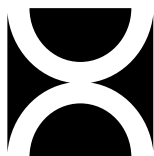


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 stockbroker or other registered dealer in securities, 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, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

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

A letter from the board of directors of Xinao Gas Holdings Limited is set out on pages 3 to 6 of this circular.

This circular will remain on the GEM website at “www.hkgem.com” on the “Latest Company Announcements” page for a minimum period of seven days from the date of publication.

5 November 2001

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

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

“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*)
“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
“Board”	the board of Directors
“branch pipeline”	a pipeline which is laid within an operational location connecting a main pipeline with a pressure regulating box
“Company”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands 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 the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“intermediate pipeline”	a pipeline connecting a long distance pipeline with a processing station
“Latest Practicable Date”	2 November 2001, being the latest practicable date of ascertaining certain information contained in this circular
“long distance pipeline”	a pipeline used for the transmission of natural gas from a gas source to major gas consumption areas
“main pipeline”	a pipeline which is laid underneath major roads or streets within an operational location connecting a processing station with branch pipelines
“PRC”	the People’s Republic of China
“processing station”	a station normally located on the outskirts of an operational location with facilities to store, transmit, depressurise, measure and add odour to gas

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars
“RMB”	Renminbi
“%”	per cent.

In this circular, amounts stated in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1 = RMB1.05.

* *For identification only*

LETTER FROM THE BOARD



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr Wang Yusuo
Mr Yang Yu
Mr Zhao Jinfeng
Mr Qiao Limin
Mr Jin Yongsheng
Mr Yu Jianchao

Registered office:

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

Non-executive Director:

Ms Zhao Baoju

Principal office in Hong Kong:

Room 4202
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Independent non-executive Directors:

Mr Wang Guangtian
Mr Xu Liang

Head office in the PRC:

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

5 November 2001

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

On 18 October 2001, the Company announced that on 15 October 2001, Southeast China BVI had entered into the Bengbu Agreement with Bengbu Construction to establish a Sino-foreign joint venture, Bengbu Xinao. Bengbu Construction is an independent party not connected with any of the Directors, chief executives, management Shareholders or substantial Shareholders or any of their respective associates. The Bengbu Agreement constitutes a discloseable transaction for the Company under the GEM Listing Rules. The purpose of this circular is to provide further information on the Bengbu Agreement.

LETTER FROM THE BOARD

THE BENGBU AGREEMENT DATED 15 OCTOBER 2001

Parties

- (a) Southeast China BVI.
- (b) Bengbu Construction, a state-owned enterprise engaged in city infrastructure development in Bengbu city, Anhui Province, the PRC.

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) and 1,258 industrial enterprises 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 kilometres 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 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.

LETTER FROM THE BOARD

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.

REASONS FOR THE BENGBU AGREEMENT

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. Furthermore, the Bengbu Agreement provides the Group an opportunity to obtain greater exposure that can further strengthen its market position in the PRC gas distribution industry.

The Directors believe that the Bengbu Agreement has been entered into upon normal commercial terms and in the ordinary course of business of the Company. The establishment of Bengbu Xinao is in accordance with the business strategies of the Group which include, among others, further expansion to new operational locations in the PRC. The Directors consider that the terms of the Bengbu Agreement to be fair and reasonable and the Bengbu Agreement is in the interest of the Shareholders as a whole.

The Bengbu Agreement is expected to contribute positively to the future earnings of the Group and will strengthen the Group's asset base.

LETTER FROM THE BOARD

FUTURE PLANS REGARDING BENGBU XINAO

蚌埠市液化氣公司 (Bengbu LPG Company*), a wholly-owned subsidiary of Bengbu Construction, is currently engaged in the provision of bottled liquefied petroleum gas (“LPG”) to the Bengbu city centre. Upon establishment of Bengbu Xinao, Bengbu Construction will, in accordance with the Bengbu Agreement, inject fixed assets originally owned by Bengbu LPG Company of value equivalent to RMB33 million as capital contribution for its 30% interest in Bengbu Xinao. It is currently expected that Bengbu Xinao will take over the supply of bottled LPG to the existing residential customers of Bengbu LPG Company until the supply of bottled LPG can be gradually replaced by the supply of natural gas. It is currently envisaged that the supply of natural gas will commence in May 2002.

The initial phase of piped gas development of Bengbu Xinao covers the Bengbu city centre and involves investment in the construction of main pipelines with liquefied natural gas (“LNG”) collection and pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Bengbu city centre. The new processing station will have a designed daily capacity to supply 630,000 cubic metres of natural gas. It is currently intended that Bengbu Xinao will, before the commencement of natural gas supply via the West to East Pipelines, commence and complete the construction of an intermediate pipeline connecting the West to East Pipelines with the aforementioned new processing station such that Bengbu Xinao can obtain natural gas from the West to East Pipelines as soon as it is available.

Upon completion of the processing station but before the availability of natural gas supply via the West to East Pipelines, it is expected that Bengbu Xinao will purchase natural gas to be delivered to the Bengbu city centre by transporting LNG using LNG trucks to the processing station. A gas purchase agreement will be entered into after Bengbu Xinao is established.

GENERAL

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

By order of the Board
XINAO GAS HOLDINGS LIMITED
Wang Yusuo
Chairman

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Directors' interest in Shares

As at the Latest Practicable Date, the interests of each of the Directors and their respective associates in the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which were taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Personal interest	Family interest	Corporate interest	Other	Total
Mr. Wang Yusuo ("Mr. Wang")	-	-	420,000,000 Shares	-	420,000,000 Shares (Note)
Ms. Zhao Baoju ("Ms. Zhao")	-	-	420,000,000 Shares	-	420,000,000 Shares (Note)

Note: The two references to 420,000,000 Shares relate to the same block of Shares in the Company. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associates had any personal, family, corporate or other interests in the Shares or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

So far as the Directors are aware, as at the Latest Practicable Date, the register of substantial Shareholders maintained under Section 16 (1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	Number of Shares held	Approximate percentage of shareholding
Easywin Enterprises Limited	420,000,000 (<i>Note</i>)	66.99%
Mr. Wang	420,000,000 (<i>Note</i>)	66.99%
Ms. Zhao	420,000,000 (<i>Note</i>)	66.99%

Note: The three references to 420,000,000 Shares relate to the same block of Shares in the Company. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

3. SERVICE

Save as disclosed below, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

As at the Latest Practicable Date, each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao, all being executive Directors, has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (a) each service contract is of an initial term of three years commencing on 1 March 2001 and expiring on 29 February 2004 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice;
- (b) the annual salary for each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao from 1 March 2001 to 28 February 2002 shall be HK\$1,300,000, HK\$800,000, HK\$400,000, HK\$400,000, HK\$500,000 and HK\$400,000 respectively during the initial year. As from 1 March 2002, the annual salary of each executive Director shall be as determined by the Board, the increment of the annual salary shall not be more than 15% of the annual salary received by the executive Director for the immediate preceding year;
- (c) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "Net Profits") as the Board may approve, provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year;
- (d) Mr. Wang and Mr. Yang Yu are also the directors of Xiniao Group Company Limited, and under the terms of their respective service agreement with the Company, each of them shall devote at least 70% of his working time and attention, and all of his skill to the discharge of duties of his office as an executive Director and, where relevant, as a director of such other members of the Group in which he holds the office of a director; and
- (e) each of the executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself.

4. SPONSOR'S INTEREST

As confirmed by the Company's sponsor, N M Rothschild & Sons (Hong Kong) Limited (the "Sponsor"), as at the Latest Practicable Date, neither the Sponsor nor its directors, employees

or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to a sponsor's agreement dated 10 May 2001 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules, the Sponsor is entitled to receive fees for acting as the Company's retained sponsor for the period from 10 May 2001 to 31 December 2003.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Group.

6. AUDIT COMMITTEE

The Company established an audit committee on 28 March 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

The audit committee comprises two independent non-executive Directors (namely, Mr. Wang Guangtian and Mr. Xu Liang) and an executive Director (namely, Mr. Yu Jianchao). The background of the members are set out below:

Mr. Wang Guangtian, aged 38, is an independent non-executive Director appointed by the Company in March 2001. He holds a master's degree in World Economics from Hebei University and has over 20 years of experience in financial management and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited (a company incorporated in Hong Kong) which is the window company for the Hebei Provincial Government in Hong Kong. He is also the general manager of Overseas Way (China) Limited (a company incorporated in Hong Kong).

Mr. Xu Liang, aged 60, is an independent non-executive Director appointed by the Company in March 2001. He studied coal gas engineering in 哈爾濱建築工程學院 (Harbin Architecture and Engineering College). He worked in the 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute) for 36 years in research and design of urban gas supply and is now their consultant and chief engineer.

Mr. Yu Jianchao, aged 33, is the Finance Director. He joined the Company in January 1998. He graduated from the 河北財經學院 (Hebei Economics and Finance College) in 1993. Prior to joining the Group, Mr Yu worked as the chief accountant for a number of foreign enterprises including 全興工業廊坊有限公司 (GSK Industry (China) Co., Ltd) and 日清中糧食品有限公司 (Nissin COFCO Foods Co. Ltd.). Mr. Yu has 12 years of experience in accounting and finance.

7. GENERAL

- (a) The secretary and qualified accountant of the Company is Mr. Cheng Chak Ngok, who is an associate member of the Hong Kong Society of Accountants, the Association of Chartered Certified Accounts in England, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The compliance officer of the Company is Mr. Yang Yu.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Central Registration Hong Kong Limited, Room 1901-5, 19th Floor, Hopewell Centre, 185 Queen's Road East, Wanchai, Hong Kong.