a city centre population of approximately 740,000, the Company expects that there will be a large demand of natural gas by its population as well as commercial/industrial customers and therefore expects that there will be significant contribution to the future earnings of the Company.

The Directors believe that the Zhanjiang Agreement was entered into upon normal commercial terms and in the ordinary business of the Company. The Directors consider that terms of the Zhanjiang Agreement are fair and reasonable and the Zhanjiang Agreement is in the interest of the shareholders of the Company.

As the registered capital of Zhanjiang Xinao exceeds 5% of the total assets of the Company, the signing of the Zhanjiang Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing particulars of the establishment of Zhanjiang Xinao to the shareholders of the Company as soon as practicable.

(2) EQUITY TRANSFER AGREEMENT DATED 28 MAY 2004

Parties

- (a) Langfang Xinao Gas as purchaser, a wholly-owned foreign enterprise established in PRC and a wholly-owned subsidiary of the Company; and

(b) Zhucheng Gas as vendor

The principal business of Zhucheng Gas is the provision of central heating to residential and commercial users.

Assets to be acquired

Zhucheng Gas' entire 20% equity interest in Zhucheng Xinao.

Zhucheng Xinao was a Sino-foreign equity joint venture established in PRC on 30 May 2001 and is currently owned as to 80% by Zhucheng BVI and as to 20% by Zhucheng Gas. Zhucheng Xinao has the exclusive right to supply piped gas to the Zhucheng district centre (which includes the Zhucheng Economic and Technical Development Zone). The registered capital of Zhucheng Xinao is US\$3,000,000 (equivalent to approximately HK\$23,400,000) of which US\$2,400,000 (equivalent to approximately HK\$18,720,000) and US\$600,000 (equivalent to approximately HK\$4,680,000) were contributed by Zhucheng BVI and Zhucheng Gas respectively. Each of Zhucheng BVI and Zhucheng Gas has contributed in accordance with its proportional equity interest.

The unaudited net profit before and after tax of Zhucheng Xinao for the two financial years ended 31 December 2003 was approximately RMB1,905,000 and RMB2,152,000 respectively (equivalent to approximately HK\$1,797,000 and HK\$2,030,000 respectively). There were no extraordinary items for each of the two financial years ended 31 December 2003. The unaudited net asset value of Zhucheng Xinao was RMB25,815,000 (equivalent to approximately HK\$24,354,000) as at 31 December 2003. Based on the unaudited net asset value of Zhucheng Xinao as at 31 December 2003, the value of the Acquisition is approximately RMB5,163,000 (equivalent to approximately HK\$4,871,000).

Consideration

RMB5,000,000 (equivalent to approximately HK\$4,717,000). The consideration will be satisfied in cash from internal resources of the Group and will be paid by the Group to Zhucheng Gas upon satisfaction of all the conditions in the Equity Transfer Agreement. The consideration was arrived at after arm's length negotiations and based on the unaudited net asset value of Zhucheng Xinao as at 31 December 2003.

Conditions

Completion of the Acquisition is conditional on, among other things, all necessary approvals from the relevant PRC government authorities being obtained in relation to the Equity Transfer Agreement.

Reasons for and effects of the Acquisition

The Board anticipates steady growth in the demand for piped gas in the Zhucheng district centre for the foreseeable future. Upon the completion of the Acquisition, the Group's equity interests in Zhucheng Xinao will be increased from 80% to 100%, thereby increasing the Group's share of profit (if any) in Zhucheng Xinao by 20%.

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

As Zhucheng Gas is a substantial shareholder of Zhucheng Xinao, a subsidiary of the Company, in which the Group owns 80% equity interests, Zhucheng Gas is a connected person as defined in the Listing Rules. Hence, the signing of the Equity Transfer Agreement shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting and announcement requirements pursuant to Rule 14A.45 to Rule 14A.47 of the Listing Rules.

GENERAL

The Group is one of the first non state-owned piped gas operators in PRC. The principal business of the Group is the construction of gas pipelines, the sale of piped gas, the sale of liquefied petroleum gas and the sale of gas appliances in PRC.

DEFINITIONS

“Acquisition”	the proposed acquisition of 20% equity interest in Zhucheng Xinao by Langfang Xinao Gas from Zhucheng Gas pursuant to the Equity Transfer Agreement
“Board”	the board of Directors
“Company”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of Stock Exchange as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	a conditional agreement dated 28 May 2004 entered into between Langfang Xinao Gas as purchaser and Zhucheng Gas as vendor in relation to the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Langfang Xinao Gas”	廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*), a wholly-owned foreign enterprise established in PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“PRC”	The People’s Republic of China

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinao China”	新奧(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited*), a wholly-owned foreign enterprise established in PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“Zhanjiang Agreement”	a joint venture agreement dated 28 May 2004 entered into between Xinao China and Zhanjiang Gas in relation to the establishment of Zhanjiang Xinao
“Zhanjiang Gas”	湛江市燃氣集團公司 (Zhanjiang City Gas Group Corporation*), a company established in PRC; Zhanjiang Gas and its ultimate beneficial owner(s) are independent parties not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of their respective associates
“Zhanjiang Xinao”	湛江新奧燃氣有限公司 (Zhanjiang Xinao Gas Company Limited*), a PRC equity joint venture to be established in PRC under the Zhanjiang Agreement
“Zhucheng BVI”	Xinao Zhucheng Investment Limited, a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“Zhucheng Gas”	諸城市燃氣熱力公司 (Zhucheng City Gas and Heating Corporation*), a company established in PRC, which owns 20% equity interest in Zhucheng Xinao and is a connected person of the Company under the Listing Rules as at the date of this announcement
“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 PRC on 30 May 2001 and is owned as to 80% by Zhucheng BVI and as to 20% by Zhucheng Gas as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent.

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

$$\begin{aligned} \text{HK\$1.00} &= \text{RMB1.06} \\ \text{HK\$7.80} &= \text{US\$1.00} \end{aligned}$$

As at the date of this announcement, the Board comprises nine executive Directors, namely Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Chief Executive Officer), Mr. Chen Jiacheng, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok; one non-executive Director, namely Ms. Zhao Baoju; and two independent non-executive Directors, namely Mr. Wang Guangtian and Mr. Xu Liang.

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

Hong Kong, 28 May 2004

* *For identification only*

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