

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor for independent advice.

If you have sold or transferred all your shares in ENN Energy Holdings Limited, you should at once hand this circular, together with the enclosed proxy form, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**新奥能源控股有限公司**  
**ENN Energy Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

*(Website: [www.ennenergy.com](http://www.ennenergy.com))*

**CONNECTED TRANSACTION:  
SUPPLEMENTAL DEED OF NON-COMPETITION**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**PLATINUM**  
Securities

A letter from the Board is set out on pages 4 to 10 of this circular.

A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 29 of this circular.

A notice convening the EGM to be held at Ballroom, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 30 December 2013 at 11 a.m. is set out on pages 34 to 35 of this circular. Shareholders are advised to read the above notice and if you are not able to attend the EGM but wish to exercise your right as a Shareholder, please complete and sign the accompanying proxy form in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Hong Kong, 9 December 2013

<b>CONTENTS</b>
-----------------

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	4
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	11
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	13
<b>APPENDIX — GENERAL INFORMATION</b> .....	30
<b>NOTICE OF EXTRAORDINARY GENERAL MEETING</b> .....	34

## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms shall have the respective meanings set out below:*

“Announcement”	the announcement dated 21 November 2013 made by the Company in relation to the Supplemental Deed of Non-Competition
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	ENN Energy Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Covenantor(s)”	Mr. Wang, Ms. Zhao, EGII and XGCL
“Deed of Non-Competition”	the deed of non-competition dated 18 April 2002 entered into between Mr. Wang, Ms. Zhao, EGII ( <i>formerly known as Easywin Enterprises Limited</i> ) and XGCL in favour of the Company
“Director(s)”	the director(s) of the Company
“EGII”	ENN Group International Investment Limited ( <i>formerly known as Easywin Enterprises Limited</i> ), the controlling shareholder of the Company holding approximately 30.11% of the issued share capital of the Company
“EGM”	The extraordinary general meeting of the Company to be convened and held at Ballroom, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Monday, 30 December 2013 at 11 a.m. to consider and, if thought fit, approve the Supplemental Deed of Non-Competition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

## DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, formed to advise the Independent Shareholders as to the fairness and reasonableness of the Supplemental Deed of Non-Competition
“Independent Financial Adviser” or “Platinum”	Platinum Securities Company Limited, a licensed corporation under the SFO licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Deed of Non-Competition
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM to approve the Supplemental Deed of Non-Competition
“Latest Practicable Date”	6 December 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing”	the listing of the Company on the Main Board of the Stock Exchange in 2002
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	liquefied natural gas
“Major Shareholders”	Mr. Wang and Ms. Zhao
“Major Shareholders’ Companies”	companies which are controlled by the Major Shareholders
“Mr. Wang”	Mr. Wang Yusuo, the chairman of the Company and an executive Director
“Ms. Zhao”	Ms. Zhao Baoju, a non-executive Director

## DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Restricted Business”	as defined in the section headed “ <i>Letter from the Board</i> ” of this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Deed of Non-Competition”	the supplemental deed of non-competition dated 21 November 2013 entered into between Mr. Wang, Ms. Zhao, EGII, XGCL and the Company. Details of which are summarized in the section headed “ <i>Letter from the Board</i> ” of this circular
“XGCL”	新奧集團股份有限公司 (Xinao Group Company Limited*), a company incorporated in the PRC with limited liability, owned as to 94.81% by Mr. Wang and Ms. Zhao
“%”	per cent

\* for identification purpose only



**新奥能源控股有限公司**  
**ENN Energy Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

*(Website: [www.ennenergy.com](http://www.ennenergy.com))*

*Executive Directors:*

Mr. Wang Yusuo (*Chairman*)  
Mr. Cheung Yip Sang (*Chief Executive Officer*)  
Mr. Zhao Jinfeng  
Mr. Yu Jianchao  
Mr. Han Jishen  
Mr. Zhao Shengli  
Mr. Wang Dongzhi (*Chief Financial Officer*)

*Non-executive Directors:*

Ms. Zhao Baoju  
Mr. Jin Yongsheng

*Independent Non-executive Directors:*

Mr. Wang Guangtian  
Ms. Yien Yu Yu, Catherine  
Mr. Kong Chung Kau  
Mr. Zhang Gang  
Mr. Lim Haw Kuang

*Registered office:*

Ugland House, P.O. Box 309,  
South Church Street, George Town,  
Grand Cayman, Cayman Islands,  
British West Indies

*Principal place of business*

*in Hong Kong:*  
Rooms 3101–04, 31st Floor, Tower 1,  
Lippo Centre, 89 Queensway,  
Hong Kong

9 December 2013

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION:  
SUPPLEMENTAL DEED OF NON-COMPETITION**

**A. INTRODUCTION**

Reference is made to the Announcement regarding the Supplemental Deed of Non-Competition. The purpose of this circular is to provide you with, amongst others, (a) further details of the Supplemental Deed of Non-Competition; (b) a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Supplemental Deed of Non-Competition; (c) a letter from

## LETTER FROM THE BOARD

the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Deed of Non-Competition; and (d) information on the notice of EGM for approving the Supplemental Deed of Non-Competition.

### B. SUPPLEMENTAL DEED OF NON-COMPETITION

Reference is made to the Deed of Non-Competition entered into on 18 April 2002 in favour of the Company, pursuant to which each of Mr. Wang, Ms. Zhao, EGII (*formerly known as Easywin Enterprises Limited*) and XGCL has irrevocably undertaken and covenanted with the Company that he/she/it will not and will procure that his/her/its associates will not, directly or indirectly, during the period from the date on which the Deed of Non-Competition took effect and until the date on which the Deed of Non-Competition is terminated in accordance with the terms therein, carry on for his/her/its own account or for any other person, firm or organisation any business which is or may be in competition with (i) the business then carried on by any member of the Group; and (ii) the business relating to gas supply (including but not limited to the investment in, and the operation, design, construction and management of gas pipeline infrastructure and the sale and distribution of piped gas) in the PRC (the “**Restricted Business**”).

Since the Listing, the Group has been engaged principally in the downstream businesses of gas supply industry in the PRC. The Company is of the view that it is now an appropriate time to re-consider the scope of the Restricted Business. As a result and subject to the Independent Shareholders’ approval, a Supplemental Deed of Non-Competition dated 21 November 2013 was entered into to amend the scope of the Restricted Business.

Pursuant to the Supplemental Deed of Non-Competition, the Restricted Business is amended to cover:

The gas supply business carried on by the Group in the PRC (including but not limited to the sales of piped gas, gas connection, construction and operation of vehicle gas refueling stations, wholesale of gas, distribution of bottled liquefied petroleum gas and sales of gas appliances and materials) except the following:

- (i) production or liquefaction of gas through construction and operation of related facilities, or construction and operation of LNG terminal, and relevant sales resulting from the aforesaid businesses (including delivery of gas at the location of the facilities or direct delivery to the customers’ designated locations without further processing, but excluding sales of gas to end users after processing); or
- (ii) design and construction of gas supply infrastructure and other businesses, which require operators to possess specific qualifications and/or eligibility in accordance with the PRC laws, regulations and/or policies, and such qualifications and/or eligibility are not possessed by the Group as at the date of the Supplemental Deed of Non-Competition.

## LETTER FROM THE BOARD

In the Supplemental Deed of Non-Competition, each of the Covenantors has given undertaking to the Company that in the event any of the Covenantors and/or his/her/its associates engage in new projects in relation to gas supply business in the PRC, the relevant Covenantor(s) will, and will procure his/her/its associates by exercising legal rights available to the relevant Covenantor(s) to, invite the Group to participate in such projects on normal commercial terms. Upon receiving such invitation, the Company shall convene a board meeting as soon as practicable and provide the directors of the Company who do not have material interest in such project(s) (the “**Independent Directors**”) with the relevant information. The Independent Directors shall decide whether or not to accept the invitation. If the Company does not reply to such invitation within 30 days, the relevant Covenantor(s) and/or his/her/its associates shall be entitled to seek other investors to participate in such projects.

The Supplemental Deed of Non-Competition shall only take effect upon its approval by the Independent Shareholders at the EGM.

The terms and conditions under the Deed of Non-Competition provided by the parties thereto shall remain unchanged and in full force and effect subject to the amendments made thereto under the Supplemental Deed of Non-Competition.

### **C. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL DEED OF NON-COMPETITION**

#### **Background**

Since the Listing, the Group has been engaged principally in the downstream businesses of gas supply industry in the PRC, such as gas supply to end users. As of 30 June 2013, the Group has 126 city-gas projects and 376 vehicle gas refueling stations in the PRC. At the backdrop of favorable policy environment promoting the use of natural gas and the opportunities brought by urbanisation and economic growth in the PRC, the Group will continue its focus on downstream businesses development, such as connection and gas sales to commercial or industrial users, residential users as well as gas sales for transportation. The upstream and midstream sectors are not the focus of the Group.

With the growing demand for natural gas in the PRC, the upstream and midstream gas supply gradually demonstrates a trend of diversification and allows investment in various forms, but it requires a considerable amount of investment and the payback period is relatively longer. The Major Shareholders control a number of companies in the PRC which own coal mines and possess coal gasification technology that the Group does not have. On the other hand, the Group possesses strengths mainly in the downstream sector, such as its gas supply infrastructure to the end users and experience, the information and management system which optimises operational safety and efficiency, customers relationship management (CRM) and sales management system. The Deed of Non-Competition has been entered into for more than eleven years. With the change of circumstances since then, whether the scope of the Restricted Business is still appropriate for the new situation should be considered.



## LETTER FROM THE BOARD

### *Upstream and Midstream sectors*

As mentioned above, the upstream and midstream sectors such as the construction and operation of related facilities to produce or liquefy gas require a considerable amount of investment and the payback period is relatively longer. The Major Shareholders' Companies are capable of developing the upstream and midstream businesses since, in the past years, they have been able to own and control coal mines which is one of the major natural resources, and have a well-established team of experts with relevant and necessary qualifications and experience in developing coal-based clean energy technologies including the underground coal gasification, which is a set of technologies that produce clean-burning gases from coal while it is still underground. The Major Shareholders' Companies have also made considerable amount of investment in establishing its underground coal gasification laboratory in Inner Mongolia. These natural resources, technologies and expertise which the Major Shareholders' Companies have obtained are relevant for developing the upstream and midstream businesses. The Company therefore considers that it is more appropriate to permit the Major Shareholders to do so such that the Group can focus on the downstream businesses.

### *Businesses requiring special qualifications*

Some segments under the gas supply business in the PRC, such as the design and construction of gas supply infrastructure, require special qualifications and/or eligibility of the operators under the PRC laws, regulations and/or policies. Different types of infrastructure have different requirements on qualifications and/or eligibility of the operators. The Company is unable to operate some of those businesses because the existing PRC rules and regulations have more stringent requirements on a foreign enterprise than a domestic company in the PRC. In the past, when the Group took up projects in design and construction of gas supply infrastructure involving special requirements on qualifications, it had to outsource those parts to companies which had the qualification.

### *LNG terminal*

Sometimes, even there are no specific requirements on the qualifications and/or eligibility of the operators under the PRC laws, regulations and/or policies, it would be extremely difficult in practice to obtain approval to engage in certain sectors of business as a foreign enterprise. The Group had applied for the establishment of LNG terminal in the past but such application was not successful. As the Major Shareholders' Companies are mainly domestic enterprises in the PRC, it would be relatively easier for them to obtain approval to carry on such businesses.

### *Potential future benefits*

Assuming the scope of the Restricted Business is amended pursuant to the Supplemental Deed of Non-Competition, given upstream gas supply in the PRC is heavily dependent on a handful of upstream companies currently, if the Major Shareholders' Companies do engage in the upstream or midstream sectors and/or

## LETTER FROM THE BOARD

the operation of LNG terminal, the Group may be in a better position to secure gas source in the future given the Major Shareholders' interest in the Company. Likewise, if the Major Shareholders' Companies carry on the design and construction of gas supply infrastructure in the future, the Group may have the opportunity to cooperate with the Major Shareholders' Companies in such respect, hence, achieving better control over the quality and work progress in gas supply infrastructure projects.

In addition, the Major Shareholders have further undertaken in the Supplemental Deed of Non-Competition that they will invite the Group to participate on normal commercial terms in the new gas supply business projects in the PRC which they may engage in the future. The Major Shareholders will also, by exercising the legal rights available to them, procure their associates to do the same.

This would give the Group an opportunity to tap into the expertise and resources possessed by the Major Shareholders when they start new projects in the upstream and/or midstream sectors. The Group is not bound to participate in such projects. Instead, the Company will convene a board meeting to consider the matter. Only the Independent Directors can vote or be counted as a quorum for the board meeting. The Major Shareholders would therefore not be entitled to take part in the decision on whether or not the Group should participate in such projects. The Independent Directors would deliberate on whether it would be in the interest of the Group to engage in the project(s) concerned, taking into account the relevant factors such as the business strategy of the Group at that time, the qualifications and/or eligibility the Group then have, the market condition and future prospects, etc.

The Group shall from time to time pay attention to and based on the overall market and changes in the relevant policies to formulate appropriate investment strategies, including but not limited to upstream and midstream businesses of the gas supply industry, with an ultimate objective to strengthen the downstream businesses of the Group, to continuously optimise and improve the gross profit margin and to maximise the interest of the Group and the Shareholders as a whole.

### **D. LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, Mr. Wang and his spouse, Ms. Zhao are deemed to be interested in approximately 30.11% of the entire issued share capital of the Company and are the controlling shareholders as well as the Directors. Therefore, the entering into of the Supplemental Deed of Non-Competition shall constitute a connected transaction of the Company and will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Wang and Ms. Zhao are deemed to have a material interest in the Supplemental Deed of Non-Competition, therefore they had abstained from voting on the board resolutions approving the Supplemental Deed of Non-Competition. As Mr. Zhao Jinfeng, an executive Director, is the brother of Ms. Zhao, he had also abstained from voting on the board resolutions approving the Supplemental Deed of Non-Competition.

## LETTER FROM THE BOARD

An Independent Board Committee, consisting of Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang, has been formed to advise the Independent Shareholders on the Supplemental Deed of Non-Competition. Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Deed of Non-Competition in accordance with the Listing Rules.

### **E. EXTRAORDINARY GENERAL MEETING**

The notice convening the EGM is set out on pages 34 to 35 of the circular. The EGM will be held at Ballroom, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 30 December 2013 at 11 a.m. to consider and, if thought fit, approve the Supplemental Deed of Non-Competition.

In accordance with Rule 13.39(4) of the Listing Rules, votes for the resolution at the EGM shall be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be noted on a show of hands. Announcement of the poll results of the EGM will be published on the date of the EGM or not later than 8:30 a.m. on the business day following the EGM.

As at the Latest Practicable Date, EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang, held approximately 30.11% of the entire issued share capital of the Company, and is the controlling shareholder of the Company, hence, EGII is deemed to have material interests in the Supplemental Deed of Non-Competition and shall abstain from voting in respect of the resolution approving the Supplemental Deed of Non-Competition at the EGM.

### **F. ACTION TO BE TAKEN**

A proxy form for use at the EGM is accompanied with this circular. If you are not able to attend the EGM but wish to exercise your right as a Shareholder, please complete and sign the proxy form in accordance with the instructions printed thereon and deposit the same with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish. The resolution to be proposed at the EGM is required to be voted by way of poll.

### **G. GENERAL INFORMATION**

The principal activity of the Company is investment holding. The Group is principally engaging in the sales of piped gas, gas connection, construction and operation of vehicle gas refueling stations, wholesale of gas, distribution of bottled liquefied petroleum gas and sales of gas appliances and materials.

## LETTER FROM THE BOARD

EGII is a company held as to 50% by Mr. Wang and 50% by Ms. Zhao and is an investment holding company.

XGCL is a company owned as to 94.81% by Mr. Wang and Ms. Zhao and is an investment holding company.

### H. RECOMMENDATION

Having taken into account the factors as disclosed in the section headed “*Reasons for and benefits of entering into the Supplemental Deed of Non-Competition*” above, the Directors (excluding (i) the independent non-executive Directors who have formed their view after having been advised by the Independent Financial Adviser, details of which is set out in the section headed “*Letter from the Independent Board Committee*” of this circular; and (ii) Mr. Wang, Ms. Zhao and Mr. Zhao Jinfeng who had abstained from voting on the board resolutions approving the Supplemental Deed of Non-Competition) consider that the terms of the Supplemental Deed of Non-Competition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Deed of Non-Competition.

Your attention is drawn to the letter from the Independent Board Committee sets out on pages 11 to 12 of this circular and the letter from the Independent Financial Adviser sets out on pages 13 to 29 of this circular containing their advice and recommendation to the Independent Board Committee and the Independent Shareholders regarding the Supplemental Deed of Non-Competition as well as the principal factors and reasons taken into consideration in arriving at their advice.

### I. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**ENN Energy Holdings Limited**  
**WONG CHUI LAI**  
*Company Secretary*



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9 December 2013

*To the Independent Shareholders*

Dear Sir or Madam

**CONNECTED TRANSACTION:  
SUPPLEMENTAL DEED OF NON-COMPETITION**

We refer to the circular of the Company dated 9 December 2013 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board to advise the Independent Shareholders on the Supplemental Deed of Non-Competition and whether its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise on how to vote.

Platinum Securities Company Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Deed of Non-Competition.

Your attention is drawn to the “*Letter from the Board*” set out on pages 4 to 10 of the Circular which contains information about the Supplemental Deed of Non-Competition and the “*Letter from the Independent Financial Adviser*” set out on pages 13 to 29 of the Circular which contains its advice in respect of the Supplemental Deed of Non-Competition together with the principal factors and reasons taken into consideration in arriving at such advice.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having considered the terms of the Supplemental Deed of Non-Competition and taken into account the principal factors and reasons considered by the Independent Financial Adviser and its advice, we concur with the view of the Independent Financial Adviser that the terms of the Supplemental Deed of Non-Competition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Deed of Non-Competition.

Yours faithfully,  
Independent Board Committee  
**ENN Energy Holdings Limited**

**Mr. Wang Guangtian**                      **Ms. Yien Yu Yu, Catherine**                      **Mr. Kong Chung Kau**  
**Mr. Zhang Gang**    **Mr. Lim Haw Kuang**  
*Independent Non-executive Directors*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM**  
Securities

9 December 2013

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTION: SUPPLEMENTAL DEED OF NON-COMPETITION**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Deed of Non-Competition (the “**Transaction**”). Details of the Transaction are contained in the letter from the Board as set out in the circular of the Company dated 9 December 2013 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Supplemental Deed of Non-Competition in relation to the Transaction are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee as to voting.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: i) the Deed of Non-Competition; ii) the Supplemental Deed of Non-Competition; iii) the Announcement; iv) the respective annual reports of the Company for the two financial years ended 31 December 2012 (the “**FY11 Annual Report**” and the “**FY12 Annual Report**”, respectively); and v) interim report of the Company for six-month period ended 30 June 2013 (the “**FY13 Interim Report**”).

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Transaction.

We are independent from, and are not associated with the Company or any other party to the Transaction, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Transaction. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transaction. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transaction or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang, has been established to advise the Independent Shareholders as to whether the terms of the Supplemental Deed of Non-Competition in relation to the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Supplemental Deed of Non-Competition, we have considered the following principal factors and reasons:

#### 1. Deed of Non-Competition

Reference is made to the Deed of Non-Competition entered into on 18 April 2002 in favour of the Company, pursuant to which each of Mr. Wang, Ms. Zhao, EGII (formerly known as *Easywin Enterprises Limited*) and XGCL has irrevocably undertaken and covenanted with the Company that he/she/it will not and will procure that his/her/its associates will not, directly or indirectly, during the period from the date on which the Deed of Non-Competition took effect and until the date on which the Deed of Non-Competition is terminated in accordance with the terms therein, carry on for his/her/its own account or for any other person, firm or organisation any business which is or may be in competition with:

- (i) the business then carried on by any member of the Group; and



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the business relating to gas supply (including but not limited to the investment in, and the operation, design, construction and management of gas pipeline infrastructure and the sale and distribution of piped gas) in the PRC (the “**Restricted Business**”).

### 2. Supplemental Deed of Non-Competition

Since the Listing, the Group has been engaged principally in the downstream businesses of gas supply industry in the PRC. The Company is of the view that it is now an appropriate time to re-consider the scope of the Restricted Business. As a result and subject to the Independent Shareholders’ approval, a Supplemental Deed of Non-Competition dated 21 November 2013 has been entered to amend the scope of the Restricted Business.

Pursuant to the Supplemental Deed of Non-Competition, the Restricted Business is amended to cover:

The gas supply business carried on by the Group in the PRC (including but not limited to the sales of piped gas, gas connection, construction and operation of vehicle gas refueling stations, wholesale of gas, distribution of bottled liquefied petroleum gas and sales of gas appliances and materials) except the following:

- (i) production or liquefaction of gas through construction and operation of related facilities, or construction and operation of LNG terminal, and relevant sales resulting from the aforesaid businesses (including delivery of gas at the location of the facilities or direct delivery to the customers’ designated locations without further processing, but excluding sales of gas to end users after processing); or
- (ii) design and construction of gas supply infrastructure and other businesses, which require operators to possess specific qualifications and/or eligibility in accordance with the PRC laws, regulations and/or policies, and such qualifications and/or eligibility, are not possessed by the Group as at the date of the Supplemental Deed of Non-Competition.

In the Supplemental Deed of Non-Competition, each of the Covenantors has given undertaking to the Company that in the event any of the Covenantors and/or his/her/its associates engage in new projects in relation to gas supply business in the PRC, the relevant Covenantor(s) will, and will procure his/her/its associates by exercising legal rights available to the relevant Covenantor(s) to, invite the Group to participate in such projects on normal commercial terms. Upon receiving such invitation, the Company shall convene a board meeting as soon as practicable and provide the directors of the Company who do not have material interest in such project(s) (the “**Independent Directors**”) with the relevant information. The Independent Directors of the Company shall decide whether or not to accept the invitation. If the Company does not reply to such invitation within 30 days, the relevant Covenantor(s) and/or his/her/its associates shall be entitled to seek other investors to participate in such projects.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Supplemental Deed of Non-Competition shall only take effect upon its approval by the Independent Shareholders at the EGM.

The terms and conditions under the Deed of Non-Competition provided by the parties thereto shall remain unchanged and in full force and effect subject to the amendments made thereto under the Supplemental Deed of Non-Competition.

We noted that the entering into of the Supplemental Deed of Non-Competition is not in the ordinary and usual course of business, nor on normal commercial terms.

### **3. Principal scope of business of the Company**

The Group is principally engaged in gas supply business in the PRC, including but not limited to the sales of piped gas, gas connection, construction and operation of vehicle gas refueling stations, wholesale of gas, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances and materials.

The Group has 126 city-gas projects, and covering a total urban population of 57.47 million as at 30 June 2013. The Group has well-established gas supply infrastructure to the end users in the PRC. As at 30 June 2013, the accumulated length of intermediate and main pipelines constructed by the Group was 22,588 kilometers and the number of natural gas processing stations reached 129, allowing a daily natural gas supplying capacity of 47.0 million cubic meters. In addition, the accumulated number of connected residential households and commercial/industrial customers were approximately 8.5 million and 34.5 thousand, respectively, as at 30 June 2013.

Apart from sales of piped gas and gas connection, the construction and operation of vehicle gas refueling stations is also considered as one of the core businesses of the Group. As at 30 June 2013, there were 253 compressed natural gas ("CNG") refueling stations and 123 liquefied natural gas ("LNG") refueling stations, spanning across 92 cities in the PRC.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 1 below sets out the breakdown of the Group's revenue by business segments for the two financial years ended 31 December 2012 and the six months ended 30 June 2013:

**Table 1**

	<b>FY11</b>	<b>FY12</b>	<b>HY13</b>
	<i>% of total revenue</i>	<i>% of total revenue</i>	<i>% of total revenue</i>
Gas connection	22.66%	20.15%	17.84%
Sales of piped gas	52.96%	58.33%	62.32%
Vehicle gas refueling stations	10.75%	12.80%	13.23%
Wholesale of gas Distributions of bottled LPG	7.78%	5.72%	5.15%
	1.28%	0.71%	0.33%
Sales of gas appliances	0.64%	0.57%	0.42%
Sales of material	3.93%	1.72%	0.71%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

*Source: FY11 Annual Report, FY12 Annual Report, FY13 Interim Report*

As seen in Table 1 above, revenues from the sales of piped gas and gas connection have been the main contributors to the Group with their combined revenue contribution having increased from approximately 76% of total revenue in the financial year ended 2011 to approximately 78% of total revenue in the financial year ended 2012. This continued to be the case for the six months ended 30 June 2013 and further increased to approximately 80% of total revenue of the Group. Revenue contribution by operation of vehicle gas refueling stations has also increased steadily during the same period. As such, we conclude that the business segments of gas connection, sales of piped gas and vehicle gas refueling stations have been the core businesses of the Group (the "Core Businesses").

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

When we analyse the profit contribution from each business segment, broadly the same trend is observed, as shown in the breakdown of segment result by business segments contained in Table 2 below.

**Table 2**

	FY11 % of total profit attributable to shareholders	FY12 % of total profit attributable to shareholders	HY13 % of total profit attributable to shareholders
Gas connection	54.51%	46.82%	42.85%
Sales of piped gas	32.98%	41.08%	44.98%
Vehicle gas refueling stations	7.97%	10.03%	10.07%
Wholesale of gas Distributions of bottled LPG	2.72%	1.14%	0.92%
	0.33%	0.06%	N/A*
Sales of gas appliances	0.59%	0.39%	0.62%
Sales of material	0.90%	0.48%	0.62%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%**</b>

Source: FY11 Annual Report, FY12 Annual Report, FY13 Interim Report

\*: N/A refers to a not meaningful representation as the segment was loss making for the respective period.

\*\* : Sum of individuals is greater than 100.00% due to loss making in the segment of distribution of bottled LPG.

From Table 2 above, it can be seen that profit attributable to Shareholders from the Core Businesses has increased from approximately 95% of total segment result in the financial year ended 31 December 2011 to more than 97% in the six months ended 30 June 2013.

In addition, we have further discussed with the management of the Company in respect of the total gas sales volume and understand that natural gas is the major type of gas sold by the Group. The total gas sales volume by the Group in FY12 and HY13 were 6,460 million cubic meters and 3,778 million cubic meters respectively, in which 6,225 million cubic meters and 3,730 million cubic meters were natural gas, representing approximately 96.36% and 98.73% of total gas sales volume in the respective period. As such, we consider natural gas is the major product sold by the Group.

Based on the analysis above, we consider the Group has been engaged principally in the Core Businesses which are within the downstream businesses of the natural gas industry.

#### 4. Industry Overview

##### 4.1 PRC natural gas industry

The PRC natural gas industry is generally divided into three major business sectors, which are upstream, midstream and downstream businesses (respectively, the “**Upstream Sector**”, “**Midstream Sector**” and “**Downstream Sector**”). We have discussed with the management of the Company and understand that the purpose of the Supplemental Deed of Non-Competition is to amend the Restricted Business and exclude some of the businesses within the Upstream and Midstream Sectors from the Restricted Business. In order to assess the fairness and reasonableness of entering into of the Supplemental Deed of Non-Competition, we have looked into the three sectors in the PRC natural gas industry.

##### 4.2 Upstream and Midstream Sectors

###### 4.2.1 Business sector and the main market players

The upstream business sector of PRC natural gas industry includes identification of gas fields which located underground or deepwater areas, drilling and construction of exploratory wells, exploration, construction and development of related facilities for production, and production of natural gas including coal bed methane, shale gas, and etc.. On the other hand, natural gas can also be produced by chemical processing from coal, coal gas and biomass. Moreover, the upstream business sector also includes natural gas import through, including the construction and operation of, LNG terminals or long-distance pipelines across countries. Transmission of natural gas through pipelines and other logistics to the distributors at the Downstream Sector are included in the midstream business sector.

There are three main market players within above sectors in the PRC, namely China National Petroleum Corporation (“**CNPC**”), China Petrochemical Corporation (“**Sinopec Group**”), and China National Offshore Oil Corporation (“**CNOOC Group**”) (collectively, the “**Upstream Companies**”). We note that all of the Upstream Companies mentioned above are PRC state-owned entities and the supplies of natural gas in the PRC are highly depending on the Upstream Companies’ production, as illustrated in Table 3 below.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below in Table 3 is the historical output of natural gas in the PRC, as well as the production of natural gas from the Upstream Companies:

**Table 3**

	FY10 <i>billion cubic metre</i>	Market share in the PRC %	FY11 <i>billion cubic metre</i>	Market share in the PRC %	FY12 <i>billion cubic metre</i>	Market share in the PRC %
PetroChina*	62.90	66.3%	67.86	66.1%	72.46	67.58%
Sinopec*	12.50	13.2%	14.64	14.3%	16.93	15.79%
CNOOC*	10.02	10.6%	10.68	10.4%	10.08	9.40%
<b>Sub-total</b>	<b>85.42</b>	<b>90.1%</b>	<b>93.18</b>	<b>90.8%</b>	<b>99.47</b>	<b>92.77%</b>
<b>Total output in the PRC</b>	<b>94.85</b>	<b>-</b>	<b>102.69</b>	<b>-</b>	<b>107.22</b>	<b>-</b>

\* *PetroChina, Sinopec, and CNOOC are the subsidiaries controlled by the Upstream Companies.*

*Source: PetroChina, Sinopec, CNOOC, National Bureau of Statistics of China*

*Note: Figure have been converted at the rate of 1 cubic metre = 35.315 cubic feet.*

As illustrated in the Table 3 above, more than 90% of total production of natural gas in the PRC was attributed to the production of the Upstream Companies. Apart from the domestic production, gas supply in the PRC market also includes import of natural gas from overseas by the Upstream Companies. The main reason of having so few market players in the Upstream Sector of the PRC natural gas industry is due to the fact that the exploration and production of natural gas requires approvals from the related PRC government authorities, such as the Ministry of Land and Resources of the PRC, National Energy Administration and the National Development and Reform Commission of the PRC and the natural gas industry is still viewed by the PRC national government as one of the most regulated industries and is crucial to the PRC's energy security. We have looked at the development history of exploration and production of natural gas in the PRC since 1949 and note that the market dominance of the Upstream Companies is mainly due to the historical restructuring of the Ministry of Petroleum Industry of the PRC and consolidation of its assets into the Upstream Companies over the course of 3 decades from 1970 to 1998.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also note that the Upstream Companies are the major gas suppliers to the companies in the Downstream Sector of the PRC natural gas industry (the “**Downstream Companies**”) due to the large market shares of upstream gas supply in the PRC by the Upstream Companies.

### 4.2.2 Capital expenditure

We have reviewed the relevant historical data of capital expenditure figures of the Upstream Companies and note that the Upstream and Midstream Sectors require a large amount of capital investment. In general, the capital expenditure of the Upstream Companies includes:

- Acquisition of oil and gas fields
- Drilling and exploration of oil and gas fields
- Construction and development of oil and gas fields
- Maintenance of machineries and equipment for production
- Construction and development of processing plants
- Construction of terminals and other transshipping facilities
- Construction of depots and pipelines for storage and delivery
- Investment in other related facilities for the operation such as office buildings

Set out below in Table 4 is the historical capital expenditure of the Upstream Companies:

**Table 4**

	FY11	FY12	HY13
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
PetroChina*	284,391	352,516	108,207
Sinopec*	130,184	168,968	51,975
CNOOC*, <i>Note</i>	65,889	70,746	190,309

\* *PetroChina, Sinopec, and CNOOC are the subsidiaries controlled by the Upstream Companies.*

*Note:* Capital expenditure of CNOOC in FY11 and FY12 include only the respective capital expenditure on exploration and production. Capital expenditure of CNOOC in HY13 was shown in CNOOC’s interim report for six-month period ended 30 June 2013.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown from the Table 4 above, we note that the amount of capital expenditure incurred for the Upstream Companies are substantially large in comparison to the Downstream Companies. For illustration purpose, we understand that the capital expenditure of the Group was approximately RMB3,150 million in 2012, which represented approximately 4.45% of the corresponding capital expenditure figure of CNOOC in the same period in comparison, and the CNOOC's capital expenditure was the lowest among the Upstream Companies during such period.

In addition, we have also looked into the capital expenditures of comparable companies of the Group (the "**Comparable Companies**") that: (i) are currently listed on the Main Board of the Stock Exchange; (ii) are primarily engaged in businesses within the Downstream Sector; and (iii) have market capitalisation of not less than HK\$10 billion as at the date of Announcement. The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. We have identified 5 Comparable Companies, namely Kunlun Energy Company Limited, Beijing Enterprise Holdings Limited, China Resources Gas Group Limited, Towngas China Company Limited and China Gas Holdings Limited. We have reviewed the capital expenditures of the Comparable Companies in its latest audited annual financial report and note that the relevant capital expenditures ranged from approximately RMB1,266 million to approximately RMB12,260 million (Note: For the purpose of comparison and illustration, exchange rate of RMB1.00 = HKD1.2725 has been used for currency translation, where applicable). As such, we consider the capital expenditure required in the Downstream Sector is significantly less than the one required in the Upstream Sector.

Furthermore, we have reviewed market information including certain research reports in relation to investment costs of natural gas cross-provinces pipeline projects in the Midstream Sector and noted that the relevant investment costs ranged from RMB20 billion to RMB25 billion. As such, we are of the view that the amount of investment costs associated with the Midstream Sector is also considerable.

### 4.2.3 Investment period

The investment period of gas projects in the Upstream Sector may be long due to the fact that there are several required stages in developing them, such as applying for the regulatory approval including the exploration and production concessions; exploration drilling and testing by laboratory; constructions and development of gas fields, as well as other supporting facilities. For the Upstream Sector, we have reviewed market data in relation to gas fields located in



the Ordos Basin, Tarim Basin, Yinggehai Basin and noted the relevant investment period from discovery to production could take up to approximately 11 years. On the other hand, we have reviewed information provided by the Company and noted that the relevant investment period for a city-gas project of the Company takes an average of 1 year from construction to operation.

#### 4.2.4 Special qualifications required by the PRC's government

Apart from the amount of investment, the development of gas fields as well as the design and construction of related facilities and infrastructure require approvals from related authorities in the PRC. In order to obtain such approvals, authorities often require the applicants to provide detailed development and construction plan, as well as other in-depth information such as the feasibility of construction plan, the environmental impact of construction and operation, possession of required technologies and expertise for operation. The preparation of such application in turn requires large amount of resources from the applicants. In addition, we note that the Upstream Companies dominate the market in the Upstream Sector and the Midstream Sector, hence barrier of entry into the two said sectors for any newcomers is high and it is more difficult for foreign enterprise to obtain the approvals due to the fact that the PRC laws, regulations and/or policies have more stringent requirements in conferring such qualifications and/or eligibility on a foreign enterprise than a domestic company in the PRC.

In light of the above, we consider the Upstream Sector and the Midstream Sector are dominated by the Upstream Companies; require sustainably large capital expenditure; require a relatively long investment period; and require large amount of resources in application of related approvals from the authorities.

### 4.3 *Downstream Sector*

#### 4.3.1 Scope of business

Downstream Sector of the PRC natural gas industry mainly includes the distribution and sales and marketing of the processed gas products to the consumers. In general, the Downstream Companies obtain the processed gas products from the Upstream Sector companies, and the Downstream Companies distribute such products to their customers by their own sales network including their own pipelines, vehicle gas refueling stations and etc.,

The sales of piped gas is the major source of revenue for the Downstream Companies and the profitability of the Downstream Companies are highly depending on the population and urbanisation of the regions which the Downstream Companies operate their businesses

due to the fact that local authorities of regions grant concession right, which is exclusive in general, to the Downstream Companies to supply the piped gas to the customers within the region. As such, the number of population and level of urbanisation are directly related to the income for Downstream Companies in form of sales of piped gas and income generated from connection of pipelines. Moreover, gas sales from vehicle gas refueling stations are also positively related to the above factors.

#### 4.3.2 Population and urbanisation

As mentioned in the section 4.3.1 above, population of the PRC and the level of urbanisation are crucial to the income of the Downstream Companies. According to the National Bureau of Statistics of China, the total population of the PRC was approximately 1.354 billion as at the end of 2012, and the urbanisation rate of was approximately 52.6%, representing approximately 712 million of people lived in the cities. Furthermore, according to the Annual Report on Development of Small and Medium-Sized Cities in China (2013), the urbanisation rate of the PRC is expected to reach approximately 60% in 2020. Moreover, the growth of Gross Domestic Product (“GDP”) in the PRC has remained strong at 7% to 8% compared with other countries within the region, it is expected that the increase in GDP as well as the urbanisation rate in the PRC will stimulate the demand of energy.

Besides, the PRC’s government announced in November 2013 that it will loosen the one-child policy by allowing couples to have their second child if either parent is an only child. It is believed that such policy will support the long-term growth of population in the PRC, as well as the demand of energy.

According to the Statistical Review of World Energy 2013 published by BP Plc, the share of natural gas in the PRC’s primary energy consumption amounts to 4.7% in 2012, representing a relatively large difference from global average of 23.9%. Moreover, the increasing rate of urbanisation in future will boost population growth in the cities, resulting in consistent rises in population covered by the Downstream Companies distribution network. As a result of accelerated urbanisation and expanding urban population in the PRC, energy consumption will be on the rise.

#### 4.3.3 Government policy

The environmental problem in the PRC has been raised as one of the major concerns for the PRC’s government and more policies have been released to encourage the use of clean energy. According to the blueprint of energy development under the 12th Five-Year-Plan issued by the PRC’s government, one of the major energy development targets

to be achieved by the end of 12th Five-Year-Plan is the optimisation of energy structure by increasing the non-fossil fuel consumption and installed non-fossil fuel power generators to 11.4% and 30%, respectively. Under such policy, it is expected that the share of natural gas in primary energy consumption would increase to 7.5%, and reducing the consumption of coal to approximately 65%.

In 2012, the PRC's government amended the Natural Gas Utilising Policy issued in 2007 so as to further encourage, direct and regulate the downstream usage of natural gas, develop a low-carbon economy, promote energy saving and emission cut, enlarge the share of natural gas in primary energy consumption and enhance the consumption efficiency.

As such, it is expected that the demand of cleaner forms of energy, such as natural gas from commercial or industrial sectors will be increased in the future.

In addition, the PRC's government has put through various initiatives such as increasing the number of LNG and CNG refueling stations throughout regions in the PRC to promote the use of natural gas vehicles. As such, the Downstream Companies can be benefited from the increasing popularity of natural gas vehicles in the PRC.

As such, we are of the view that the Downstream Sector will continue to see strong growth in the future.

**5. Reasons for and benefits of entering into the Supplemental Deed of Non-Competition**

With the growing demand for natural gas in the PRC, the upstream and midstream gas supply gradually demonstrates a trend of diversification and allows investment in various forms. We have discussed with the management of the Company in relation to the capability of the Group to operate the Upstream Sector and Midstream Sector and understand that the Major Shareholders control a number of companies in the PRC which own coal mines and possess coal gasification technology that the Group does not have. On the other hand, the Group possesses strengths mainly in the Downstream Sector, such as its gas supply infrastructure to the end users and experience, the information and management system which optimizes operational safety and efficiency, customer relationship management (CRM) and sales management system. The Deed of Non-Competition has been entered into for more than eleven years. With the change of circumstances since then, whether the scope of Restricted Business is still appropriate for the new situation should be considered.

*5.1 Company's focus on the Downstream Sector*

As discussed in Section 3 above, we consider the Group has been engaged principally in the Core Businesses which are within the downstream businesses of gas industry. In addition, as discussed in Section 4.3 above, we are of the view that the Downstream Sector will continue to see strong growth in the future. Moreover, we have discussed with the management of the Company in relation to the future development of the Group's businesses and understand that the Group will develop its existing city-gas projects by increasing the gas connection and gas sales to residential households, commercial/industrial customers, and increasing the number of vehicle gas refueling stations. At the same time, the Group is actively seeking for new potential projects in the PRC, to enhance its connectable urban population coverage, and to expand its gas supply network and to increase gas sales volume. Furthermore, we have reviewed the yearly strategic forecast stated in the 3-year business plan of the Group for 2014 to 2016 and are satisfied that the Group's business strategy, at least for the next three years, will continue to focus on the Downstream Sector.

In light of the above, we consider that it is fair and reasonable for the Group to continue its focus on its Core Businesses and it is in the interests of the Company and the Shareholders as a whole. Furthermore, we are of the view that the Supplemental Deed of Non-competition, which strictly restricts any competition from the Major Shareholders in the Downstream Sector with the Group, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

*5.2 Lack of competitive advantage for entering into the Upstream Sector and Midstream Sector*

As mentioned in the Section 4.2 above, we consider that most businesses in the Upstream Sector and Midstream Sector are dominated by the Upstream Companies, hence the entry barrier is high, which requires sustainably large capital expenditure; require a relatively long investment period; and require large amount of resources in application of related approvals from the authorities.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with the management of the Company and understand that the Group's operating and capital expenditures are funded by its operating cash flow, internal liquidity, and debt financing. Set out below in Table 5 is the historical financial information of the Company.

**Table 5**

	FY11	FY12	HY13
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Operating cash flow	2,557	3,868	1,441
Cash and bank balance*	3,349	6,156	7,751
Total debt balance**	10,672	11,242	12,808
Net debt balance	7,323	5,086	5,057
Net asset value***	7,046	8,653	9,019
<b>Net gearing</b>	<b><u>103.93%</u></b>	<b><u>58.78%</u></b>	<b><u>56.07%</u></b>

\*: *Cash and bank balance includes cash and cash equivalents*

\*\*.: *Total debt balance includes bank and other loans, short-term debentures, corporate bond, senior notes, medium-term notes, and convertible bonds*

\*\*\*.: *Net asset value of the Company was calculated by including equity attributable to owners of the Company and excluding the non-controlling interests of the Company*

As illustrated in Table 5 above, operating cash flow is increasing as well as the cash and bank balance. Also, although it is usual for companies in utility sector to have a net debt position, the Group's net debt balance has been improved significantly compared with FY11.

However, we consider currently it is not in the interest of the Group or the Shareholders to invest in the Upstream Sector or the Midstream Sector given the large capital commitment and other relevant supporting resources required for the Upstream Sector and the Midstream Sector. It is a more efficient utilisation of financial resources for the Group to further devote its capital expenditure commitments to its Core Businesses.

In light of the above, we consider it is fair and reasonable for the Group not to invest in the Upstream Sector and the Midstream Sector.

### 5.3 *PRC rules and regulations*

Some sectors of business in the gas supply industry in the PRC, like the design and construction of gas supply infrastructure, require special qualifications and/or eligibility of the operators under the PRC laws, regulations and/or policies. Different types of infrastructure have different requirements on qualifications and/or eligibility. The Company is unable to

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

operate such businesses because the existing PRC rules and regulations have more stringent requirements in conferring such qualifications and/or eligibility on a foreign enterprise than a domestic company in the PRC. In the past, when the Group took up projects in design and construction of gas supply infrastructure involving special qualifications requirements, it had to outsource those parts to companies which were qualified to do so.

Sometimes, even there are no specific requirements on the qualifications and/or eligibility of the operators under the PRC laws, regulations and/or policies, it would be extremely difficult in practice to obtain approval to engage in certain sectors of business as a foreign enterprise.

We have discussed with the management of the Group and reviewed relevant filing documents and note that the Group had applied for the establishment of LNG terminal in the past but such application was not successful.

#### *5.4 Potential future benefits*

We note the Major Shareholders have further undertaken in the Supplemental Deed of Non-Competition that they will invite the Group to participate on normal commercial terms in the new projects in relation to gas supply business in the PRC which they may engage in the future. The Major Shareholders will also, by exercising the legal rights available to them, procure their associates to do the same.

In addition, we consider that by entering into of the Supplemental Deed of Non-Competition, the Group can be benefited by diversifying its gas source from the Upstream Companies and the price and other terms of gas supply offered by the Major Shareholders may be more favourable to the Group compared with the Upstream Companies given the long-term relationship between the Group and the Major Shareholders.

After discussion with the management of the Company, we understand that the Company will adopt the following internal control procedures to deal with the invitation from the Major Shareholders in this regard. First, the Company will convene a board meeting to consider the matter and only those directors who do not have a material interest can vote or be counted as a quorum for such board meeting. Second, the directors independent of the Major Shareholders would deliberate on whether it would be in the interest of the Group to engage in the project(s) concerned, taking account the relevant factors like the business strategy of the Group at that time, the qualifications and eligibility the Group then have, the market condition and future prospect, etc.

We consider it is prudent for the management of the Company to adopt such internal control procedures.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of all the above, we are of the view that it is in the interest of the Company to focus on the Core Businesses instead of investing in the Upstream Sector and the Midstream Sector, and thus the entering into the Supplemental Deed of Non-Competition will not adversely affect the interest of the Group. In addition, the terms of the Supplemental Deed of Non-Competition strictly protect the Group's Core Businesses which are in the Downstream Sector. As such, we consider the entering into the Supplemental Deed of Non-Competition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

In relation to the Transaction, we have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- i) the entering into of the Supplemental Deed of Non-Competition is to amend the Deed of Non-Competition which has been in existence since 2002;
- ii) the entering into of the Supplemental Deed of Non-Competition is fair and reasonable; and
- iii) the entering into of the Supplemental Deed of Non-Competition is in the interests of the Company and the Shareholders as a whole.

Having considered the principal factors and reasons above, we are of the view that although the entering into of the Supplemental Deed of Non-Competition is not in the ordinary and usual course of business, nor on normal commercial terms, nevertheless the terms of the Supplemental Deed of Non-Competition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolution in relation to the Supplemental Deed of Non-Competition to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Platinum Securities Company Limited**  
**Lenny Li**  
*Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, save as disclosed below, the interest and short positions of the Directors and chief executive in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:-

### Long position in the ordinary shares in the Company

Name of Director	Capacity	Personal interests	Interests in Corporate shares	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in underlying shares	Approximate percentage of the Company's total issued share capital as at the Latest Practicable Date
Mr. Wang	Beneficial owner and interest of controlled corporation	-	326,095,000 (Note 1)	-	326,095,000	-	326,095,000	30.11%



Name of Director	Capacity	Personal interests	Interests in shares Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at the Latest Practicable Date
Ms. Zhao	Interest of controlled corporation and interest of spouse	-	326,095,000 (Note 1)	-	326,095,000	-	326,095,000	30.11%
Mr. Wang Guangtian	Beneficial owner	-	-	-	-	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	-	-	-	-	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	-	-	-	-	200,000	200,000	0.02%

*Notes:*

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.

Save for Mr. Wang's and Ms. Zhao's deemed interest in the shares and underlying shares of the Company as disclosed in the section headed "*Directors' and Chief Executive's Disclosure of Interests*" in this Appendix which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. COMPETING INTEREST**

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or any of their respective associates had an interest in a business that competes or may compete with the business of the Group.

**4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

**5. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTEREST**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2012, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Company.

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest published audited accounts of the Company were made up.

**7. EXPERT**

The following is the qualification of the Independent Financial Adviser who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Platinum Securities Company Limited	A licensed corporation under the SFO licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which they appear.

The letter and recommendation given by the Independent Financial Adviser are given as at the date of this circular for incorporation herein.

## **8. GENERAL**

In the event of any inconsistency, the English language text of this circular and the proxy form shall prevail over the Chinese language text.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company at Rooms 3101-04, 31st Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong during normal business hours up to and including the date of the EGM (and any adjournment thereof):-

- (a) the memorandum and articles of association of the Company;
- (b) the Deed of Non-Competition;
- (c) the Supplemental Deed of Non-Competition;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 13 to 29 of this circular; and
- (e) the written consent of the Independent Financial Adviser referred to in paragraph 7 of the Appendix to this circular.



**新奥能源控股有限公司**  
**ENN Energy Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

*(Website: www.ennenergy.com)*

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of ENN Energy Holdings Limited (the "Company") will be held on Monday, 30 December 2013 at 11 a.m., at Ballroom, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong, for the purpose of considering, and, if thought fit, passing the following resolution (with or without modifications) as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

1. "THAT:

- (a) the following be and are hereby approved, confirmed and/or ratified:
- (i) the supplemental deed of non-competition dated 21 November 2013 (the "**Supplemental Deed of Non-Competition**") entered into between the Company, Mr. Wang Yusuo, Ms. Zhao Baoju, ENN Group International Investment Limited and 新奥集团股份有限公司 (Xinao Group Company Limited\*), a copy of the Supplemental Deed of Non-Competition is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose; and
  - (ii) any one director of the Company or (if the affixation of the common seal is necessary, any two directors of the Company) be and is/are hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, perform and deliver all such agreements, instruments, documents and deeds and do all such acts, matters and things and take all such steps as they may in their discretion consider necessary, desirable or expedient to implement and/or to give effect to the Supplemental Deed of Non-Competition and the transaction contemplated thereunder."

On behalf of the Board  
ENN Energy Holdings Limited  
WONG CHUI LAI  
*Company Secretary*

Hong Kong, 9 December 2013

\* *for identification purpose only*

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

*Notes:*

- (1) Every shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, on a poll, vote on his/her/its behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.
- (2) In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude a shareholder of the Company from attending and voting at the EGM if the shareholder of the Company so desires.
- (3) Where there are joint registered holders of any share in the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present being the most or, as the case maybe, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members in respect of the relevant joint holding.
- (4) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all votes of the shareholders at the EGM will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be noted on a show of hands.
- (5) As at the date hereof, the executive directors of the Company are Mr. Wang Yusuo (Chairman), Mr. Cheung Yip Sang (Chief Executive Officer), Mr. Zhao Jinfeng, Mr. Yu Jianchao, Mr. Han Jishen, Mr. Zhao Shengli and Mr. Wang Dongzhi (Chief Financial Officer); the non-executive directors of the Company are Ms. Zhao Baoju and Mr. Jin Yongsheng; and the independent non-executive directors of the Company are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau, Mr. Zhang Gang and Mr. Lim Haw Kuang.