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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))*

## **DISCLOSEABLE TRANSACTION – ESTABLISHMENT OF A NEW PROJECT IN QUANZHOU, FUJIAN PROVINCE, PRC**

On 30 December 2005, Xinao China, a wholly-owned subsidiary of the Company, entered into the Nominee Agreement with XGCL, a connected person of the Company, whereby it was agreed that XGCL shall enter into the Quanzhou Agreement for Xinao China in connection with the establishment of Quanzhou Gas, which, upon its establishment, will become an associate of the Company. The Board would like to announce that on 30 December 2005, XGCL (which entered into the Quanzhou Agreement for Xinao China pursuant to the Nominee Agreement) has entered into the Quanzhou Agreement with each of the PRC Partners in relation to the establishment of Quanzhou Gas.

As the applicable registered capital of Quanzhou Gas exceeds 5% of the applicable percentage ratios (other than the profits ratio) of the Company under the Listing Rules, the entering into of the Quanzhou Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing particulars of the establishment of Quanzhou Gas to the shareholders of the Company as soon as practicable.

### **INTRODUCTION**

On 30 December 2005, Xinao China, a wholly-owned subsidiary of the Company, entered into the Nominee Agreement with XGCL, a connected person of the Company, whereby it was agreed that XGCL shall enter into the Quanzhou Agreement for Xinao China in connection with the establishment of Quanzhou Gas free of charge. Upon establishment of Quanzhou Gas, Xinao China will be the beneficial owner of 60% equity interests in Quanzhou Gas. Since the Group will not have material control over the financial and operating policies of Quanzhou Gas, Quanzhou Gas is considered to be an associate of the Company. Xinao China shall be responsible for the related capital contribution and shall bear the profits and losses of Quanzhou Gas in proportion to its attributable equity interests in Quanzhou Gas. The entering into of the Nominee Agreement constitutes a connected transaction for the Company under the Listing Rules but as the consideration thereunder is nil, it falls under the *de minimis* exemption under the Listing Rules and such connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

## **QUANZHOU AGREEMENT DATED 30 DECEMBER 2005**

### **Parties**

- (1) XGCL, an investment holding company and the principal businesses of its subsidiaries are the investment in bio-chemical industry and property and property management in PRC, is entering the Quanzhou Agreement for Xinao China, which is principally engaged in the sale of piped gas, the supply of electricity and water and the investment in infrastructure projects in PRC;
- (2) Quanzhou State-Owned, which is principally engaged in the operation of and investment in enterprises which engage in the provision of utilities and public transport in PRC; and
- (3) Quanzhou Zhongyuan, which is principally engaged in the construction and sale of properties in Quanzhou City.

The Company confirms that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the PRC Partners and their respective ultimate beneficial owners are independent third parties of the Company and its connected persons.

### **Condition precedent**

The Quanzhou Agreement is conditional upon the approval by the relevant PRC government.

### **Business of Quanzhou Gas**

Upon establishment, Quanzhou Gas will principally engage in the construction and installation of piped gas infrastructure in and the transportation and distribution of piped natural gas to the Administrative Zone of Quanzhou City (泉州市行政區劃範圍), Fujian Province, PRC.

The Board currently expects that Quanzhou Gas will be granted an exclusive right to supply piped natural gas to the Administrative Zone of Quanzhou City for an initial term of 29 years from the date of issue of its business licence. The Board currently expects that the business license of Quanzhou Gas would be issued within around six months from the date of this announcement and the operation of Quanzhou Gas will commence as soon as practicable after obtaining the business license.

Upon establishment of Quanzhou Gas, Xinao China will be the beneficial owner of 60% equity interests in Quanzhou Gas. Since the Group will not have material control over the financial and operating policies of Quanzhou Gas, Quanzhou Gas is considered to be an associate of the Company.

### **Registered capital**

The registered capital of Quanzhou Gas will be RMB450,000,000 (equivalent to approximately HK\$432,692,000), of which:

- (1) 60%, being RMB270,000,000 (equivalent to approximately HK\$259,615,000), will be payable by XGCL and contributed in cash by Xinao China;
- (2) 32%, being RMB144,000,000 (equivalent to approximately HK\$138,462,000), will be contributed in cash by Quanzhou State-Owned; and
- (3) 8%, being RMB36,000,000 (equivalent to approximately HK\$34,615,000), will be contributed in cash by Quanzhou Zhongyuan.

Each party to the Quanzhou Agreement shall complete its contribution to the registered capital of Quanzhou Gas within one year after the issue of the business license of Quanzhou Gas by three instalments in the following manner:

- (1) 30% of its contribution of the registered capital of Quanzhou Gas be paid within 10 days after the issue of the business license of Quanzhou Gas;
- (2) 30% of its contribution of the registered capital of Quanzhou Gas be paid within six months after the issue of the business license of Quanzhou Gas; and
- (3) 40% of its contribution of the registered capital of Quanzhou Gas be paid within 12 months after the issue of the business license of Quanzhou Gas.

The registered capital of Quanzhou Gas was determined on an arm's length basis between the parties and represents the expected initial total amount required for the initialisation and operation of Quanzhou Gas. Other than the amount of the registered capital to be invested by the parties under the Quanzhou Agreement, as at the date of this announcement, the parties do not have any further commitment to invest in Quanzhou Gas.

Xinao China's contribution to the registered capital will be funded by internal resources of the Group, the net proceeds from the notes of the Company issued in August 2005 and possibly bank borrowings. Upon establishment of Quanzhou Gas, it will be owned by XGCL (for Xinao China), Quanzhou State-Owned and Quanzhou Zhongyuan as to 60%, 32% and 8% respectively. Pursuant to the Nominee Agreement, XGCL will be holding its 60% equity interests in Quanzhou Gas for Xinao China and in effect, Xinao China will be the beneficial owner of 60% equity interests in Quanzhou Gas, which, as mentioned above, will become an associate of the Company upon its establishment.

### **Board of directors**

The board of directors of Quanzhou Gas will comprise of seven directors, of whom four (including the chairman, who will also be the legal representative of Quanzhou Gas) will be nominated by XGCL (which will act in the direction of Xinao China with regard to such nominations of directors), two (including the deputy chairman) will be nominated by Quanzhou State-Owned and the remaining one will be nominated by Quanzhou Zhongyuan. Therefore, Xinao China will in effect have control of the majority of the board of directors of Quanzhou Gas.

Resolution in relation to each of the following matters shall only be passed at board meeting with unanimous approval of all directors of Quanzhou Gas:

- (1) any proposed amendments to the articles of association of Quanzhou Gas;
- (2) any proposed termination, dissolution, liquidation and winding up of Quanzhou Gas;
- (3) any proposed increases in, adjustments to or transfers of the registered capital of Quanzhou Gas;
- (4) any proposed mergers or acquisitions of any economic entities by Quanzhou Gas; and
- (5) any pledges or charges of any assets of Quanzhou Gas or the giving of any guarantees to or on behalf of any third parties.

Resolution in relation to each of the following matters shall only be passed at board meeting with approval of 5 or more directors of Quanzhou Gas:

- (1) any proposals in relation to the business developments of Quanzhou Gas;
- (2) the proportion of funds for company development, employees' fringe benefits and company reserves to be taken from profits of Quanzhou Gas;
- (3) the formation of and adjustments to the operational and management authority of Quanzhou Gas;
- (4) any decisions on the hiring, scope of work and salary of any senior operational management staff of Quanzhou Gas;
- (5) the approval of the annual business plan, annual budget and decision plan;
- (6) the approval of any payment obligations which exceed the annual business plan budget of RMB5 million (equivalent to approximately HK\$4.8 million) (or equivalent amount);
- (7) sales of any material part of the businesses or assets of Quanzhou Gas; and
- (8) any proposals in relation to the distribution of profits of Quanzhou Gas.

### **Term**

The term of Quanzhou Gas will be 50 years from the date of issue of the business licence of Quanzhou Gas, which term can be extended upon agreement between the parties.

**Profits**

Profits will be distributed to each of the parties to the Quanzhou Agreement in proportion to their respective equity interests in Quanzhou Gas. Pursuant to XGCL's Instructions, any profits payable to XGCL will be paid or distributed by Quanzhou Gas directly to Xinao China.

**Dissolution**

Upon early termination of the Quanzhou Agreement or the expiry of the term of Quanzhou Gas, the remaining assets of Quanzhou Gas (after the payment of all its debts, if any) will be distributed to each of the parties to the Quanzhou Agreement in proportion to their respective equity interests in Quanzhou Gas. Pursuant to XGCL's Instructions, any assets or whatsoever distributable to XGCL on dissolution of Quanzhou Gas will be distributed by Quanzhou Gas directly to Xinao China.

**REASONS FOR AND EFFECTS OF THE ESTABLISHMENT OF QUANZHOU GAS**

Quanzhou City is located in the southeast of Fujian Province, PRC, which is to the west coast of the Taiwan Strait and has long been an important port city of PRC. The Board considers that the establishment of Quanzhou Gas under the Quanzhou Agreement to be an important milestone for the Group since Quanzhou Gas is the first operational location the Group has secured in Fujian Province, thereby signifying the Group's successful market penetration and establishment of a foothold in Fujian Province.

Quanzhou has a population of approximately 7,800,000 and the city centre population of Quanzhou City is approximately 680,000 which population is expected to be increased to approximately 1,240,000 by 2011. Quanzhou is well developed in its industrial and commercial sectors, which main industries include the manufacturing of textiles, clothing and shoes, construction materials, handicrafts, food and beverages, machineries and equipments. Its economic growth reached approximately 14.2% in 2004. Due to the aforesaid, the Board currently anticipates that there will be a large demand of natural gas by its population as well as commercial/industrial customers and therefore currently expects that the operation of Quanzhou Gas will eventually lead to a significant contribution to the future earnings of the Company.

As natural gas is a cleaner, less expensive and safer source of fuel when compared to other sources of fuel, the PRC government has since 1998 been actively promoting the use of natural gas as an environment friendly, economical and efficient source of fuel. As there is a lack of natural gas wells in the southeast regions of PRC and most of these regions are very far away from natural gas well supply in other regions of PRC, imports of natural gas from overseas are necessary in order to provide adequate supply of natural gas to the southeast regions of PRC. The port of Quanzhou is one of the LNG import terminals approved by the PRC government for the imports of LNG from overseas. Securing an operational location with LNG import terminal will shorten the transport distance of natural gas considerably, thereby enabling the Group to gain easy access of LNG from overseas' imports at lower costs. It will also secure natural gas sources for future developments of large-scaled customers and other projects in the region for the Group.

Upon establishment, Quanzhou Gas will principally engage in the construction and installation of piped gas infrastructure in and the transportation and distribution of piped natural gas to the Administrative Zone of Quanzhou City. According to the PRC legal advisers to the Company, the current PRC law and regulations allow foreign investors to invest in the business of constructions and operations of piped gas network and sales of related products. However, the invitation on the establishment of Quanzhou Gas by the Quanzhou government requested, amongst others, for a PRC-established company which has or had a long history of good knowledge and reputation in the gas-related industry to be its major legal shareholder. Although the Group commenced its first gas project in Langfang, Hebei Province, PRC back in 1993 and possesses over ten years of experience and reputation in the natural gas industry, it is regarded by the Quanzhou government as a group of foreign companies. However, XGCL, with its previous long history and good reputation in the gas-related industry, is considered by the Quanzhou government as being qualified to be the requisite gas-related shareholder for the establishment of Quanzhou Gas. Therefore, in order to enable the Group to fulfil the requirements for the bidding and participate in the establishment of Quanzhou Gas, the Group (through Xinao China) entered into the Nominee Agreement with XGCL whereby it was agreed that XGCL shall enter into the Quanzhou Agreement for Xinao China free of charge, thereby allowing the Group to participate in the investment of Quanzhou Gas through XGCL.

The Directors believe that the Quanzhou Agreement was entered into upon normal commercial terms and in the ordinary business of the Company. The Directors consider that terms of the Quanzhou Agreement are fair and reasonable and the Quanzhou Agreement is in the interest of the shareholders of the Company as a whole.

As the applicable registered capital of Quanzhou Gas exceeds 5% of the applicable percentage ratios (other than the profits ratio) of the Company under the Listing Rules, the entering into of the Quanzhou Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing particulars of the establishment of Quanzhou Gas to the shareholders of the Company as soon as practicable.

## **GENERAL**

The Company acts as an investment holding company. The Group is one of the first non state-owned piped natural 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 and bottled gas in PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas meters and the provision of repair, maintenance and other services in connection with gas supply.

## **DEFINITIONS**

“Board”	the board of Directors
“Company”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“LNG”	liquefied natural gas
“Nominee Agreement”	an agreement dated 30 December 2005 entered into between Xinao China and XGCL in relation to the entering into of the Quanzhou Agreement by XGCL for Xinao China
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Partners”	Quanzhou State-Owned and Quanzhou Zhongyuan
“Quanzhou Agreement”	a conditional joint venture agreement dated 30 December 2005 entered into between XGCL (for Xinao China) and each of the PRC Partners in relation to the establishment of Quanzhou Gas
“Quanzhou Gas”	泉州市燃氣有限公司 (Quanzhou City Gas Company Limited*), a PRC equity joint venture to be established in PRC pursuant to the Quanzhou Agreement, which name will be changed to 泉州新奧燃氣有限公司 (Quanzhou Xinao Gas Company Limited*) after all the registered capital of Quanzhou Gas have been paid by the parties according to the terms of the Quanzhou Agreement
“Quanzhou State-Owned”	泉州市國有資產投資經營公司 (Quanzhou City State-Owned Asset Investment and Operation Company Limited*), a PRC State-owned company established in PRC

“Quanzhou Zhongyuan”	泉州市中遠房地產開發有限公司 (Quanzhou City Zhongyuan Property Development Company Limited*), a company established in PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“XGCL”	新奧集團股份有限公司 (Xinao Group Company Limited*), a joint stock limited company incorporated in PRC, is ultimately controlled and owned by Mr. Wang Yusuo, the chairman, an executive director and one of the controlling shareholders of the Company and his spouse, Ms. Zhao Baoju, the non-executive Director and one of the controlling shareholders of the Company, and is regarded as a connected person of the Company under the Listing Rules as at the date of this announcement
“XGCL’s Instructions”	a written unconditional and irrevocable instruction to be given by XGCL to Quanzhou Gas on or as soon as practicable after the date of establishment of Quanzhou Gas, instructing Quanzhou Gas that for so long as XGCL shall remain as a shareholder of Quanzhou Gas, Quanzhou Gas shall pay or distribute any profits, reserves, assets, properties, cash or whatsoever payable or distributable to XGCL as a shareholder of Quanzhou Gas (including without limitation, those payable or distributable on dissolution or winding up of Quanzhou Gas) directly to Xinao China provided that under no circumstances should any profits, reserves, assets, properties, cash or whatsoever be paid or distributed to XGCL without the prior written consent of Xinao China
“Xinao China”	新奧(中國)燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited*), a wholly-owned foreign enterprise established in PRC and a wholly-owned subsidiary of the Company
“HK\$” or “HK Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of PRC
“%”	per cent.

*For the purposes of illustration only and unless otherwise stated, the conversion of Renminbi into HK Dollars is based on the exchange rate of HK\$1.00=RMB1.04. Such conversion should not be construed as a representation that the amount in question have been, could have been or could be converted at any particular rate or at all.*

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

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

Hong Kong, 27 January 2006

\* For identification only

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