

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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors of Xinao Gas Holdings Limited 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 Xinao Gas Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular 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 circular misleading; and (3) 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.



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

**PROPOSALS FOR
GENERAL MANDATES TO REPURCHASE ITS OWN SHARES
AND TO ISSUE SHARES**

A notice convening the Annual General Meeting of Xinao Gas Holdings Limited to be held at Taishan Room, 5th Floor, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, 21 May 2002 at 9:30 a.m., is set out in the 2001 annual report of the Company. Whether or not you propose to attend the meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Central Registration Hong Kong Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 185 Queen's Road East, Wanchai, 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. Completion and return of the proxy form will not preclude shareholders from attending and voting in person at the meeting should they so wish.

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.

* For identification only

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:

“AGM”	the annual general meeting of the Company for the year ended 31 December 2001 to be held at Taishan Room, 5th Floor, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, 21 May 2002 at 9:30 a.m.
“Board”	the board of Directors
“Buyback Mandate”	the general mandate to exercise the power of the Company to repurchase Shares up to a maximum of 10% of the issued share capital of the Company as at the date of the resolution approving the Buyback Mandate
“Company”	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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Mandate”	the general mandate to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company as at the date of passing of the resolution approving the Issue Mandate
“Latest Practicable Date”	26 March, 2002, being the latest practicable date of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SFC”	Securities and Futures Commission
“Shareholder(s)”	registered holder(s) of Shares
“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
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Repurchases
“HK\$”	Hong Kong dollars
“%”	per cent.

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

Non-executive Directors:

Ms. Zhao Baoju

Independent Non-executive Directors:

Mr. Wang Guangtian
Mr. Xu Liang

Registered Office:

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

Principal office in Hong Kong:

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

Head office in the PRC:

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

28 March 2002

To the Shareholders

Dear Sir or Madam,

PROPOSALS FOR GENERAL MANDATES TO REPURCHASE ITS OWN SHARES AND TO ISSUE SHARES

INTRODUCTION

On 24 April 2001, the sole Shareholder of the Company passed the written resolutions to give general mandates to the Directors to allot and issue Shares and to exercise the powers of the Company to repurchase its own Shares in accordance with the GEM Listing Rules. These general mandates will lapse at the conclusion of the AGM. It is therefore proposed to renew the general mandates to issue and allot Shares and to repurchase Shares at the AGM.

* For identification only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding the proposed renewal of the general mandates to issue and allot Shares and to repurchase Shares and to seek your approval of the ordinary resolutions relating to these matters at the AGM.

BUYBACK MANDATE

An ordinary resolution will be proposed at the AGM to grant to the Directors the Buyback Mandate, details of which are set out in ordinary resolution numbered 2 in item 4 of the notice of AGM. The Shares which may be repurchased pursuant to the Buyback Mandate is limited to a maximum of 10% of the issued share capital of the Company at the date of passing of the resolution approving the Buyback Mandate.

An explanatory statement as required under the GEM Listing Rules or the Listing Rules, giving certain information regarding the Buyback Mandate, is set out in the Appendix to this circular.

ISSUE MANDATE

Ordinary resolutions will be proposed at the AGM to grant to the Directors the Issue Mandate, and authorise the extension of the Issue Mandate, details of which are set out in ordinary resolution numbered 1 and 3 in item 4 of the notice of AGM.

ANNUAL GENERAL MEETING

The notice convening the AGM at which ordinary resolutions will be proposed to approve the Buyback Mandate and the Issue Mandate, is set out in the 2001 annual report of the Company which has been despatched to the Shareholders on 28 March 2002.

RECOMMENDATION

The Directors believe that the granting of the Buyback Mandate, the Issue Mandate and the extension of the Issue Mandate are in the best interests of the Company as well as to the Shareholders. Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the aforesaid resolutions.

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

This appendix serves as an explanatory statement, as required by the GEM Listing Rules or the Listing Rules, to provide you with requisite information for your consideration of the Buyback Mandate.

1. EXERCISE OF THE BUYBACK MANDATE

Exercise in full of the Buyback Mandate, on the basis of 737,000,000 Shares in issue at the Latest Practicable Date could result in up to 73,700,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or (iii) the revocation, variation or renewal of the Buyback Mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

2. REASONS FOR REPURCHASES

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws of the Cayman Islands. The law of the Cayman Islands provides that the amount to be repaid in connection with a share repurchase may be paid from the profits of the Company and/or the proceeds of a new issue of Shares made for the purpose of the repurchase or out of capital, if the Company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. The Company may not purchase securities on GEM or on the Main Board of the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

4. GENERAL

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the 2001 annual report of the Company) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules or the Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, have any present intention, if the Buyback Mandate is exercised, to sell Shares to the Company or its subsidiaries.

No connected person (as defined in the GEM Listing Rules or the Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Easywin Enterprises Limited together with its respective associates were beneficially, interested in an aggregate of 420,000,000 Shares, representing approximately 57% of the issued share capital of the Company. Based on such shareholdings and in the event that the Directors exercised in full the power to repurchase Shares under the Buyback Mandate, the collective shareholdings of the said directors together with the respective associates in the Company would be increased to approximately 63% of the issued share capital of the Company. The Directors are not aware of any consequence which may arise under the Takeovers Code as a consequence of any purchases made under the Buyback Mandate.

5. SHARE PURCHASED BY THE COMPANY

The Company has not purchased any of its Shares (whether on GEM or otherwise) in the three months preceding the Latest Practicable Date.

6. SHARE PRICES

The listing of Shares on GEM commenced on 10 May 2001. The table below is a summary of the monthly highest and lowest traded prices in each of the previous months prior to the Latest Practicable Date.

	Highest Traded Price	Lowest Traded Price
	<i>HK\$</i>	<i>HK\$</i>
2001		
May	1.800	1.190
June	1.750	1.250
July	1.930	1.600
August	2.050	1.740
September	1.980	1.730
October	2.400	1.870
November	2.550	2.075
December	2.575	2.175
2002		
January	2.725	2.250
February	3.375	2.550

Source: The Stock Exchange of Hong Kong Limited