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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](http://www.xinaogas.com))*

## **CONNECTED TRANSACTION INVESTMENT IN A COAL CONVERSION PROJECT IN ERDOS, INNER MONGOLIA, THE PRC**

The Board is pleased to announce that on 15 February 2006, Xinao China (a wholly-owned subsidiary of the Company) has entered into the Joint Venture Contract with XGCL and XGII for the establishment of Xinneng Chemical, a Sino-foreign equity joint venture company, in Erdos, Inner Mongolia, the PRC. Upon establishment, Xinneng Chemical will be owned by XGCL, XGII and Xinao China as to 45%, 40% and 15%, respectively.

Both of the total investment and the registered capital of Xinneng Chemical will amount to US\$99,000,000 (equivalent to approximately HK\$772,200,000). The total commitment of the Group in Xinneng Chemical will amount to US\$14,850,000 (equivalent to approximately HK\$115,830,000), representing Xinao China's proportionate interest in the registered capital of Xinneng Chemical.

As each of XGCL and XGII is an associate of Mr. Wang, the Chairman, an executive Director and a controlling shareholder of the Company, and his spouse, Ms. Zhao, a non-executive Director and a controlling shareholder of the Company, each of XGCL and XGII is a connected person of the Company as defined in the Listing Rules. As each of the relevant percentage ratios (other than the profits ratio) is less than 2.5%, the transaction is subject to reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements pursuant to Rule 14A.48 of the Listing Rules.

### **INTRODUCTION**

The Directors announce that on 15 February 2006, Xinao China (a wholly-owned subsidiary of the Company) has entered into the Joint Venture Contract with XGCL and XGII for the establishment of Xinneng Chemical in Erdos, Inner Mongolia, the PRC. Upon establishment, Xinneng Chemical will be owned by XGCL, XGII and Xinao China as to 45%, 40% and 15% respectively.

## **JOINT VENTURE CONTRACT DATED 15 FEBRUARY 2006**

### **Joint Venture Parties**

- (1) XGCL, a company which is beneficially owned as to approximately 72.99% by Mr. Wang and Ms. Zhao. So far as the Board is aware having made all reasonable enquiries, XGCL is an investment holding company and its principal business comprises investment in the bio-chemical industry and property as well as property management in the PRC;
- (2) XGII, a company which is beneficially owned by Mr. Wang as to 50% and Ms. Zhao as to 50%. So far as the Board is aware having made all reasonable enquiries, XGII is an investment holding company and its principal business comprises investment in the gas industry and energy related equipment industry in the PRC; and
- (3) Xinao China, a wholly-owned subsidiary of the Company, and its principal business comprises the sale of piped gas, the supply of electricity and water and investment in infrastructure projects in the PRC.

### **Condition precedent**

The Joint Venture Contract is conditional upon the obtaining of necessary approvals from the relevant authorities of the PRC government.

### **Business of Xinneng Chemical**

Upon establishment, Xinneng Chemical will engage in the production of methanol and DME. Methanol is widely used in various industries as antifreeze, additive to feed, organic industrial chemical, organic solvent and clean vehicle fuel substitute, etc., whereas DME can be used as a fuel substitute for natural gas and LPG, and can be used by the Group in substitution for natural gas without any impact on the Group's existing customers.

The Company currently expects that the business licence of Xinneng Chemical will be issued in around six months from the date of this announcement and the operation of Xinneng Chemical will commence as soon as practicable after obtaining the business licence. It is expected that the commercial production of Xinneng Chemical will commence in around 36 months after the issue of the business licence of Xinneng Chemical.

Pursuant to the terms of the Joint Venture Contract, Xinao China will have a right to purchase DME from Xinneng Chemical on a preferential basis provided that such purchases are made on the prevailing commercial terms.

### **Registered capital**

The registered capital of Xinneng Chemical will be US\$99,000,000 (equivalent to approximately HK\$772,200,000), which will be contributed by each of XGCL, XGII and Xinao China in the proportionate interest to the registered capital of Xinneng Chemical as follows:

- (a) 45%, being US\$44,550,000 (equivalent to approximately HK\$347,490,000), will be contributed by XGCL in the form of land use rights of a piece of land situated at 王愛召工業園區 (Wang'ai Zhao Industrial Park), Dalate Qi, Erdos, Inner Mongolia, the PRC, construction in progress erected on such land which comprise certain site formation works and cash. The land use rights and construction in progress to be contributed by XGCL will be valued by an independent valuer prior to injection into Xinneng Chemical. As the independent valuation is not yet available as at the date of this announcement, the proportion and amount of the land use rights, construction in progress and cash to be contributed by XGCL is yet to be determined;
- (b) 40%, being US\$39,600,000 (equivalent to approximately HK\$308,880,000), will be contributed in cash by XGII; and
- (c) 15%, being US\$14,850,000 (equivalent to approximately HK\$115,830,000), will be contributed in cash by Xinao China.

Each party to the Joint Venture Contract shall make its proportionate contribution to the registered capital of Xinneng Chemical within 24 months after the issue of the business licence of Xinneng Chemical by the relevant authorities of the PRC Government by way of three instalments in the following manner:

- (1) 20% of its share of contribution of the registered capital of Xinneng Chemical (in the case of Xinao China, being the sum of US\$2,970,000 (equivalent to approximately HK\$23,166,000)) be paid within 3 months after the issue of the business licence of Xinneng Chemical;
- (2) 40% of its share of contribution of the registered capital of Xinneng Chemical (in the case of Xinao China, being the sum of US\$5,940,000 (equivalent to approximately HK\$46,332,000)) be paid within 15 months after the issue of the business licence of Xinneng Chemical; and
- (3) 40% of its share of contribution of the registered capital of Xinneng Chemical (in the case of Xinao China, being the sum of US\$5,940,000 (equivalent to approximately HK\$46,332,000)) be paid within 24 months after the issue of the business licence of Xinneng Chemical.

Transfer of one Joint Venture Party's interest in or any increase of registered capital of Xinneng Chemical will be subject to the pre-emptive rights of the Joint Venture Parties.

The registered capital of Xinneng Chemical was determined on an arm's length basis between the Joint Venture Parties. Other than the amount of the registered capital to be invested by the Joint Venture Parties under the Joint Venture Contract, each of XGCL, XGII and Xinao China does not have any further commitment to invest in Xinneng Chemical.

The total commitment of the Group in Xinneng Chemical will amount to US\$14,850,000 (equivalent to approximately HK\$115,830,000), being the registered capital of Xinneng Chemical required to be contributed by Xinao China as referred to above. Xinao China's contribution to the registered capital of Xinneng Chemical is currently expected to be funded by internal resources of the Group. Upon establishment of Xinneng Chemical, it will be owned by XGCL, XGII and Xinao China as to 45%, 40% and 15%, respectively.

#### **Total investment**

The total investment is US\$99,000,000 (equivalent to approximately HK\$772,200,000), and further investment for the whole project is expected to amount to RMB1,577,572,000 (equivalent to approximately HK\$1,516,896,000). The total investment of Xinneng Chemical was determined on an arm's length basis between the Joint Venture Parties.

The difference between the amount of the total investment and the further investment as referred to above shall be funded by bank financing to be arranged by Xinneng Chemical without the need for guarantee security (including any general corporate guarantee) to be provided by the Group.

#### **Board of directors**

The board of directors of Xinneng Chemical will comprise five directors, of whom two will be nominated by XGCL, two will be nominated by XGII and one (who will also be the chairman and the legal representative of Xinneng Chemical) will be nominated by Xinao China.

#### **Term**

The joint venture period of Xinneng Chemical will be for a term of 30 years from the date of issue of the business licence of Xinneng Chemical, which term can be extended upon agreement between the Joint Venture Parties.

#### **Profits**

Profits will be distributed to each of the Joint Venture Parties in proportion to their respective equity interests in Xinneng Chemical.

#### **Dissolution**

Upon dissolution or the expiry of the term of Xinneng Chemical, the assets of Xinneng Chemical (after the payment of all its debts, if any) will be distributed to each of the Joint Venture Parties in proportion to their respective equity interests in Xinneng Chemical.

## **REASONS FOR AND BENEFITS OF THE INVESTMENT IN XINNENG CHEMICAL**

The Group is one of the first non state-owned piped natural gas operators in the 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 and bottled gas in the 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 investment in Xinneng Chemical provides an opportunity for the Group to invest in the energy chemical industry, which is closely related to the existing business of the Group, and, more importantly, such investment enables the Group to secure a stable supply of an alternative and backup energy source which can substitute natural gas as an alternative supply to its customers without any impact on the Group's existing customers. The Directors believe that this will create a competitive advantage for the Group by the following reasons:

- (a) It is well known that the key for the natural gas industry is gas source, including its supply and price. It is generally expected that the demand for natural gas would outpace the supply of the natural gas within the PRC in the long term, which would lead to an increasing reliance on import of natural gas from outside of the PRC and potential pressure on price increase and the supply of natural gas in the long term. The coal conversion project can reduce the Group's reliance on natural gas as the sole primary energy source.
- (b) The Group can ensure uninterrupted supply of gas to the existing projects by increasing the sources of gas supply in each gas project, and sustain development with sufficient backup gas sources, as the control of upstream gas resources can enable the Group to take an active role in its future development.
- (c) It can generate new income for the Group. The Group has the largest non-pipeline gas transportation system in the PRC, which includes over 150 CNG and LNG trucks. When gas source supply is normal, the Group can use the non-pipeline gas transportation system to supply DME to other cities and customers and earn additional revenue; when there is tight gas source supply, it can be used to ensure gas supply to the existing gas projects.
- (d) Business expansion along the energy industrial chain enables the Group to capture new development opportunity. The gas industry consists of three sectors – upstream, midstream and downstream: upstream represents exploration and exploitation of resources, midstream represents long distance transmission, and downstream represents gas distribution and end-user services, which is also known as “the last mile”. The Group has mainly focused on downstream business so far, and has invested partly in some midstream and upstream businesses. The Group's midstream investment includes the construction of the over 100 km-long Jiao-Huang Pipeline, which ensures the gas sources for projects near Qingdao, Shandong Province; and its upstream investment includes the establishment of an LNG plant in Weizhou Island, Beihai, which ensures gas sources for projects in Guangdong and Guangxi. Investing in the coal conversion project can extend the business of the Group along the industrial chain of energy trade, enable the Group to control upstream resources and allow the Group to fully utilize its distribution channels. The Group can have vertical expansion of its business. Becoming an early participant in the industry, the Group can take advantages of the early participation and strengthen and extend its leading position in the market. As the market capacity of the downstream business is limited, the investment in Xinneng Chemical is two-fold, which is to provide additional revenue as well as expansion opportunities for the Group into related industry with low risks, enhancing the Group's future long term development.

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

## GENERAL

As each of XGCL and XGII is an associate of Mr. Wang, the Chairman, an executive Director and a controlling shareholder of the Company, and his spouse, Ms. Zhao, a non-executive Director and a controlling shareholder of the Company, each of XGCL and XGII is a connected person of the Company as defined in the Listing Rules. As each of the relevant percentage ratios (other than the profits ratio) is less than 2.5%, the transaction is subject to reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirements pursuant to Rule 14A.48 of the Listing Rules.

## DEFINITIONS

|                          |   |
|--------------------------|---|
| “associate”              | shall have the meaning ascribed to it in the Listing Rules  |
| “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 the Stock Exchange as at the date of this announcement |
| “CNG”                    | compressed natural gas  |
| “connected person”       | has the meaning ascribed thereto under the Listing Rules  |
| “Director(s)”            | the director(s) of the Company  |
| “DME”                    | dimethyl ether  |
| “Group”                  | the Company and its subsidiaries  |
| “Hong Kong”              | the Hong Kong Special Administrative Region of PRC  |
| “Joint Venture Contract” | a conditional agreement dated 15 February 2006 entered into between the Joint Venture Parties in relation to the establishment of Xinneng Chemical  |
| “Joint Venture Parties”  | Xinao China, XGCL and XGII being parties to the Joint Venture Contract and “Joint Venture Party” shall mean either one of them  |
| “Listing Rules”          | the Rules Governing the Listing of Securities on Stock Exchange   |
| “LNG”                    | liquefied natural gas   |
| “LPG”                    | liquefied petroleum gas   |
| “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  |
| “Ms. Zhao”               | Ms. Zhao Baoju (趙 寶 菊 女 士), the spouse of Mr. Wang, a non-executive Director and a controlling shareholder of the Company as at the date of this announcement   |
| “PRC”                    | the People's Republic of China  |
| “RMB”                    | Renminbi, the lawful currency of the PRC  |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited   |

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|--------------------|---|
| “XGCL”             | 新奧集團股份有限公司 (Xinao Group Company Limited*), a joint stock limited company established in the PRC, is ultimately controlled and owned as to approximately 72.99% by Mr. Wang and his spouse, Ms. Zhao, and is regarded as a connected person of the Company under the Listing Rules as at the date of this announcement |
| “XGII”             | Xinao Group International Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao; and is interested in approximately 42.52% of the entire issued share capital of the Company as at the date of this announcement  |
| “Xinao China”      | 新奧(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited*), a wholly foreign owned enterprise established in the PRC and a wholly-owned subsidiary of the Company   |
| “Xinneng Chemical” | 新能化工有限公司 (Xinneng Chemical Company Limited*), a Sino-foreign equity joint venture company to be established in Erdos, Inner Mongolia, the PRC pursuant to the Joint Venture Contract  |
| “HK\$”             | Hong Kong dollars, the lawful currency of Hong Kong   |
| “US\$”             | United States dollars, the lawful currency of the United States of America  |
| “%”                | per cent.   |

*Unless otherwise specified, the conversion of United States dollars into Hong Kong dollars is based on the exchange rate of HK\$7.80: US\$1.00 and the conversion of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.04: HK\$1. 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, 15 February 2006

\* For identification only

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