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XINAO GAS HOLDINGS LIMITED **(新奧燃氣控股有限公司)***

(incorporated in the Cayman Islands with limited liability)

(Website : www.xinaogas.com)

CONNECTED TRANSACTION

The Board is pleased to announce that Pinggu BVI has, on 2 June 2003, entered into the Shares Transfer Agreement with Pinggu LPG whereby Pinggu BVI has agreed to acquire and Pinggu LPG has agreed to dispose its 20% interest in Jinggu Xinao for a consideration of RMB1,980,000 (equivalent to approximately HK\$1,868,000).

As Pinggu LPG is a substantial shareholder of Jinggu Xinao, a subsidiary of the Company, in which the Group has a 70% interests, Pinggu LPG is a connected person as defined in the Listing Rules. Hence, the signing of the Shares Transfer Agreement constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules. However, as the consideration for the Shares Transfer Agreement is less than HK\$10,000,000, no independent shareholders' approval is required. Details of the Shares Transfer Agreement will be disclosed in the next published annual report of the Company.

SHARES TRANSFER AGREEMENT DATED 2 JUNE 2003

Parties

Purchaser : Pinggu BVI

Vendor : Pinggu LPG

Assets to be acquired

Pinggu LPG's 20% interest in Jinggu Xinao.

The legal status of Jinggu Xinao was converted from a PRC joint venture originally established on 11 August 2000 to a Sino-foreign equity joint venture established on 18 June 2001 and is currently owned as to 70% by Pinggu BVI and 30% by Pinggu LPG. Jinggu Xinao has an exclusive right to supply gas to the Pinggu county centre (which includes the Xinggu Development Zone and the Binhe Development Zone). The registered capital of Jinggu Xinao is RMB9,900,000 (equivalent to approximately HK\$9,340,000) and each of Pinggu BVI and Pinggu LPG has contributed in accordance with its proportional interest.

The unaudited net profit before tax of Jinggu Xinao for the two financial years ended 31 December 2002 was approximately RMB1,761,000 and RMB2,575,000 respectively (equivalent to approximately HK\$1,661,000 and HK\$2,429,000 respectively). The unaudited net profit after tax of Jinggu Xinao for the two financial years ended 31 December 2002 was approximately RMB1,243,000 and RMB2,575,000 respectively (equivalent to approximately HK\$1,173,000 and HK\$2,429,000 respectively). There were no extraordinary items for each of the two financial years ended 31 December 2002. The unaudited net asset value of Jinggu Xinao was RMB10,504,000 (equivalent to approximately HK\$9,909,000) as at 31 December 2002. Based on the unaudited net asset value of Jinggu Xinao as at 31 December 2002, the value of the Acquisition is approximately RMB2,101,000 (equivalent to approximately HK\$1,982,000)

Consideration

RMB1,980,000 (equivalent to approximately HK\$1,868,000). The consideration will be satisfied in cash from internal resources of the Group and will be paid by the Group to Pinggu LPG upon satisfaction of all the conditions in the Shares Transfer Agreement. The consideration was arrived at after arm's length negotiations and based on the unaudited net asset value of Jinggu Xinao as at 31 December 2002.

Conditions

Completion of the Acquisition is conditional on, among other things, all necessary approvals being obtained in relation to the transfer of the equity interest and the amendments to the articles of Jinggu Xinao (including the approval from the relevant local foreign trade and economic co-operation departments in PRC).

Reasons for and effects of the Acquisition

The Board anticipates steady growth in the demand for piped gas in the Pinggu county centre for the foreseeable future. Upon the completion of the Acquisition, Pinggu BVI's equity interests in Jinggu Xinao will be increased from 70% to 90%, thereby increasing the Group's share of profit (if any) in Jinggu Xinao by 20%.

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

As Pinggu LPG is a substantial shareholder of Jinggu Xinao, a subsidiary of the Company, in which the Group has a 70% interests, Pinggu LPG is a connected person as defined in the Listing Rules. Hence, the signing of the Shares Transfer Agreement constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules and the Shares Transfer Agreement is subject to the disclosure requirement under Rule 14.25 of the Listing Rules. However, as the consideration for the Acquisition is less than HK\$10,000,000, no independent shareholders' approval is required.

GENERAL

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

Details of the Shares Transfer Agreement will be disclosed in the next published annual report of the Company.

DEFINITIONS

“Acquisition”	the acquisition of 20% interest in Jinggu Xinao by Pinggu BVI pursuant to the Shares Transfer Agreement
“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 Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Jinggu Xinao”	北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*), a PRC company originally established on 11 August 2000 and was converted to a Sino-foreign equity joint venture established in PRC on 18 June 2001 in which Pinggu BVI has a 70% interest and Pinggu LPG has the remaining 30% interest
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Pinggu BVI”	Xinao Pinggu Investment Limited, an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 19 December 2000 with limited liability and is an investment holding company
“Pinggu LPG”	平谷縣液化石油氣公司 (Pinggu County LPG Company*), a company established in PRC, which has a 30% interest in Jinggu Xinao and is a connected person of the Company under the Listing Rules
“PRC”	The People’s Republic of China
“Shares Transfer Agreement”	a conditional agreement dated 2 June 2003 entered into between Pinggu BVI and Pinggu LPG

“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:

$$\text{HK\$1} = \text{RMB1.06}$$

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

Hong Kong, 2 June 2003

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

** For identification only*

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