

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

CONNECTED TRANSACTION **INCREASE IN REGISTERED CAPITAL OF A PRC SUBSIDIARY**

The Board would like to announce that on 27 October 2005, Xinao China BVI (a wholly-owned subsidiary of the Company and the current shareholder of Shijiazhuang Xinao, holding 70% equity interest in Shijiazhuang Xinao) has entered into the Agreement with Shijiazhuang Gas (the current shareholder of Shijiazhuang Xinao, holding 30% equity interest in Shijiazhuang Xinao) and Hebei Xindi in relation to the Registered Capital Increase whereby each of the parties has agreed to inject capital into Shijiazhuang Xinao. Upon the completion of the Registered Capital Increase, Shijiazhuang Xinao will be owned by Xinao China BVI, Shijiazhuang Gas and Hebei Xindi (which will be holding its 11% equity interest for Xinao China) as to 49%, 40% and 11% respectively and the Group will have an effective interest of 60% in Shijiazhuang Xinao, which will remain as a subsidiary of the Company.

As Shijiazhuang Gas is a substantial shareholder of Shijiazhuang Xinao, in which the Group currently owns 70% equity interest, Shijiazhuang Gas is a connected person of the Company under the Listing Rules. Hence, the signing of the Agreement and the Registered Capital Increase contemplated thereby 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 Chapter 14A of the Listing Rules.

THE AGREEMENT

Date

27 October 2005

Parties

- (1) Xinao China BVI, a wholly-owned subsidiary of the Company and the existing shareholder of Shijiazhuang Xinao holding 70% equity interest;
- (2) Shijiazhuang Gas, the existing shareholder of Shijiazhuang Xinao holding 30% equity interest, thereby a connected person of the Company. Apart from being a substantial shareholder of Shijiazhuang Xinao by virtue of its present 30% equity interest in Shijiazhuang Xinao, Shijiazhuang Gas is not otherwise a connected person of the Company under the Listing Rules; and

- (3) Hebei Xindi. The Company confirms that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hebei Xindi and its ultimate beneficial owners are independent third parties of the Company and its connected persons.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Shijiazhuang Gas and its ultimate beneficial owners are independent from Hebei Xindi and its ultimate beneficial shareholders.

The Registered Capital Increase

Each of the parties to the Agreement has agreed to inject capital, which in aggregate amounts to RMB170,000,000 (equivalent to approximately HK\$163,462,000), into Shijiazhuang Xinao accordingly to the Agreement in the following manner:

- (1) Xinao China BVI will inject RMB56,000,000 (equivalent to approximately HK\$53,846,000) as to RMB23,493,700 (equivalent to approximately HK\$22,590,000) by way of off-setting undistributed profits of Shijiazhuang Xinao and as to RMB32,506,300 (equivalent to approximately HK\$31,256,000) by way of payment in cash in Hong Kong dollars or the United States dollars;
- (2) Shijiazhuang Gas will inject RMB81,000,000 (equivalent to approximately HK\$77,885,000) by way of off-setting undistributed profits of Shijiazhuang Xinao and injection of assets into Shijiazhuang Xinao; and
- (3) Hebei Xindi will inject RMB33,000,000 (equivalent to approximately HK\$31,731,000) by way of cash in Renminbi, such amount to be paid by Xinao China pursuant to the Nominee Agreement.

The amount for the Registered Capital Increase was determined on an arm's length basis between the parties and represents the current anticipated amount required for the second phase development of Shijiazhuang Xinao in the forthcoming years.

The Group's contribution to the Registered Capital Increase, which amounts to RMB89,000,000 (equivalent to approximately HK\$85,577,000), will be funded by internal resources of the Group and the net proceeds from the notes of the Company issued in August 2005.

The Registered Capital Increase will be completed upon obtaining all necessary approvals from the PRC authorities and the issuance of the new business license of Shijiazhuang Xinao. The Board currently anticipates that the completion of the Registered Capital Increase will be within around two months from the date of this announcement.

PARTICULARS OF SHIJIAZHUANG XINAO

Shijiazhuang Xinao, a Sino-foreign equity joint venture established in PRC in 2002, is currently owned by Xinao China BVI and Shijiazhuang Gas as to 70% and 30% respectively. The current registered capital of Shijiazhuang Xinao is RMB130,000,000 (equivalent to approximately HK\$125,000,000), the whole amount of which has been fully contributed by Xinao China BVI and Shijiazhuang Gas by way of cash and assets injection respectively in proportional to their equity holdings in Shijiazhuang Xinao.

Upon the completion of the Registered Capital Increase, the registered capital of Shijiazhuang Xinao will be increased by RMB170,000,000 (equivalent to approximately HK\$163,462,000), from RMB130,000,000 (equivalent to approximately HK\$125,000,000) to RMB300,000,000 (equivalent to approximately HK\$288,462,000), and Shijiazhuang Xinao will be legally owned by Xinao China BVI, Shijiazhuang Gas and Hebei Xindi as to 49%, 40% and 11% respectively, representing registered capital of RMB147,000,000, RMB120,000,000 and RMB33,000,000 respectively (equivalent to approximately HK\$141,346,000, HK\$115,385,000 and HK\$31,731,000 respectively). Pursuant to the Nominee Agreement, Hebei Xindi will hold the 11% equity interest in Shijiazhuang Xinao for Xinao China, and as a result, the Group will hold an effective 60% interest in Shijiazhuang Xinao. Shijiazhuang Xinao will continue to be a subsidiary of the Company upon the completion of the Registered Capital Increase.

As a Sino-foreign equity joint venture established in PRC on 27 December 2002, Shijiazhuang Xinao enjoys a tax holiday permitting an initial two-year exemption from the first profit-making year and a subsequent three-year 50% reduction of the national enterprise income tax in accordance with the relevant PRC laws and regulations. For both 2003 and 2004, Shijiazhuang Xinao still enjoyed exemption of the national enterprise income tax. Therefore, the unaudited net profit before and after tax of Shijiazhuang Xinao for each of the two financial years ended 31 December 2004 was approximately RMB20,251,000 and RMB15,047,000 respectively (equivalent to approximately HK\$19,472,000 and HK\$14,468,000 respectively). There were no extraordinary items for each of the two financial years ended 31 December 2004. The unaudited net asset value of Shijiazhuang Xinao was approximately RMB165,504,000 (equivalent to approximately HK\$159,138,000) as at 31 December 2004.

Term

30 years from 27 December 2002, which term can be extended upon agreement between the shareholders of Shijiazhuang Xinao.

Business scope

Under the business license of Shijiazhuang Xinao, Shijiazhuang Xinao may carry out the manufacture of gas and gas facilities and equipments, the sale of self-manufactured products, and the design, installation and maintenance of gas facilities. The principal business of Shijiazhuang Xinao is the supply of piped natural gas to Shijiazhuang city.

Board of directors

The board of directors of Shijiazhuang Xinao will comprise of seven directors, three of whom (including the chairman, who will also be the legal representative of Shijiazhuang Xinao) will be nominated by Xinao China BVI, three of whom (including the deputy chairman) will be nominated by Shijiazhuang Gas and one of whom will be nominated by Hebei Xindi (pursuant to the direction of Xinao China).

Profits

Profits will be distributed to each of the parties to the Agreement in proportion to their respective equity interests in Shijiazhuang Xinao and Hebei Xindi will in turn distribute any profit to Xinao China. The Group will enjoy 60% of any profit of Shijiazhuang Xinao.

Dissolution

Upon early termination of the Agreement or the expiry of the term of Shijiazhuang Xinao, the remaining assets of Shijiazhuang Xinao (after the payment of all its debts, if any) will be distributed to each of the parties to the Agreement in proportion to their respective equity interests in Shijiazhuang Xinao and Hebei Xindi will in turn distribute any such assets to Xinao China.

REASONS FOR AND EFFECTS OF THE REGISTERED CAPITAL INCREASE

Shijiazhuang, the provincial capital of Hebei Province, PRC, is located in the southwest of Hebei Province, with a connectable population of approximately 2,173,000 as at the end of 2003. The Shijiazhuang project is one of the Group's largest projects in terms of population. The Group has secured the exclusive right to distribute piped natural gas in Shijiazhuang at the end of 2002.

As at the end of 2004, Shijiazhuang Xinao had approximately 116 kilometres of existing pipelines (representing an increase of 45 kilometres of pipelines when comparing to 2003) and one processing station, and it had contracted to make natural gas connections to 31,164 residential households and 17 commercial / industrial customers and had already made natural gas connections to 21,373 residential households and 16 commercial / industrial customers, representing increases of 9,145 residential households and 12 commercial / industrial customers when comparing to 2003.

Shijiazhuang Xinao was first established in 2002. After two successful years of operations, the management of Shijiazhuang Xinao has decided to initialise the second phase of development, which comprises of, among others, the acquisition of coal gas facilities and operations in Shijiazhuang and the conversion of such facilities and operations into natural gas compatible. It was decided that the second phase of development of Shijiazhuang Xinao will be funded by way of increase in its registered capital.

During the process of obtaining the initial approvals for the Registered Capital Increase from the local PRC government, the government has requested the Group to seek a third party to join as one of the shareholders of Shijiazhuang Xinao, which party shall hold its equity interest in Shijiazhuang Xinao for the Group. In view of the PRC local government's request, the Group entered into the Nominee Agreement with Hebei Xindi whereby it was agreed that Hebei Xindi shall hold the 11% equity interest in Shijiazhuang Xinao for Xinao China free of charge. Under the Nominee Agreement, Hebei Xindi shall pay all amounts it is entitled as a shareholder of Shijiazhuang Xinao (including without limitation, any profits distributable to the shareholders by Shijiazhuang Xinao) to Xinao China within 15 working days.

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

As Shijiazhuang Gas is a substantial shareholder of Shijiazhuang Xinao, in which the Group currently owns 70% equity interests, Shijiazhuang Gas is a connected person of the Company under the Listing Rules. Hence, the signing of the Agreement and the Registered Capital Increase contemplated thereby 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 Chapter 14A of the Listing Rules.

GENERAL

The Company acts as an investment holding company. The Group is one of the first non state-owned piped natural 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 bottled LPG 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.

So far as the Board is aware having made all reasonable enquiries, Shijiazhuang Gas is principally engaged in the design, consultation, research, contracting of the construction of urban gas heating projects, the manufacture, sale, provision, installation, maintenance of gas facilities and the manufacture and sale of accessories for gas heating pipelines.

So far as the Board is aware having made all reasonable enquiries, Hebei Xindi is principally engaged in the contracting of urban public utilities and fire safety facilities projects and the construction and operation of compressed natural gas vehicle refueling stations and the renting of related facilities.

DEFINITIONS

| | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Agreement” | a conditional agreement dated 27 October 2005 entered into between Xinao China BVI, Shijiazhuang Gas and Hebei Xindi in relation to the Registered Capital Increase |
| “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 |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Hebei Xindi” | 河北新地市政建设工程有限公司 (Hebei Xindi Urban Council Construction Engineering Company Limited*), a company established in PRC |
| “Hong Kong” | the Hong Kong Special Administrative Region of PRC |
| “Listing Rules” | the Rules Governing the Listing of Securities on Stock Exchange |
| “Nominee Agreement” | the nominee agreement dated 27 October 2005 entered into between Xinao China and Hebei Xindi |
| “PRC” | the People's Republic of China |

| | |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Registered Capital Increase” | the proposed increase in the registered capital of Shijiazhuang Xinao under the Agreement |
| “Shijiazhuang Gas” | 石家莊燃氣集團有限公司 (Shijiazhuang Gas Group Company Limited*), a PRC State-owned company established in PRC, which is holding 30% equity interest in Shijiazhuang Xinao and a connected person of the Company under the Listing Rules as at the date of this announcement |
| “Shijiazhuang Xinao” | 石家莊新奧燃氣有限公司 (Shijiazhuang Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC and is owned as to 70% by Xinao China BVI and 30% by Shijiazhuang Gas as at the date of this announcement |
| “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 limited company established in PRC and a wholly-owned subsidiary of the Company as at the date of this announcement |
| “Xinao China BVI” | Xinao Gas China Investment Limited (新奧燃氣中國投資有限公司*), a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company, holding 70% equity interest in Shijiazhuang Xinao as at the date of this announcement |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of PRC |
| “%” | per cent. |

Unless otherwise specified, the conversion of Renminbi into Hong Kong dollars is based on the exchange rate of HK\$1.00: RMB1.04. No representation is made that the amounts stated in this announcement have been, could have been or could be converted at the above rate.

As at the date of this announcement, the Board comprises of 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 three independent non-executive Directors, namely Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau.

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

Hong Kong, 27 October 2005

* For identification only

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