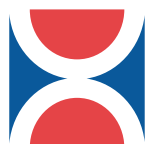


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This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. This announcement is not an offer of securities for sale in the United States. The Placing Shares and the Subscription Shares may not be offered or sold in the United States absent registration or an exemption from registration, and if any public offering of the Placing Shares or the Subscription Shares is made in the United States, such offer will be made by means of a prospectus that may be obtained from the Company or the selling security holder and that will contain detailed information about the Company and its management, as well as financial statements.



XINAO GAS HOLDINGS LIMITED

(新奧燃氣控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

MAJOR TRANSACTION

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

SUMMARY

On 12 March 2002, the Vendor and the Company entered into the Placing Agreement with ABN AMRO Rothschild pursuant to which ABN AMRO Rothschild has agreed to purchase or procure purchasers to purchase, and the Vendor has agreed to sell, in aggregate 110,000,000 existing Shares at the Placing Price of HK\$3.05 per Share. Under the Placing Agreement, ABN AMRO Rothschild has been granted an Option to require the Vendor to sell up to an additional 15,000,000 existing Shares at the Placing Price. The Placing Shares (assuming the Option is exercised in full) represent approximately 19.9% of the existing issued share capital of the Company or approximately 16.6% of the issued share capital of the Company as enlarged by the Subscription.

On the same day, the Vendor and the Company entered into the Subscription Agreement pursuant to which the Vendor has conditionally agreed to subscribe from the Company for 110,000,000 new Shares at the Placing Price. Should ABN AMRO Rothschild exercise the Option, the Vendor will have the right to subscribe for and require the Company to issue up to an additional 15,000,000 new Shares to the extent that the Vendor is required to sell further Shares as a result of the exercise of the Option. Pursuant to the Subscription Agreement, the Company will bear the costs and expenses of this transaction (including the expenses related to the Placing and the Subscription) so that the proceeds received by the Company will be net of such costs and expenses.

The net proceeds from the Subscription receivable by the Company are expected to amount to approximately HK\$326 million (or approximately HK\$370 million if the Option is exercised in full). It is intended that the net proceeds will be applied as follows:

- (a) as to approximately HK\$70 million for the investment in Huaian Xinao;
- (b) as to approximately HK\$60 million for the acquisition of interest in the Existing Operator and investment in the Yancheng Project;
- (c) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Anhui Province, the PRC;
- (d) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Jiangsu Province, the PRC; and
- (e) as to the balance for general corporate purposes, including further investments which are in line with the business objectives of the Company as described in the prospectus of the Company dated 27 April 2001.

Upon completion of the Placing, the Vendor's interest in the existing issued share capital of the Company will be reduced from approximately 67.0% to approximately 49.4% (without taking into account exercise of the Option). Such interest will then be increased to approximately 57.0% after completion of the Placing and the Subscription. If the Option is exercised in full, upon completion of the Placing, the Vendor's interest in the existing issued share capital of the Company will be reduced from approximately 67.0% to approximately 47.0%. Such interest will then be increased to approximately 55.9% after completion of the Placing and the Subscription.

At the request of the Company, trading in the Shares on GEM has been temporarily suspended with effect from 2:30 pm on 12 March 2002, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading of Shares with effect from 10.00 a.m. on 13 March 2002. A further announcement in respect of the results of the Placing will be made by the Company in due course.

The Subscription constitutes a major transaction under the GEM Listing Rules. A circular regarding further information of the Subscription will be despatched to the shareholders of the Company for their information. Application for a waiver from the requirement to convene a general meeting to consider and approve the Subscription pursuant to Rule 19.41 of the GEM Listing Rules has been submitted to GEM on the basis that the interest of the Vendor is the same as all the other minority shareholders of the Company since the number of Subscription Shares to be subscribed for by the Vendor would be the same as the number of Placing Shares, the subscription price for the Subscription Shares will be same as the Placing Price (net of expenses), the number of Shares held by the Vendor both immediately before and after the completion of the Placing and the Subscription will be the same, and accordingly, the Vendor has no economic interest in the Placing and the Subscription. The Vendor has approved the Subscription in writing.

PLACING AGREEMENT DATED 12 MARCH 2002

Parties

- (a) The Vendor (as vendor), a substantial shareholder of the Company and who has an interest of approximately 67.0% in the existing issued share capital of the Company;
- (b) Xinao; and
- (c) ABN AMRO Rothschild (as placing agent).

The Placing Shares

If the Option is not exercised:

110,000,000 Shares, representing approximately 17.5% of the existing issued share capital of the Company or approximately 14.9% of the issued share capital of the Company as enlarged by the Subscription.

If the Option is exercised in full:

125,000,000 Shares, representing approximately 19.9% of the existing issued share capital of the Company or approximately 16.6% of the issued share capital of the Company as enlarged by the Subscription.

The Option

The Placing Agent has been granted the Option to require the Vendor to sell up to an additional 15,000,000 existing Shares exercisable on or before 5:30 p.m. on the first day trading in the Shares resumes following this announcement. Such additional Shares represent approximately 2.4% of the existing issued share capital of the Company or approximately 2.0% of the issued share capital of the Company as enlarged by the Subscription.

A further announcement will be made by the Company in respect of the results of the Placing and if and when the Placing Agent has exercised the Option.

The Placing Price

HK\$3.05 per Share. The Placing Price has been arrived at after arm's length negotiation between the Company and ABN AMRO Rothschild and is calculated with reference to the historical volume weighted average price of the Shares for the last 10 trading days up to and including 11 March 2002 (being the last full trading day in the Shares before suspension of trading on 12 March 2002). The Placing Price represents a discount of approximately 7.6% to the volume weighted average price of the Shares for the last 10 trading days up to and including 11 March 2002, a discount of approximately 8.3% to the closing price of HK\$3.325 per share as quoted on GEM on 11 March 2002 and a discount of 8.1% to the average closing price of approximately HK\$3.3175 per Share as quoted on GEM for the last 10 trading days up to and including 11 March 2002.

The Placing Shares to be placed under the Placing (including those arising from the exercise of the Option, if applicable) will be sold free and clear of all liens, charges and encumbrances, claims, options and third party rights and together with all rights attaching thereto as at the date of this announcement, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after the date of this announcement.

Independence of placees and the Placing Agent

The placees are expected to be third parties independent from the directors, chief executive or substantial shareholders or management shareholders of the Group or any of their respective associates (as defined in the GEM Listing Rules). It is expected that there will be over six placees who will be (a) professional and institutional investors which generally include brokers, dealers and companies (including fund managers), whose ordinary business involves dealing in shares and other securities; (b) corporate entities which regularly invest in shares and other securities; and (c) individuals.

The Placing Agent is a third party independent of the directors, chief executive, substantial shareholders or management shareholders of the Group or any of their respective associates.

Conditions of the Placing

The Placing is conditional upon, inter alia, there having been, prior to 12:00 noon on the second business day after the day trading in the Shares resumes following the announcement, no breach of the representations, warranties and undertakings given by the Vendor and by the Company and no occurrence of a force majeure event.

Completion of the Placing

Expected to be on or before 26 March 2002.

SUBSCRIPTION AGREEMENT DATED 12 MARCH 2002

Parties

- (a) The Vendor (as subscriber); and
- (b) The Company (as issuer).

The Subscription Shares

If the Option is not exercised:

110,000,000 new Shares, representing approximately 17.5% of the existing issued share capital of the Company or 14.9% of the issued share capital of the Company as enlarged by the Subscription.

If the Option is exercised in full:

Should the Placing Agent exercise the Option, the Vendor will, in addition to the 110,000,000 new Shares, subscribe for and require the Company to issue up to an additional 15,000,000 new Shares, if and to the extent that the Vendor is required to sell further Shares as a result of the exercise of the Option. If the Option is exercised in full, the Shares to be subscribed will represent approximately 19.9% of the existing issued share capital of the Company or approximately 16.6% of the issued share capital of the Company as enlarged by the Subscription of 125,000,000 Shares.

The Subscription Shares will be issued pursuant to the general mandate granted to the directors of the Company pursuant to a resolution of the sole shareholder of the Company passed on 24 April 2001.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares to be issued pursuant to the Subscription.

The Subscription price

HK\$3.05 per Share, which is equivalent to the Placing Price. Pursuant to the Subscription Agreement, the Company shall bear the costs and expenses of this transaction (including the expenses relating to the Placing and the Subscription).

Ranking of the Subscription Shares

The Subscription Shares, when fully paid, will rank equally with the existing Shares.

Conditions of the Subscription

Completion of the Subscription is conditional upon:

- (a) the completion of the Placing; and
- (b) the Stock Exchange granting the listing of, and permission to deal in, all of the Subscription Shares.

Completion of the Subscription shall take place at or before 3:00 p.m. on the business day after the date upon which all conditions stated above have been fulfilled, and in any event not later than the date which is 14 days after the date of the Subscription Agreement (which is 26 March 2002), or such other date as the Company and the Vendor may agree in writing.

If the Subscription is not completed within the 14-day period (which ends on 26 March 2002), shareholders' approval from the independent shareholders of the Company will be required.

Reasons for the Subscription and use of proceeds

The Group is one of the first non state-owned piped gas distributors in the 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 in the PRC. Its business activities also consist of the sale of gas appliances, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply.

Following the listing of the Shares on GEM in May 2001, the Company has continued to pursue its objective in further developing its core business of distributing piped gas. As at 31 January 2002, the Group was engaged in the provision of piped gas supply to a total of 16 locations in the PRC with population coverage of over 3.4 million people compared to four locations in the PRC at the time of the listing in May 2001. The Company is currently in negotiations with local governments of a total of 11 locations in Anhui and Jiangsu Provinces, the PRC.

The Huaian City People's Government has approved the operation of piped gas distribution in the Huaian City by the Company and has on 5 March 2002 granted the Company the priority entry right to develop and operate piped gas supply in the Huaian City whereby no other gas distribution company will be permitted to engage in piped gas distribution during the term of the joint venture. The Company plans to establish a Sino-foreign joint venture ("Huaian Xinao") with a PRC entity to be established by 淮 安 市 計 劃 委 員 會 (Huaian City Planning Commission*) to undertake the project. It is currently anticipated that, upon the establishment of Huaian Xinao, the Group will have no less than 70% interest in Huaian Xinao and a PRC entity to be established by Huaian City Planning Commission will have no more than 30% interest in Huaian Xinao. Huaian Xinao will be engaged in the investment in, and the operation and management of gas pipeline infrastructure, the sale and distribution of piped gas, gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply to the Huaian City, Jiangsu Province, the PRC which has a population of approximately 697,000 (comprising a total of approximately 232,000 residential households) at the end of 2000. Total investment of Huaian Xinao is currently expected to be around RMB280 million (approximately HK\$264 million) and will be funded partly by investment by shareholders and internally generated cash flow by Huaian Xinao. As at the date of this announcement, no legally binding agreement or memorandum of understanding has been entered into by the Company in relation to the establishment of Huaian Xinao. The Group is in active negotiation in relation to Huaian Xinao and it is currently anticipated that a Sino-foreign joint venture contract will be entered into within three months from the date of this announcement. Appropriate announcement will be made if the materialisation of the Huaian Xinao project constitutes matters discloseable under Chapter 19 of the GEM Listing Rules.

The Yancheng City People's Government has approved-in-principle the acquisition of 80% interest in an existing gas distributor ("Existing Operator") in Yancheng City, Jiangsu Province, the PRC (the "Yancheng Project") by the Company on 7 March 2002. The Existing Operator is currently engaged in piped gas distribution in the northern part of Yancheng City, Jiangsu Province, the PRC which has a population of approximately 630,000 (comprising a total of approximately 210,000 residential households) at the end of 2000. It is currently anticipated that, upon the signing of a formal acquisition agreement, the Group will acquire 80% interest in the Existing Operator from its existing shareholders and that the existing business of the Existing Operator will be continued and the legal status of the Existing Operator will be changed from a PRC joint venture to a Sino-foreign equity joint venture. The registered capital of the Yancheng Project is expected to be around RMB50-60 million. Total investment is currently expected to be around RMB120 million (approximately HK\$113 million) and such amount is expected to be funded partly by investment by shareholders and internally generated cashflow by the Yancheng Project. Total investment represents the amount of capital investment the Yancheng Project will require during its period of operation. Save for a non-legal binding memorandum of understanding dated 10 February 2002 between Xinao Jiangsu Investment Limited and an existing shareholder of the Original Operator, as at the date of this announcement, no legally binding agreement has been entered into by the Company in relation to the acquisition of, and investment in, the Existing Operator. The Group is in active negotiation in relation to the Yancheng Project and it is currently anticipated that an acquisition agreement will be entered into within three months from the date of this announcement. Appropriate announcement will be made if the materialisation of the acquisition constitutes matters discloseable under Chapter 19 of the GEM Listing Rules.

The Directors consider that it is in the best interest of the Company to raise further capital from the equity market by way of the Placing and the Subscription. The net proceeds from the Subscription are estimated to amount to approximately HK\$326 million (or approximately HK\$370 million if the Option is exercised in full). It is intended that the net proceeds will be applied as follows:

- (a) as to approximately HK\$70 million for the investment in Huaian Xinao;
- (b) as to approximately HK\$60 million for the acquisition of interest in the Existing Operator and investment in the Yancheng Project;
- (c) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Anhui Province, the PRC;
- (d) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Jiangsu Province, the PRC; and
- (e) as to the balance for general corporate purposes, including further investments which are in line with the business objectives of the Company as described in the prospectus of the Company dated 27 April 2001.

The above projects contemplated are consistent with the Company's objective of expanding to new operational locations as described in the prospectus of the Company dated 27 April 2001. Should any of the above projects contemplated are not in line with the Company's objectives, the Company will obtain prior approval of independent shareholders of the Company in accordance with Rule 17.25 of the GEM Listing Rules.

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company immediately before and after completion of the Placing and the Subscription, assuming that the Option is not exercised:

| Shareholder | Before completion of the Placing | | Immediately after completion of the Placing | | Immediately after completion of the Placing and the Subscription | |
|---------------------|----------------------------------|--------------|---|--------------|--|--------------|
| | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> |
| The Vendor | 420,000,000 | 67.0 | 310,000,000 | 49.4 | 420,000,000 | 57.0 |
| Public shareholders | 207,000,000 | 33.0 | 317,000,000 | 50.6 | 317,000,000 | 43.0 |
| Total | 627,000,000 | 100.0 | 627,000,000 | 100.0 | 737,000,000 | 100.0 |

Set out below is the shareholding structure of the Company immediately before and after completion of the Placing and the Subscription, assuming that the Option is exercised in full:

| Shareholder | Before completion of the Placing | | Immediately after completion of the Placing | | Immediately after completion of the Placing and the Subscription | |
|---------------------|----------------------------------|--------------|---|--------------|--|--------------|
| | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> | <i>Number of Shares</i> | <i>%</i> |
| The Vendor | 420,000,000 | 67.0 | 295,000,000 | 47.0 | 420,000,000 | 55.9 |
| Public shareholders | 207,000,000 | 33.0 | 332,000,000 | 53.0 | 332,000,000 | 44.1 |
| Total | <u>627,000,000</u> | <u>100.0</u> | <u>627,000,000</u> | <u>100.0</u> | <u>752,000,000</u> | <u>100.0</u> |

GENERAL

At the request of the Company, trading in the Shares on GEM has been temporarily suspended with effect from 2:30 pm on 12 March 2002, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading of Shares with effect from 10.00 a.m. on 13 March 2002. A further announcement in respect of the results of the Placing will be made by the Company in due course.

The Shares were listed on GEM on 10 May 2001. As disclosed in the prospectus of the Company dated 27 April 2001, each of Easywin, Mr. Wang Yusuo and Ms. Zhao Baoju has undertaken to the Stock Exchange and N M Rothschild & Sons (Hong Kong) Limited that it, he or she will not dispose of any of its, his or her respective direct or indirect interests in its, his or her holding in the Shares (representing 420,000,000 Shares) during the second six months after listing of the Shares on GEM commencing from 10 November 2001 such that they would after such disposal cease to have control over an aggregate of 35% of the issued share capital of the Company.

The Subscription constitutes a major transaction under the GEM Listing Rules. A circular regarding further information of the Subscription will be despatched to the shareholders of the Company for their information. Application for a waiver from the requirement to convene a general meeting to consider and approve the Subscription pursuant to Rule 19.41 of the GEM Listing Rules has been submitted to GEM on the basis that the interest of the Vendor is the same as all the other minority shareholders of the Company since the number of Subscription Shares to be subscribed for by the Vendor would be the same as the number of Placing Shares, the subscription price for the Subscription Shares will be same as the Placing Price (net of expenses), the number of Shares held by the Vendor both immediately before and after the completion of the Placing and the Subscription will be the same, and accordingly, the Vendor has no economic interest in the Placing and the Subscription. The Vendor has approved the Subscription in writing.

DEFINITIONS

| | |
|---|---|
| “ABN AMRO Rothschild” or “Placing Agent” | ABN AMRO Bank, N.V. and N M Rothschild & Sons Limited, each trading as ABN AMRO Rothschild |
| “Company” or “Xinao” | Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the Shares of which are listed on GEM |
| “Director(s)” | the director(s) of the Company |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “Option” | an option granted by the Vendor to the Placing Agent pursuant to the Placing Agreement under which the Placing Agent will have the right to require the Vendor to place an additional 15,000,000 Shares at the Placing Price pursuant to the Placing Agreement |
| “Placing” | the placing of the Placing Shares pursuant to the Placing Agreement |
| “Placing Agreement” | the placing and underwriting agreement dated 12 March 2002 between the Vendor, the Company and the Placing Agent |
| “Placing Price” | HK\$3.05 per Placing Share |
| “Placing Shares” | up to 125,000,000 existing Shares |
| “PRC” | the People’s Republic of China |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subscription” | the conditional subscription by the Vendor of the Subscription Shares pursuant to the Subscription Agreement |
| “Subscription Agreement” | the conditional subscription agreement dated 12 March 2002 between the Vendor and the Company |
| “Subscription Shares” | a maximum of 125,000,000 new Shares |

| | |
|----------|---|
| “Vendor” | Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability and which is owned as to 50% by Mr. Wang Yusuo and 50% by Ms. Zhao Baoju (spouse of Mr. Wang Yusuo) and is an investment holding company |
| “HK\$” | Hong Kong dollars |
| “RMB” | Renminbi |

In this announcement, amounts stated in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1 = RMB1.06.

By order of the board
XINAO GAS HOLDINGS LIMITED
CHENG Chak Ngok
Company Secretary

Hong Kong, 12 March 2002

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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: (a) the information contained in this announcement is accurate and complete in all material respects and not misleading; (b) there are no other matters the omission of which would make any statement in this announcement misleading; and (c) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of its posting.

* *For identification only*