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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**

**CONTINUING CONNECTED TRANSACTIONS**

The Board wishes to announce that on 25 January 2008, the Company has entered into (i) the Master Property Leasing Agreement; (ii) the Master Property Management Service Agreement; (iii) the Master Supporting Services Agreement; and (iv) the Master DME Agreement with the Wang Family Companies. As the Wang Family Companies are associates of Mr. Wang, a substantial Shareholder, the transactions contemplated under (i) the Master Property Leasing Agreement; (ii) the Master Property Management Service Agreement; (iii) the Master Supporting Services Agreement; and (iv) the Master DME Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Board anticipates that the relevant percentage ratios (under Rule 14.07 of the Listing Rules) for the transactions contemplated under each of (i) the Master Property Leasing Agreement; (ii) the Master Property Management Service Agreement; and (iii) the Master Supporting Services Agreement will exceed 0.1% but will be less than 2.5% on an annual basis, such transactions are subject to the announcement and reporting requirement but exempted from the shareholders' approval requirements under the Listing Rules.

As the Board anticipates that the relevant percentage ratios (under Rule 14.07 of the Listing Rules) for the transactions contemplated under the Master DME Agreement will not be less than 2.5% on an annual basis, such transactions are subject to the announcement and reporting requirements and shall be approved by the Independent Shareholders by way of poll at the EGM under the Listing Rules.

A circular containing, inter alia, details of the Non-Exempt Continuing Connected Transaction and the respective Annual Caps, a letter from each of the Independent Board Committee and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transaction and the respective Annual Caps, together with a notice to convene the EGM for approving the Non-Exempt Continuing Connected Transaction and the respective Annual Caps will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

The Group and the Wang Family Companies have, from time to time, entered into the Existing Continuing Connected Transactions pursuant to the Existing Property Leasing Agreement and the Existing Property Management Service Agreement on a regular basis, details of which had previously been disclosed by the Company in the announcement of the Company dated 31 January 2005. Since both of the Existing Property Leasing Agreement and the Existing Property Management Service Agreement have expired and it is envisaged that the Group and the Wang Family Companies will continue to enter into such transactions on a regular basis, the Group and the Wang Family Companies have agreed to renew the Existing Property Leasing Agreement and the Existing Property Management Service Agreement and entered into (i) the Master Property Leasing Agreement (with substantially the same terms as those of the Existing Property Leasing Agreement); and (ii) the Master Property Management Service Agreement (with substantially the same terms as those of the Existing Property Management Service Agreement) on 25 January 2008. As the Wang Family Companies are associates of Mr. Wang, a substantial Shareholder, the transactions contemplated under the (i) the Master Property Leasing Agreement; and (ii) the Master Property Management Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will continue to be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

On 25 January 2008, the Company also entered into (i) the Master Supporting Services Agreement; and (ii) the Master DME Agreement with the Wang Family Companies. Since the Wang Family Companies are associates of Mr. Wang, a substantial Shareholder, the transactions contemplated under (i) the Master Supporting Service Agreement; and (ii) the Master DME Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

## **PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS**

### **(1) Master Property Leasing Agreement (“Transaction 1”)**

**Date:** 25 January 2008

**Parties:** a. the Company  
b. the Wang Family Companies

**Subject matter:**

Each of the Group and the Wang Family Companies will lease to each other certain properties owned by the Group and the Wang Family Companies respectively.

**Duration and fees:**

The rental fees payable by the Group and the Wang Family Companies to each other for the lease of the properties shall be determined by the parties by reference to the prevailing market rents as valued and determined by an independent valuer of the particular premises for a term of three years commencing on 1 January 2008. The rental fees shall be payable by the Group and the Wang Family Companies (as the case may be) on a half-yearly basis in arrear.

**Reasons for and benefits of the Master Property Leasing Agreement:**

As the operations of the Group are located in close proximity to the facilities of the Wang Family Companies, the Directors believe that it is in the interest of the Group to enter into the Master Property Leasing Agreement by leasing certain industrial premises and residential premises from the Wang Family Companies at prevailing market rents. Further, as the Group is currently occupying the properties owned by the Wang Family Companies, it would not be in the interests of the Group to move away from the existing location and thus incurring unnecessary expenses.

On the same basis, by the leasing of certain offices by the Group to the Wang Family Companies, the Group is able to generate revenue and to fully utilise its existing vacant office units and factories.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Master Property Leasing Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Master Property Leasing Agreement is on normal commercial terms and is in the interest of the Company and the Shareholders as a whole.

(2) **Master Property Management Service Agreement (“Transaction 2”)**

**Date:** 25 January 2008

**Parties:** a. the Company  
b. the Wang Family Companies

**Subject matter:**

The Wang Family Companies will provide the Group with property management services to certain properties situated in the PRC that are owned, leased or occupied by the Group.

**Duration and fees:**

The management fees payable by the Group to the Wang Family Companies for the provision of the property management services shall be based on the prevailing market rates as valued and determined by an independent valuer of the particular premises for a term of three years commencing on 1 January 2008. The property management service fees shall be payable by the Group on a half-yearly basis in arrear.

**Reasons for and benefits of the Master Property Management Service Agreement:**

As some of the Wang Family Companies are engaged in the provision of property management services and thus have the necessary expertise, the Directors consider that it is in the interest of the Group to enter into the Master Property Management Service Agreement. The Directors (including the independent non-executive Directors) are of the view that the terms of the Master Property Management Service Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Master Property Management Service Agreement is on normal commercial terms and is in the interest of the Company and the Shareholders as a whole.

(3) **Master Supporting Services Agreement (“Transaction 3”)**

**Date:** 25 January 2008

**Parties:** a. the Company  
b. the Wang Family Companies

**Subject matter:**

The Wang Family Companies will provide the Group with supporting services, including but not limited to employees training, catering services, information technology support and maintenance, legal and administrative services.

**Duration and fees:**

Fees payable by the Group for the provision of the supporting services will be determined between the parties on a cost basis based on usage for a term of three years commencing on 1 January 2008. The supporting services fees shall be payable by the Group on a half-yearly basis in arrear.

**Reasons for and benefits of the Master Supporting Services Agreement:**

The Wang Family Companies are engaged in different business lines in the energy industry. Centralisation of the supporting services would enable the Group to adapt to additional expertise efficiently.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Master Supporting Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Master Supporting Services Agreement is on normal commercial terms and is in the interest of the Company and the Shareholders as a whole.

**(4) Master DME Agreement (“Transaction 4”)**

**Date:** 25 January 2008

**Parties:** a. the Company  
b. Xinneng Energy

**Subject matter:**

The Group will purchase DME manufactured and/or sold by Xinneng Energy (together with its subsidiaries and associates) (“**Xinneng Group**”).

**Duration and fees:**

For the purchase of DME, the price payable (exclusive of transportation fees) shall be determined between the parties by reference to the market price of the products for a term of three years commencing on 1 January 2008. The price shall be payable by the Group within 15 days from the date of receipt of the products.

**Reasons for and benefits of the Master DME Agreement:**

In the eleventh “five-year plan” in PRC, substitute energy is considered as an important area for energy development and energy diversification. DME, a substitute energy, is a kind of liquefied gas that can be mixed with and substituted part of the LPG but with a lower cost. The purchase and utilisation of DME in the mix of LPG can thus lower the

Group's cost of production and enhance the profit margin of the Group. Furthermore, DME could probably be mixed with natural gas in the future. As the Group's principal business is the sale of natural gas to residential, commercial and industrial users and vehicles, obtaining DME supply is one of the critical points to diversify energy sources and have better control on the cost of utility.

The Group owns 15% equity interests in Xinneng Energy as at the date hereof, which is one of the Wang Family Companies that engages in the manufacture of DME.

The Directors (excluding the independent non-executive Directors) are of the view that the terms of the Master DME Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Master DME Agreement is on normal commercial terms and is in the interest of the Company and the Shareholders as a whole.

## HISTORICAL FIGURES

The aggregate values of each of the Continuing Connected Transactions for the two years ended 31 December 2005 and 2006 and the six months ended 30 June 2007 (where applicable) were as follows:

Transaction	Transaction amount		
	Financial year ended 31 December 2005	2006	Six months ended 30 June 2007
Transaction 1 – Property leasing			
<i>(in RMB)</i>	2,290,000	2,129,000	871,000
<i>(approximately in HK\$)</i>	2,450,000	2,278,000	932,000
Transaction 2 – Property management services			
<i>(in RMB)</i>	1,518,000	2,157,000	1,397,000
<i>(approximately in HK\$)</i>	1,624,000	2,308,000	1,495,000
Transaction 3 – Supporting services			
<i>(in RMB)</i>	N/A	843,000	1,197,000
<i>(approximately in HK\$)</i>	N/A	902,000	1,281,000
Transaction 4 – Purchase of DME	N/A	N/A	N/A

## ANNUAL CAPS

After careful evaluation of the budget figures in the coming three financial years and the anticipated development and growth of related businesses, the Board (excluding the independent non-executive Directors for the Non-Exempted Continuing Connected Transaction) intends to set the Annual Caps for each of the Continuing Connected Transactions as set out below :

Transaction	Annual cap amount Financial year ending 31 December		
	2008	2009	2010
Transaction 1 – Property leasing			
<i>(in RMB)</i>	4,500,000	4,500,000	4,500,000
<i>(approximately in HK\$)</i>	4,815,000	4,815,000	4,815,000
Transaction 2 – Property management services			
<i>(in RMB)</i>	6,000,000	6,000,000	6,000,000
<i>(approximately in HK\$)</i>	6,420,000	6,420,000	6,420,000
Transaction 3 – Supporting services			
<i>(in RMB)</i>	35,000,000	46,000,000	53,000,000
<i>(approximately in HK\$)</i>	37,450,000	49,220,000	56,710,000
Transaction 4 – Purchase of DME			
<i>(in RMB)</i>	500,000,000	1,100,000,000	2,420,000,000
<i>(approximately in HK\$)</i>	535,000,000	1,177,000,000	2,589,400,000

The basis of determination of the Annual Caps is explained in the following:-

1. For Transaction 1: It is expected that a total of 5 properties with a total floor area of approximately 17,275 square metres will be involved in Transaction 1. The Annual Caps for Transaction 1 are determined by multiplying such total floor area to be leased by the respective market rent, with reference to the above historical figures.
2. For Transaction 2: It is expected that a total of 12 properties with a total floor area of approximately 136,315 square metres will be involved in Transaction 2. The Annual Caps for Transaction 2 are determined by multiplying such total floor area to be covered by the property management service by the respective market rate, with reference to the above historical figures.
3. For Transaction 3: The Annual Caps are determined based on the estimated usage after taking into account the estimated cost of resources to be incurred, including labour and other raw materials. Since a large part of the services were provided by the Wang Family Companies free of charge before 1 January 2008 and such services will be provided on a cost basis with effect from 1 January 2008 pursuant to the Master Supporting Services Agreement, the Annual Caps are significantly increased from the above historical figures. If considerations of previous transactions were charged on a cost basis, the estimated transaction amounts (unaudited management figures) for the three financial years ended 31

December 2005, 2006 and 2007 would have amounted to approximately RMB13,691,000, RMB17,063,000 and RMB22,900,000 respectively. The Annual Caps are also determined by taking into account the estimated increase in demand for information technology support from the Wang Family Companies after the Group's installation of a new computer software system at the head office in 2008.

4. For Transaction 4: The Annual Caps are determined based on the projected amount of DME required under the expansion plan of the Group in the coming three financial years and the anticipated growth in the market price of DME, which is currently at the price of RMB5,000 per tonne, at the increment of 10% per year. It is estimated that the amount of DME required for the financial years ending 31 December 2008, 2009 and 2010 will be 100,000 tonnes, 200,000 tonnes and 400,000 tonnes respectively.

Hence, the Board (excluding the independent non-executive Directors for the Non-Exempt Continuing Connected Transaction) considers that the Annual Caps for each of the Continuing Connected Transactions for the three financial years ending 31 December 2008, 2009 and 2010 is fully justified.

## **COMPLIANCE WITH THE LISTING RULES**

Since the Board anticipates that the relevant percentage ratios (under Rule 14.07 of the Listing Rules) for the transactions contemplated under each of (i) the Master Property Leasing Agreement; (ii) the Master Property Management Service Agreement; and (iii) the Master Supporting Services Agreement will exceed 0.1% but will be less than 2.5% on an annual basis, such transactions are subject to the announcement and reporting requirement but exempted from the shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the Board anticipates that the relevant percentage ratios (under Rule 14.07 of the Listing Rules) for the transactions contemplated under the Master DME Agreement will not be less than 2.5% on an annual basis, such transactions are subject to the announcement and reporting requirements under Chapter 14A of the Listing Rules and shall be approved by the Independent Shareholders by way of poll at the EGM under the Listing Rules.

In view of the interests of Mr. Wang in the Master DME Agreement, XGII, Mr. Wang, Ms. Zhao Baoju (the spouse of Mr. Wang) and their respective associates, which together hold 335,669,000 Shares, representing approximately 33.24% of the issued share capital of the Company as at the date hereof, will abstain from voting in relation to the resolution approving the Non-Exempt Continuing Connected Transaction and the respective Annual Caps at the EGM. The Independent Board Committee will be established to advise the Independent Shareholders on whether or not the terms of the Non-Exempt Continuing Connected Transaction and the Annual Caps are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.



An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Master DME Agreement and the respective Annual Caps are in the ordinary and usual course of business, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

## **GENERAL**

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.

A circular containing further details of the Non-Exempt Continuing Connected Transaction and the respective Annual Caps, a letter from each of the Independent Board Committee and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transaction, together with a notice to convene the EGM for approving the Non-Exempt Continuing Connected Transaction and its Annual Caps will be despatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

<b>“Annual Cap(s)”</b>	the maximum aggregate annual value of the Continuing Connected Transactions for each of the three financial years ending 31 December 2008, 2009 and 2010
<b>“associate(s)”</b>	as such term is defined under the Listing Rules
<b>“Board”</b>	the board of Directors
<b>“Company”</b>	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
<b>“connected person(s)”</b>	as such term is defined under the Listing Rules

## DEFINITIONS

<b>“Continuing Connected Transactions”</b>	the continuing connected transactions proposed to be entered into between the Group and certain connected persons of the Company pursuant to (i) the Master Property Leasing Agreement; (ii) the Master Property Management Service Agreement; (iii) the Master Supporting Services Agreement;; and (iv) the Master DME Agreement, a summary of which is set out in the section headed “Particulars of the Continuing Connected Transactions”
<b>“Director(s)”</b>	the director(s) of the Company
<b>“DME”</b>	dimethyl ether, a kind of liquefied gas which can be mixed with LPG for sale
<b>“EGM”</b>	the extraordinary general meeting of the Company to be held, to approve, among other things, the Non-Exempt Continuing Connected Transaction and the respective Annual Caps
<b>“Existing Continuing Connected Transactions”</b>	the existing continuing connected transactions entered into between the Group and the Wang Family Companies pursuant to the Existing Property Leasing Agreement and the Existing Property Management Service Agreement
<b>“Existing Property Leasing Agreement”</b>	the agreement between the Group and the Wang Family Companies dated 31 January 2005 whereby each of the Group and the Wang Family Companies have agreed to lease to each other certain properties, details of which are disclosed in the announcement of the Company dated 31 January 2005
<b>“Existing Property Management Service Agreement”</b>	the agreement between the Group and the Wang Family Companies dated 31 January 2005 whereby the Wang Family Companies agreed to provide the Group with property management services, details of which are disclosed in the announcement of the Company dated 31 January 2005
<b>“Group”</b>	the Company and its subsidiaries
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Independent Board Committee”</b>	an independent committee of the Board to be established to advise the Independent Shareholders in respect of the Non-exempt Continuing Connected Transaction

## DEFINITIONS

<b>“Independent Shareholders”</b>	the Shareholders other than XGII, Mr. Wang and Ms. Zhao Baoju and their respective associates
<b>“Independent Third Party(ies)”</b>	person(s) or company(ies) which is / are independent of any member of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders (as such terms are defined in the Listing Rules) of the Company or its subsidiaries, and their respective associates
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“LPG”</b>	liquefied petroleum gas
<b>“Mr. Wang”</b>	Mr. Wang Yusuo ( 王玉鎖 ), the chairman, an executive Director and a controlling Shareholder at the date of this announcement
<b>“Non-Exempt Continuing Connected Transaction”</b>	the continuing connected transactions proposed to be entered into between the Group and Xinneng Group pursuant to the Master DME Agreement which constitutes non-exempt continuing connected transactions of the Company under the Listing Rules
<b>“PRC”</b>	the People’s Republic of China and for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
<b>“Share(s)”</b>	ordinary share(s) of HK\$0.10 each in the share capital of the Company
<b>“Shareholder(s)”</b>	the registered holder(s) of Share(s)
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“subsidiaries”</b>	as such term is defined under the Listing Rules
<b>“Wang Family Companies”</b>	companies to which Mr. Wang and/or his associates is/are entitled to exercise or control the exercise of 30% or more of the voting power at any general meeting of such companies, thereby being associates of Mr. Wang and thus connected persons of the Company

## DEFINITIONS

“XGII”	Xinao Group International Investment Limited, an investment holding company incorporated in the British Virgin Islands with limited liability, and a controlling Shareholder which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao Baoju (趙寶菊), a non-executive Director and the spouse of Mr. Wang
“Xinneng Energy”	新能能源有限公司 Xinneng Energy Limited, a company incorporated in the PRC and an associate of Mr. Wang, thereby being a connected person of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“N/A”	not applicable
“%”	per cent.

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

RMB1.00 = HK\$1.07

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

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

Hong Kong, 25 January 2008