

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.



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 TRANSACTIONS

The Board is pleased to announce that on 19 September 2003, Jiangsu BVI, an indirect wholly owned subsidiary of the Company, has entered into the Transfer Agreement with Shanghai Yanxin whereby Jiangsu BVI has agreed to acquire and Shanghai Yanxin has agreed to dispose of its entire 20% interests in Yancheng Xinao, a subsidiary of the Company in which the Company holds an indirect 80% interests as at the date of this announcement. The consideration for the Yancheng Acquisition will be RMB2,380,000 (equivalent to approximately HK\$2,245,000).

The Board is also pleased to announce that on the same date, Beijing Xinao, a subsidiary of the Company in which the Company holds an indirect 95% interests as at the date of this announcement, has entered into the Sale and Purchase Agreement with Guangxia Property Development whereby Beijing Xinao has agreed to purchase and Guangxia Property Development has agreed to sell the Property. The consideration for the Property Purchase will be RMB9,590,000 (equivalent to approximately HK\$9,047,000).

As Shanghai Yanxin is a substantial shareholder of Yancheng Xinao, a subsidiary of the Company, Shanghai Yanxin is a connected person of the Company as defined in the Listing Rules. As Guangxia Property Development is controlled by Mr. Wang Yusuo, a substantial shareholder, an executive director and the chairman of the Company, Guangxia Property Development is an associate of Mr. Wang and is thereby a connected person of the Company as defined in the Listing Rules. Therefore, the signings of the Transfer Agreement and the Sale and Purchase Agreement constitute connected transactions for the Company under Rule 14.25 of the Listing Rules. However, as each of the consideration for the Yancheng Acquisition and the Property Purchase is less than the higher of HK\$10,000,000 or 3% of the consolidated net tangible asset value of the Company, no independent shareholders' approval is required. Details of the Transfer Agreement and the Sale and Purchase Agreement will be disclosed in the next published annual report of the Company.

TRANSFER AGREEMENT DATED 19 SEPTEMBER 2003

Parties

- (1) Jiangsu BVI as purchaser
- (2) Shanghai Yanxin as vendor

Assets to be acquired

Shanghai Yanxin's 20% interests in Yancheng Xinao.

As at the date of this announcement, Yancheng Xinao is a Sino-foreign equity joint venture established in PRC on 3 April 2002 and is owned as to 80% by Jiangsu BVI and 20% by Shanghai Yanxin. Upon completion of the Yancheng Acquisition, Yancheng Xinao will become a wholly owned subsidiary of Jiangsu BVI and the legal status of Yancheng Xinao will be changed to a wholly foreign owned enterprise.

Yancheng Xinao has the right to operate piped gas distribution business in Yancheng City located in the eastern part of Jiangsu Province of PRC.

The unaudited net profit before and after tax of Yancheng Xinao from 3 April 2002 (the date of its incorporation) to 31 December 2002 were approximately RMB6,089,000 (equivalent to approximately HK\$5,744,000) and RMB4,627,000 (equivalent to approximately HK\$4,365,000) respectively. There were no extraordinary items from 3 April 2002 to 31 December 2002. The unaudited net asset value of Yancheng Xinao was approximately RMB10,370,000 (equivalent to approximately HK\$9,783,000) as at 31 December 2002. Based on the approximate unaudited net asset value of Yancheng Xinao as at 31 December 2002, the value of the Yancheng Acquisition is approximately RMB2,074,000 (equivalent to approximately HK\$1,957,000).

Consideration

The consideration for the Yancheng Acquisition is RMB2,380,000 (equivalent to approximately HK\$2,245,000), payable within three days after the approval from the relevant Foreign Trade and Economic Department (外經貿部門) in PRC has been issued.

The consideration was arrived at after arm's length negotiations and based on RMB10,370,000 (equivalent to approximately HK\$9,783,000), the approximate unaudited net asset value of Yancheng Xinao as at 31 December 2002.

Conditions and completion

Completion of the Yancheng Acquisition is conditional on, amongst other terms, the necessary approval(s) being obtained from the relevant Foreign Trade and Economic Department (外經貿部門) in PRC in connection with the Yancheng Acquisition. The Transfer Agreement contains no long stop date. Application for the approval(s) from the relevant Foreign Trade and Economic Department in PRC will be submitted as soon as practicable after the signing of the Transfer Agreement and the Board currently expects that such approval(s) will be issued within two weeks after the signing of the Transfer Agreement.

Reasons for and effects of the Yancheng Acquisition

The Board anticipates steady growth in the demand for piped gas in the Yancheng city area for the foreseeable future. Upon the completion of the Yancheng Acquisition, Jiangsu BVI's equity interests in Yancheng Xinao will be increased from 80% to 100%, thereby increasing the Group's share of profit (if any) in Yancheng Xinao by 20%.

SALE AND PURCHASE AGREEMENT DATED 19 SEPTEMBER 2003

Parties

- (1) Beijing Xinao as purchaser
- (2) Guangxia Property Development as vendor

Assets to be acquired

The Property, a five-storey building situated in Miyun, a county in the suburban area of Beijing Municipality of PRC and was built for commercial use. The construction floor area of the Property is approximately 6,624 square metres. Guangxia Property Development is currently in the process of applying for a building ownership certificate (房產証) in respect of the Property. Guangxia Property Development has undertaken in the Sale and Purchase Agreement that the building ownership certificate in respect of the Property will be issued before 30 November 2003, failing which Guangxia Property Development shall indemnify all losses and damages which may be suffered by Beijing Xinao as a result thereof, including without limitation, the consideration for the Property Purchase.

Consideration

The consideration for the Property Purchase is RMB9,590,000 (equivalent to approximately HK\$9,047,000), payable on completion. There is no condition precedent for the Sale and Purchase Agreement. Completion shall take place within thirty days after the signing of the Sale and Purchase Agreement.

The consideration was arrived at after arm's length negotiations and is the value of the Property of RMB9,590,800 (equivalent to approximately HK\$9,048,000) as at 31 July 2003 as valued by an independent property valuer not associated with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them. The principal valuation method used by the valuer was the "current market value method" (現行市價法).

Reasons for and effects of the Property Purchase

Beijing Xinao is currently renting another property as its office from a landlord who is independent and not associated with any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them, the rental of which is RMB100,000 (equivalent to approximately HK\$94,000) per annum. After the completion of the Property Purchase, Beijing Xinao will no longer rent such property but will mainly use the Property as its office.

CONNECTED TRANSACTIONS

As Shanghai Yanxin is a substantial shareholder of Yancheng Xinao, a subsidiary of the Company, Shanghai Yanxin is a connected person of the Company as defined in the Listing Rules. As Guangxia Property Development is controlled by Mr. Wang, Guangxia Property Development is an associate of Mr. Wang and is thereby a connected person of the Company as defined in the Listing Rules. Therefore, the signings of the Transfer Agreement and the Sale and Purchase Agreement constitute connected transactions for the Company under Rule 14.25 of the Listing Rules. However, as each of the consideration for the Yancheng Acquisition and the Property Purchase is less than the higher of HK\$10,000,000 or 3% of the

consolidated net tangible asset value of the Company, no independent shareholders' approval is required. Details of the Transfer Agreement and the Sale and Purchase Agreement will be disclosed in the next published annual report of the Company.

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

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.

DEFINITIONS

“associate(s)”	as such term is defined under the Listing Rules
“Beijing Xinao”	北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC, a subsidiary of the Company in which the Company holds an indirect 95% interests as at the date of this announcement
“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 as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangxia Property Development”	北京新奧廣廈房地產開發有限公司 (Beijing Xinao Guangxia Property Development Company Limited*), a company which is controlled by Mr. Wang as at the date of this announcement
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Jiangsu BVI”	Xinao Jiangsu Investment Limited (新奧江蘇投資有限公司*), an indirectly wholly owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability and is an investment holding company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Wang”	Mr. Wang Yusuo (王 玉 鎖), a substantial shareholder, an executive director and the chairman of the Company as at the date of this announcement
“PRC”	the People’s Republic of China
“Property”	the property to be purchased by Beijing Xinao from Guangxia Property Development pursuant to the Sale and Purchase Agreement
“Property Purchase”	the purchase of the Property by Beijing Xinao from Guangxia Property Development pursuant to the Sale and Purchase Agreement
“Sale and Purchase Agreement”	an agreement in Chinese writing dated 19 September 2003 entered into between Beijing Xinao and Guangxia Property Development in respect of the Property Purchase
“Shanghai Yanxin”	上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*), a company established in PRC, which has 20% interests in Yancheng Xinao and is a connected person of the Company under the Listing Rules as at the date of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer Agreement”	a conditional agreement in Chinese writing dated 19 September 2003 entered into between Jiangsu BVI and Shanghai Yanxin in respect of the Yancheng Acquisition
“Yancheng Acquisition”	the acquisition of 20% interests in Yancheng Xinao by Jiangsu BVI pursuant to the Transfer Agreement
“Yancheng Xinao”	鹽城新奧燃氣有限公司 (Yancheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC in which Jiangsu BVI has 80% interests and Shanghai Yanxin has the remaining 20% interests 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.

In this announcement, the following exchange rate has been used:

$$\text{HK\$1.00} = \text{RMB1.06}$$

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

Hong Kong, 19 September 2003

* *For identification only*

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