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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)

CONNECTED TRANSACTIONS

(1) DISPOSAL OF DME BUSINESS

(2) ACQUISITION OF 20% EQUITY INTEREST IN HUIAN XINAO

The Board is pleased to announce that on 6 November 2006, Bengbu Gas Development, a 70%-owned subsidiary of the Company, as vendor entered into the Disposal Agreement with Xinneng Energy as purchaser pursuant to which Bengbu Gas Development has agreed to sell and Xinneng Energy has agreed to purchase the DME Business for consideration of RMB14,864,864 (equivalent to approximately HK\$14,293,000).

The Board is also pleased to announce that on the same date, Xinao China, a wholly-owned subsidiary of the Company, as purchaser entered into the Acquisition Agreement with Huaian Asset as vendor pursuant to which Xinao China has conditionally agreed to purchase and Huaian Asset has conditionally agreed to sell the Sale Share for consideration of RMB27,800,600 (equivalent to approximately HK\$26,731,000).

As Xinneng Energy is, as at the date of this announcement, a subsidiary of XGII, which is a substantial shareholder of the Company and a company controlled by Mr. Wang and his spouse, Ms. Zhao Baoju, Xinneng Energy is regarded as an associate of XGII and therefore is a connected person of the Company under the Listing Rules. Further, as Huaian Asset is a substantial shareholder of Huaian Xinao, which is a subsidiary of the Company as at the date of this announcement, Huaian Asset is regarded as a connected person of the Company. Therefore, the signing of each of the Disposal Agreement and the Acquisition Agreement will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. However, as each of the relevant percentage ratios (other than the profit ratio) for the Disposal and the Acquisition is less than 2.5%, the Disposal Agreement and the Acquisition Agreement are only subject to the reporting and announcement requirements set out in rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of the Disposal Agreement and the Acquisition Agreement will be disclosed in the next published annual report of the Company.

THE DISPOSAL AGREEMENT

Date

6 November 2006

Parties

Vendor: Bengbu Gas Development, a 70%-owned subsidiary of the Company

Purchaser: Xinneng Energy, a connected person of the Company and is owned as to 70% indirectly by XGII, 15% indirectly by the Company and 15% by Xinao Group as at the date of this announcement

The principal businesses of Bengbu Gas Development are the sales of piped gas and bottled liquefied petroleum gas. The principal business of Xinneng Energy is the production of methanol and DME.

Assets to be disposed of

The DME Business, being the businesses in relation to the manufacture of DME wholly-owned and operated by Bengbu Gas Development, which was first established by Bengbu Gas Development around December 2005, and their related liabilities. DME could be used as a substitute for and/or to mix with natural gas or liquefied petroleum gas.

The original setting up costs of the DME business of Bengbu Gas Development was around RMB13,881,000 (equivalent to approximately HK\$13,347,000). The PRC unaudited net asset value of the DME Business as at 30 September 2006 was approximately RMB14,864,864 (equivalent to approximately HK\$14,293,000). Since the DME business of Bengbu Gas Development was only commenced around December 2005, the net profits attributable to the DME Business for each of the two financial years ended 31 December 2005 are not available. The PRC unaudited net profit before and after tax of the DME Business for the six months ended 30 June 2006 was approximately RMB1,582,000 (equivalent to approximately HK\$1,521,000). During the six months ended 30 June 2006, Bengbu Gas Development was still enjoying the two-year tax exemption and no tax was chargeable on the profit generated by its businesses. There were no extraordinary items for the six months ended 30 June 2006.

Consideration

RMB14,864,864 (equivalent to approximately HK\$14,293,000), which has been agreed between Bengbu Gas Development and Xinneng Energy on an arm's length basis and is based on the PRC unaudited net asset value of the DME Business of approximately RMB14,864,864 (equivalent to approximately HK\$14,293,000) as at 30 September 2006. The consideration shall be payable by Xinneng Energy in three instalments in the following manner:

- (1) RMB4,000,000 (equivalent to approximately HK\$3,846,000) in cash, payable within 10 days after signing of the Disposal Agreement;
- (2) RMB10,000,000 (equivalent to approximately HK\$9,615,000) in cash, payable within three (3) days after completion of transfer of the DME Business by Bengbu Gas Development to Xinneng Energy; and
- (3) The balance of the consideration of RMB864,864 (equivalent to approximately HK\$832,000) in cash, payable within 20 days after completion of transfer of the DME Business by Bengbu Gas Development to Xinneng Energy.

Completion

Upon signing of the Disposal Agreement, Bengbu Gas Development shall commence transferring the DME Business to Xinneng Energy, completion of the transfer is expected to be within 10 days after signing of the Disposal Agreement.

REASONS FOR AND EFFECTS OF THE DISPOSAL

Around December 2005, the management of Bengbu Gas Development decided to start up the DME business, which has now grown to have an annual production capacity of 10,000 tons, which is still relatively small in scale when comparing to other DME projects in PRC and thus lacks the competitive advantages in the DME market in PRC. More capital injections and expertise will be needed for the expansions and developments of the DME business in order to render it more competitive. Considering that the principal businesses of Bengbu Gas Development are the sales of piped gas and bottled liquefied petroleum gas but not in DME-related business, and that Xinneng Energy has rich raw materials and technological expertise on DME production and already possesses a license to establish an annual 300,000-ton DME production project in Bengbu city, the management of the Group decided that in order to utilise its assets more efficiently, the DME Business should be transferred to Xinneng Energy, which is currently 15% indirectly owned by the Company, thereby still enabling the Group to retain part of the future earnings generated by the DME business, if any.

Currently, the principal businesses of Bengbu Gas Development are the sales of piped gas and bottled liquefied petroleum gas, including the business of manufacture of DME. Upon completion of the Disposal, Bengbu Gas Development will cease to carry out any business in relation to DME but will continue to carry on its other gas-related businesses.

The Group currently intends to use the proceeds from the Disposal for its gas distribution businesses.

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

THE ACQUISITION AGREEMENT

Date

6 November 2006

Parties

Vendor: Huaian Asset, a connected person of the Company

Purchaser: Xinao China, a wholly-owned subsidiary of the Company

So far as the Board is aware having made all reasonable enquiries, the principal businesses of Huaian Asset are the management and operation of PRC-state-owned assets. The principal businesses of Xinao China are the sale of piped gas, supply of electricity and water and investment in infrastructure projects.

Assets to be acquired

The Sale Share, being the 20% equity interest in Huaian Xinao beneficially owned by Huaian Asset, being the entire equity interest held by Huaian Asset in Huaian Xinao.

Huaian Xinao is owned as to 80% by Jiangsu BVI and 20% beneficially by Huaian Asset as at the date of this announcement. The principal businesses of Huaian Xinao are the investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas in Huaian city, Jiangsu province, PRC. Huaian Xinao has an exclusive right to supply gas to Huaian city.

The registered capital of Huaian Xinao is RMB30,000,000 (equivalent to approximately HK\$28,846,000) and each of the shareholders of Huaian Xinao has contributed in accordance with its proportional interest. Based on the paid up registered capital of Huaian Xinao of RMB30,000,000, the original costs of investment in the Sale Share was RMB6,000,000 (equivalent to approximately HK\$5,769,000).

Based on a valuation conducted by Huaian Xinyuan Certified Public Accountants Limited (淮安新元會計師事務所有限公司), an independent professional PRC valuer which is independent of any members of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders of the Company or its subsidiaries, and their respective associates, the value of the Sale Share was RMB27,800,600 (equivalent to approximately HK\$26,731,000) as at 31 October 2005.

The PRC audited net profit before tax of Huaian Xinao for each of the two financial years ended 31 December 2005 was approximately RMB3,175,000 and RMB2,747,000 respectively (equivalent to approximately HK\$3,053,000 and HK\$2,641,000 respectively). The PRC audited net profit after tax of Huaian Xinao for each of the two financial years ended 31 December 2005 was approximately RMB2,127,000 and RMB2,335,000 respectively (equivalent to approximately HK\$2,045,000 and HK\$2,245,000 respectively). There were no extraordinary items for each of the two financial years ended 31 December 2005.

Consideration

RMB27,800,600 (equivalent to approximately HK\$26,731,000), which has been agreed between Huaian Asset and Xinao China on an arm's length basis and is based on the value of the Sale Share carried out by the independent valuer of approximately RMB27,800,600 (equivalent to approximately HK\$26,731,000) as at 31 October 2005.

The consideration will be satisfied in cash from internal resources of the Group and is expected to be paid on or before 30 November 2006, being the proposed completion date of the Acquisition under the Acquisition Agreement.

Conditions

Completion of the Acquisition is conditional on, among other things, all necessary approvals from the relevant PRC authorities being obtained in relation to the transfers of the Sale Share.

REASONS FOR AND EFFECTS OF THE ACQUISITION

In the opinion of the Directors, Huaian Xinao is now undergoing steady growth. Its piped natural gas source has commenced supply, which should bring in long term returns to Huaian Xinao. As at the date of this announcement, Huaian Xinao is a 80%-owned subsidiary of the Company and its accounts are consolidated into the Company's. Upon the completion of the Acquisition, the Group will consolidate and gain full control on Huaian Xinao and the Group's equity interests in Huaian Xinao will be increased from 80% to 100%, thereby increasing the Group's share of profit (if any) in Huaian Xinao by 20%.

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

LISTING RULES IMPLICATIONS

Xinneng Energy is owned as to 70% indirectly by XGII, 15% indirectly by the Company and 15% by Xinao Group as at the date of this announcement. As Xinneng Energy is, as at the date of this announcement, a subsidiary of XGII, which is a substantial shareholder and a company controlled by Mr. Wang and his spouse, Ms. Zhao Baoju, Xinneng Energy is regarded as an associate of XGII and therefore is a connected person of the Company under the Listing Rules. Further, as Huaian Asset is a substantial shareholder of Huaian Xinao, which is a subsidiary of the Company as at the date of this announcement, Huaian Asset is regarded as a connected person of the Company. Therefore, the signing of each of the Disposal Agreement and the Acquisition Agreement will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. However, as each of the relevant percentage ratios (other than the profit ratio) for the Disposal and the Acquisition is less than 2.5%, the Disposal Agreement and the Acquisition Agreement are only subject to the reporting and announcement requirements set out in rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirement. Particulars of the Disposal Agreement and the Acquisition Agreement will be disclosed in the next published annual report of the Company.

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 businesses of the Group are the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled 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.

DEFINITIONS

“Acquisition”	the proposed acquisition of 20% equity interest in Huaian Xinao by Xinao China from Huaian Asset under the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 6 November 2006 entered into between Huaian Asset as vendor and Xinao China as purchaser in relation to the Acquisition
“associates”	has the meaning ascribed thereto under the Listing Rules
“Bengbu Gas Development”	蚌埠新奧燃氣發展有限公司 (Bengbu Xinao Gas Development Company Limited), a Sino-foreign joint venture enterprise incorporated in PRC and a 70%-owned subsidiary of the Company, being the vendor under the Disposal Agreement
“Board”	the board of Directors
“Company”	Xinao Gas Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the proposed disposal of the DME Business by Bengbu Gas Development to Xinneng Energy under the Disposal Agreement
“Disposal Agreement”	the agreement dated 6 November 2006 entered into between Bengbu Gas Development as vendor and Xinneng Energy as purchaser in relation to the Disposal
“DME”	dimethyl ether (二甲醚), a relatively clean form of energy converted from coal or methanol, and can be used as a substitute for and/or to mix with natural gas or liquefied petroleum gas
“DME Business”	the businesses in relation to the manufacture of DME wholly-owned and operated by Bengbu Gas Development and their related liabilities

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huaian Asset”	淮安市城市資產經營有限公司 (Huaian City Urban Asset Operation Company Limited*), a PRC- incorporated company, being the vendor under the Acquisition Agreement
“Huaian Xinao”	淮安新奧燃氣有限公司 (Huaian Xinao Gas Company Limited), a Sino-foreign joint venture enterprise incorporated in PRC and is owned as to 80% by Jiangsu BVI and 20% beneficially by Huaian Asset as at the date of this announcement
“Jiangsu BVI”	Xinao Jiangsu Investment Limited, an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖先生), one of the controlling shareholders, the chairman and an executive director of the Company
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan regions
“RMB”	Renminbi, the lawful currency of PRC
“Sale Share”	the 20% equity interest in Huaian Xinao beneficially owned by Huaian Asset, being the entire equity interest held by Huaian Asset in Huaian Xinao
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“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 his spouse, Ms. Zhao Baoju, and is a substantial shareholder 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-owned foreign enterprise incorporated in PRC and a wholly-owned subsidiary of the Company, being the purchaser under the Acquisition Agreement
“Xinao Group”	新奧集團股份有限公司 (Xinao Group Company Limited*), a joint stock limited company incorporated in PRC and is ultimately controlled by Mr. Wang and his spouse, Ms. Zhao Baoju
“Xinneng Energy”	新能能源有限公司 (Xinneng Energy Limited), a Sino-foreign joint venture enterprise incorporated in PRC, being the purchaser under the Disposal Agreement and is owned as to 70% indirectly by XGII, 15% indirectly by the Company and 15% by Xinao Group as at the date of this announcement
“%”	per cent.

For the purposes of illustration only and unless otherwise stated, the conversion of Renminbi into HK Dollars is based on the exchange rate of HK\$1.00=RMB1.04. Such conversion should not be construed as a representation that the amount in question have been, could have been or could be converted at any particular rate or at all.

As at the date of this announcement, the Board comprises of eight executive Directors, namely Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Chief Executive Officer), Mr. Chen Jiacheng, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok; two non-executive Directors, namely Ms. Zhao Baoju and Mr. Jin Yongsheng; 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, 6 November 2006

* *For identification purposes*