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北京控股有限公司

BEIJING ENTERPRISES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(STOCK CODE: 392)

VERY SUBSTANTIAL ACQUISITION (INCLUDING THE ISSUE OF NEW SHARES) CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS AND RESUMPTION OF TRADING

Financial Adviser to the Company



Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders of the Company



CLSA Equity Capital Markets Limited

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

On 10 April 2007, the Company, the Vendor and other parties entered into the Sale and Purchase Agreement pursuant to which the Company agreed to purchase the entire issued share capital of the Target Company for a total consideration of HK\$11,600,000,000, which is payable as to HK\$4,000,100,000 in cash and as to the balance by way of issuance of the Consideration Shares. According to Rule 14.08 of the Listing Rules, the Acquisition constitutes a very substantial acquisition and also a connected transaction of the Company for the reasons set out in the paragraph headed "Connected transactions and continuing connected transactions" below. According to Rules 14.49 and 14A.18 of the Listing Rules, the Acquisition, including the issue and allotment of the Consideration Shares, is subject to the approval of the Independent Shareholders and BEIL (and its associate(s)) will abstain from voting at the Extraordinary Shareholders' Meeting.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has already entered into or will enter into several agreements with Beijing Enterprises Group and its associates. Beijing Enterprises Group will become a connected person of the Company upon Completion and thus such agreements will constitute connected transactions or continuing connected transactions (as the case may be) of the Company. As the annual aggregate amount for certain continuing connected transactions is expected to exceed 0.1% of the Relevant Ratio or HK\$1 million in absolute terms but is expected to be less than 2.5% of the Relevant Ratio, such continuing connected transactions are subject to reporting and announcement requirements under Chapter 14A of the Listing Rules. Such transactions are disclosed in this announcement so as to comply with the announcement requirement.

A circular containing, amongst other things, further details of the Acquisition, other disclosures in connection with the Acquisition required pursuant to the Listing Rules, the recommendation from the independent board committee of the Company to the Independent Shareholders, the recommendation from the independent financial adviser to the independent board committee of the Company and the notice of the Extraordinary Shareholders' Meeting will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 10:00 a.m. on 4 April 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 11 April 2007.

INTRODUCTION

On 10 April 2007, the Company, the Vendor and other parties entered into the Sale and Purchase Agreement. Details of the Sale and Purchase Agreement are set out below:

THE SALE AND PURCHASE AGREEMENT

Date: 10 April 2007

Parties:

Purchaser: the Company

Vendor: the Vendor

Warrantors: (1) the Vendor, (2) Beijing Enterprises Group, (3) Beiran Enterprises Ltd. and (4) Gas Group

Guarantor: Beijing Enterprises Group

The Warrantors jointly and severally represent, warrant and undertake to and with the Company that the representations, warranties and undertakings made by the Warrantors pursuant to the Sale and Purchase Agreement (collectively, the "Warranties") are, at the time of execution of the Sale and Purchase Agreement, and will remain, at all times between the date of the Sale and Purchase Agreement and Completion, true and accurate and not misleading.

The Guarantor has given an unconditional and irrevocable guarantee to Gas Group for the purpose of securing the due and punctual performance and observance by the Vendor of all its respective obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to the Sale and Purchase Agreement and has agreed to indemnify Gas Group against all losses, damages, costs and expenses (including legal costs and expenses) which the Company and Gas Group may suffer as a result of or in connection with any breach by the Vendor of any such obligation, commitment, undertaking, warranty, indemnity or covenant.

The Acquisition

Pursuant to the Sale and Purchase Agreement, the Vendor agrees to sell to the Company, and the Company agrees to purchase, the entire issued share capital of the Target Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

Consideration

The consideration of HK\$11,600,000,000 for the Acquisition shall be paid by the Company as to HK\$4,000,100,000 by way of cash and as to the balance of HK\$7,599,900,000 by way of issuance of 411,250,000 Shares to the Vendor.

The cash consideration will be financed by the Company's internal resources and/or bank loans. Out of the cash consideration, HK\$3,000,000,000 will be paid upon Completion and the balance of HK\$1,000,100,000 will be paid before 30 June 2008 (or such other date as the parties to the Sale and Purchase Agreement may agree in writing).

The consideration for the Acquisition has been determined after arms' length negotiation between the parties taking into consideration, *inter alia*:

- the prospects of the Target Group, including its competitiveness and its estimated profitability;
- the price-to-earnings ratio, price-to-book value ratio and enterprise value to EBITDA ratio of other piped natural gas companies;
- the synergistic effect expected to arise from the Acquisition; and
- the expected enhancement to the Company's position in the market and competitiveness upon Completion.

The Consideration Shares will be issued at HK\$18.48 per Share. As at the date of this announcement, the nominal value of the issued share capital of the Company was HK\$62,250,000, divided into 622,500,000 Shares. As at the date of this announcement, the Consideration Shares represent approximately 66.06% of the existing issued share capital of the Company. Upon Completion, the Consideration Shares will represent approximately 39.78% of the enlarged issued share capital of the Company.

On 3 April 2007, being the last trading day of the Shares immediately prior to the date of this announcement, the price of the Shares as quoted on the Stock Exchange was HK\$19.80 (the "Closing Price"). The issue price of the Consideration Shares (i.e., HK\$18.48 per Share) represents a discount of approximately 6.67% to the Closing Price, and represents a discount of approximately 6.59% and 5.05%, respectively, to the average closing price per Share for the five and ten trading days immediately prior to the date of this announcement. The Consideration Shares shall rank *pari passu* in all respects with the Shares in issue and existing at Completion. The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. There are no restrictions on the disposal of the Consideration Shares. The Vendor confirms that it does not have any present intention to transfer, mortgage or pledge the Consideration Shares.

Conditions Precedent

Completion is subject to each of the following conditions being satisfied or waived (in the case of the conditions described in paragraphs (1), (2), (3), (5) and (6) below):

- (1) at Completion, and at all times between the date of the Sale and Purchase Agreement and Completion, all the Warranties are and have been true and accurate and not misleading;
- (2) the Company notifying the Vendor in writing that it is satisfied in reliance on the Warranties as to:
 - (2.1) the completion of the Division and the transfer by Beijing Enterprises Group of the entire share capital of Gas Group to the Vendor in accordance with the approval of the relevant State authorities ("Capital Transfer"); and
 - (2.2) the respective business permits, finance, assets, contracts, taxation and commercial status of each member of the Target Group;
- (3) the Vendors, Beijing Enterprises Group, Gas Group and Beiran Enterprises Ltd. having fully complied with all the covenants, agreements, obligations and conditions under the Sale and Purchase Agreement;
- (4) all necessary third party (including government or official authorities) consents being obtained and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the shares in the Target Company or the operation of any member of the Target Group after Completion having been proposed, enacted or made by any governmental or official authority;
- (5) receipt by the Company of a legal opinion issued by a firm of qualified lawyers in the PRC in respect of the completion of the Division, Capital Transfer, the Sale and Purchase Agreement and all matters relating thereto regarding all material issues under PRC law to the satisfaction of the Company;
- (6) receipt by the Company of a legal opinion issued by a firm of qualified lawyers in the British Virgin Islands in respect of the Vendor and the Sale and Purchase Agreement and all matters relating thereto regarding all material issues under the laws of the British Virgin Islands to the satisfaction of the Company;
- (7) the passing of the necessary resolutions by the Independent Shareholders to approve the Sale and Purchase Agreement, the issue and allotment of the Consideration Shares to the Vendor and the other transactions contemplated thereunder, in accordance with the Listing Rules; and
- (8) approval for the issuance of the Consideration Shares being granted by the China Securities Regulatory Commission and approval for the listing of, and permission to deal in, the Consideration Shares being granted by the Stock Exchange.

Shareholders should note that the Acquisition will only become unconditional upon the fulfilment (or waiver, if applicable) of the conditions above, and the conditions may or may not be satisfied or waived (as the case may be). **Therefore, Shareholders and the public should exercise caution when dealing in the securities of the Company.**

Completion

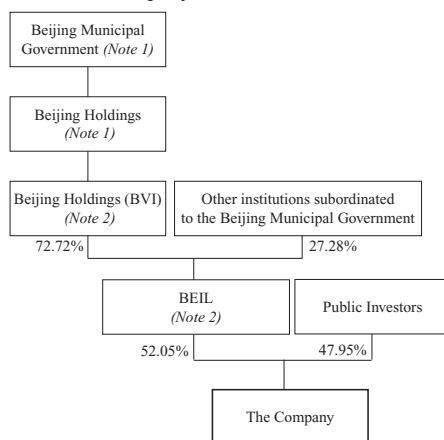
Completion shall take place on 30 June 2007 (or on such other date as the parties to the Sale and Purchase Agreement may agree in writing).

The Company shall publish an announcement regarding the status of the Acquisition at Completion.

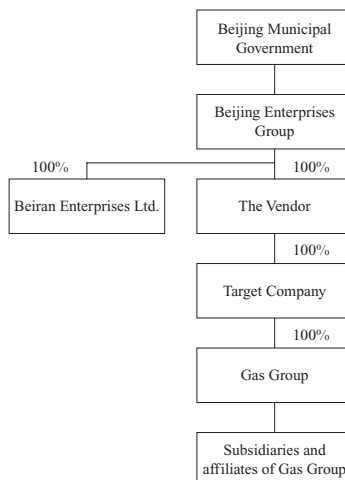
The Company will pay a portion of the cash consideration being HK\$3,000,000,000 and will allot and issue the Consideration Shares to the Vendor at Completion.

SHAREHOLDING STRUCTURE OF THE COMPANY AND THE TARGET GROUP

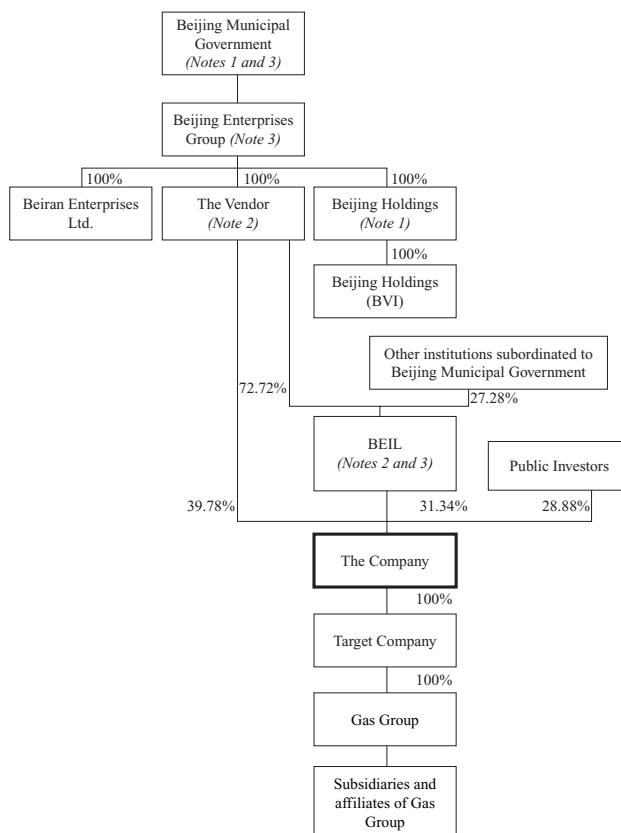
The following is the simplified shareholding structure chart of the Company as at the date of this announcement:



The following is the simplified shareholding structure chart of the Target Group as at the date of this announcement:



The following is the simplified shareholding structure chart of the Company and the Target Group immediately after Completion:



Notes:

- (1) The entire issued share capital of Beijing Holdings is held by certain individuals on behalf of the Beijing Municipal Government. To the knowledge of the Directors, the entire issued share capital of Beijing Holdings will be transferred to Beijing Enterprises Group at the same time as, or immediately after, Completion (as part of the Transfers), as a result of which Beijing Holdings will become a wholly-owned subsidiary of Beijing Enterprises Group. Beijing Enterprises Group is a State-owned enterprise and its entire shareholding is in turn controlled by the Beijing Municipal Government.

- (2) To the knowledge of the Directors, Beijing Holdings (BVI) will transfer its entire interest in BEIL, representing approximately 72.72% of the entire issued share capital of BEIL, to the Vendor at the same time as, or immediately after Completion (as part of the Transfers), as a result of which BEIL will become a subsidiary of the Vendor.
- (3) The obligations on the part of Beijing Municipal Government and any entity under its control to make a general offer for the Shares as a result of the Acquisition and the Transfers pursuant to the “Codes on Takeovers and Mergers and Share Repurchases” have been waived by the Securities and Futures Commission of Hong Kong.

As at the date of this announcement, approximately 52.05% of the issued share capital of the Company was held by subsidiaries of Beijing Holdings, which is controlled by the Beijing Municipal Government. To the knowledge of the Directors, the Transfers will be completed at the same time as, or immediately after, Completion. The Transfers are conditional upon Completion, but not vice-versa. As a result of the Transfers, Beijing Holdings and BEIL will become subsidiaries of Beijing Enterprises Group. As the Vendor is also a subsidiary of Beijing Enterprises Group, approximately 71.12% of the issued Shares will be controlled by Beijing Municipal Government through Beijing Enterprises Group and its subsidiaries immediately after Completion. Therefore, the Directors are of the opinion that completion of the Acquisition will not result in a change of control of the Company.

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately after Completion and the Transfers:

Shareholders	As at the date of this announcement		Immediately after Completion and the Transfers	
	Number of Shares	%	Number of Shares	%
BEIL and its wholly-owned subsidiary (Modern Orient Limited)	324,000,000	52.05%	324,000,000	31.34%
The Vendor	Nil	Nil	411,250,000	39.78%
Public investors	298,500,000	47.95%	298,500,000	28.88%
Total:	<u>622,500,000</u>	<u>100.00%</u>	<u>1,033,750,000</u>	<u>100.00%</u>

INFORMATION ON THE TARGET GROUP

The Target Company is an overseas company established by the Vendor in November 2006 with the approval of the Ministry of Commerce of PRC and its principal business is the holding of the entire equity interest in Gas Group. As at the date of this announcement, the sole registered owner of Gas Group is the Target Company.

Gas Group was established on 27 October 2006 upon the division of Original Gas Group pursuant to the injection and division plan approved by the relevant PRC government authorities. Its registered capital is RMB1,983,630,000. The term of operation is from 27 October 2006 to 26 October 2056. At the time of establishment, it was named “Beijing Gas Company Limited”, with Beijing Enterprises Group as the sole registered owner. It was later renamed “Beijing Gas Group Company Limited”. Gas Group principally engages in the business of supplying and sale of piped natural gas and related businesses in Beijing.

The income of Gas Group is mainly derived from the sales of piped gas through the trunk pipeline network and the service lines to residential, heating and cooling, commercial and industrial users as well as heat-electricity co-generation across Beijing. The major customer group of Gas Group at present are heating and cooling users (i.e., the operators providing heating and cooling), but mainly heating users. Residential users are the largest customer group of Gas Group in terms of number of users and demonstrate rapid growth momentum.

Condensed Combined Results of the Target Group

	Year ended 31 December		
	2004 RMB'000	2005 RMB'000	2006 RMB'000
Revenue	4,257,893	5,089,443	6,010,181
Cost of sales	(3,433,744)	(4,143,564)	(5,212,864)
Gross profit	824,149	945,879	797,317
Other income and gains, net	110,356	158,043	46,620
Selling and distribution costs	(46,385)	(56,784)	(73,681)
Administrative expenses	(183,837)	(219,257)	(306,870)
Other operating expenses, net	(26,764)	(90,216)	(44,491)
PROFIT FROM OPERATING ACTIVITIES	677,519	737,665	418,895
Finance costs	(65,858)	(43,429)	(40,845)
Share of profit of a jointly-controlled entity	–	13,255	171,244
PROFIT BEFORE TAX	611,661	707,491	549,294
Tax	(119,566)	(143,113)	(66,334)
PROFIT FOR THE YEAR	<u>492,095</u>	<u>564,378</u>	<u>482,960</u>
Attributable to:			
Shareholder of the Target Company	492,095	564,160	480,207
Minority interests	–	218	2,753
	<u>492,095</u>	<u>564,378</u>	<u>482,960</u>

Profit Forecast

The Company believes that with the basis and assumptions set out below and in the absence of unforeseen circumstances and in accordance with the Hong Kong Financial Reporting Standards, the forecast combined profit attributable to the shareholder of the Target Company for the year ending 31 December 2007 will not be less than RMB780 million (equivalent to approximately HK\$788 million).

The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Target Group and has been based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in Mainland China, Hong Kong, or any other country or territory in which the Target Group currently operates or which are otherwise material to the Target Group's business and revenues;
- there will be no changes in legislation, regulations or rules governing the industry of distribution and sale of natural gas operations in Mainland China, Hong Kong or any other country or territory in which the Group operates or with which the Target Group has arrangements or agreements, which materially adversely affect the business or operations of the Target Group;
- there will be no material change in the bases or rates of taxation, surcharges or other government levies applicable to the Target Group, except as otherwise disclosed in the circular to be despatched to the Shareholders;

- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those prevailing as of the date of this announcement; and
- the Target Group's operations will not be adversely affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of its management, including but not limited to the occurrence of natural disasters, epidemics or serious accidents, labor shortages and disputes. In addition, the Group will be able to recruit enough employees to meet its operating requirements during the forecast period.

Key Performance Indicators

Set out in the table below are the key operating figures of the natural gas distribution business for Gas Group between 2004 and 2006:

	As at 31 December,		
	2004 (units)	2005 (units)	2006 (units)
Residential users	2,527,568	2,865,767	3,191,034
Commercial users	14,889	16,309	19,229
Industrial users	167	165	190
Heating and cooling users	3,941	4,417	5,089
Heat-electricity co-generation users	0	1	2

As at 31 December 2006, the combined owner's equity value of the Target Group was about RMB9,016 million. For the years ended 31 December 2004, 2005 and 2006, the combined profit before tax of the Target Group was about RMB612 million, RMB707 million and RMB549 million, respectively. The combined profit for the year attributable to the shareholder of the Target Company for the years ended 31 December 2004, 2005 and 2006 was about RMB492 million, RMB564 million and RMB480 million, respectively, while turnover was about RMB4,258 million, RMB5,089 million and RMB6,010 million, respectively, for the same three years.

Hua You Company

In order to fulfill the demand for natural gas from the economic and social development in Beijing, PetroChina and the Beijing Municipal Government established Beijing Natural Gas Transmission Company on 12 July 1991. Beijing Natural Gas Transmission Company was mainly engaged in the construction, operation and management of the Shaanxi-Beijing Gas Transmission Pipeline. PetroChina and the Beijing Municipal Government held 60% and 40% of equity interests in that company respectively. In May 2001, Beijing Natural Gas Transmission Company was transformed into Hua You Company. In March 2002, Original Gas Group obtained the 40% equity interest in Hua You Company previously held by the Beijing Municipal Government, and such equity interest was succeeded by Gas Group pursuant to the Division.

The natural gas transmission and dispatch facilities now owned by Hua You Company mainly include Nos. 1 and 2 Shaanxi-Beijing Gas Transmission Pipeline (with a designed maximum annual transmission capability of 15.3 billion cubic metres in total), 4 underground storage reservoirs (with a designed working volume of 2.357 billion cubic metres in total), and numerous gas supply stations, valve rooms, pressure compression stations and dispatch centres.

INFORMATION ON THE VENDOR, BEIJING ENTERPRISES GROUP AND BEIRAN ENTERPRISES LTD.

The Vendor is an oversea company established by Beijing Enterprises Group in November 2006 with the approval of the Ministry of Commerce in the PRC and its principal business is the holding of the entire issued share capital of the Target Company. The Vendor's ultimate beneficial owner, Beijing Enterprises Group, is a limited liability company wholly owned by the State and was incorporated in Beijing on 18 January 2005. Beijing Enterprises Group's entire equity interest is controlled by the Beijing Municipal Government and its principal businesses are investment holding and investment management.

Beiran Enterprises Ltd. was the entity subsisting upon the division of Original Gas Group. The date of change in its registration is 27 October 2006. Its registered capital is RMB1,000,000,000. Beiran Enterprises Ltd. is a wholly-owned subsidiary of Beijing Enterprises Group. Its principal businesses are supplying and sale of compressed natural gas and LPG, manufacturing, processing and sale of gas equipment and tools, construction of gas pipelines, installation of equipment, planning and design of municipal gas and heating projects, engineering survey, technology services for gas and heating, production of coke, sale of raw chemical materials and property management.

INFORMATION ON THE GROUP

The Group is principally engaged in public utilities, infrastructure projects, investment holding and investment management.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Through the Acquisition, the Company will acquire the entire issued share capital of the Target Company, which is the sole registered owner of the Gas Group.

Development of the Natural Gas Businesses in Beijing

Beijing is the capital of China. It is also one of the largest and most rapidly growing metropolitans in the PRC. The major energy source of Beijing is coal. The massive utilization of coal has resulted in severe air pollution in Beijing. In order to improve the air quality in the urban area, Beijing Municipal Government has devoted efforts in introducing natural gas as an alternative energy source. From 1998 until now, Beijing Municipal Government has published numerous measures to reduce air pollution, which expressly endorse the active promotion of natural gas and other clean energy sources to accelerate the improvement of air quality.

With the acceleration of urbanization in Beijing, urban renewal and the increase in new constructions (according to the statistical figures of Beijing Statistics Year Book published by Beijing Statistics Bureau, newly constructed gross floor area in Beijing increased from 23,580,000 sq.m. in 2000 to 46,790,000 sq.m. in 2005), as well as the growth in the population of Beijing (according to the statistical figures of Beijing Statistics Year Book, the population of Beijing grew from 13,636,000 in 2000 to 15,380,000 in 2005), the utilization of natural gas also increased significantly. Set out below is a table of the annual purchase volume of natural gas, number of users and length of natural gas pipelines in Beijing between 1998 and 2005:

Item	1998	1999	2000	2001	2002	2003	2004	2005
Annual purchase volume (billion cubic metres per annum)	0.326	0.648	0.957	1.674	1.800	2.385	2.553	3.174
Number of ultimate end users (1,000)	820	1,050	1,350	1,720	1,930	2,300	2,590	3,060
Length of pipelines (km)	2,181	3,277	4,231	5,328	5,743	6,773	6,906	7,124

Source: China Urban Construction Statistics Yearbook published by the General Financial Division, Ministry of Construction, the PRC

With 2008 Olympics scheduled to be held in Beijing, Beijing is positioning itself as the Resident-Friendly City and is accelerating the implementation of the strategy of construction of new urban and rural areas. Hence, the Directors are of the opinion that the development of the gas market in Beijing will continue to be rapid. It is expected that by 2008, the proportion of clean energy in Beijing will increase substantially. Total consumption of natural gas will reach over five billion cubic metres per annum. By 2010, it is expected to reach over six billion cubic metres per annum. According to the Overall Urban Planning of Beijing (2004-2020), the aggregate natural gas consumption will be about 11-12 billion cubic metres per annum. By 2020, the urban areas will be supplied with piped gas, with major suburban towns enjoying priority in adopting the supply of piped gas.

Competitive Advantages of the Target Group

The Board considers that the competitive advantages of the Target Group are as follows:

- **Unparallel location advantage of capital:** As the capital of the PRC, Beijing ranks top in the PRC both in terms of the pace of economic development and the progress of urbanization. Beijing will hold the 2008 Olympics and has initiated the mission to hold a “Green Olympics”, which will dramatically speed up the process of urbanization, marketization and globalization of Beijing. As a result, the city’s modernization will be gradually enhanced. The demand for clean energy, in particular natural gas, will increase substantially. These factors provide a favourable operating environment, broad user base and great potential for expansion of Gas Group. As the piped natural gas operator serving Beijing, the capital city of the PRC, the Target Group has an unparallel location advantage. Due to the utmost importance of “ensuring the safe and stable natural gas supply for Beijing”, the Target Group is supported by resources and policies provided by the State energy administration authorities and upstream gas providers to achieve its business planning and expansion.
- **Leading position in the industry:** As at the end of 2005, among the city gas suppliers in the PRC, the Target Group ranks No.1 in China in terms of the number of natural gas users, the volume in purchase and sales of natural gas and the length of the operating pipeline network system. The above demonstrates the key position of the Target Group in the industry, which could greatly facilitate the further expansion of its piped natural gas business in other cities and regions.
- **Broadly covering trunk pipeline network system:** The trunk pipeline network of the Target Group covers all urban districts of Beijing as well as sub-urban districts including Tongzhou, Daxing, Changping, Shunyi, Fangshan and Mentougou. In the near future, the trunk pipeline network will be extended to districts and counties including Huairou, Miyun and Pinggu. After years of development, it has formed the unique distribution network system in the PRC with five pressure levels ranging from high to low pressure levels, which is comprised of pipelines of 7,295 km, five citygates, four spherical gas-holder stations and over 10,000 pressure regulation facilities and related monitoring and control systems. As a result, the Target Group has established a distinct competitive advantage in Beijing urban and sub-urban areas.
- **Stable and adequate supply of gas:** At present, natural gas of adequate volume in Shaanxi, Hebei and Xinjiang is supplied to Beijing through long transmission pipelines. The Target Group has formed a strategic cooperation relationship with PetroChina by setting up a joint venture, which owns Nos. 1 and 2 Shaanxi-Beijing Gas Transmission Pipelines and underground gas storage reservoirs, in order to further secure the natural gas supply.
- **Advanced operation management systems:** As the largest city gas supplier in the PRC in terms of scale, the Target Group has 50 years of history and an experienced and professional management team, with a number of experts and leading scholars in the gas industry. In respect of planning of pipeline networks, construction, construction management, gas distribution, contingency safety management, sales services and customers services, the Target Group has formed high-quality management systems. The state-of-the-art technology and the management experience in the industry that the Target Group possesses have served as the example for many city gas suppliers in the PRC in their development of their respective gas businesses.
- **Cutting-edge technology in the industry:** With an emphasis on investment in technology and the introduction and application of state-of-the-art technology, the Target Group has maintained a leading advantage with respect to technology in the industry. The Target Group has conducted more than one hundred technology development projects. Recently, five of them were awarded the Beijing Science and Technology Advance Award. It also has a state-of-the-art control and dispatch centre equipped with the internationally leading SCADA system, which can ensure the safe operation and stable supply under various complicated circumstances.

Business Strategies of the Target Group

The Target Group will endeavour to maintain its status as the “leading city clean energy operator” in the PRC in the future and intends to implement the following business strategies:

- **Further consolidate its leading position in Beijing:** Based on its existing advantages in pipeline network and gas sources, and following the city development plan of Beijing, the Target Group will improve its service standards and proactively develop its heating, commercial and industrial user base so as to increase its sale volume. Capitalizing on the advantages arising from the coverage of the existing trunk pipeline network, the Target Group will increase the usage of piped gas in rural areas to the level as in the urban areas. The marketing of gas supply in Beijing will also be strengthened. Efforts will be devoted to the integration of urban and rural piped gas supply.
- **Continuously improve operation efficiency and enhance investment return:** The Target Group intends to adopt state-of-the-art technology to protect the pipeline network from corrosion, so as to extend the lifetime of the pipeline network and reduce repairs expenses. The Target Group strictly implements the investment budget management system and efficiency evaluation process for strengthening control over capital expenditures as well as increasing the return on investment. At the same time, it plans to upgrade and integrate the existing information management system gradually, to establish a complete customer management information system, to unify its customer’s consumption records and credit records and to improve the customer service standard and promote the capital efficiency.
- **Timely expand the market coverage:** The Target Group intends to seek opportunities for its business proactively in other cities in the PRC outside Beijing so as to fully capitalize on the competitive advantages already possessed by the Target Group, in particular in those cities alongside Nos. 1 and 2 Shaanxi-Beijing Gas Transmission Pipelines. Gas Group has entered into an entrustment investment agreement with the Beijing Enterprises Group for participation in Tangshan Gas Group Company Limited. The Gas Group may consider acquiring a certain shareholding interest in Tangshan Gas Group Company Limited at any appropriate time.
- **Invest proactively in upstream and downstream entities so as to expand the scope of business:** Following the successful investment in Hua You Company, the Target Group will continue to participate in the construction of upstream transmission pipelines and underground storage reservoirs through Hua You Company, on the one hand, and will continue to identify opportunities to participate in upstream business including transmission pipeline projects within provinces outside Beijing, on the other hand. In addition, the Target Group will tap into the downstream market such as distributed energy supply and customer energy management through different means such as investment and participation.

Benefits of the Acquisition

The Company’s vision is to become a comprehensive municipal infrastructure and utilities company. The Acquisition is a major strategic move to achieve this objective. Through the Acquisition, the positioning of the Company in the market will be further enhanced and the segmentation of its principal operating activities will be more distinct. Its utilities business will be noticeably strengthened. There will be a new driving force for growth, so that the Company may benefit more from the rapid development in Beijing. This will in turn improve its financial performance and enhance Shareholders’ value.

Strengthen focus on infrastructure and utilities business

Prior to Completion, the Group is principally engaged in infrastructure and utilities, consumer products and technology industries. Through the Acquisition, the piped gas business and the assets and personnel related to the piped gas business of Gas Group, which is the largest city gas provider in the PRC at present, will become part of the Group. Thus, infrastructure and utilities business will become predominant in the operating activities of the Company.

After Completion, the Group will engage in a number of municipal infrastructure and utilities projects such as gas supply, water treatment and expressways. The Acquisition will further enhance the Group’s positioning and widen the influence of the Group in the municipal infrastructure and utilities market as a whole. The Acquisition will also allow the Group to absorb a professional team of management, which will strengthen the capabilities of the Group in the management of municipal utilities business and will facilitate its expansion to the utilities business in other cities.

- **Add new driving force for growth**

In recent years, the business of the Target Group has grown rapidly. Its total turnover increased from approximately RMB4,258 million in 2004 to approximately RMB6,010 million in 2006. The turnover increase rate amounted to 18.8% on average per annum. Due to the opportunities arising from the 2008 Olympics, there will be continuous development of municipal construction in Beijing for the coming few years. At the same time, in order to improve the quality of the environment in the capital, substantially reduce air pollution and provide strong assurance for the success of the 2008 Olympics, the Beijing Municipal Government has devoted much efforts to promote the use of clean energy. This has created favourable conditions for the development of the Gas Group's business. The Directors believe that the gas business in Beijing will maintain a steady growth rate. The Acquisition will allow the Company to benefit from the rapid development of Beijing, from which a new driving force for growth will be derived.

Moreover, city gas industry in the PRC is in the stage of rapid growth. Through the Acquisition and given the rich experience of Gas Group in the management of city gas business and its considerable influence in the industry, the Company will have the opportunity to tap into piped gas market in other cities and further its growth in gas businesses.

- **Boost financial performance and enhance funding capability**

The Board believes that the business of Gas Group has good profitability and prospects for growth. The Board also believes that the Acquisition will enhance the growth in profit and income of the Company which will in turn increase the level of earnings per Share, enhance Shareholders' value and bring greater return to Shareholders. The business of Gas Group has sound cash flows and relatively low gearing ratios. This will also improve the credit ratings of the Company, reduce its finance costs and consolidate the funding capability of the Company.

The Directors believe the terms of the Acquisition (including the issuance of the Consideration Shares) as set out in this announcement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

At the same time as or immediately after Completion, the Transfers will be completed, as a result of which Beijing Holdings will become a wholly-owned subsidiary of Beijing Enterprises Group and the Vendor will become the controlling shareholder of BEIL. As BEIL is a substantial shareholder of the Company, Beijing Enterprises Group will, by virtue of its shareholding interest in the Vendor and BEIL, become a substantial shareholder of the Company. Accordingly, Beijing Enterprises Group will become a connected person of the Company. The associates of Beijing Enterprises Group (including the Vendor, Beijing Holdings, Beiran Enterprises Ltd. and the enterprises controlled by Beiran Enterprises Ltd.) will also become connected persons of the Company.

Because the Transfers will be conducted at the same time as or immediately after Completion, and the Vendor will become a connected person of the Company following the Transfers, the Acquisition is regarded as a connected transaction for the Company at Completion.

The Group has also entered into several agreements with Beijing Enterprises Group and its associates (except the Deed of Indemnity described as Category 1.2 below which will only be entered into upon Completion). Under Chapter 14A of the Listing Rules, the transactions under such agreements constitute connected transactions or continuing connected transactions (as the case may be) of the Company. The following are the summaries, historical figures (if any) and the projected future transaction figures of such transactions for the three years ending 31 December 2007, 2008 and 2009 (if applicable).

Connected Transactions

1. Indemnities

1.1 Under the Sale and Purchase Agreement, Beijing Enterprises Group has given an unconditional and irrevocable guarantee to Gas Group for the purpose of securing the due and punctual performance and observance by the Vendor of all its respective obligations, undertakings and indemnities under or pursuant to the Sale and Purchase Agreement and has agreed to indemnify Gas Group against all losses, damages, costs and expenses (including legal costs and expenses) which the Company and Gas Group may suffer as a result of or in connection with any breach by the Vendor of such obligations, commitment, undertakings, warranty, and indemnity or covenant.

1.2 Upon Completion, Beijing Enterprises Group, the Vendor, Gas Group and the Target Company will execute a Deed of Indemnity ("Deed of Indemnity"). Pursuant to the Deed of Indemnity, the Vendor and Beijing Enterprises Group will warrant and undertake jointly and severally to Gas Group to indemnify members of Gas Group and to keep them indemnified against (including the following events):

- all losses suffered by members of the Target Group as a result of or in connection with any party's (except the Company's and Gas Group's) failure to fully perform and observe all clauses of the Sale and Purchase Agreement and the Division Agreement, or any inaccurate representations, warranties and undertakings given by the Vendor, Beijing Enterprises Group, Gas Group and/or Beiran Enterprises Ltd. under the Sale and Purchase Agreement on the date of the Deed of Indemnity or upon Completion;
- any compensation, indemnity or amount paid by members of the Target Group to any third party as a result of or in connection with any action taken, allowed or caused to be taken (except for those actions that are conducted in the ordinary and usual course of business on normal commercial terms) or not taken by the members of the Target Group prior to Completion;
- all costs and expenses (including legal costs and expenses) and all losses which the Target Group may suffer as a result of or in connection with any guarantee provided by the Target Group for any loans borrowed by Gas Group or its associates;
- all damages, costs and expenses payable to the Company by Gas Group (including legal costs and expenses) and/or all losses and liabilities incurred by Gas Group as a result of the execution of the Sale and Purchase Agreement and/or the giving of any warranty, representation and undertaking by Gas Group (whether or not such damages, costs, expenses, losses and liabilities have been determined by any competent courts, arbitration awards or settlement); and
- tax liabilities of members of the Target Group (including any tax liabilities arising from any revenue, profit or income earned, accumulated or collected, upon or prior to Completion, or any tax event that happened upon or prior to Completion).

Reasons for and the benefits of the transactions: the foregoing transactions are entered into for the benefit of and in the interest of the Target Group.

2. Non-competition undertakings

2.1 Under the Sale and Purchase Agreement, the Vendor and Beijing Holdings has each given the following non-competition undertakings to the Company (on behalf of itself or as trustee of members of the Target Group):

- for the period of three years after Completion, it will not, within any country or place in which any member of the Target Group has carried on business during the year preceding the date of the Sale and Purchase Agreement, either on its own account or in conjunction with or on behalf of any person, firm or company, carry on or be engaged, concerned or interested, directly or indirectly, in carrying on any business carried on by any member of the Target Group or in which any member of the Target Group is interested in within such preceding year (other than as a holder of not more than 5 per cent of the issued shares or debentures of any company listed on a recognized stock exchange);
- for the period of three years after Completion, it will not either on its own account or in conjunction with or on behalf of any other person, firm or company solicit or entice away or attempt to solicit or entice away from any member of the Target Group persons who were, at any time within the year preceding the date of the Sale and Purchase Agreement, a customer, identified prospective customer, representative, agent, or correspondent of any member of the Target Group or in the habit of dealing with any member of the Target Group;

- it will not at any time after the date of the Sale and Purchase Agreement make use of or disclose or divulge to any person (other than officers or employees of the members of the Target Company who are entitled to such knowledge) any information relating to any member of the Target Group, the identity of its customers and suppliers, its products, finance, contractual arrangements, business or methods of business and shall use its best endeavours to prevent the publication or disclosure of any such information; and
- it will not, at any time after the date of the Sale and Purchase Agreement, in relation to any trade, business or company, use a name or trade mark including “Beijing Gas” or its Chinese equivalent or any word or symbol confusingly similar thereto in such a way as to be capable of or likely to be confused with the name or any trade mark of any member of the Target Group,

unless the Company agrees in writing.

The Vendor and Beijing Enterprises Group shall each procure that all companies and businesses directly or indirectly owned or controlled by it shall be bound by and observe the provisions described above. The Vendor and Beijing Enterprises Group shall each procure that its respective subsidiaries, holding company and any other affiliated companies will observe the restrictions described above.

2.2 Under the Division Resolutions and the Division Agreement, Beijing Enterprises Group and Beiran Enterprises Ltd. each undertakes with Gas Group that so long as Beiran Enterprises Ltd. and Gas Group or Beijing Enterprises Group and Gas Group are recognized as connected persons, including being recognized as connected persons according to the laws of the PRC, or the laws or listing rules of the jurisdiction where Gas Group or its controlling shareholders are listed, then:

- Beijing Enterprises Group and Beiran Enterprises Ltd. will not, and will procure that all of their subsidiaries will not, within the same territory where Gas Group conducts piped gas business, engage or be involved in any business in any form that is the same as or similar to or in any way competes with the business of Gas Group;
- if Beijing Enterprises Group or Beiran Enterprises Ltd. or any of their subsidiaries is engaged in any business, within the same territory where Gas Group conducts piped gas business, which evolves into a business competing with the piped gas business of Gas Group, Beijing Enterprises Group and Beiran Enterprises Ltd. will terminate their involvement in, management or operation of, such competing business; and
- if Beijing Enterprises Group, Beiran Enterprises Ltd. or any of their subsidiaries obtains a business opportunity within the same territory where Gas Group conducts piped gas business to engage in any business that competes with the business of Gas Group, Beijing Enterprises Group and Beiran Enterprises Ltd. will not take up the opportunity, and will introduce the opportunity to Gas Group instead.

Reasons for and the benefits of the transactions: the foregoing transactions are entered into for the benefit of and in the interest of the Target Group.

3. *Financial assistance*

3.1 Gas Group succeeded the rights and obligations of Original Gas Group under three agreements entered into with the Beijing Finance Bureau under which State debts were on-lent to Original Gas Group as loans for the pipeline projects of Transporting ShanGanNing Natural Gas into Beijing, South-West Part of Northern Fourth Ring Road and Service Line for Users. Beijing Enterprises Group has irrevocably undertaken to act as guarantor for such loans. Brief information of the three loans is as follows:

Loan no.	No. 2002	No. 9820	No. 9914
Loan amount	RMB200 million	RMB200 million	RMB50 million
Term of loan	15 years	15 years	15 years
Term commencing from	30 July 2000	29 September 1998	6 January 2000

3.2 Gas Group succeeded the rights and obligations of Original Gas Group under an agreement entered into between the Beijing Municipal Government and Beijing Natural Gas Company Limited under which an Asia Development Bank loan of US\$70,000,000 (actual utilization is US\$67,890,904.59) was relended to Beijing Natural Gas Company for transporting ShanGanNing Natural Gas into Beijing, a component of the Environmental Improvement Project of Beijing. The loan is for a term of 25 years from 16 April 1996 to 15 November 2019. Beijing Enterprises Group has irrevocably undertaken to act as guarantor for the loan.

The above guarantees were provided by Beijing Enterprises Group for the benefit of Gas Group based on normal commercial terms. The Target Group did not provide any collateral to Beijing Enterprises Group for the guarantees. As at the date of this announcement, the lender has not enforced the guarantees against Beijing Enterprises Group.

Reasons for and the benefits of the transactions: the foregoing transactions are entered into for the benefit of and in the interest of the Target Group, and the Target Group has not been required to provide any asset as collateral.

4. *Arrangement for entrustment investment*

Tangshan City Construction Investment Co., Ltd (“TCI”) and Gas Group entered into the “Tangshan Gas Group Limited Joint Venture Agreement” (“Joint Venture Agreement”) on 6 January 2007 pursuant to which TCI and Gas Group intend to jointly establish Tangshan Gas Group Limited (“Tangshan Gas”), with Gas Group investing RMB265,000,000, amounting to 49% of the registered capital of Tangshan Gas. As Tangshan Gas has not yet been established as at the date of this announcement, Gas Group has not yet fulfilled its obligation to make capital contributions to the company.

The foregoing investment of Gas Group is in fact entrusted by Beijing Enterprises Group whereby Gas Group would hold the interest and exercise rights and obligations associated therewith on behalf of Beijing Enterprises Group. Beijing Enterprises Group and Gas Group entered into an Entrustment Investment Agreement (“Entrustment Investment Agreement”) in respect of the entrustment arrangement on 2 February 2007, which stipulates that:

- the investment of RMB265,000,000 in Tangshan Gas to be contributed by Gas Group will in fact be owned by Beijing Enterprises Group, and that it has entrusted Gas Group to make the capital contribution;
- Gas Group agrees to act without remuneration as the agent of Beijing Enterprises Group in subscribing, holding and managing, in the name of Gas Group, the 49% interest in Tangshan Gas and all rights as a shareholder (“Entrustment Shareholding”);
- the risk associated with the operation and the loss (if any) of Tangshan Gas shall be assumed by Tangshan Gas and Beijing Enterprises Group (as the actual beneficial owner of the Entrustment Shareholding) and Gas Group (as the nominee shareholder of the Entrustment Shareholding) shall not be liable to assume the foregoing risk and loss (if any);
- Gas Group is not under any obligation or liability for the establishment of the Tangshan Gas. Where the value of the Entrustment Shareholding depreciates at any time, or the actual beneficial shareholder (Beijing Enterprises Group) of the Entrustment Shareholding suffers loss in any form, due to the business performance of Tangshan Gas, Beijing Enterprises Group shall assume all such losses in proportion to its shareholding in Tangshan Gas, and Gas Group need not assume any liability, unless the liability is caused by Gas Group’s wilful default or gross negligence;
- where Gas Group is liable to compensate TCI, Tangshan Gas or any other third party as a result of Gas Group’s performance of the entrusted affairs or the exercise of the entrusted authority under the Entrustment Investment Agreement, Beijing Enterprises Group shall indemnify Gas Group against all compensation so paid, unless such liability for compensation is caused by Gas Groups’ wilful default or gross negligence; and

- if Beijing Enterprises Group wishes to transfer the Entrustment Shareholding held by it to any third party, Gas Group has an absolute pre-emptive right in respect of the same. However the exercise of the pre-emptive right by Gas Group shall comply with the relevant laws and regulations and the provisions of the articles of association of Tangshan Gas.

TCI has confirmed in writing that it knows that Gas Group is entrusted by Beijing Enterprises Group to execute the Joint Venture Agreement on behalf of Beijing Enterprises Group, and all rights and obligations of Gas Group under the Joint Venture Agreement will be assumed by Beijing Enterprises Group.

The Company has been advised by PRC legal advisers that the abovementioned entrustment investment arrangements are not restricted nor prohibited under PRC law. The substance and form of the Joint Venture Agreement and the Entrustment Investment Agreement are not in contravention of any restrictive or prohibitive regulations under PRC law and are binding on the signing parties. The observance of the agreements is not subject to any limitation under law. The obligations of Gas Group under the agreements do not conflict with its obligations under other contracts and legal documents.

Reasons for and the benefits of the transaction: As there is insufficient information to show whether Tangshan Gas is suitable for the Company to invest in, the rights and obligations of Gas Group under the Joint Venture Agreement are currently assumed by Beijing Enterprises Group. Once the potential profitability of Tangshan Gas has been ascertained and various risk factors have been fully evaluated, the Company may consider acquiring the interests of Beijing Enterprises Group in Tangshan Gas at a fair price. In the event the Company decides to acquire the project, it will comply with the relevant provisions of the Listing Rules.

Considering the fact that the business of Tangshan Gas is conducted in Tangshan outside the operational territory of the Group and the Target Group, the Directors are of the opinion that Tangshan Gas will not be a competitor of the Group and the Target Group.

Continuing Connected Transactions

5. Engineering services

Prior to Division, the Target Group and Beijing Enterprises Group have always been providing engineering services to each other, and such engineering services will continue after Completion. To regulate such business relationship, the Company entered into the Engineering Services Framework Agreement with Beijing Enterprises Group on 10 April 2007, pursuant to which:

- Beijing Enterprises Group and its associates may provide various engineering services to the Group, including but not limited to project planning, design and various evaluation and appraisal services, engineering survey and geological exploration services, construction, equipment installation, maintenance and examination services, gas pipeline conjoining engineering services, engineering supervision services, technical consultation services and other engineering services; and
- the Group may provide to Beijing Enterprises Group and its associates various engineering services, including but not limited to entrusted engineering construction services, engineering survey services, technical consultation services and other engineering services.

The transactions under the Engineering Services Framework Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered by Independent Third Parties and priced in accordance with the following pricing principles:

- price prescribed by the PRC Government;
- where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC Government;
- where there is neither a government-prescribed price nor a government guidance price, the market price; and
- where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

The conditions precedent of the Engineering Services Framework Agreement are: (1) the Acquisition is approved by the Shareholders as required by the Listing Rules, (2) compliance with the Listing Rules' provisions on connected transactions and (3) if applicable, the agreement is approved by the Independent Shareholders as required by the Listing Rules. The term of the agreement will commence on the date the above condition precedents are satisfied, and will expire on 31 December 2009, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Both parties and their respective subsidiaries or associates have the option to retain Independent Third Parties for, or provide Independent Third Parties with, engineering services (subject to the circumstances). The schedule, location, specification, standard, manner, examination, pricing and payment of fees regarding the provision of engineering services under the Engineering Services Framework Agreement will be agreed separately by both parties or their subsidiaries or associates based on normal commercial terms and in accordance with the provisions of the agreement. The parties may enter into detailed engineering services provision agreements, subject to the provisions of the agreement and the relevant laws and regulations (including but not limited to the Listing Rules).

Historical transaction figures

The expenditure of the Target Group for retaining engineering services provided by Beijing Enterprises Group and its associates was approximately RMB113,423,000, RMB149,276,000 and RMB81,502,000, respectively, for the three years ended 31 December 2004, 2005 and 2006. For the corresponding period, the revenue of the Target Group from providing engineering services to Beijing Enterprises Group and its associates was approximately RMB4,701,000, RMB3,304,000 and RMB7,179,000, respectively.

Forecast future transaction figures

Based on historical transaction values, the projection of future transaction volumes and market prices, it is expected that the future amounts of the Group's expenditure for retaining engineering services provided by Beijing Enterprises Group and its associates will be RMB170,880,000, RMB219,230,000 and RMB208,360,000, respectively, for the three years ending 31 December 2007, 2008 and 2009, and the future amounts of revenue from providing engineering services to Beijing Enterprises Group and its associates will be approximately RMB50,523,000, RMB22,173,000 and RMB7,885,000, respectively, for the corresponding period.

The foregoing transaction figures are determined after taking into consideration:

- the three years historical transaction figures as of 31 December 2006;
- the estimates for engineering services for 2007 as determined in the comprehensive plan of Gas Group for 2007;
- the estimated scale of engineering for the years of 2008 and 2009;
- the relevant development plan of Gas Group for the eleventh five-year period; and
- the increase in engineering costs arising from the adjustment of policies in the coming few years, surge of costs of raw materials and increase in personnel costs.

6. *Comprehensive services*

Prior to Division, the Target Group and Beijing Enterprises Group have been providing to each other certain non-engineering services, and provision of such services will continue after the Completion. To regulate such business relationship, the Company entered into the Comprehensive Services Framework Agreement with Beijing Enterprises Group on 10 April 2007, pursuant to which:

- Beijing Enterprises Group and its associates may provide various services to the Group, including but not limited to training services and employee continuing education services, conference services, labour import/export services, lease of equipment services, property management services (office equipment and facilities maintenance services, heating services, lift maintenance services, planting services and cleaning services etc), wastewater disposal services, equipment calibration and inspection services and technology consultation services and other non-engineering services; and
- the Group may provide to Beijing Enterprises Group and its associates various services, including but not limited to inspection services before the hooking up, heating services, pipeline drawing archive inquiry services, technology consultation services and other non-engineering services.

The transactions under the Comprehensive Services Framework Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to Independent Third Parties and priced in accordance with the following pricing principles:

- (i) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC Government;
- (iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iv) where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

The conditions precedent of the Comprehensive Services Framework Agreement are: (1) the Acquisition is approved by the Shareholders as required by the Listing Rules, (2) compliance with the Listing Rules' provisions on connected transactions and (3) if applicable, this agreement is approved by the Independent Shareholders as required by the Listing Rules. The term of this agreement will commence on the date the above condition precedents are satisfied, and will expire on 31 December 2009, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Both parties and their respective subsidiaries or associates have the option to retain Independent Third Parties for, or provide Independent Third Parties with services (subject to the circumstances). The schedule, location, specification, standard, manner, examination, pricing and payment of fees regarding the provision of comprehensive services under the Comprehensive Services Framework Agreement will be agreed separately by both parties or their subsidiaries or associates based on normal commercial terms and in accordance with the provisions of this agreement. The parties may enter into detailed comprehensive services provision agreements, subject to the provisions of this agreement and the relevant laws and regulations (including but not limited to the Listing Rules).

Historical transaction figures

The expenditure of the Target Group for retaining services provided by Beijing Enterprises Group and its associates was approximately RMB8,794,000, RMB8,032,000 and RMB11,022,000, respectively, for the three years ended 31 December 2004, 2005 and 2006. For the corresponding period, the revenue of the Target Group from providing services to Beijing Enterprises Group and its associates was approximately RMB518,000, RMB390,000 and RMB621,000, respectively.

Forecast future transaction figures

Based on historical transaction values, the projection of future transaction volumes and market prices, it is expected that the future amounts of the Group's expenditure for retaining services provided by Beijing Enterprises Group and its associates will be approximately RMB10,386,000, RMB10,392,000 and RMB10,403,000, respectively, for the three years ending 31 December 2007, 2008 and 2009, and the future amounts of revenue from providing services to Beijing Enterprises Group and its associates will be approximately RMB1,115,000, RMB1,103,000 and RMB1,103,000, respectively, for the corresponding period.

The foregoing transaction figures are determined after taking into consideration:

- the three years historical transaction figures as of 31 December 2006;
- the relevant aspects of services to be provided as auxiliary services to Gas Group in future;
- the relevant development plan of Gas Group for the eleventh five-year period; and
- the increase in costs and expenses arising from the adjustment of policies in the coming few years, and surge of costs of materials and personnel costs.

7. *Sale and purchase of gas*

Prior to Division, the Target Group has been selling gas and gas products to Beijing Enterprises Group, and such sale of gas and gas products will continue after Completion. To regulate such business relationship, the Company entered into the Sale and Purchase of Gas Framework Agreement with Beijing Enterprises Group on 10 April 2007 pursuant to which the Group may sell to Beijing Enterprises Group and its associates (among other things) natural gas.

The transactions under the Sale and Purchase of Gas Framework Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to Independent Third Parties and priced in accordance with the following pricing principles:

- (i) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC Government;
- (iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iv) where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

The conditions precedent of the Sale and Purchase of Gas Framework Agreement are: (1) the Acquisition is approved by the Shareholders as required by the Listing Rules, (2) compliance with the Listing Rules' provisions on connected transactions and (3) if applicable, the agreement is approved by the Independent Shareholders as required by the Listing Rules. The term of the agreement will commence on the date the above condition precedents are satisfied, and will expire on 31 December 2009, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Both parties and their subsidiaries or associates have the option to purchase from Independent Third Parties or sell to Independent Third Parties, goods (subject to the circumstances). The names of the goods, specification, standard, method of transportation, examination, pricing and payment of fees regarding the sale and purchase of gas and gas products under the Sale and Purchase of Gas Framework Agreement will be agreed separately by both parties or their subsidiaries or associates based on normal commercial terms and in accordance with the provisions of this agreement. The parties may enter into detailed agreements in respect of the sale and purchase of gas, subject to the provisions of this agreement and the relevant laws and regulations (including but not limited to the Listing Rules).

Historical transaction figures

The revenue of the Target Group from selling gas and gas products to Beijing Enterprises Group and its associates for the three years ended 31 December 2004, 2005 and 2006 was approximately RMB28,539,000, RMB80,793,000 and RMB91,100,000, respectively.

Forecast future transaction figures

Based on historical transaction values, the projection of future transaction volumes and market prices, it is expected that the future amounts of the Group's revenue from selling gas and gas products to Beijing Enterprises Group and its associates for the three years ending 31 December 2007, 2008 and 2009 will be approximately RMB144,652,000, RMB222,977,000 and RMB222,992,000, respectively.

The foregoing transaction figures are determined after taking into consideration:

- the three years historical transaction figures as of 31 December 2006; and
- the development plan of Gas Group for the eleventh five-year period.

8. Sale and purchase of goods

Prior to the Division, the Target Group and Beijing Enterprises Group have been purchasing from each other and selling to each other, non-gas products, and such sale and purchase of non-gas products will continue after Completion. To regulate such business relationship, the Company entered into the Sale and Purchase of Goods Framework Agreement with Beijing Enterprises Group on 10 April 2007, pursuant to which:

- Beijing Enterprises Group and its associates may sell various goods to the Group, including but not limited to pipes, gas valves, gas equipment, various instrument and metres and spare parts, pipe fittings, and other gas-related equipment; and
- the Group may sell to Beijing Enterprises Group and its associates various goods, including but not limited to pipes, gas valves, gas equipment, various instrument and metres, pipe fittings, polyethylene pipes and polyethylene pipe fittings and other gas related equipment.

The transactions under the Sale and Purchase of Goods Framework Agreement will be conducted on normal commercial terms and conditions which shall not be less favourable than those offered to Independent Third Parties and priced in accordance with the following pricing principles:

- (i) price prescribed by the PRC Government;
- (ii) where there is no government-prescribed price but there is a government guidance price, at a price not higher than the guidance price set by the PRC Government;
- (iii) where there is neither a government-prescribed price nor a government guidance price, the market price; and
- (iv) where none of the above is applicable, the price will be agreed between the relevant parties based on the cost plus a margin of up to 10% of the cost.

The conditions precedent of the Sale and Purchase of Goods Framework Agreement are: (1) the Acquisition is approved by the Shareholders as required by the Listing Rules, (2) compliance with the Listing Rules' provisions on connected transactions and (3) if applicable, the agreement is approved by the Independent Shareholders as required by the Listing Rules. The term of the agreement will commence on the date the above conditions precedent are satisfied, and will expire on 31 December 2009, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to connected transactions are complied with.

Both parties and their subsidiaries or associates have the option to purchase from Independent Third Parties or sell to Independent Third Parties, goods (subject to the circumstances). The names of the goods, specification, standard, method of transportation, examination, pricing and payment of fees under the Sale and Purchase of Goods Framework Agreement will be agreed separately by both parties or their subsidiaries or associates based on normal commercial terms and in accordance with the provisions of the Sale and Purchase of Goods Framework Agreement. The parties may enter into detailed sale and purchase of goods agreements, subject to the provisions of the Sale and Purchase of Goods Framework Agreement and the relevant laws and regulations (including but not limited to the Listing Rules).

Historical transaction figures

The expenditure of the Target Group on goods purchased from Beijing Enterprises Group and its associates was approximately RMB67,471,000, RMB90,931,000 and RMB124,865,000, respectively, for the three years ended 31 December 2004, 2005 and 2006. For the corresponding period, the revenue of the Target Group for selling goods to Beijing Enterprises Group and its associates was approximately RMB10,771,000, RMB12,378,000 and RMB47,162,000, respectively.

Forecast future transaction figures

Based on the historical transaction values, the projection of future transaction volumes and market prices, it is expected that the future amounts of the Group's expenditure for purchasing goods from Beijing Enterprises Group and its associates will be approximately RMB117,805,000, RMB85,170,000 and RMB76,830,000, respectively, for the three years ending 31 December 2007, 2008 and 2009, and the future amounts of revenue from selling goods to Beijing Enterprises Group and its associates will be approximately RMB32,360,000, RMB19,840,000 and RMB16,770,000, respectively, for the corresponding period.

The foregoing transactions figures are concluded after taking the following into consideration:

- the three years historical transaction figures as of 31 December 2006;
- the relevant development plan of Gas Group for the eleventh five-year period;
- the infrastructure, technology upgrade and future customer development plan of Gas Group;
- the change of raw materials and the surge of personnel costs for manufacturing in the future; and
- the operating costs and profit margin in the future.

9. Leases of properties

9.1 Gas Group and its subsidiaries lease from Beiran Enterprises Ltd. certain buildings legally owned by Beiran Enterprises Ltd. Beiran Enterprises Ltd. and Gas Group entered into a Leasing Contract on 10 April 2007. There are eight buildings under the contract all of which are located in Beijing. The uses of such buildings are mainly offices and public utilities. The total floor area is 48,692.75 square metres. The term of the leases commences from 1 January 2007 and will expire on 31 December 2009. The contract provides that the rent should not be higher than the market rent for similar buildings at the time the contract is executed. The prevailing total rent under the Leasing Contract is RMB38,814,600 per annum. During the term of the contract, both parties may negotiate and adjust the rent of the buildings once every year. The price to be adjusted shall be the market price confirmed by the independent valuer recognized by both parties or not higher than the market price. If Gas Group and its subsidiaries terminate the use of certain buildings according to the provisions of the contract, the amount of total rent to be paid shall be reduced correspondingly according to the actual leasing time.

9.2 Beiran Enterprises Ltd. and its subsidiaries lease from Gas Group certain buildings legally owned by Gas Group. Gas Group and Beiran Enterprises Ltd. entered into a Leasing Contract on 10 April 2007. There are seven buildings under the contract all of which are located in Beijing. The uses of such buildings are mainly offices and public utilities. The total floor area is 5,171.37 square metres. The term of the leases commences from 1 January 2007 and will expire on 31 December 2009. The contract provides that the rent should not be higher than the market rent for similar buildings at the time the contract is executed. The prevailing total rent under Leasing Contract is RMB2,167,100 per annum. During the term of the contract, both parties can negotiate and adjust the rent of the buildings once every year. The price to be adjusted shall be the market price confirmed by the independent valuer recognized by both parties or not higher than the market price. If Beiran Enterprises Ltd. and its subsidiaries terminate the use of certain buildings according to the provisions of the contract, the amount of total rent to be paid shall be reduced correspondingly according to the actual leasing time.

DTZ Debenham Tie Leung Limited, the independent valuer, confirms that the rents payable under the Leasing Contracts above reflect the present market rents in China and the terms of both contracts are fair and reasonable insofar as the Company is concerned.

Historical transaction figures

Gas Group and its subsidiaries have not paid any rent to Beiran Enterprises Ltd. for the leasing of relevant buildings while the rent receivable by Gas Group from Beiran Enterprises Ltd. and its subsidiaries for the leasing of relevant buildings were approximately RMB110,000, RMB198,000 and RMB202,000, respectively, for the three years ended 31 December 2004, 2005 and 2006.

Forecast future transaction figures

Based on the historical transaction values, the presently agreed amount of rental payments and the valuation of the future market rental value of similar properties, it is expected that the future amounts of rent payable by Gas Group and its subsidiaries to Beiran Enterprises Ltd. for the leasing of relevant buildings will be RMB38,814,600, RMB38,814,600 and RMB38,814,600, respectively, and the rent receivable by Gas Group from Beiran Enterprises Ltd. and its subsidiaries for the leasing of relevant buildings will be RMB2,167,100, RMB2,167,100 and RMB2,167,100, respectively, for the three years ending 31 December 2007, 2008 and 2009. As previous leasing arrangements were internal arrangements and did not involve the Company, the rental payments were relatively lower. As the market value of the rental payments has been taken into account in reaching the future amounts, the future amounts are high as compared to the historical transaction figures.

Reasons for and the benefits of the continuing connected transactions: prior to Completion, Beijing Enterprises Group, the Target Company, Beiran Enterprises Ltd. and their subsidiaries have been operated as one entity with many intercompany transactions. Following the Acquisition, the Target Company will become a subsidiary of the Company as a result of which the foregoing transactions under Categories 5 to 9 will constitute continuing connected transactions of the Company. Such continuing connected transactions will be proceeded in the daily and normal course of business of the Enlarged Group, on fair and reasonable terms and in the interest of the Enlarged Group. Due to the long-term relationship between Beijing Enterprises Group and the Group, the Directors are of the opinion that it is for the benefit of the Enlarged Group to continue the conduct of such transactions, as such transactions will continue to facilitate the business operations of the Enlarged Group.

Conclusions

The Directors (including the independent non-executive Directors) are of the opinion that each of the forgoing connected transactions and continuing connected transactions have been or will be entered into, and will be carried out on normal commercial terms (or from the Company's perspective, the conditions of such transactions are not less favourable than those offered to or provided by Independent Third Parties (subject to circumstances)) which are fair and reasonable and in the interests of the Company and the Shareholders.

The transactions in Category 1 will technically constitute connected transactions of the Company upon Completion. The Directors (including the independent non-executive Directors) are of the view that such transactions are put in place for the benefit of the Company and the independent Shareholders. There are no monetary limits on such indemnities and the Company is not in a position to give any estimate of the same before any claim is made by the Company against the Vendor, Beijing Enterprises Group or Beiran Enterprises Ltd. under the relevant agreement. Therefore, the transactions are exempted from independent Shareholders' approval requirements.

The transactions in Category 2 will technically constitute connected transactions of the Company upon Completion. The Directors (including the independent non-executive Directors) are of the view that such transactions are put in place for the benefit of the Company. Any claims that might arise would merely be performance of the non-competition commitment entered into before Completion. Therefore, such transactions are exempted from independent Shareholders' approval requirements.

The guarantees under Category 3 constitute financial assistance that is exempted under Rule 14A.65(4) of the Listing Rules from reporting, announcement and independent Shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules as they are on normal commercial terms and no security has been given by the Target Group or any member of the Group.

For the connected transaction under Category 4, as no remuneration will be received for the entrustment shareholding, it qualifies under Rule 14A.31(2) of the Listing Rules as a de minimis transaction that is exempt from reporting, announcement and independent Shareholders' approval requirements.

For each type of continuing connected transactions under Categories 5 to 9, the Relevant Ratios calculated on the basis of projections for the years 2007 to 2009 measured against benchmarks as of 31 December 2006, are less than 2.5%. Accordingly, these transactions qualify under Rule 14A.34 (1) of the Listing Rules and are, thus, exempted from independent Shareholders' approval. However, if the Relevant Ratios of the actual aggregate amount for the years 2007 to 2009 measured against benchmarks of the same year is higher than 2.5%, then the Company will seek the approval of the independent Shareholders in compliance with the Listing Rules. Meanwhile, the Directors confirm that such transactions comply with Rule 14A.35(1) of the Listing Rules.

EXTRAORDINARY SHAREHOLDERS' MEETING

The Acquisition will constitute a very substantial acquisition and connected transaction for the Company under the Listing Rules and requires the approval of the Independent Shareholders in the Extraordinary Shareholders' Meeting under Rules 14.49 and 14A.18 of the Listing Rules. The Extraordinary Shareholders' Meeting will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the issuance of the Consideration Shares and transactions contemplated thereunder.

BEIL has a material interest in the Acquisition and the connected transactions and continuing connected transactions as set out in this announcement. Therefore, BEIL (and its associate(s)) will abstain from voting at the Extraordinary Shareholders' Meeting.

A circular containing, amongst other things, further details of the Acquisition and other disclosures in connection with the Acquisition required pursuant to the Listing Rules in respect of the very substantial acquisition and connected transaction, the recommendation from the independent board committee of the Company to the Independent Shareholders, the recommendation from the independent financial adviser to the independent board committee of the Company, and together with a notice of the Extraordinary Shareholders' Meeting for the purpose of approving the Sale and Purchase Agreement and the issuance of the Consideration Shares and the transactions contemplated thereunder will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 10:00 a.m. on 4 April 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 11 April 2007.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Acquisition”	collectively all the transactions conducted by the Company pursuant to the Sale and Purchase Agreement for the acquisition of the entire issued share capital of the Target Company;
“associate”	has the meaning ascribed thereto under the Listing Rules;
“Beijing Enterprises Group”	*Beijing Enterprises Group Company Limited (北京控股集團有限公司), a limited liability company incorporated under the laws of the PRC;
“Beijing Holdings”	Beijing Holdings Limited (京泰實業(集團)有限公司), a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company;
“Beijing Holdings (BVI)”	Beijing Holdings (BVI) Limited, a limited liability company incorporated in the British Virgin Islands;
“BEIL”	Beijing Enterprises Investments Limited, a company incorporated in the British Virgin Islands;
“Beiran Enterprises Ltd.”	*Beijing Beiran Enterprises Company Limited (北京北燃實業有限公司), a limited liability company established under the laws of the PRC, which is the entity subsisting upon the division of Original Gas Group;
“Board”	the board of Directors;
“Company”	Beijing Enterprises Holdings Limited (北京控股有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 392);
“Completion”	the completion of the Acquisition;
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“connected transaction”	has the meaning ascribed thereto under the Listing Rules;
“Consideration Shares”	the 411,250,000 new Shares to be issued by the Company to the Vendor pursuant to the Sale and Purchase Agreement on Completion, which forms part of the consideration for the Acquisition;
“continuing connected transaction”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Directors”	the directors of the Company;
“Division”	the division of Original Gas Group into two companies (namely, Gas Group and Beiran Enterprises Ltd.) as authorised by the relevant State authorities;
“Division Agreement”	the agreement entered into between Gas Group and Beiran Enterprises Ltd. on 15 November 2006 pursuant to which the parties agreed to the division of, and succession by, the parties of the assets, liabilities, business and personnel of Original Gas Group before the Division and the division of the rights, obligations and responsibilities between the parties after the Division;
“Division Resolutions”	the “Decision regarding the Division of Beijing Gas Group Company Limited” approved by Beijing Enterprises Group on 18 October 2006 and the “Supplemental Decision to the Decision regarding the Division of Beijing Gas Group Company Limited” approved by Beijing Enterprises Group, the shareholder of Original Gas Group, on 1 November 2006;
“Enlarged Group”	the Group as enlarged upon completion of the Sale and Purchase Agreement (including the Target Company and its subsidiaries);
“Extraordinary Shareholders’ Meeting”	the extraordinary shareholders’ meeting of the Company to be held for the purpose of considering and approving the Acquisition and the issuance of the Consideration Shares;
“Gas Group”	*Beijing Gas Group Company Limited (北京市燃氣集團有限責任公司), a limited liability company established under the laws of the PRC;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Dollar” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hua You Company”	*Beijing Hua You Natural Gas Company Limited (北京華油天然氣有限責任公司), a limited liability company established under the laws of the PRC which is an affiliated company of the Target Company;
“Independent Shareholders”	Shareholders other than any connected person with a material interest in the relevant transaction(s) and each of their respective associate(s) (for the purpose of the Extraordinary Shareholders’ Meeting, Independent Shareholders shall not include BEIL and its associates who will abstain from voting at the Extraordinary Shareholders’ Meeting);
“Independent Third Parties”	person(s) who by themselves and together with their respective ultimate beneficial owner(s) who are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are independent of the Company and its connected persons;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Original Gas Group”	the original Beijing Gas Group Company Limited, (北京市燃氣集團有限責任公司), a limited liability company established under the laws of the PRC on 26 June 1999 as an entity wholly-owned by the State, which was subsequently divided into Gas Group and Beiran Enterprises Ltd. pursuant to the Division;
“People’s Republic of China” or “PRC”	the People’s Republic of China;
“PetroChina”	PetroChina Company Limited (中國石油天然氣股份有限公司), a company the shares of which are listed on the Main Board of the Stock Exchange and the New York Stock Exchange;
“Relevant Ratios”	any of the five ratios (other than the profits ratio) as set out in Rule 14.07 of the Listing Rules;
“Renminbi or RMB”	Renminbi, the lawful currency of the PRC;

“Sale and Purchase Agreement”	the agreement in relation to the Acquisition between the Company, the Vendor, Beijing Enterprises Group, Beiran Enterprises Ltd. and Gas Group on 10 April 2007;
“Share”	ordinary shares of nominal value HK\$0.10 each in the share capital of the Company;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Target Company”	Beijing Gas Group (BVI) Co., Ltd. (北京燃氣集團 (BVI) 有限公司), a limited liability company incorporated in the British Virgin Islands;
“Target Group”	the Target Company and its subsidiaries, namely, Gas Group and Gas Group’s own subsidiaries which are *Beijing Dingxin New Technology Co., Ltd. (北京市鼎新新技術有限責任公司), *Beijing Tiancai Gas Engineering Co., Ltd. (北京天彩燃氣工程有限責任公司), *Beijing Haohaida Gas Equipment Maintenance Co., Ltd., (北京吳海達燃氣設備維修有限公司), *Beijing Yongyishuke Anti-Corrosion Technology Co., Ltd. (北京永逸舒克防腐蝕技術有限公司), *Beijing Tianxing Gas Engineering Co., Ltd. (北京天興燃氣工程有限公司) and Gas Group’s affiliated company which is *Hua You Company (華油公司);
“Transfers”	(a) the transfer of the entire issued share capital of Beijing Holdings held by certain individuals on behalf of the Beijing Municipal Government to Beijing Enterprises Group, and (b) the transfer of the entire interest in BEIL held by Beijing Holdings (BVI), representing approximately 72.72% of the entire issued share capital of BEIL, to the Vendor, both transfers to be completed at the same time as, or immediately after Completion; and
“Vendor”	Beijing Enterprises Group (BVI) Company Limited (北京控股集團 (BVI) 有限公司), a limited liability company incorporated in the British Virgin Islands.

By order of the Board of Directors of
Beijing Enterprises Holdings Limited
Yi Xi Qun
Chairman

Hong Kong, 10 April 2007

As at the date of this announcement, the members of the Board of Directors comprise Mr. Yi Xi Qun, Mr. Zhang Hong Hai, Mr. Li Fu Cheng, Mr. Bai Jin Rong, Mr. Liu Kai, Mr. Guo Pu Jin, Mr. Zhou Si, Mr. E Meng, Mr. Zhao Chang Shan and Mr. Lei Zhen Gang (Executive Directors); Mr. Lau Hon Chuen, Ambrose, Dr. Lee Tung Hai, Leo, Mr. Wang Xian Zhang, Mr. Wu Jiesi and Mr. Robert A. Theleen (Independent Non-executive Directors).

Unless otherwise specified, the HK dollar amounts shown in this announcement have been translated at an exchange rate of HK\$1.00 = RMB0.98955 for reference purposes only.

** For identification purposes only*