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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))*

## **ANNOUNCEMENT**

### **CONNECTED TRANSACTION – PROPOSED ACQUISITION OF A PIECE OF LAND AND THE FACTORY COMPLEX UNDER CONSTRUCTIONS THEREON LOCATED IN LANGFANG, HEBEI PROVINCE, PRC FROM A CONNECTED PERSON**

The Board is pleased to announce that on 10 June 2005, the Group (through Langfang Equipment, an indirectly wholly-owned subsidiary of the Company) has entered into the Sale and Purchase Agreement with XGCL whereby Langfang Equipment has agreed to purchase and XGCL has agreed to sell the Plot of Land and the Factory Complex currently under constructions thereon located in Langfang Economic and Technical Development Zone, Hebei Province, PRC for an aggregate consideration of RMB14,500,000 (equivalent to approximately HK\$13,679,000), to be satisfied by utilising internal resources of the Group.

As XGCL is a company controlled by Mr. Wang Yusuo, one of the controlling shareholders, the chairman and an executive director of the Company, XGCL is treated as a connected person under the Listing Rules. Hence, the Sale and Purchase 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 Acquisition is less than 2.5%, the Sale and Purchase Agreement is only subject to the reporting and announcement requirements set out in rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement. Particulars of the Sale and Purchase Agreement will be disclosed in the next published annual report of the Company.

#### **THE SALE AND PURCHASE AGREEMENT**

**Date:** 10 June 2005

#### **Parties**

- (a) Langfang Equipment as purchaser, a wholly-owned foreign enterprise established in PRC and an indirectly wholly-owned subsidiary of the Company; and

- (b) XGCL as vendor, a joint stock limited company incorporated in PRC and is controlled by Mr. Wang Yusuo, one of the controlling shareholders, the chairman and an executive director of the Company. It is an investment holding company and the principal business of its subsidiaries is the investment in bio-chemical industry and property investment and management.

### **Assets to be acquired**

The Property, being the Plot of Land with a site area of approximately 8,051 square meters and the Factory Complex currently under constructions thereon located in Langfang Economic and Technical Development Zone, Hebei Province, PRC, is for industrial use. Upon completion of the constructions, the Factory Complex will mainly comprise of two factory units for manufacturing of gas meters and their major component parts respectively, with an aggregate gross floor area of approximately 6,452 square meters.

The Directors have been advised by the management of XGCL that the Plot of Land was acquired by XGCL in May 2002 and the acquisition costs (inclusive of the costs of constructions of the necessary gas and other pipelines thereunder) of the Plot of Land was approximately RMB1,961,600 (equivalent to approximately HK\$1,851,000) and that the estimated total construction costs of the Factory Complex are RMB7,819,300 (equivalent to approximately HK\$7,376,000).

### **The Consideration**

#### *Amount and manner of payment*

The Consideration of RMB14,500,000 (equivalent to approximately HK\$13,679,000) shall be payable by Langfang Equipment in three instalments in the following manner:

- (1) the sum of RMB7,250,000 (equivalent to approximately HK\$6,840,000) in cash, being 50% of the Consideration, payable within seven days after signing of the Sale and Purchase Agreement;
- (2) the sum of RMB6,525,000 (equivalent to approximately HK\$6,156,000) in cash, being 45% of the Consideration, payable within seven days after satisfactory passing of the construction completion quality tests to be conducted by the relevant PRC authority on the Factory Complex; and
- (3) the remaining balance of the Consideration will be treated as retention money and is payable in cash within seven days after the end of the Guarantee Period provided that all maintenance fees and expenses incurred on the Factory Complex during the Guarantee Period (if any) and payable by XGCL under the Sale and Purchase Agreement have been duly settled by XGCL. In the event that XGCL fails to fully pay such maintenance fees and expenses pursuant to the Sale and Purchase Agreement, thereby incurring any losses and/or damages on Langfang Equipment, Langfang Equipment may deduct any such amount of losses and/or damages by off-setting from the said retention money and pay XGCL any remaining amount thereon as the last and final instalment of the Consideration.

#### *Basis of determination*

The Consideration, to be satisfied by utilising internal resources of the Group, was arrived at after arm's length negotiations and is the value of the Property of RMB14,500,000 (equivalent to approximately HK\$13,679,000) as at 31 May 2005 as valued by Chesterton Petty Limited, an independent property 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.

#### *Late payment*

Any late payment of any parts of the Consideration by Langfang Equipment will be subject to default interest at a rate equivalent to the loan lending rate of The People's Bank of China at the material time.

**Other major terms**

- (1) XGCL will procure that the construction completion quality tests to be performed by the relevant PRC authority on the Factory Complex will be satisfactorily conducted and passed before 30 June 2005 and thereupon XGCL will deliver possession of the Factory Complex to Langfang Equipment.
- (2) XGCL has undertaken to procure that all the constructions specifications as stated in the construction plans of the Factory Complex will be fulfilled before 31 July 2005.
- (3) XGCL has undertaken to procure that the land use right certificate of the Plot of Land and the building ownership certificate of the Factory Complex will be obtained, under the name of Langfang Equipment and at XGCL's sole expenses, before 31 December 2005, failing which XGCL will pay default interest to Langfang Equipment at a rate equivalent to 1% of the amount of the Consideration already paid by Langfang Equipment under the Sale and Purchase Agreement. In the event that such land use right certificate and building ownership certificate are still not obtained by 31 May 2006, then XGCL will return to Langfang Equipment all the amount of the Consideration already paid by Langfang Equipment and will pay further default interest to Langfang Equipment on the amount of the Consideration already paid by Langfang Equipment under the Sale and Purchase Agreement at a rate equivalent to the loan lending rate of The People's Bank of China at the material time, upon which the Acquisition under the Sale and Purchase Agreement will be deemed to have been cancelled.
- (4) All repair and maintenance costs and expenses to be incurred on those basic facilities and ancillary fixtures specified in the construction plans of the Factory Complex during the Guarantee Period will be borne by XGCL.

**REASONS FOR AND EFFECTS OF THE ACQUISITION**

For 2004, the Group secured 11 new operational locations in PRC and expanded its total connectable population coverage by approximately 55.7% when compared to 2003 to approximately 29,128,000 people. As at the end of 2004, the Group made natural gas connections for an accumulated total of 634,678 residential households and 1,515 commercial/industrial customers, representing increases of 253,395 residential households and 733 commercial/industrial customers respectively when compared to 2003.

In view of the substantial growth in the Group's connectable population coverage and natural gas connections and sales during 2004, the Board anticipates that the Group will be able to secure more new operational locations in PRC and there will continue to be a strong demand for gas meters and that the Group's current production capacity of gas meters may not be able to meet such demand. As such, the Board proposed that the Group should acquire the Factory Complex in order to increase the Group's production capacity of gas meters.

Currently, the Group does not have any production lines for the manufacture of base meters, which are one of the major component parts of gas meters, but the Group has production lines which are capable of manufacturing approximately 600,000 sets of gas meters annually. The Group currently purchases, amongst others, all base meters from Independent Third Parties for the manufacture of gas meters.

Upon completion of the constructions, the Factory Complex will mainly comprise of two factory units for manufacturing of gas meters and their major component parts respectively but it will contain no manufacturing facilities, other than basic facilities and ancillary fixtures as specified in the construction plans of the Factory Complex. Therefore, once the constructions of the Factory Complex and the Acquisition have been completed, the Group will build an additional production line of base meters at the Factory Complex (the construction costs of which are estimated to be RMB2,700,000 (equivalent to approximately HK\$2,547,000)), which, together with the existing

production lines of gas meters of the Group which will be moved to the Factory Complex, are estimated to be capable of manufacturing an aggregate of approximately 900,000 sets of gas meters and 300,000 sets of base meters annually. As such, the Group will be able to manufacture both base meters as well as the final product, gas meters, thereby will be able to gain better control over the production costs and the quality of gas meters.

As the overall production capacity of gas meters of the Group will increase, thereby economising the scale of production of gas meters, and the Group no longer has to purchase all base meters from Independent Third Parties but is able to produce base meters itself, the Group will be in a better position to reduce production costs of gas meters. Currently, the unit purchase costs of base meters from Independent Third Parties range from approximately RMB115 to RMB118 (equivalent to approximately HK\$108 to HK\$111). The Directors estimate that once the production line of base meters has been launched and operated at the Factory Complex, the unit production cost of base meters will range from approximately RMB95 to RMB98 (equivalent to approximately HK\$90 to HK\$92), thereby representing a saving of approximately 17% on costs on such base meters for the Group.

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

## **GENERAL**

As XGCL is a company controlled by Mr. Wang Yusuo, one of the controlling shareholders, the chairman and an executive director of the Company, XGCL is treated as a connected person under the Listing Rules. Hence, the Sale and Purchase 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 Acquisition is less than 2.5%, the Sale and Purchase Agreement is only subject to the reporting and announcement requirements set out in rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement. Particulars of the Sale and Purchase Agreement will be disclosed in the next published annual report of the Company.

The Group is one of the first non state-owned piped 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 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**

“Acquisition”	the proposed purchase of the Property by Langfang Equipment from XGCL pursuant to the Sale and Purchase 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 main board of Stock Exchange as at the date of this announcement
“Consideration”	the aggregate consideration of the Acquisition payable by Langfang Equipment under the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company

“Factory Complex”	the factory complex currently in process of constructions located on the Plot of Land proposed to be purchased by Langfang Equipment from XGCL pursuant to the Sale and Purchase Agreement, including all the basic facilities and ancillary fixtures as specified in the construction plans thereof
“Group”	the Company and its subsidiaries
“Guarantee Period”	one year after satisfactory passing of the construction completion quality tests to be conducted by the relevant PRC authority on the Factory Complex
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of any members of the Group, the Directors, the chief executives, the substantial shareholders of the Company, its subsidiaries and any of their respective associates
“Langfang Equipment”	廊坊新奧燃氣設備有限公司 (Langfang Xinao Gas Equipment Company Limited*), a wholly-owned foreign enterprise established in PRC and an indirectly wholly-owned subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“Plot of Land”	the piece of land proposed to be purchased by Langfang Equipment from XGCL pursuant to the Sale and Purchase Agreement
“PRC”	the People’s Republic of China
“Property”	the Plot of Land and the Factory Complex to be purchased by Langfang Equipment from XGCL pursuant to the Sale and Purchase Agreement
“Sale and Purchase Agreement”	an agreement in Chinese writing dated 10 June 2005 entered into between Langfang Equipment as purchaser and XGCL as vendor in relation to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“XGCL”	新奧集團股份有限公司 (Xinao Group Company Limited*), a joint stock limited company incorporated in PRC and is controlled by Mr. Wang Yusuo, one of the controlling shareholders, the chairman and an executive director of the Company, thereby is a connected person of the Company under the Listing Rules as at the date of this announcement
“HK\$”	Hong Kong dollars and cents, 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:

HK\$1.00 = RMB1.06

\* For identification purpose only

*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, 10 June 2005

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