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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)

(Website: www.xinaogas.com)

DISCLOSEABLE TRANSACTION
ESTABLISHMENT OF A SINO-FOREIGN JOINT VENTURE
IN CHANGSHA, HUNAN PROVINCE, PRC

A letter from the board of directors of Xinao Gas Holdings Limited is set out on pages 3 to 7 of this circular.

29 August 2003

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	3
The Changsha Agreement dated 7 August 2003 (as amended by the Parties on 21 August 2003)	4
Reasons for the Changsha Agreement	6
Future plans regarding Changsha Xinao	7
General	7
Appendix – General information	8

DEFINITIONS

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

“Board”	the board of Directors
“Changsha Agreement”	a conditional joint venture agreement dated 7 August 2003 entered into between China BVI and Changsha Gas, as amended by the Parties on 21 August 2003
“Changsha Gas”	長沙市燃氣總公司 (Changsha City Gas Corporation*), an enterprise established in PRC
“Changsha Xinao”	長沙新奧燃氣有限公司 (Changsha Xinao Gas Company Limited*), a Sino-foreign joint venture limited liability company to be established in PRC pursuant to the Changsha Agreement
“China BVI”	Xinao Gas China Investment Limited, an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“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 the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dongguan Xinao”	東莞新奧燃氣有限公司 (Dongguan Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC on 30 June 2003 in which the Company has an indirect 49% equity interests as at the date of this circular
“Group”	the Company and its subsidiaries
“Latest Practicable Date”	26 August 2003, being the latest practicable date of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	China BVI and Changsha Gas, the parties to the Changsha Agreement
“PRC”	the People’s Republic of China

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
“Shijiazhuang Xinao”	石家莊新奧燃氣有限公司 (Shijiazhuang Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC on 27 December 2002 in which the Company has an indirect 70% equity interests as at the date of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiangtan Xinao”	湘潭新奧燃氣有限公司 (Xiangtan Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in PRC on 27 June 2003 in which the Company has an indirect 85% equity interests as at the date of this circular
“HK\$”	Hong Kong Dollars, the lawful currency in Hong Kong
“RMB”	Renminbi, the lawful currency in PRC
“%”	per cent.

In this circular, amounts stated in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06.

* For identification purpose 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)

(Website: www.xinaogas.com)

Executive Directors:

Mr. Wang Yusuo
Mr. Yang Yu
Mr. Chen Jiacheng
Mr. Zhao Jinfeng
Mr. Qiao Limin
Mr. Jin Yongsheng
Mr. Yu Jianchao
Mr. Cheung Yip Sang
Mr. Cheng Chak Ngok

Non-executive Director:

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 place of business
in Hong Kong:*

Rooms 3101-03, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

Head office in PRC:

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

29 August 2003

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
ESTABLISHMENT OF A SINO-FOREIGN JOINT VENTURE
IN CHANGSHA, HUNAN PROVINCE, PRC**

INTRODUCTION

On 8 August 2003, the Company announced that on 7 August 2003, the Group (through China BVI, an indirectly wholly-owned subsidiary of the Company), entered into the Changsha

LETTER FROM THE BOARD

Agreement with Changsha Gas to establish a Sino-foreign joint venture, Changsha Xinao. Upon the establishment of Changsha Xinao, it will become a subsidiary of the Company, in which the Group will have a 55% interest. Changsha Gas is an independent party not connected with any of the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined under the Listing Rules). The Changsha Agreement constitutes a discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to provide further information on the Changsha Agreement.

THE CHANGSHA AGREEMENT DATED 7 AUGUST 2003 (AS AMENDED BY THE PARTIES ON 21 AUGUST 2003)

Parties

- (1) China BVI, an indirectly wholly-owned subsidiary of the Company; and
- (2) Changsha Gas, a PRC state-owned enterprise engages in the provision of coal gas in Changsha city, Hunan Province, PRC.

Amendments to the original Changsha Agreement

The original Changsha Agreement was signed on 7 August 2003. On 21 August 2003, the Parties have mutually agreed that the original total investment of RMB266.0 million (equivalent to approximately HK\$250.9 million) under the original Changsha Agreement be reduced to RMB240.0 million (equivalent to approximately HK\$226.4 million). Such reduction of the total investment was arrived at after further discussions by the Parties in relation to Changsha Xinao, in which it was agreed that the new total investment is more realistic as it better reflects the amount which Changsha Xinao will require for its duration of 20 years.

Business of Changsha Xinao

Upon establishment, Changsha Xinao will engage in the provision of piped gas for a period of 20 years to Changsha city, Hunan Province, PRC.

Total investment

RMB240.0 million (equivalent to approximately HK\$226.4 million). The total investment was determined on an arm's length basis between the Parties and represents the expected total investment of Changsha Xinao for its duration of 20 years. Other than the amount of the registered capital to be invested by the Parties under the Changsha Agreement, as at the Latest Practicable Date, the Parties do not have any further commitment to invest in Changsha Xinao. Should there be any future commitment to invest in Changsha Xinao, the Company will comply with all such relevant requirements under the Listing Rules accordingly.

LETTER FROM THE BOARD

Registered capital

RMB150.0 million (equivalent to approximately HK\$141.5 million) of which:

- (1) 55% (being RMB82.5 million or approximately HK\$77.8 million) will be contributed in cash by China BVI; and
- (2) 45% (being RMB67.5 million or approximately HK\$63.7 million) will be contributed by Changsha Gas in the form of fixed assets, including but not limited to pipelines, which assets have been valued by an independent valuer.

China BVI's contribution to the registered capital will be funded by internal resources of the Group and possibly bank borrowings and in accordance with the following timetable:

- (1) initial 40% – within one month from Changsha Xinao obtaining the business license;
- (2) another 30% – within three months from Changsha Xinao obtaining the business license; and
- (3) remaining 30% – within six months from Changsha Xinao obtaining the business license.

The Company expects that the business license of Changsha Xinao should be issued within around one month from the date of this circular.

Conditions precedent

The obligations of contribution of funds under the Changsha Agreement by the Parties are conditional on, amongst others, the following conditions precedent being fulfilled:

- (1) Changsha Xinao having obtained a business licence in PRC; and
- (2) Changsha Xinao having obtained exclusive rights to supply piped gas to Changsha city, Hunan Province, PRC.

Board of directors

The board of directors of Changsha Xinao will comprise of seven directors. China BVI is entitled to appoint four directors and Changsha Gas is entitled to appoint three directors.

Term

20 years from the date of issue of the business licence of Changsha Xinao and such term can be extended upon agreement between the Parties.

LETTER FROM THE BOARD

Profits

Profits will be distributed to China BVI and Changsha Gas in proportion to their respective equity interests in Changsha Xinao.

Dissolution

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

REASONS FOR THE CHANGSHA AGREEMENT

The Group is one of the first non state-owned piped gas distributors 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 gas and liquefied petroleum 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.

Changsha is in the northeastern part of Hunan Province, PRC and is the provincial capital city of Hunan Province. Textiles, food and machinery are the major industries in Changsha. As at the end of 2001, Changsha has an urban population of approximately 1.8 million. The Company expects that there will be a large demand of natural gas by its population and therefore anticipates that there will be significant contribution to the future earnings of the Group. Under the Changsha Agreement, the Board expects that no significant liability will be incurred as a result of the establishment of Changsha Xinao.

The Board considers the Changsha Agreement to be an important milestone for the Group. As at the Latest Practicable Date, Changsha Xinao is the second provincial capital project of the Group after Shijiazhuang Xinao, the second operational location the Group has secured in Hunan Province, PRC after Xiangtan Xinao and the third largest project of the Group after Dongguan Xinao and Shijiazhuang Xinao. These signify the success of the Group's efforts and ability to establish a strong foothold in Hunan Province and to operate and develop city gas projects. Leveraging on the PRC government's policy to encourage the use of clean energy, the Group is committed to increase the gas penetration rate in the Group's existing projects as well as accelerating the infrastructure of new projects. The establishment of Changsha Xinao is in accordance with the business strategies of the Group which include, among others, further expansion to new operational locations in PRC. Changsha Xinao provides the Group an opportunity to gain greater exposure which can further strengthen its market position in the gas distribution industry in PRC.

The Board believes that the Changsha Agreement was entered into upon normal commercial terms in the ordinary course of business of the Company. The Board considers that terms of the Changsha Agreement are fair and reasonable and the Changsha Agreement is in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

FUTURE PLANS REGARDING CHANGSHA XINAO

Currently, bottled liquefied petroleum gas, coal gas and substitute natural gas are the main sources of gas supply in Changsha, Hunan Province, PRC. The constructions of the West to East Pipelines in Changsha are currently expected to be completed by June 2005, upon which piped natural gas may be supplied and it is expected that there will be a large demand of piped natural gas in Changsha city.

Changsha Gas is engaged in the provision of coal gas to Changsha city and is currently supplying coal gas to approximately 70,000 households in Changsha city. In accordance with the Changsha Agreement, Changsha Gas will inject fixed assets (including but not limited to pipelines) of value equivalent to RMB67.5 million (equivalent to approximately HK\$63.7 million) as capital contribution for its 45% interest in Changsha Xinao. It is currently expected that Changsha Xinao will take over the existing residential customers of Changsha Gas. It is currently envisaged that Changsha Xinao will commence the supply of piped natural gas in June 2005, when the constructions of the West to East Pipelines in Changsha are expected to be completed.

The initial phase of gas development of Changsha Xinao involves the conversion of the existing coal gas pipelines of Changsha Gas into natural gas pipelines with the constructions of simple pressure regulating boxes. The Board believes that massive conversion is not needed. It is currently intended that Changsha Xinao will, before the commencement of piped natural gas supply via the West to East Pipelines, commence and complete the aforesaid pipelines conversion such that Changsha Xinao can obtain natural gas from the West to East Pipelines as soon as it is available.

Before piped natural gas can be supplied by Changsha Xinao, it is expected that Changsha Xinao will seek to supply energy to its customers using alternate gas resources, such as liquefied natural gas and compressed natural gas.

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 includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of each Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("the SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:

Name of Director	Capacity	Interests in Shares			Interests in underlying Shares pursuant to share options	(D) Interests in underlying Shares and underlying Shares	(E) = (C) + (D) Total aggregate interests in Shares and underlying Shares	Approximate percentage of the Company's total issued share capital
		(A) Personal interests	(B) Corporate interests	(C) = (A) + (B) Total interests in Shares				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,044,000	408,000,000 (Note)	411,044,000	2,300,000	413,344,000	56.08%	
Mr. Yang Yu	Beneficial owner	-	-	-	3,350,000	3,350,000	0.45%	
Mr. Chen Jiacheng	Beneficial owner	-	-	-	2,300,000	2,300,000	0.31%	
Mr. Zhao Jinfeng	Beneficial owner	-	-	-	2,200,000	2,200,000	0.30%	
Mr. Qiao Limin	Beneficial owner	-	-	-	2,050,000	2,050,000	0.28%	
Mr. Jin Yongsheng	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%	
Mr. Yu Jianchao	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%	
Mr. Cheung Yip Sang	Beneficial owner	-	-	-	2,000,000	2,000,000	0.27%	
Mr. Cheng Chak Ngok	Beneficial owner	-	-	-	600,000	600,000	0.08%	
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	408,000,000 (Note)	411,044,000	2,300,000	413,344,000	56.08%	

Note: The two references to 408,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

(b) Persons or corporations who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to each Director or the chief executive of the Company, as at the Latest Practicable Date, the following persons or corporations had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's/corporate's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

Name of Shareholder	Capacity	Interests in Shares			(D) Interests in underlying Shares pursuant to share options	(E) = (C) + (D) Total aggregate interests in Shares and underlying Shares	Approximate percentage of the Company's total issued share capital
		(A) Personal interests	(B) Corporate interests	(C) = (A) + (B) Total interests in Shares			
Easywin Enterprises Limited	Beneficial owner	-	408,000,000 (Note 1)	408,000,000	-	408,000,000	55.36%
Mr. Wang	Beneficial owner and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000 (Note 2)	413,344,000	56.08%
Ms. Zhao	Interest of spouse and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000 (Note 3)	413,344,000	56.08%
Wellington Management Company, LLP	Investment manager	-	63,172,000 (Note 4)	63,172,000	-	63,172,000	8.57%
The Capital Group Companies, Inc.	Investment manager	-	48,257,000 (Note 5)	48,257,000	-	48,257,000	6.55%

Notes:

- 1 The three references to 408,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- 2 These represent share options granted by the Company to Mr. Wang at an exercise price of HK\$2.265 per Share, the exercise period of which commenced on 15 August 2003 and shall expire on 14 February 2013.
- 3 Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang, the particulars of which are disclosed in Note 2 above.
- 4 These Shares are held by Wellington Management Company, LLP, as an investment manager, which is an independent party not connected with any of the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined under the Listing Rules).
- 5 These Share are held by The Capital Group Companies, Inc., as an investment manager, which is an independent party not connected with any of the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined under the Listing Rules).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation, other than statutory compensation.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration proceedings 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.

5. GENERAL

- (a) The secretary 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 Accountants in England, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.
- (b) The Company's branch registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.