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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xinao Gas Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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))*

**CONTINUING CONNECTED TRANSACTION**

**MASTER DME AGREEMENT**

**Independent financial adviser to the Independent Board Committee  
and Independent Shareholders**



**SOMERLEY LIMITED**

A notice convening the extraordinary general meeting of Xinao Gas Holdings Limited to be held at Room Prestige, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 7 March 2008 at 3:00 p.m. is set out on pages 30 to 31 of this circular. Whether or not you propose to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude shareholders from attending and voting at the meeting, or any adjourned meeting, should they so wish.

Hong Kong, 15 February 2008

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## DEFINITIONS

*In this circular, the following expressions have the following meanings, unless the context otherwise requires:*

“Annual Cap(s)”	the maximum aggregate annual value of the Transaction for each of the three financial years ending 31 December 2008, 2009 and 2010
“associate(s)”	as such term is defined under the Listing Rules
“Board”	the board of Directors
“Company”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	as such term is defined under the Listing Rules
“Director(s)”	the director(s) of the Company
“DME”	dimethyl ether, a kind of liquefied gas which can be mixed with LPG for sale
“EGM”	the extraordinary general meeting of the Company to be held, to approve, among other things, the Transaction and the Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established to advise the Independent Shareholders in respect of the Transaction
“Independent Financial Adviser” or “Sommerley”	Sommerley Limited, a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO having CE registration number AAJ067, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of Master DME Agreement and the Annual Caps

## DEFINITIONS

“Independent Shareholders”	the Shareholders other than XGII, Mr. Wang and Ms. Zhao Baoju and their respective associates
“Latest Practicable Date”	13 February 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LPG”	liquefied petroleum gas
“Master DME Agreement”	the product sales agreement entered into between the Company as purchaser and the Wang Family Companies as seller dated 13 February 2008 regarding the sale and purchase of DME, replacing the Original Master DME Agreement
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖), the chairman, an executive Director and a controlling Shareholder
“Original Master DME Agreement”	the product sales agreement entered into between the Company as purchaser and the Xinneng Energy as seller dated 25 January 2008 regarding the sale and purchase of DME, which was replaced by the Master DME Agreement
“PRC”	the People’s Republic of China and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“SFO”	Securities and Future 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)”	the registered holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	as such term is defined under the Listing Rules
“substantial shareholder”	shall have the meaning ascribed to it under the Listing Rules

## DEFINITIONS

“Transaction”	the continuing connected transaction as contemplated under the Master DME Agreement
“Wang Family Companies”	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
“XGII”	Xinao Group International Investment Limited, an investment holding company incorporated in the British Virgin Islands, 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 as at the Latest Practicable Date
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“%”	per cent.
“*”	for identification purpose only

*Unless otherwise specified in this circular, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK\$ at the rate of RMB1.00=HK\$1.07. No representation is made that any amounts in HK\$ or RMB can be or could have been converted at the relevant dates at the above rate or any other rates at all.*



**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)**

***Executive Directors:***

Wang Yusuo (*Chairman*)  
Yang Yu (*Vice-Chairman*)  
Chen Jiacheng (*Chief Executive Officer*)  
Zhao Jinfeng  
Qiao Limin  
Yu Jianchao  
Cheung Yip Sang  
Cheng Chak Ngok

***Non-executive Directors:***

Zhao Baoju  
Jin Yongsheng

***Independent non-executive Directors:***

Wang Guangtian  
Yien Yu Yu Catherine  
Kong Chung Kau

***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 3101-03, 31st Floor  
Tower 1, Lippo Centre  
No. 89 Queensway  
Hong Kong

***Head office in PRC:***

Huaxiang Road  
Langfang Economic and  
Technical Development Zone  
Langfang City  
Hebei Province  
PRC

15 February 2008

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION  
MASTER DME AGREEMENT**

**1. INTRODUCTION**

The Board refers to the announcement of the Company dated 25 January 2008 relating to certain continuing connected transactions whereby the Board announced that on 25 January 2008, the Company entered into, among other things, the Original Master DME

## LETTER FROM THE BOARD

Agreement with Xinneng Energy. Due to certain proposed structural reorganization of the Wang Family Companies, the Directors thereafter anticipated that the transactions contemplated under the Original Master DME Agreement would not only be limited to those with Xinneng Energy (together with its subsidiaries and associates) but may extend to certain other Wang Family Companies. As such, the Company entered into the Master DME Agreement to replace the Original Master DME Agreement on 13 February 2008 with the Wang Family Companies. The transactions contemplated under the Master DME Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The purposes of this circular are: (i) to provide you with further information regarding the Master DME Agreement; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transaction and the Annual Caps; (iii) to set out the recommendations of the Independent Board Committee after taking into consideration the advice of the Independent Financial Adviser in relation to the terms of the Master DME Agreement and the Annual Caps; and (iv) to give you notice of the EGM to consider and if thought fit, to approve the resolution regarding the Transaction and the Annual Caps at the EGM.

### 2. THE ORIGINAL MASTER DME AGREEMENT AND THE MASTER DME AGREEMENT

As announced in the announcement of the Company dated 25 January 2008, the Group entered into, among other things, the Original Master DME Agreement with Xinneng Energy on 25 January 2008. Due to certain proposed structural reorganization of the Wang Family Companies, the Directors thereafter anticipated that the transactions contemplated under the Original Master DME Agreement would not only be limited to those with Xinneng Energy (together with its subsidiaries and associates) but may extend to certain other Wang Family Companies. As such, the Company entered into the Master DME Agreement with the Wang Family Companies to replace the Original Master DME Agreement on 13 February 2008, brief particulars of which are set out below:

<b>Date:</b>	13 February 2008
<b>Parties:</b>	the Company as purchaser the Wang Family Companies as seller
<b>Subject matter:</b>	The Group will purchase DME manufactured and/or sold by the Wang Family Companies.
<b>Duration and fees:</b>	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.

## LETTER FROM THE BOARD

### 3. THE ANNUAL CAPS

After careful evaluation of the budget figures in the coming three financial years ending 31 December 2008, 2009 and 2010 and the anticipated development and growth of related businesses, the Board intends to set the Annual Caps as set out below:

	Annual cap amount		
	Financial year ending 31 December		
	2008	2009	2010
(in RMB)	500,000,000	1,100,000,000	2,420,000,000
(approximately in HK\$)	535,000,000	1,177,000,000	2,589,400,000

The Annual Caps were determined based on the projected amount of DME required under the expansion plan of the Group in the coming three 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 was estimated that the amount of DME required for the year 2008, 2009 and 2010 will be 100,000 tonnes, 200,000 tonnes and 400,000 tonnes respectively.

Hence, the Board (including the independent non-executive Directors) considers that the Annual Caps for the three financial years ending 31 December 2008, 2009 and 2010 are fully justified.

### 4. REASONS FOR AND BENEFITS OF THE TRANSACTION

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 Directors are not aware of any disadvantages of the Transaction.

The Directors (including 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.



## LETTER FROM THE BOARD

### 5. COMPLIANCE WITH THE LISTING RULES

As the Wang Family Companies are associates of Mr. Wang, a substantial Shareholder and an executive Director, the transaction contemplated under the Master DME Agreement constitutes continuing connected transaction of the Company under 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, the Transaction is subject to the announcement and reporting requirements under Chapter 14A of the Listing Rules and shall also be approved by the Independent Shareholders by way of poll at the EGM under the Listing Rules.

### 6. INFORMATION ON THE GROUP

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 the 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.

### 7. PROCEDURES FOR DEMANDING A POLL

Pursuant to article 80 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five Shareholders present in person or by proxy and entitled to vote; or
- (c) any Shareholder(s) present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any Shareholder(s) present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

## LETTER FROM THE BOARD

- (e) if required by the Listing Rules, by any Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every Shareholder who is present in person (or, in the case of a Shareholder being a corporation by its duly authorized representative) shall have one vote, and on a poll every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register. On a poll a member entitled to more than one vote is under no obligation to cast all his votes in the same way.

### 8. EXTRAORDINARY GENERAL MEETING

Set out on pages 30 to 31 of this circular is the notice convening the EGM at which ordinary resolution will be proposed to approve, among other things, the Master DME Agreement and the Annual Caps.

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 held 335,669,000 Shares, representing approximately 33.24% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in relation to the resolution approving the Transaction and the Annual Caps at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, the votes of Shareholders at the EGM regarding the Transaction will be taken by poll.

### 9. ACTION TO BE TAKEN

A form of proxy for use at the EGM is enclosed herewith. Whether or not you propose to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the EGM, or any adjourned meeting, should they so wish.

### 10. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 10 to 11 of this circular which contains its recommendations to the Independent Shareholders regarding the Transaction. The Independent Board Committee, having taken into consideration the advice of the Independent Financial Adviser and in particular the principal factors set out in the letter from the Independent Financial Adviser, considers

## LETTER FROM THE BOARD

that the Transaction is in the ordinary and usual course of business of the Group and that the terms of the Master DME Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee also considers that the entering into of the Master DME Agreement is in the interests of the Company and the Shareholders as a whole and that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Board recommends that the Independent Shareholders should vote in favour of the resolution as set out in the notice of the EGM.

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

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

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the text of a letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:*



**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)**

15 February 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION  
MASTER DME AGREEMENT**

We refer to the circular of the Company dated 15 February 2008 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the terms of the Master DME Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned.

Somerley 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 transactions contemplated under the Master DME Agreement. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter on pages 12 to 17 of the Circular.

Your attention is drawn to the letter from the Board set out on pages 4 to 9 of the Circular and the general information set out in the appendix to the Circular.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having taken into account the terms of the Master DME Agreement, and the advice given by Somerley and in particular the principal factors set out in the “Letter from Somerley”, we consider that the Transaction is in the ordinary and usual course of business of the Group and that the terms of the Master DME Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into the Master DME Agreement is in the interests of the Company and the Shareholders as a whole and that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Master DME Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

Yours faithfully,  
Independent Board Committee  
**XINAO GAS HOLDINGS LIMITED**

**Wang Guangtian**

**Yien Yu Yu Catherine**

**Kong Chung Kau**

*Independent non-executive Directors*

## LETTER FROM SOMERLEY

*The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY LIMITED**  
10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

15 February 2008

To: *the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTION MASTER DME AGREEMENT**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the Transaction which relates to the Group's purchase of DME manufactured or sold by the Wang Family Companies pursuant to the terms of the Master DME Agreement for which the Independent Shareholders' approval is being sought subject to Annual Caps. Details of the Master DME Agreement are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 15 February 2008 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 25 January 2008, the Company entered into the Original Master DME Agreement (which was then replaced by the Master DME Agreement dated 13 February 2008) to regulate the purchase of DME manufactured or sold by the Wang Family Companies. As at the Latest Practicable Date, the Wang Family Companies are associates of Mr. Wang who is a substantial shareholder of the Company. The Wang Family Companies are therefore connected persons of the Company and the transactions contemplated under the Master DME Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be required to be approved by way of poll by the Independent Shareholders. In view of the interests of Mr. Wang in the Transaction, XGII, Mr. Wang and his spouse, Ms. Zhao Baoju, and their respective associates will abstain from voting on the resolution approving the Transaction and the Annual Caps at the EGM. As at the Latest Practicable Date, the Group owns a 15% equity interest in Xinneng Energy, one of the Wang Family Companies.

The Independent Board Committee, comprising all the Company's independent non-executive Directors, namely Mr. Wang Guangtian, Ms. Yien Yu Yu Catherine, and Mr. Kong Chung Kau, has been established to advise the Independent Shareholders whether

## LETTER FROM SOMERLEY

the terms of the Master DME Agreement (including the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Master DME Agreement is in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Wang Family Companies, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Master DME Agreement (including the Annual Caps) are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

#### 1. Background to and reasons for the Transaction

The Group is one of the first non state-owned piped gas operators in the PRC whose principal business is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas and LPG in the PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply.

Xinneng Energy has been supplying DME to the Group since December 2007. Xinneng Energy was incorporated in the PRC in 2006 and commenced operation in July 2006. Xinneng Energy is principally engaged in the production of methanol, DME and further processing of such products. Xinneng Energy has a DME production capacity of 400,000 tonnes per annum and a sales network covering Anhui, Jiangsu, Henan, Zhejiang, Fujian and Guangdong.

The PRC is the second largest energy consumer in the world. In the eleventh "Five-year plan", the PRC Government emphasised rapid development of clean energy and substitute energy and tightened controls on air pollution to protect the ecosystem. The PRC Government's recognition of environmental protection signifies huge development potential in the clean energy market like natural gas and LPG. DME is a substitute energy source, being a liquefied gas that can be mixed with and

## LETTER FROM SOMERLEY

substituted (in part) for LPG at low cost, enhancing the profit margin of LPG supply business. As one of the Group's main businesses is the sale of LPG to residential, commercial and industrial users and vehicles, DME can diversify its energy sources and enable the Group to have better cost control. To satisfy the expected growing market needs for clean energy, the Group is committed to enhance the penetration rates of natural gas in its existing gas project cities, developing refuelling station business and exploring channels to provide bottled LPG and other clean energy alternatives to the suburban areas around the Group's existing gas project cities. Given DME is a low cost substitute (in part) for LPG and there are only a few sizeable suppliers of DME in the market, the Directors consider it in the interests of the Group to secure the Wang Family Companies as its DME suppliers.

In light of the respective principal activities of the Group and the Wang Family Companies, we consider that the Master DME Agreement has been entered into in the ordinary and usual course of business of the Group.

### **2. Principal terms of the Master DME Agreement**

Pursuant to the Master DME Agreement, the Group has agreed to purchase and the Wang Family Companies have agreed to supply DME manufactured or sold by them. The selling price for DME will be determined with reference to its prevailing market price. Full payment has to be made by the Group within fifteen days from the date of receipt of the products. The Master DME Agreement is non-exclusive and the Group has the right to purchase DME from independent third parties. The Wang Family Companies may sell DME to third parties. However, DME shall be provided to the Group with priority if the terms offered by the Group and the third parties to the Wang Family Companies are the same. Having considered the priority given to the Group under the DME Agreement, it is the intention of the Group that the Wang Family Companies would continue to be its primary DME suppliers.

Given that the purchase price is to be determined by making reference to the prevailing market price of DME, we consider that the pricing basis is fair and reasonable.

### **3. Comparison of terms with independent third parties**

The technology of substituting LPG (in part) by DME was newly adopted by the Group in December 2007. The Group has only purchased DME from the Wang Family Companies and no other similar transaction between the Group and independent DME suppliers is available for comparison to the terms of the transactions contemplated under the Master DME Agreement. We have, however, reviewed terms on past sales of DME by the Wang Family Companies to independent customers and noted that the terms (including the credit period) offered by the Wang Family Companies to the Group are no less favourable than the terms offered to other independent customers.



## LETTER FROM SOMERLEY

### 4. The Annual Caps

The Transaction is subject to the Listing Rules' requirements and conditions as more particularly discussed under the section headed "Reporting requirements and conditions of the Transaction" below. In particular, the Transaction is subject to the proposed Annual Caps as discussed below.

#### *Assessment of the Annual Caps*

Set out below are the annual caps being proposed for the Transaction for each of three years ending 31 December 2010:

	<b>Year ending 31 December</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Purchase of DME from the Wang Family Companies	500	1,100	2,420

In assessing the reasonableness of the Annual Caps, we have discussed with the management of the Company the basis and assumptions underlying the projections of the Annual Caps. In calculating the Annual Caps, the Directors have taken into account the forecast quantity of LPG to be sold to customers and the corresponding amount of DME required for mixing with the LPG multiplied by the estimated market price of DME in the coming years. In forecasting the projected sales, the Directors have taken into account various factors including general economic conditions, the development of the LPG sales network and the growth rate of LPG consumption in PRC.

As discussed under the section headed "Background to and reasons for the Transaction", it is expected that there will be an increase in consumption of green energy in the PRC in the coming years under the encouragement of the PRC Government's green energy policy. In the eleventh "Five-year plan", the PRC Government has targeted to increase the proportion of green energy in the overall primary energy consumption mix and to minimise air pollutants. The growing market demand for LPG will enhance the Group's needs for DME. The Annual Caps are made up of the projected purchase quantity of DME of 100,000 tonnes, 200,000 tonnes and 400,000 tonnes in 2008, 2009 and 2010 respectively together with the estimated annual growth rate of 10% in the average market price of DME driven by the growing popularity of substituting (in part) for LPG by DME. In estimating the forecast demand of DME, the Group has taken into account the expected completion of its acquisition of the entire issued share capital of an LPG wholesaler in Guangdong Province in 2008 and its planned establishment of an LPG distribution network in Jingzhou in 2010 which would further boost the demand for LPG and hence the Group's needs for DME in its LPG mixing process.

## LETTER FROM SOMERLEY

We have discussed with the Directors the business plan of the Group's LPG business including the DME required in the coming three years and the historical market price movement of DME. We considered that the Annual Caps provide reasonable buffers to cater for the possible increase in the purchase prices and the expected growth in the volumes of DME required for the Group's expanding LPG business in the next three years. We are also of the view that the Annual Caps are fair and reasonable.

### 5. Reporting requirements and conditions of the Transaction

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Transaction is subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Transaction and confirm in the annual report and accounts that the Transaction has been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable continuing connected transactions to judge whether normal commercial terms apply, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreements governing the Transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming that the Transaction:
  - (i) has received the approval of the Board;
  - (ii) is in accordance with the pricing policies of the Group;
  - (iii) has been entered into in accordance with the relevant agreements governing the Transaction; and
  - (iv) has not exceeded the relevant Annual Caps;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Transaction to allow, the Company's auditors to have sufficient access to their records for the purpose of reporting on the Transaction as set out in paragraph (b); and

## LETTER FROM SOMERLEY

- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements applying to the Transaction, in particular, (i) the restriction of the value of the Transaction by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Transaction and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Transaction and assist in safeguarding the interests of the Independent Shareholders.

### OPINION

Having taken into account the above principal factors, we consider that the Transaction is in the ordinary and usual course of business of the Group and the Master DME Agreement is on normal commercial terms. We also consider that the Transaction (including the Annual Caps) is fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Master DME Agreement is 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, that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EMG to approve the Transaction and the Annual Caps.

Yours faithfully,  
for and on behalf of  
**Somerley Limited**  
**Maggie Chan**  
*Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares and debentures of the Company or the shares and debentures of any associated corporation of the Company (within the meaning of Part XV of the SFO) which were required pursuant to: (i) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (ii) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Interest in the Shares

Name of Director	Capacity	Interest in shares			(D) = (A) + (B) + (C)	(E) Interests in underlying Shares pursuant to share options	(F) = (D) + (E) Total Aggregate interests in underlying Shares	Approximate percentage of total issued share capital
		(A) Personal Interests	(B) Corporate Interests	(C) Family Interests	Total Interests in Shares	Shares and underlying Shares		
Mr. Wang	Beneficial owner and interest of controlled corporation	2,394,000 (Note 2)	333,275,000 (Note 1)	-	335,669,000	-	335,669,000	33.24%
Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	-	333,275,000 (Note 1)	2,394,000 (Note 2)	335,669,000	-	335,669,000	33.24%
Yang Yu	Beneficial owner	-	-	-	-	4,900,000	4,900,000	0.49%
Chen Jiacheng	Beneficial owner	-	-	-	-	4,550,000	4,550,000	0.45%

Name of Director	Capacity	Interest in shares			(D) = (A) + (B) + (C) Total Interests in Shares	(E) Interests in underlying Shares pursuant to share options	(F) = (D) + (E)	Approximate percentage of total issued share capital
		(A) Personal Interests	(B) Corporate Interests	(C) Family Interests			Total Aggregate interests in underlying Shares	
		Personal Interests	Corporate Interests	Family Interests			Shares and underlying Shares	
Zhao Jinfeng	Beneficial owner	1,950,000	-	-	1,950,000	4,550,000	6,500,000	0.64%
Qiao Limin	Beneficial owner	484,000	-	-	484,000	4,550,000	5,034,000	0.50%
Yu Jianchao	Beneficial owner	1,950,000	-	-	1,950,000	4,550,000	6,500,000	0.64%
Cheung Yip Sang	Beneficial owner	-	-	-	-	3,990,000	3,990,000	0.40%
Cheng Chak Ngok	Beneficial owner	-	-	-	-	560,000	560,000	0.06%

*Notes:*

1. The two references to 333,275,000 Shares relate to the same block of Shares. Such shares are held by XGII, 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.

## (b) Interest in rights to acquire Shares

Name of Director	Date of grant	Exercise period	Exercise price (HK\$)	Number of Shares subject to outstanding options as at the Latest Practicable Date	Approximate percentage of the total issued share capital of the Company
Yang Yu	15.03.2006	16.09.2006-15.03.2016	6.650	1,400,000	0.14%
	15.03.2006	16.03.2008-15.03.2016	6.650	3,500,000	0.35%
Chen Jiacheng	15.03.2006	16.09.2006-15.03.2016	6.650	1,300,000	0.13%
	15.03.2006	16.03.2008-15.03.2016	6.650	3,250,000	0.32%
Zhao Jinfeng	15.03.2006	16.09.2006-15.03.2016	6.650	1,300,000	0.13%
	15.03.2006	16.03.2008-15.03.2016	6.650	3,250,000	0.32%
Qiao Limin	15.03.2006	16.09.2006-15.03.2016	6.650	1,300,000	0.13%
	15.03.2006	16.03.2008-15.03.2016	6.650	3,250,000	0.32%
Yu Jianchao	15.03.2006	16.09.2006-15.03.2016	6.650	1,300,000	0.13%
	15.03.2006	16.03.2008-15.03.2016	6.650	3,250,000	0.32%
Cheung Yip Sang	15.03.2006	16.09.2006-15.03.2016	6.650	1,140,000	0.11%
	15.03.2006	16.03.2008-15.03.2016	6.650	2,850,000	0.29%
Cheung Chak Ngok	15.03.2006	16.09.2006-15.03.2016	6.650	160,000	0.02%
	15.03.2006	16.03.2008-15.03.2016	6.650	400,000	0.04%

Save as disclosed above, as at the Latest Practicable Date, there was no outstanding share options or derivative instruments granted to the Directors and none of the Directors and the chief executive of the Company had any interest or short positions in the Shares or underlying Shares or interest in debentures of the Company or 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 referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had since 31 December 2006 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group.

None of the Directors was materially interested in any contract or arrangement entered into and subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

### **3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

So far as the Directors are aware, as at the Latest Practicable Date, the following persons (not being Directors) had an interest or a short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

## (i) The Company

Name of Shareholder	Capacity	Interests in Shares (Note 1)	Approximate percentage of total issued share capital
XGII	Beneficial owner	333,275,000 (L)	33.01%
Penta Investment Advisers Ltd.	Investment manager	111,227,768 (L) (Note 2)	11.02%
John Zwaanstra	Interest of controlled corporation	111,227,768 (L) (Note 2)	11.02%
Capital Research and Management Company	Investment manager	88,551,000 (L)	8.77%
JPMorgan Chase & Co.	Investment manager and custodian corporation/ approved lending agent	79,451,703 (L) (including 66,569,060 (P))	7.87%
Commonwealth Bank of Australia	Interest of controlled corporation	69,494,000 (L)	6.88%
T. Rowe Price Associates, Inc. and its affiliates	Investment manager	50,852,000 (L)	5.04%

*Notes:*

- (1) (L) represents long position; (P) represents lending pool.
- (2) The two references to 111,227,768 Shares relate to the same block of Shares. Such Shares are held by Penta Investment Advisers Ltd., which is 100% owned by Mr. John Zwaanstra, in the capacity of an investment manager.



## (ii) Subsidiaries of the Company

	Name of subsidiaries of the Company	Name of shareholder	% of interest held
1.	北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited*)	北京市昌平區市政經濟發展總公司 (Beijing City Changping District Municipal Economic Development Corporation*)	20%
2.	北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*)	北京市平谷區液化石油氣公司 (Beijing City Pinggu District Liquefied Petroleum Gas Company*)	10%
3.	蚌埠新奧燃氣有限公司 (Bengbu Xinao Gas Company Limited*)	蚌埠市城市投資控股有限公司 (Bengbu City Urban Investment Holdings Limited*)	30%
4.	蚌埠新奧燃氣發展有限公司 (Bengbu Xinao Gas Development Company Limited*)	蚌埠市城市投資控股有限公司 (Bengby City Urban Investment Holdings Limited*)	30%
5.	亳州新奧燃氣有限公司 (Bozhou Xinao Gas Company Limited*)	亳州市建設投資有限責任公司 (Bozhou City Construction Investment Company Limited*)	30%
6.	亳州新奧燃氣工程有限公司 (Bozhou Xinao Gas Engineering Company Limited*)	亳州市建設投資有限責任公司 (Bozhou City Construction Investment Company Limited*)	30%
7.	長沙新奧燃氣有限公司 (Changsha Xinao Gas Company Limited*)	長沙市燃氣實業有限公司 (Changsha City Gas Industry Company Limited*)	45%
8.	長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Company Limited*)	長沙市燃氣實業有限公司 (Changsha City Gas Industry Company Limited*)	45%
9.	長沙星沙新奧燃氣有限公司 (Changsha Xingsha Xinao Gas Company Limited*)	長沙經濟技術開發有限公司 (Changsha Economical and Technical Development Company*)	15%
10.	常州新奧燃氣發展有限公司 (Changzhou Xinao Gas Company Limited*)	常州市武進燃氣有限公司 (Changzhou City Wujin Gas Company Limited*)	40%
11.	常州新奧燃氣工程有限公司 (Changzhou Xinao Gas Engineering Company Limited*)	常州市武進燃氣有限公司 (Changzhou City Wujin Gas Company Limited*)	40%

	Name of subsidiaries of the Company	Name of shareholder	% of interest held
12.	滁州新奧燃氣有限公司 (Chuzhou Xinao Gas Company Limited*)	滁州市城市基礎設施開發建設有限公司 (Chuzhou City Urban Infrastructure Development & Construction Company Limited*)	10%
13.	桂林新奧燃氣有限公司 (Guilin Xinao Gas Company Limited*)	桂林旅遊股份有限公司 (Guilin Travel Company Limited*)	40%
14.	桂林新奧燃氣發展有限公司 (Guilin Xinao Gas Development Company Limited*)	桂林旅遊股份有限公司 (Guilin Travel Company Limited*)	40%
15.	海寧新奧燃氣有限公司 (Haining Xinao Gas Company Limited*)	海寧市萬通燃氣有限責任公司 (Haining City Wantong Gas Company Limited*)	15%
16.	邯鄲新奧車用燃氣有限公司 (Handan Xinao Vehicle Gas Company Limited*)	邯鄲交通運輸集團有限公司 (Handan Traffic Transportation Group Company Limited*)	49%
17.	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*)	葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*)	10%
18.	湖南銀通科技有限責任公司 (Hunan Yintong Technology Company Limited*)	湖南省國開經濟技術發展有限責任公司 (Hunan Province Guokai Economic & Technical Development Company Limited*)	49%
19.	開封新奧燃氣有限公司 (Kaifeng Xinao Gas Company Limited*)	開封市發展投資有限公司 (Kaifeng City Development Investment Company Limited*)	10%
20.	開封新奧燃氣工程有限公司 (Kaifeng Xinao Gas Engineering Company Limited*)	開封市發展投資有限公司 (Kaifeng City Development Investment Company Limited*)	10%
21.	蘭溪新奧燃氣有限公司 (Lanxi Xinao Gas Company Limited*)	蘭溪東昇能源有限公司 (Lanxi Dongsheng Energy Company Limited*)	20%
22.	連雲港新奧燃氣有限公司 (Lianyungang Xinao Gas Company Limited*)	連雲港市城市建設投資有限責任公司 (Lianyungang City Urban Construction Investment Company Limited*)	30%

	Name of subsidiaries of the Company	Name of shareholder	% of interest held
23.	連雲港新奧燃氣工程有限公司 (Lianyungang Xinao Gas Development Company Limited*)	連雲港市城市建設投資有限責任公司 (Lianyungang City Urban Construction Investment Company Limited*)	30%
24.	聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*)	聊城市熱力公司 (Liaocheng City Heating Company*)	10%
25.	洛陽新奧華油燃氣有限公司 (Luoyang Xinao Huayou Gas Company Limited*)	洛陽市燃氣總公司 (Luoyang City Gas Corporation*)	30%
		中國華油集團公司 (China Huayou Group Company*)	19%
26.	洛陽新奧新安燃氣有限公司 (Luoyang Xinao Xinan Gas Company Limited*)	新安暢通燃氣有限公司 (Xinan Changtong Gas Company Limited*)	10%
27.	南安市燃氣有限公司 (Nanan City Gas Company Limited*)	南安市貿工農投資有限公司 (Nanan City Trade Industrial and Agricultural Investment Company Limited*)	30%
28.	青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*)	青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation*)	10%
29.	青島新奧燃氣設施開發有限公司 (Qingdao Xinao Gas Establishment Exploiture Co. Ltd.*)	青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation*)	10%
30.	青島新奧膠城燃氣有限公司 (Qingdao Xinao Jiaocheng Gas Company Limited*)	膠州市新源城市建設發展有限公司 (Jiaozhou City Xinyuan Urban Construction Development Company Limited*)	10%
31.	青島新奧新城燃氣有限公司 (Qingdao Xinao Xincheng Gas Company Limited*)	青島城陽建設工程監理有限公司 (Qingdao Chengyang Construction Project Supervisory Company Limited*)	10%
32.	泉州市燃氣有限公司 (Quanzhou City Gas Company Limited*)	國有資產投資經營公司 (Country-owned Asset Investment Operation Company*)	32%

	Name of subsidiaries of the Company	Name of shareholder	% of interest held
33.	衢州新奧燃氣有限公司 (Quzhou Xinao Gas Company Limited*)	衢州市城市建設投資有限公司 (Quzhou City Urban Construction Investment Company Limited*)	10%
34.	衢州新奧燃氣發展有限公司 (Quzhou Xinao Gas Development Company Limited*)	衢州市城市建設投資有限公司 (Quzhou City Urban Construction Investment Company Limited*)	10%
35.	汕頭新奧燃氣有限公司 (Shantou Xinao Gas Company Limited*)	汕頭市澄燃管道供氣有限公司 (Shantou City Chengran Piped Gas Company Limited*)	approx. 28.43%
		汕頭市澄海燃氣建設有限公司 (Shantou City Chenghai Gas Construction Company Limited*)	approx. 11.31%
36.	石家莊新奧燃氣有限公司 (Shijiazhuang Xinao Gas Company Limited*)	石家莊燃氣集團有限公司 (Shijiazhuang Gas Group Company Limited*)	40%
		河北新地市政建設工程有限公司 (Hebei Xindi Municipal Construction Engineering Company Limited*) (which holds such 11% equity interest for 新奧(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited*))	11%
37.	石家莊新奧車用燃氣有限公司 (Shijiazhuang Xinao Vehicle Gas Company Limited*)	中國石化集團石家莊石油有限公司 (Sinopec Shijiazhuang Petroleum Company Limited*)	35%
38.	泰興新奧燃氣有限公司 (Taixing Xinao Gas Company Limited*)	泰興市管道液化氣公司 (Taixing City Piped Liquefied Petroleum Gas Company*)	10%
39.	台州新奧燃氣有限公司 (Taizhou Xinao Gas Company Limited*)	台州市黃岩區國有資產經營有限公司 (Taizhou City Huangyan District State-Owned Assets Management Company Limited*)	20%
40.	通遼新奧燃氣有限公司 (Tongliao Xinao Gas Company Limited*)	通遼市日新天然氣有限責任公司 (Tongliao City Rixin Natural Gas Company Limited*)	20%

	Name of subsidiaries of the Company	Name of shareholder	% of interest held
41.	湘潭新奧燃氣有限公司 (Xiangtan Xinao Gas Company Limited*)	湘潭市煤氣公司 (Xiangtan City Coal Gas Company*)	15%
42.	湘潭新奧燃氣發展有限公司 (Xiangtan Xinao Gas Development Company Limited*)	湘潭市煤氣公司 (Xiangtan City Coal Gas Company*)	15%
43.	邢台新奧車用燃氣有限公司 (Xingtai Xinao Vehicle Gas Company Limited*)	邢台市建設投資公司 (Xingtai Construction Investment Company*)	10%
44.	許昌新奧清潔能源有限公司 (Xuchang Xinao Clean Energy Company Limited*)	許昌市液化氣有限公司 (Xuchang City Liquefied Gas Company Limited*)	20%
45.	鹽城新奧燃氣有限公司 (Yancheng Xinao Gas Company Limited*)	鹽城市天然氣開發利用有限公司 (Yancheng City Natural Gas Development and Usage Company Limited*)	30%
46.	煙台牟平新奧天然氣加氣有限公司 (Yantai Muping Xinao Natural Gas Company Limited*)	煙台市牟平區豐鑫爐料有限公司 (Yantai City Muping Area Fengxin Stove Material Company Limited*)	20%
47.	煙台新奧實業有限公司 (Yantai Xinao Industry Company Limited*)	煙台市管道煤氣公司 (Yantai City Piped Coal Gas Company*)	40%
48.	湛江新奧燃氣有限公司 (Zhanjiang Xinao Gas Company Limited*)	湛江市燃氣集團公司 (Zhanjiang City Gas Group Company*)	10%
49.	株州新奧燃氣有限公司 (Zhuzhou Xinao Gas Company Limited*)	株州市城市建設投資經營有限公司 (Zhuzhou City Urban Construction Investment & Operation Company Limited*)	45%

\* *The English names of the Company are for reference only.*

Save as disclosed herein, the Directors are not aware, as at the Latest Practicable Date, of any person (who are not Directors) who had an interest or a short position in Share or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### 4. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Somerley	a licensed corporation to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO having CE register number AAJ067

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Somerley did not have any direct or indirect interest in any assets which have since 31 December 2006 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Somerley was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

#### 6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with a member of the Group which does not expire or is not terminable within one year without payment of compensation (other than statutory compensation).

#### 7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her associates (as defined under the Listing Rules) had any interests which competed or was likely to compete, either directly or indirectly, with the Company's business.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at Rooms 3101-03, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong up to and including the date of the EGM:

- (a) the Master DME Agreement;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 10 to 11 of this circular;
- (c) the letter issued by the Independent Financial Adviser, the text of which is set out on pages 12 to 17 of this circular; and
- (d) the written consent of the Independent Financial Adviser referred to in paragraph 4 in this appendix.

# NOTICE OF THE EXTRAORDINARY GENERAL MEETING



## 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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of XinAo Gas Holdings Limited (the “**Company**”) will be held at Room Prestige, Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on 7 March 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT**

- (a) the product sales agreement dated 13 February 2008 entered into between the Company as purchaser and companies to which Mr. Wang Yusuo 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 (the “**Wang Family Companies**”) as seller in respect of the sale and purchase of dimethyl ether, a copy of which marked “A” has been tabled before the meeting and initialed by the chairman of the meeting for identification purpose, and transactions contemplated thereunder (the “**Transaction**”) and the implementation thereof be and are hereby approved, ratified and confirmed;
- (b) the proposed annual caps in respect of the Transaction for the financial years ending 31 December 2008, 2009 and 2010 being RMB500,000,000, RMB1,100,000,000 and RMB2,420,000,000 respectively be and are hereby approved; and
- (c) the directors of the Company (the “**Directors**”) be and are hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute all such documents, instruments and agreements and to take all such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with (a) and (b) above.”

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

Hong Kong, 15 February 2008



## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

***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 3101-03, 31st Floor  
Tower One  
Lippo Centre  
No. 89 Queensway  
Hong Kong

***Head office in the PRC:***

Huaxiang Road  
Langfang Economic and Technical Development Zone  
Langfang City  
Hebei Province  
The PRC

***Notes:***

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the branch share registrar in Computershare Hong Kong Investor Services Limited, at Rooms 1806-07, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.
- (5) The ordinary resolution as set out above will be determined by way of a poll.
- (6) As at the date of this notice, the board of directors of the Company consists of Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Vice-Chairman), Mr. Chen Jiacheng (Chief Executive Officer), Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok as executive Directors, Ms. Zhao Baoju and Mr. Jin Yongsheng as non-executive Directors and Mr. Wang Guangtian, Ms. Yien Yu Yu Catherine and Mr. Kong Chung Kau as independent non-executive Directors.