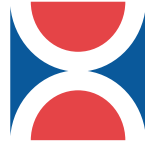


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XINAO GAS HOLDINGS LIMITED

新奥燃气控股有限公司*

(incorporated in the Cayman Islands with limited liability)

DISCLOSEABLE TRANSACTION ESTABLISHMENT OF A SINO-FOREIGN JOINT VENTURE IN BENGBU, ANHUI PROVINCE, THE PRC

The Directors are pleased to announce that the Group (through a wholly-owned subsidiary) has, on 15 October 2001, entered into the Bengbu Agreement with Bengbu Construction to set up Bengbu Xinao. Upon establishment, Bengbu Xinao will engage in the provision of piped gas for a period of 30 years to the Bengbu city centre, Anhui Province, the PRC.

The Directors consider the Bengbu Agreement to be an important milestone of the Group since it signifies the success of the Group's marketing efforts to expand into locations along or nearby the West to East Pipelines, a major construction project being undertaken by the PRC government to transport natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east. The Directors believe that the Bengbu Agreement is entered into upon normal commercial terms in the ordinary course of business of the Company and is expected to contribute positively to the future earnings of the Company.

The Company will issue a circular containing details of the transaction in this announcement to the shareholders of the Company as soon as practicable.

Due to the delay in receiving the duly signed and sealed Bengbu Agreement, there is a delay in the release of this announcement. As a result, the Stock Exchange has indicated that they will look into this matter further and will take appropriate action if necessary.

BENGBU AGREEMENT DATED 15 OCTOBER 2001

Parties

- (a) Southeast China BVI, an indirect wholly-owned subsidiary of the Company.
- (b) Bengbu Construction, an independent party not connected with any of the Directors, chief executives, management shareholders or substantial shareholders of the Company or any of their respective associates.

Business of Bengbu Xinao

Upon establishment, Bengbu Xinao will engage 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 Bengbu city centre, Anhui Province, the PRC which has a population of approximately 753,000 (comprising a total of approximately 221,000 residential households) at the end of 1999. Bengbu Xinao is the largest project of the Group to date. Bengbu is an industrial and commercial city located in the northern part of Anhui Province, the PRC and is approximately 120 kilometers north of Hefei.

Total investment

RMB330 million (equivalent to approximately HK\$314.3 million). The total investment was determined on an arm's length basis between the parties to the Bengbu Agreement and represents the expected total investment of Bengbu Xinao.

Registered capital

RMB110 million (equivalent to approximately HK\$104.7 million) of which:

- (a) 70% (being RMB77 million or approximately HK\$73.3 million) will be contributed in cash by Southeast China BVI; and
- (b) 30% (being RMB33 million or approximately HK\$31.4 million) will be contributed by Bengbu Construction in the form of assets.

Southeast China BVI's contribution to the registered capital will be funded by the net proceeds raised from the placing of the shares of the Company in May 2001 and according to the following timetable:

- (a) initial 50% – within 20 days from receiving the Certificate of Approval for the establishment of enterprises with foreign investment in the PRC from the relevant local foreign trade and economic co-operation department; and
- (b) the remaining 50% – within 180 days from receiving the Certificate of Approval for the establishment of enterprises with foreign investment in the PRC from the relevant local foreign trade and economic co-operation department.

Board of directors

The board of directors of Bengbu Xinao will comprise seven directors. Southeast China BVI is entitled to appoint five directors and Bengbu Construction is entitled to appoint two directors.

Term

30 years from the date of issue of the business license of Bengbu Xinao which will be issued after all necessary PRC regulatory approvals (including the Certificate of Approval for the establishment of enterprises with foreign investment in the PRC from the relevant local foreign trade and economic co-operation department) have been obtained. The Company expects to obtain such approvals within two months.

Profits

Profits will be distributed to Southeast China BVI and Bengbu Construction in proportion to their respective equity interests in Bengbu Xinao.

Dissolution

At the end of the term of the joint venture, the remaining assets of Bengbu Xinao (after the payment of all its debts) will be distributed to Southeast China BVI and Bengbu Construction in proportion to their respective equity interests in Bengbu Xinao.

GENERAL

The Group is one of the first non state-owned piped gas distributors in the PRC. The Group is engaged in 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 and equipment and the provision of repair, maintenance and other services in connection with gas supply.

The Directors consider the Bengbu Agreement to be an important milestone of the Group since it signifies the success of the Group's marketing efforts to expand into locations along or nearby the West to East Pipelines, a major construction project being undertaken by the PRC government to transport natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east. The establishment of Bengbu Xinao is in accordance with the business strategies of the Group which include further expansion to new operational locations in the PRC.

The Directors believe that the Bengbu Agreement is entered into upon normal commercial terms in the ordinary course of business of the Company and is expected to contribute positively to the future earnings of the Company. The Directors consider that terms of the Bengbu Agreement to be fair and reasonable and the Bengbu Agreement is in the interest of the shareholders of the Company.

Due to the delay in receiving the duly signed and sealed Bengbu Agreement, there is a delay in the release of this announcement. As a result, the Stock Exchange has indicated that they will look into this matter further and will take appropriate action if necessary.

The Company will issue a circular containing details of the transaction in this announcement to the shareholders of the Company as soon as practicable.

DEFINITIONS

“Bengbu Agreement”	a conditional agreement dated 15 October 2001 entered into between Southeast China BVI and Bengbu Construction
“Bengbu Construction”	蚌埠市城市建設投資經營有限公司 (Bengbu City Construction Investment Limited*), a state-owned enterprise engaged in city infrastructure development
“Bengbu Xinao”	蚌埠新奧燃氣有限公司 (Bengbu Xinao Gas Company Limited), a Sino-foreign joint venture to be established pursuant to the Bengbu Agreement
“Company”	Xinao Gas Holdings Limited, a exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Markets of The Stock Exchange of Hong Kong Limited
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“PRC”	the People’s Republic of China
“Southeast China BVI”	Xinao Southeast China Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 17 August 2001 with limited liability
“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 = RMB1.05.

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

Hong Kong, 18 October 2001

This announcement for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) 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*