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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

CONNECTED TRANSACTION – PROVISION OF GAS CONNECTION SERVICES

The Board is pleased to announce that on 28 June 2004, the Group (through Shijiazhuang Xinao and Bengbu Xinao respectively, each a subsidiary of the Company) entered into the Shijiazhuang Agreement and Bengbu Agreement with Shijiazhuang Enric and Bengbu Property (each a connected person of the Company) respectively to provide gas connection and other services to these connected persons.

As Shijiazhuang Enric and Bengbu Property are currently owned effectively as to more than 65% and more than 70% respectively by Mr. Wang, the chairman, an executive director and a controlling shareholder of the Company, each of Shijiazhuang Enric and Bengbu Property is a connected person as defined in the Listing Rules. Hence, the signing of the Shijiazhuang Agreement and the Bengbu Agreement shall each constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios is less than 2.5% under Rule 14A.32 of the Listing Rules, these connected transactions are exempt from independent shareholders' approval requirements and shall only be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

(1) SHIJIAZHUANG AGREEMENT

Date: 28 June 2004

- Parties:** (1) Shijiazhuang Xinao, a subsidiary of the Company in which the Company holds an effective 70% interest as at the date of this announcement
- (2) Shijiazhuang Enric, a connected person of the Company

The transaction

Pursuant to the Shijiazhuang Agreement, Shijiazhuang Xinao has agreed to provide to Shijiazhuang Enric gas connection and other services. These services include (without limitation) the constructions and installations of main pipeline network, the constructions and installations of branch pipelines within the Factory, the installations of natural gas pressure regulating boxes and measuring equipment within the Factory, the installations of related safety and alarm facilities, the connections of pipelines within and outside the Factory and the change of all necessary equipment.

It is currently estimated that the gas connection service under the Shijiazhuang Agreement will be completed by 31 July 2004, failing which Shijiazhuang Xinao shall be subject to a default interest at the rate of 0.03% per day on the amount already paid by Shijiazhuang Enric under the Shijiazhuang Agreement, unless there is/are the occurrence(s) of situations entirely outside the control of the parties (for instance, floods, typhoons, heavy rain etc.), government intervention and/or such other situations as specified in the Shijiazhuang Agreement.

Consideration

The consideration under the Shijiazhuang Agreement will be RMB3,600,000 (equivalent to approximately HK\$3,396,000), payable in two instalments by Shijiazhuang Enric in the following manner :

- (i) RMB1,300,000 (equivalent to approximately HK\$1,226,000) is payable within 20 days from the date of signing of the Shijiazhuang Agreement; and
- (ii) RMB2,300,000 (equivalent to approximately HK\$2,170,000) is payable immediately before the commencement of gas supply, which is expected to be around on or before 31 July 2004.

If Shijiazhuang Enric fails to pay pursuant to the Shijiazhuang Agreement, it shall be subject to a default interest at the rate of 0.03% per day on the outstanding and due amount.

The consideration was arrived at after arm's length negotiations and based on rates which are equal to or more than those offered by the Group to independent third parties.

(2) BENGBU AGREEMENT

Date: 28 June 2004

- Parties:** (1) Bengbu Xinao, a subsidiary of the Company in which the Company holds an effective 70% interest as at the date of this announcement
- (2) Bengbu Property, a connected person of the Company

The transaction

Pursuant to the Bengbu Agreement, Bengbu Xinao has agreed to provide to Bengbu Property gas connection and other services for the residential users of the Property Development. These services include (without limitation) the designs, constructions and installations of pipelines within the Property Development (including connecting pipelines outside the Property Development and main and branch pipelines within the Property Development) and the installations of the related equipment and gas meters. It is currently estimated that Bengbu Xinao will construct and install natural gas connection for approximately 868 residential users within the Property Development.

It is currently estimated that the gas connection service under the Bengbu Agreement will be completed by 30 September 2004, failing which Bengbu Xinao shall be subject to a default interest at the rate of 0.03% per day on the amount already paid by Bengbu Property under the Bengbu Agreement, unless there is/are the occurrence(s) of situations entirely outside the control of the parties (for instance, floods, typhoons, heavy rain etc.), government intervention and/or such other situations as specified in the Bengbu Agreement.

Consideration

Currently, Bengbu Xinao charges the same rate of RMB2,480 (equivalent to approximately HK\$2,340) per gas connection for all its residential users in Bengbu. Based on the estimated 868 residential gas connection to be made under the Bengbu Agreement, the consideration under the Bengbu Agreement will be RMB2,152,640 (equivalent to approximately HK\$2,031,000), adjustable subject to the final number of gas meters installed in the Property Development by Bengbu Xinao based on RMB2,480 per residential gas connection. If there is a material change to such consideration, the Company shall make an announcement accordingly. The consideration shall be paid in three instalments by Bengbu Property in the following manner :

- (i) RMB645,792 (equivalent to approximately HK\$609,000), being 30% of the total consideration, is payable at least seven days before Bengbu Xinao commences the gas connection works in the Property Development, which is expected to be as soon as possible after the signing of the Bengbu Agreement;
- (ii) RMB861,056 (equivalent to approximately HK\$812,000), being 40% of the total consideration, is payable at least seven days before Bengbu Xinao commences installation of gas meters in the Property Development, which is expected to be around one month after the commencement of the gas connection works in the Property Development; and

(iii) the remainder of the consideration is payable immediately before the commencement of gas supply to the Property Development.

If Bengbu Property fails to pay pursuant to the Bengbu Agreement, it shall be subject to a default interest at the rate of 0.03% per day on the outstanding and due amount.

The consideration was arrived at after arm's length negotiations and based on rates which are equal to or more than those offered by the Group to independent third parties.

REASONS FOR AND EFFECTS OF THE SHIJIAZHUANG AGREEMENT AND THE BENGBU AGREEMENT

On top of the Group's prime target to secure more new projects in new operation locations, the Group also focuses on increasing its natural gas coverage to residential households and commercial/ industrial customers. The Shijiazhuang Agreement and the Bengbu Agreement are examples of such gas connection agreements the Group enters into every year with new and existing customers in the ordinary course of business of the Group. Both of these agreements are in line with the business objectives and principle business area of the Group.

After completion of all the gas connection works under the Shijiazhuang Agreement and the Bengbu Agreement, Shijiazhuang Xinao and Bengbu Xinao will be supplying natural gas to Shijiazhuang Enric and the residential users of the Property Development respectively.

Upon the completion of the gas connection services under the Shijiazhuang Agreement, all the indoor and outdoor natural gas pipelines and related valves and measuring equipment situated within the pressure regulating box of the Factory shall belong to Shijiazhuang Enric and shall be subject to one year free warranty by Shijiazhuang Xinao. However, all the natural gas pipelines and related valves and measuring equipment situated outside the pressure regulating box of the Factory shall belong to Shijiazhuang Xinao. Therefore the Board anticipates that upon the completion of the gas connection services under the Shijiazhuang Agreement, there will be an increase in the assets of the Group. However, the Company is at this stage unable to ascertain the amount of such increase as it will depend on the final length of pipelines and amount of other fixtures to be constructed and installed by Shijiazhuang Xinao under the Shijiazhuang Agreement.

The liabilities of the Group may also increase as a result of the one year free warranty to be provided by Shijiazhuang Xinao under the Shijiazhuang Agreement. However, the Company is at this stage unable to ascertain whether there will be such an increase as it will depend on whether the pipelines and facilities constructed and installed by Shijiazhuang Xinao under the Shijiazhuang Agreement will require any maintenance or repair or not. But according to the past experience of the Group, the maintenance costs incurred by the Group during the free warranty period are minimal.

Upon the completion of the gas connection services and full payment by Shijiazhuang Enric under the Shijiazhuang Agreement and by Bengbu Property under the Bengbu Agreement, the Board anticipates that the revenue of the Group will be increased by the consideration amount under these agreement, which may have a positive effect on the profit of the Group (if any).

The Board, including independent non-executive Directors, is of the view that each of the Shijiazhuang Agreement and Bengbu Agreement was entered into in the ordinary course of business of the Group on normal commercial terms after arm's length negotiations and that the terms of each of these agreements are fair and reasonable and in the interests of the Company so far as the independent shareholders of the Company are concerned.

CONNECTED TRANSACTIONS

As Shijiazhuang Enric is currently owned effectively as to more than 65% by Mr. Wang, Shijiazhuang Enric is a connected person as defined in the Listing Rules. Further, as Bengbu Property is currently owned effectively as to more than 70% by Mr. Wang, Bengbu Property is also a connected person as defined in the Listing Rules. Hence, the signing of each of the Shijiazhuang Agreement and Bengbu Agreement shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios is less than 2.5% under Rule 14A.32 of the Listing Rules, these connected transactions are exempt from independent shareholders' approval requirements and shall only be subject to the reporting and announcement requirements under Rules 14A.45 to 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.

The principal business of Shijiazhuang Enric is the manufacture of gas related machinery.

The principle business of Bengbu Property is property development.

DEFINITIONS

“Board”	the board of Directors
“Bengbu Agreement”	an agreement dated 28 June 2004 entered into between Bengbu Xinao as provider and Bengbu Property as recipient of services to be rendered thereunder
“Bengbu Property”	蚌埠新奧置業有限公司 (Bengbu Xinao Property Company Limited*), a PRC joint venture established in PRC and is owned effectively as to more than 70% by Mr. Wang at the date of this announcement
“Bengbu Xinao”	蚌埠新奧燃氣有限公司 (Bengbu Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC and a subsidiary of the Company owned as to 70% by the Group as at the date of this announcement

“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
“Factory”	the area within the factory vicinity of Shijiazhuang Enric situated in Shijiazhuang, Hebei Province, PRC
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖先生), the chairman, an executive director and a controlling shareholder of the Company as at the date of this announcement
“PRC”	the People’s Republic of China
“Property Development”	the property development of Bengbu Property currently named as “Hills and Water People*” (山水人家) situated in the Bengbu City, Anhui Province, PRC
“Shijiazhuang Agreement”	an agreement dated 28 June 2004 entered into between Shijiazhuang Xinao as provider and Shijiazhuang Enric as recipient of services to be rendered thereunder
“Shijiazhuang Enric”	石家庄安瑞科氣體機械有限公司 (Shijiazhuang Enric Gas Machinery Company Limited*), a Sino-foreign equity joint venture established in PRC and is owned effectively as to more than 65% by Mr. Wang at the date of this announcement
“Shijiazhuang Xinao”	石家庄新奧燃氣有限公司 (Shijiazhuang Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC and a subsidiary of the Company owned as to 70% by the Group as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“%”	per cent.

In this announcement, the following exchange rate has been used:

HK\$1.00 = RMB1.06

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, 29 June 2004

* *For identification only*

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