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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)

PROPOSED ISSUE OF HK\$475,000,000 ZERO COUPON CONVERTIBLE BONDS DUE 2009 CONVERTIBLE INTO ORDINARY SHARES OF XINAO GAS HOLDINGS LIMITED

SUMMARY

On 25 October 2004, the Issuer and the Lead Manager entered into a Subscription Agreement pursuant to which the Lead Manager has agreed to subscribe, or procure subscribers, for the Firm Bonds in an aggregate principal amount of HK\$475,000,000 at the issue price of 100%.

The Issuer has granted to the Lead Manager an Option to require the Issuer to issue a further HK\$75,000,000 in aggregate principal amount of the Optional Bonds, which may be exercisable, in whole or in part, on one or more occasions, at any time, on or before the 30th day following the Closing Date. If the Option is exercised in full, the aggregate principal amount of the Bonds would be HK\$550,000,000. The Optional Bonds are on the same terms as, and will rank *pari passu*, with the Firm Bonds. The Issuer will make further announcement if the Option is exercised.

The initial Conversion Price is HK\$5.4375, being a premium of 25% over the Closing Price of the Shares quoted on the Hong Kong Stock Exchange on 25 October 2004, being the date on which the Subscription Agreement was signed. Based on the initial Conversion Price of HK\$5.4375 per Share and assuming full conversion of the Bonds (including the Optional Bonds), the Bonds will be convertible into 101,145,000 Shares, representing approximately 11.66% of the issued share capital of the Issuer as at the date of this announcement and approximately 10.45% of the enlarged issued share capital of the Issuer as enlarged by the issue and allotment of the New Shares.

The Bondholders will have the right to convert their Bonds into Shares at any time on and after 30 days after the Closing Date up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on 16 October 2009. Unless previously redeemed or converted or purchased and cancelled, the Bonds will be redeemed at 106.43% of their principal amount on the Maturity Date.

Upon exercise of the conversion right by a Bondholder, the Issuer shall have the option to pay such Bondholder an amount of cash in Hong Kong dollars equal to the product of (i) the number of Shares otherwise deliverable to the Bondholder and in respect of which the Issuer has elected the cash settlement option; and (ii) the average closing price of Shares on the Hong Kong Stock Exchange for the ten Trading Days immediately following and excluding the Hong Kong Stock Exchange business day following the date of the delivery of the notice of conversion, in order to satisfy such conversion right.

None of the Bonds will be offered to the public in Hong Kong. None of the Bonds will be placed to any connected persons of the Issuer or any of their respective associates.

The net proceeds from the issue of the Bonds (assuming the Optional Bonds are issued in full) after deducting expenses, including but not limited to the underwriting commission to be charged by the Lead Manager, are estimated to be approximately HK\$534,000,000. The proceeds are currently intended to be used as to approximately HK\$156,000,000 for the repayment of certain existing indebtedness of the Issuer, as to approximately HK\$358,000,000 for capital investments in the Issuer's core businesses in the PRC and as to the balance for general working capital purposes.

Completion of the Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Subscription Agreement may be terminated in certain circumstances. Please refer to the section headed "Subscription Agreement" below for further information.

As the Subscription Agreement may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

An application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds and the New Shares.

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on Tuesday, 26 October 2004 pending publication of this announcement. Application has been made to the Hong Kong Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Wednesday, 27 October 2004.

SUBSCRIPTION AGREEMENT

Date: 25 October 2004

Parties: Issuer: Xinao Gas Holdings Limited
Lead Manager: Deutsche Bank AG London, which is independent of and not connected with any of the directors, chief executive and substantial shareholders of the Issuer or any of its subsidiaries or any of their respective associates.

Subscription: The Lead Manager has agreed to subscribe, or to procure subscribers for the Firm Bonds in an aggregate principal amount of HK\$475,000,000.

The Bonds will be offered and sold to persons whose ordinary business involves buying, selling or investing securities outside the United States in reliance on Regulation S under the US Securities Act of 1933, as amended. None of the Bonds will be offered to the public in Hong Kong. None of the Bonds will be placed to any connected persons of the Issuer or any of their respective associates.

Option: The Lead Manager has been granted an Option which can be exercised, in whole or in part and on one or more occasions, at any time on or before the 30th day following the Closing Date, to require the Issuer to issue at the issue price of 100% of a further HK\$75,000,000 in aggregate principal amount of the Optional Bonds. If the Option is exercised in full, the aggregate principal amount of Bonds would be HK\$550,000,000. The Issuer will make further announcement if the Option is exercised.

Conditions precedent: Completion of the subscription of the Bonds is conditional upon, amongst other things, that:

- (i) the Lead Manager shall have been satisfied with the results of its due diligence investigations on the Issuer and its subsidiaries for the purposes of the preparation of the offering circular to be issued by the Issuer in connection with the Bonds (the "Offering Circular"), and the Offering Circular being in a form and content satisfactory to the Lead Manager;

- (ii) the Hong Kong Stock Exchange shall have agreed, subject to any conditions reasonably satisfactory to the Lead Manager, to list the Bonds and the New Shares upon conversion of the Bonds (or, in each case, the Lead Manager being reasonably satisfied that such listing will be granted); and
- (iii) there shall not have occurred any change, or any development or event reasonably likely to involve a prospective change, in the financial condition, operations, business or properties of the Issuer and its subsidiaries as a whole, which, in the opinion of the Lead Manager, is material and adverse and which makes it, in the opinion of the Lead Manager, impracticable to market the Bonds on the terms and in the manner contemplated in the Subscription Agreement.

All the conditions may be waived in whole or in part at the discretion of the Lead Manager.

Termination: The Lead Manager is entitled to terminate the Subscription Agreement at any time prior to payment of the net subscription monies for the Bonds to the Issuer upon the occurrence of certain circumstances which include, amongst other things,

- (i) if there shall have come to the notice of the Lead Manager any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure by the Issuer to perform any of its undertakings or agreements in the Subscription Agreement; or
- (ii) if there shall have occurred any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls which would in the Lead Manager's view be likely to prejudice materially the success of the Offering or the distribution of the Bonds or dealings in the Bonds in the secondary market.

Fees: A combined management and underwriting commission and selling concession will be charged by the Lead Manager and paid by the Issuer.

Completion: Subject to the above conditions, completion of the Bonds is expected to take place on the Closing Date.

The terms of the Subscription Agreement and the Bonds (including the Conversion Price) were negotiated between the Issuer and the Lead Manager on an arm's length basis with reference to the Closing Price on 25 October 2004.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds are summarised as follows:

Issuer: Xinao Gas Holdings Limited

Principal amount: HK\$475,000,000, or up to HK\$550,000,000 if the Option is exercised in full

Interest: The Bonds do not bear any interest.

Conversion period: Bondholder(s) may exercise conversion rights at any time on and after 30 days after Closing Date up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on 16 October 2009 or if such Bond shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven business days (in the place aforesaid) prior to the date fixed for redemption thereof.

Conversion price: Initially HK\$5.4375 per Share, representing a premium of 25% over the closing price of HK\$4.35 per Share as quoted on the Hong Kong Stock Exchange on 25 October 2004, being the date of the Subscription Agreement.

The Conversion Price will be subject to adjustment for, amongst other things, consolidations/subdivisions or reclassification of Shares, distributions (including

dividends in cases where the percentage ratio of the dividend per Share over the share price of each Share is more than 1%), bonus issues, rights issues and other events which may have a diluting effect on Bondholders. The Shares issued upon conversion of the Bonds will be allotted and issued pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting of Shareholders held on 28 May 2004.

Cash settlement option:	Upon exercise of the conversion right by a Bondholder, the Issuer shall have the option to pay such Bondholder an amount of cash in Hong Kong dollars equal to the product of (i) the number of Shares otherwise deliverable to the Bondholder and in respect of which the Issuer has elected the cash settlement option; and (ii) the average closing price of Shares on the Hong Kong Stock Exchange for the ten Trading Days immediately following and excluding the Hong Kong Stock Exchange business day following the date of the delivery of the notice of conversion, in order to satisfy such conversion right.
Ranking of New Shares:	The New Shares will rank pari passu with, and carry the same rights in all aspects as, the other Shares then in issue on the relevant date of registration of holders of such Shares on the register of members of the Issuer.
Redemption at maturity:	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Bond at 106.43% of its principal amount on the Maturity Date.
Redemption at the option of the Issuer:	On or at any time after 15 May 2007 and prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice will be irrevocable), redeem all and not some only of the Bonds at a redemption price equal to the Early Redemption Amount on the date of redemption, provided, however, that no such redemption may be made unless (i) the closing price of the Shares, for each of any 20 Trading Days within a period of 30 consecutive Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given was at least 130% of the Conversion Price in effect on such Trading Day; or (ii) at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.
Tax Redemption:	The Issuer may redeem all, and not some only, of the Bonds at their Early Redemption Amount in the event of certain changes in taxation in the Cayman Islands or Hong Kong after 25 October 2004.
Redemption for Delisting or Change of Control:	The holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of that holder's Bonds at their Early Redemption Amount upon (i) the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange; or (ii) when there is a Change of Control (as defined in the Terms and Conditions) with respect to the Issuer.
Redemption at the option of the Bondholders:	The holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of the Bonds of such holder on 15 May 2007 at 103.16% of their principal amount subject the delivery of a duly completed and signed notice of redemption in accordance with the Terms and Conditions.
Negative pledge:	Under the Terms and Conditions of the Subscription Agreement, the Company undertakes that so long as any of the Bonds remains outstanding or any amount is due under or in respect of any Bond or otherwise under the deed constituting the Bonds, it will not, and will procure that none of its subsidiaries will, create or permit to subsist or arise any Encumbrance (as defined in the Terms and Conditions) upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness (as defined in the Terms and Conditions) of the Company or any other subsidiary or associate of the Company unless the outstanding Bonds are forthwith secured by the same Encumbrance or, at the option of the Company by such other security as

the Bondholders by Extraordinary Resolution (as defined in the Terms and Conditions) may approve.

Listing: An application will be made for the listing, and permission to deal in, the Bonds and New Shares, on the Hong Kong Stock Exchange.

Form of the Bonds: Registered

Denomination: HK\$10,000

LOCK-UP UNDERTAKING

Under the Subscription Agreement, the Issuer has agreed that for a period from the date of the Subscription Agreement up to 180 days after the Closing Date (and, if any Optional Bonds are issued, after the last Option Closing Date), neither it nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued (i) pursuant to the conversion provisions of the Bonds; or (ii) pursuant to obligation in existence at the date of the Subscription Agreement, which have been disclosed to the Lead Manager (including the share option scheme of the Issuer).

UNDERTAKING BY CONTROLLING SHAREHOLDERS OF THE ISSUER

Certain controlling shareholders of the Issuer, namely Mr. Wang Yusuo, Ms. Zhao Baoju and Easywin Enterprises Limited, have separately undertaken to the Lead Manager that, for a period from the date of the Subscription Agreement up to 180 days after the Closing Date (or if any Optional Bonds are issued, after the last Option Closing Date), neither it nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, pledge or otherwise dispose of any Shares (except for those shares to be issued pursuant to the exercise of the options granted to Mr. Wang Yusuo) or carry out any transaction of a similar effect.

EFFECT ON THE SHARE CAPITAL

Based on the initial Conversion Price of HK\$5.4375 per share and assuming full conversion of the Bonds (including the Optional Bonds), the Bonds will be convertible into 101,145,000 Shares, representing approximately 11.66% of the issued share capital of the Issuer as at the date of this announcement and approximately 10.45% of the enlarged issued share capital of the Issuer as enlarged by the issue of the New Shares.

The issued share capital as at 25 October 2004, being the date of the Subscription Agreement, is HK\$86,710,000 divided into 867,100,000 Shares. The following table summarises the shareholding structure of the Issuer as at the date of the Subscription Agreement:

Name of Shareholder	Existing (as at the date of the Subscription Agreement)		Assuming that the Bonds (including the Optional Bonds) are fully converted into Shares at the Conversion Price of HK\$5.4375 each	
	No. of issued Shares (excluding options)	Approx. % to issued share capital of the Issuer	No. of Shares	Approx. % to enlarged issued share capital of the Issuer
Easywin Enterprises Limited	384,486,000	44.34%	384,486,000	39.71%
Mr. Wang Yusuo (<i>Note</i>)	3,044,000	0.35%	3,044,000	0.31%
Other public Shareholders	479,570,000	55.31%	479,570,000	49.53%
Bondholders	—	—%	101,145,000	10.45%
Total	867,100,000	100.00%	968,245,000	100.00%

Note: Ms. Zhao Baoju, being the spouse of Mr. Wang Yusuo, is deemed to be interested in these shares under the Securities and Futures Ordinance.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds (assuming the Optional Bonds are issued in full) after deducting expenses, including but not limited to the underwriting commission to be charged by the Lead Manager, are estimated to be approximately HK\$534,000,000. The proceeds are currently intended to be used as to approximately HK\$156,000,000 for the repayment of certain existing indebtedness of the Issuer, as to approximately HK\$358,000,000 for capital investments in the Issuer's core businesses in the PRC and as to the balance for general working capital purposes.

REASONS FOR THE ISSUE OF BONDS

The Issuer seeks to capitalize on the current interest rate environment and the current market environment for convertible bond issues to raise capital to facilitate further development and expansion of the Issuer. The Directors are of the view that the terms of the Bonds are fair and reasonable and are in the interest of the Group, and consider that the issue of the Bonds will provide the capital to facilitate the development and expansion of the Issuer and its investments in new projects.

GENERAL

The Issuer has not raised any funds from any issue of equity securities in the last 12 months except a share placing in February 2004. On 23 February 2004, 122,000,000 ordinary shares of HK\$0.10 each were issued at HK\$3.84 per Share by way of placing. Approximately HK\$360,000,000 (out of the total of approximately HK\$456,000,000) of the net proceeds of that placing were used for the investment in new piped gas distribution projects and the construction and operation of natural gas stations for usage primarily by public transportation and as to the balance for general working capital of the Group in line with the purposes previously stated in the announcement for that placing dated 9 February 2004.

The Group is one of the first non state-owned piped gas operators 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.

The Issuer will promptly notify the Hong Kong Stock Exchange if it becomes aware of any transfer of the Bonds to any connected person or any dealings in the Bonds by any connected person of the Issuer.

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on Tuesday, 26 October 2004 pending publication of this announcement. Application has been made to the Hong Kong Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Wednesday, 27 October 2004.

As the Subscription Agreement may or may not complete, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meaning:

“associate(s)”	has the same meaning as defined in the Listing Rules
“Board”	the board of Directors
“Bond(s)”	the Firm Bonds and the Optional Bonds
“Bondholder(s)”	holders of the Bonds from time to time
“business day”	a day on which banks are open for business in Hong Kong
“Certificate”	bond certificate
“Closing Date”	15 November 2004 or such other date as the Issuer and the Lead Manager may agree
“Closing Price”	HK\$4.35 per Share as quoted on the Hong Kong Stock Exchange on 25 October 2004
“connected person(s)”	has the same meaning as defined in the Listing Rules
“Conversion Date”	the date of surrender of the certificate in respect of the Bond and the delivery of the conversion notice in exercise of his conversion right under the Bond by the Bondholder

“Conversion Price”	HK\$5.4375 per Share (subject to adjustment)
“Director(s)”	directors of the Issuer
“Early Redemption Amount”	an amount rounded up to the nearest cent, determined in accordance with the formula as set out in the Terms and Conditions
“Firm Bond(s)”	convertible bond(s) in an aggregate principal amount of HK\$475,000,000 to be issued by the Issuer under the Subscription Agreement
“Group”	the Issuer and its subsidiaries and associated companies
“HK\$”	Hong Kong dollars, the legal currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Issuer” or “Company”	Xinao Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Maturity Date”	the date falling 5 years from (and inclusive of) the Closing Date
“New Share(s)”	the Shares to be issued upon conversion of the Bonds
“Offering”	the offering of the Bonds by the Lead Manager to subscribers for the Bonds who are independent of and not connected with any of the directors, chief executive or substantial shareholders of the Issuer or any of its subsidiaries or any of their respective associates
“Option”	the option granted by the Issuer to the Lead Manager under the Subscription Agreement, which can be exercised, in whole or in part, on one or more occasions, on or before the 30th day following the Closing Date to require the Issuer to issue up to an additional HK\$75,000,000 aggregate principal amount of the Bonds
“Optional Bond(s)”	the additional Bonds which may be issued by the Issuer under the Subscription Agreement on exercise in whole or in part, on one or more occasions, solely at the discretion of the Lead Manager and are on the same terms as, and will rank <i>pari passu</i> , with the Firm Bonds
“Option Closing Date”	the date the Optional Bonds are to be issued by the Issuer against payment for the Optional Bonds
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Issuer
“Shareholder(s)”	holder(s) of Share(s)
“Subscription Agreement”	the subscription agreement dated 25 October 2004 entered into between the Issuer and the Lead Manager in relation to the subscription of the Bonds
“Terms and Conditions”	the terms and conditions of the Bonds scheduled to the Subscription Agreement
“Trading Day(s)”	a day when the Hong Kong Stock Exchange is open for dealing business
“US person(s)”	any person or entity deemed to be a US person for the purposes of Regulation S under the US Securities Act of 1933, as amended
“%”	per cent.

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

Hong Kong, 26 October 2004

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 Boaju; and three independent non-executive Directors, namely Mr. WANG Guangtian, Mr. XU Liang and Ms. YIEN Yu Yu, Catherine.

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