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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 and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

CONTINUING CONNECTED TRANSACTION
PRODUCT SALE AGREEMENT

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SOMERLEY LIMITED

A letter from the board of directors of Xinao Gas Holdings Limited (“the Company”) is set out on pages 4 to 10 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 11 to 12 of this circular. A letter from Somerley Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 20 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Conference Room, Rooms 3101-03, 31st Floor, Tower 1, Lippo Centre, No.89 Queensway, Hong Kong on Monday, 21 March 2005 at 11:00 a.m. is set out on pages 29 to 30 of this circular. A form of proxy for use by the Independent Shareholders at the Extraordinary General Meeting is also enclosed. Whether or not you propose to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 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 or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting, or any adjourned meeting, should you so wish.

4 March 2005

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DEFINITIONS

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

“Annual Cap(s)”	the maximum aggregate annual value of the Continuing Connected Transaction for each of the three financial years ended 31 December 2007
“associate(s)”	as such term is defined under the Listing Rules
“Board”	the board of Directors
“CNG”	compressed natural gas, being natural gas that is compressed to high density through application of high pressure to facilitate the ease and efficiency of storage and transportation
“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
“Continuing Connected Transaction”	the transaction contemplated under the Product Sale Agreement
“connected person(s)”	as such term is defined under the Listing Rules
“Director(s)”	the director(s) of the Company
“Easywin”	Easywin Enterprises Limited, a British Virgin Islands-incorporated investment holding company and the controlling Shareholder which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao Baoju (趙寶菊), a non-executive Director and the spouse of Mr. Wang
“EGM”	the extraordinary general meeting of the Company to be held at Conference Room, Rooms 3101-03, 31st Floor, Tower 1, Lippo Centre, No.89 Queensway, Hong Kong on Monday, 21 March 2005 at 11:00 a.m., to approve, among other things, the Product Sale Agreement and the respective Annual Caps
“Enric Compressor”	安瑞科(蚌埠)壓縮機有限公司 (Enric (Bengbu) Compressor Company Limited*), a wholly foreign-owned enterprise incorporated in the PRC, controlled by Mr. Wang, thereby being a connected person of the Company

DEFINITIONS

“Existing Continuing Connected Transaction”	the existing continuing connected transaction entered into between the Group and Xinao Machinery and the Group and Enric Compressor in relation to the provision of equipment and assembly services by Xinao Machinery and Enric Compressor
“Existing Waiver”	the waiver granted by the Stock Exchange on 27 May 2002 in relation to the Existing Continuing Connected Transaction which expired on 31 December 2004
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board consisting of Mr. Wang Guangtian and Ms. Yien Yu Yu, Catherine, independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Product Sale Agreement and the Annual Caps
“Independent Shareholders”	the Shareholders other than Easywin, Mr. Wang, Ms. Zhao Baoju and their respective associates
“Independent Third Party(ies)”	person(s) or company(ies) which is/are independent of any member of the Group, the directors, the chief executives, the controlling shareholders, the substantial shareholders (as such terms are defined in the Listing Rules) of the Company or its subsidiaries, and their respective associates
“Latest Practicable Date”	1 March 2005, being the latest practicable date for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	liquefied natural gas, being natural gas which is converted into liquid form through application of pressure and cooling
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖), the chairman, an executive Director and a controlling Shareholder holding approximately 44.34% of the issued share capital of the Company as at the Latest Practicable Date
“PRC”	The People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan

DEFINITIONS

“Product Sale Agreement”	the product sale agreement dated 31 January 2005 entered into between the Group and the Wang Family Companies for the sale and purchase of gas-related machinery and equipment manufactured by the Wang Family Companies (including but not limited to gas refueling stations, gas refueling daughter station trailers, storage tanks, CNG and LNG trailers and compressors)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of Share(s)
“Somerville”	Somerville Limited, a deemed licensed corporation under the SFO to conduct types 1, 4, 6 and 9 regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transaction and the Annual Caps
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	as such term is defined under the Listing Rules
“Wang Family Companies”	companies controlled by Mr. Wang and/or his associates, thereby being connected persons of the Company
“Xiniao Machinery”	新奧集團石家莊化工機械股份有限公司 (Xiniao Group Shijiazhuang Petrochemical and Machinery Company Limited*), a PRC-incorporated company which is 72.58% owned by Mr. Wang, thereby being a connected person of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of 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



新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

Executive Directors:

Mr. Wang Yusuo (*Chairman*)
Mr. Yang Yu (*Chief Executive Officer*)
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
Ms. Yien Yu Yu, Catherine

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

4 March 2005

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
PRODUCT SALE AGREEMENT**

INTRODUCTION

It was announced on 31 January 2005 that the Group had entered into the Product Sale Agreement with the Wang Family Companies in respect of the sale and purchase of gas-related machinery and equipment manufactured by the Wang Family Companies. The

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Wang Family Companies are companies which are ultimately controlled by Mr. Wang and his family members and their respective associates (i.e. they are entitled to exercise, or control the exercise of 30% or more of the voting power at the general meeting of the relevant company). As Mr. Wang is a substantial shareholder of the Company, the Wang Family Companies are therefore connected persons of the Company and the entering into of the Product Sale Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules, which is subject to the approval of the Independent Shareholders by way of poll at the EGM.

The purpose of this circular is to provide you with further details of the Continuing Connected Transaction and the Annual Caps. The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Product Sale Agreement and the Annual Caps in relation thereto. Somerley has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular and a letter from Somerley is set out on pages 13 to 20 of this circular.

In view of the interests of Mr. Wang in the Continuing Connected Transaction, Easywin, Mr. Wang, Ms. Zhao Baoju (the spouse of Mr. Wang) and their respective associates will abstain from voting in relation to the resolution approving the Continuing Connected Transaction and the Annual Caps at the EGM.

BACKGROUND

On 27 May 2002, the Stock Exchange granted the Company the Existing Waiver in respect of, inter alia, the Existing Continuing Connected Transaction between the Group and Xinao Machinery and between the Group and Enric Compressor whereby the Group, in the ordinary course of business, purchased equipment and assembly services from Xinao Machinery and Enric Compressor, at considerations agreed, or to be agreed, on normal commercial terms.

Pursuant to the Existing Waiver, the aggregate consideration of the Existing Continuing Connected Transaction for each of the three financial years ended 31 December 2004 shall not exceed the annual cap of 5% of the net tangible assets of the Group. The aggregate value of the Existing Continuing Connected Transaction for each of the two financial years ended 31 December 2003 and for the six months ended 30 June 2004 are RMB25,980,000, RMB10,701,942 and RMB27,261,552 respectively, representing 2.55%, 0.76% and 1.37% of the net tangible assets of the Group for the respective periods. The annual cap under the Existing Waiver was not exceeded for each of the two financial years ended 31 December 2003. Based on the aggregate value of the Existing Continuing Connected Transaction for the six month ended 30 June 2004, the Board anticipates that the aggregate value of the Existing Continuing Connected Transaction for the financial year ended 31 December 2004 will also be within its annual cap amount under the Existing Waiver. The Existing Waiver expired on 31 December 2004.

The Group and Wang Family Companies have, from time to time, entered into the Existing Continuing Connected Transaction and will continue to enter into such transaction on a regular basis. In light of this, on 31 January 2005, the Group and Wang Family Companies entered into the Product Sale Agreement (the terms thereof are different from those of the Existing Continuing Connected Transaction).

LETTER FROM THE BOARD

PRODUCT SALE AGREEMENT

- Date:** 31 January 2005
- Parties:** (1) the Group
(2) the Wang Family Companies
- Subject:** Conditional upon the requisite resolution being passed by the Independent Shareholders at the EGM in compliance with the Listing Rules approving the Product Sale Agreement, the Group will purchase and the Wang Family Companies will sell, in the ordinary course of business, gas-related machinery and equipment manufactured by the Wang Family Companies (including but not limited to gas refueling stations, gas refueling daughter station trailers, storage tanks, CNG and LNG trailers and compressors).
- Duration:** The Product Sale Agreement is effective for a term of 3 years from 1 January 2005. Both parties may terminate the Product Sale Agreement or any part of transactions contemplated under the agreement without cause by serving the other party with not less than 1 month's prior written notice.
- Price:** To be determined between the parties by reference to the market price of the particular products provided no such price shall be less favourable than those offered by Independent Third Parties to the Group. The consideration will be satisfied by payment of 30% of the agreed price as a deposit within 3 days of making the purchase order, and the balance has to be settled within 1 month from the date when the Group notifies the Wang Family Companies that it is satisfied with the products.

	Historical figures			Annual Cap amounts		
	31/12/2002	31/12/2003	30/06/2004	31/12/2005	31/12/2006	31/12/2007
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Product Sale Agreement	25,980,000	10,701,942	27,261,552	160,000,000	250,000,000	360,000,000

After careful evaluation of the historical figures in the past years (as set out above) and forecasted figures in the coming three financial years and the anticipated development and growth of the relevant business of the Group, the Board (including the independent non-executive Directors) intends to set the Annual Cap for each of the three financial years ended 31 December 2007 as RMB160,000,000, RMB250,000,000 and RMB360,000,000 respectively.

The Board expects that the quantity of machinery and equipment to be purchased from the Wang Family Companies will increase year-on-year by approximately 83%, 31% and 26% in 2005, 2006 and 2007 respectively, mainly attributable to the introduction of a new line of business for building CNG vehicle refueling stations in phases in various cities in the PRC. In early 2004, the Group had only one existing CNG refueling station

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and the Group began building more CNG refueling stations during 2004. The Company anticipates that approximately forty CNG refueling stations will become available during 2005 and thus explains the large forecasted year-on-year growth in 2005. By reference to the existing operation and the anticipated development and growth of such business, the Board derives the projected number of CNG vehicle refueling stations to be built and the number of CNG or LNG trucks to be purchased for transporting natural gas to the project locations where gas pipelines are not yet accessible. Based on the above, the Annual Caps are determined based on the projected number of sets of equipment needed multiplied by the market price of such equipment.

REASONS FOR AND BENEFITS OF THE PRODUCT SALE AGREEMENT

Since some projects of the Group are not yet connected to long distance pipelines, they need to use CNG or LNG trucks for transporting natural gas from the gas source to the operation locations. Therefore, the Group has to purchase CNG and LNG trucks for transporting natural gas until those projects are connected with long distance pipelines. Also, the Directors (including the independent non-executive Directors) expect that starting from 2005, a large number of CNG vehicle refueling stations will be constructed by the Group to increase gas usage in the long run. As a large number of public vehicles, including buses and taxis, are expected to be converted to using natural gas, the Directors (including the independent non-executive Directors) believe that it helps the Company to generate substantial and stable revenue and profits in the long run.

To the best knowledge of the Directors, there are less than five suppliers of these CNG or LNG trucks and related equipments in the PRC and the Wang Family Companies have a long history in the provision of such products, the Directors (including the independent non-executive Directors) are of the view that entering into this agreement will benefit both parties and the terms of the Product Sale Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Product Sale Agreement is on normal commercial terms and is in the interest of the Company and its shareholders as a whole.

The Company anticipates that during the three financial years ended 31 December 2007, apart from Xinao Machinery and Enric Compressor, the Group will purchase equipment and machinery from other Wang Family Companies. In the circumstances, the entering into of the Product Sale Agreement with the Wang Family Companies is preferable rather than with individual companies.

CONDITIONS OF THE CONTINUING CONNECTED TRANSACTION

The Continuing Connected Transaction will be required to be approved by the Independent Shareholders and will also be subject to the following conditions:

- (1) the Continuing Connected Transaction will be entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available from Independent Third Parties; and

LETTER FROM THE BOARD

- (iii) in accordance with the relevant agreement(s) governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (2) the relevant amount of Continuing Connected Transaction for each of the three financial years ended 31 December 2007 shall not exceed the relevant Annual Caps (as described above);
- (3) the independent non-executive Directors shall review annually the Continuing Connected Transaction and confirm in the Company's corresponding annual report that the Continuing Connected Transaction has been conducted in the manner as stipulated in paragraph (1) above;
- (4) the auditors of the Company shall review annually the Continuing Connected Transaction and confirm in a letter to the Directors (a copy of which shall be provided to the Stock Exchange) whether such Continuing Connected Transaction:
 - (i) has received the approval of the Board;
 - (ii) is in accordance with the pricing policies of the Group;
 - (iii) has been entered into in accordance with the relevant agreement(s) governing the transaction(s); and
 - (iv) has not exceeded the relevant Annual Caps;
- (5) the Company shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (1), (3) and/or (4) respectively;
- (6) each of the member company of the Group shall provide to the Stock Exchange an undertaking and shall procure that the relevant counterparties to the Continuing Connected Transaction that, for so long that the shares in the Company are listed on the Stock Exchange, it will provide the Company's auditors with sufficient access to the relevant records for the purpose of the auditors' review of the Continuing Connected Transaction referred to in paragraph (4) above.

EXTRAORDINARY GENERAL MEETING

Since the Board anticipates that the percentage ratios (other than the profit ratio) for the Continuing Connected Transaction on an annual basis will not be less than 2.5% and the annual consideration is expected to be higher than HK\$10,000,000, the Continuing Connected Transaction therefore constitutes "non-exempt continuing connected transaction" of the Company under Rule 14A.35 of the Listing Rules and will accordingly be subject to reporting, announcement and shareholders' approval requirements of the Listing Rules. In the circumstances, the notice convening the EGM at which an ordinary resolution will be proposed to approve the Product Sale Agreement and the Annual Caps in relation to the Continuing Connected Transaction is set out on pages 29 to 30 of this circular.

LETTER FROM THE BOARD

RIGHT TO DEMAND A POLL

Pursuant to article 80 of articles of association of the Company, at any general meeting, a resolution put to vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the meeting; or
- (b) by at least five shareholders present in person or by proxy and entitled to vote; or
- (c) by any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the shareholders having the right to attend and vote at the meeting; or
- (d) by any shareholder or shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

On a show of hands, every shareholder present in person (or, in the case of a member being a corporation, by its duly authorized representative) shall have one vote. On a poll, every shareholder present in person (or, in the case of a member being a corporation by its duly authorized representative) or by proxy shall have one vote for each Share held by him. On a poll, a shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way.

Pursuant to rule 13.39(4) of the Listing Rules, any vote of shareholders taken at a general meeting to approve connected transactions pursuant to Chapter 14A of the Listing Rules and transactions that are subject to independent shareholders' approval pursuant to the Listing Rules must be taken on a poll. Accordingly, the chairman of the EGM will demand that the ordinary resolution to approve the Product Sale Agreement and the respective Annual Caps be decided by poll.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) letter from the Independent Board Committee set out on pages 11 to 12 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders concerning the Continuing Connected Transaction and (ii) the letter from Somerley set out on pages 13 to 20 of this circular which contains the recommendation from Somerley to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction and the principal factors considered by Somerley in arriving at its recommendation.

LETTER FROM THE BOARD

Having taken into account the advice from Somerley and in particular the principal factors set out in the letter from Somerley, the Independent Board Committee considers that the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and that the terms of the Product Sale Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee also considers that the entering into of the Product Sale Agreement is in the interests of the Company and the Shareholders as a whole. Further, the Independent Board Committee considers that the relevant Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transaction and the Annual Caps.

GENERAL

The Group is one of the first non state-owned piped gas operators 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 the 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.

The Wang Family Companies are principally engaged in property development, design, manufacture and sale of compressors, pressure vessels and the provision of integrated business solutions in gas industry (including the design of complete system, the manufacture of equipment, on-site installation, commissioning and testing, training of customers' staff, technical support and services in relation to the management and operation of the projects being designed) and the manufacture and sale of bio-pesticides and bio-veterinary drugs.

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
CHENG Chak Ngok
Executive Director and Company Secretary



新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

The Independent Board Committee:

Mr. Wang Guangtian

Ms. Yien Yu Yu, Catherine

4 March 2005

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
PRODUCT SALE AGREEMENT**

We refer to the circular of the Company to the Shareholders dated 4 March 2005 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them in the section headed “Definitions” of the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Product Sale Agreement and the Annual Caps in relation to the Continuing Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter from Somerley, the independent financial adviser appointed, as set out on pages 13 to 20 of the Circular and the letter from the Board as set out on pages 4 to 10 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice from Somerley and in particular, the principal factors set out in the letter from Somerley, we consider that the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and the terms of the Product Sale Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Product Sale Agreement is in the interests of the Company and the Shareholders as a whole. Further, we consider that the relevant Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transaction and the Annual Caps.

Yours faithfully,
The Independent Board Committee of
XINAO GAS HOLDINGS LIMITED
Wang Guangtian, Yien Yu Yu, Catherine
Independent non-executive Directors

LETTER FROM SOMERLEY

The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

4 March 2005

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transaction, for which Independent Shareholders' approval subject to the applicable Annual Caps are being sought.

As at the Latest Practicable Date, the Wang Family Companies are companies which are ultimately controlled by Mr. Wang and his family members and their respective associates. As Mr. Wang is a substantial shareholder of the Company, the Wang Family Companies are therefore connected persons of the Company and the transactions contemplated under the Product Sale Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Company has obtained the Existing Waiver from the Stock Exchange from strict compliance with the relevant provisions of the Listing Rules in respect of the Existing Continuing Connected Transaction for the three financial years ended 31 December 2004. The Existing Waiver expired on 31 December 2004. As the Group will continue to conduct the Continuing Connected Transaction, the Directors propose to seek Independent Shareholders' approval of the Continuing Connected Transaction subject to the Annual Caps which will be conducted in the three financial years ended 31 December 2007. Details of the Continuing Connected Transaction and the Annual Caps are set out in the letter from the Board contained in the circular of the Company to its Shareholders dated 4 March 2005 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Wang Guangtian and Ms. Yien Yu Yu, Catherine, has been established to make a recommendation to the Independent Shareholders as regards the Continuing Connected Transaction.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that the information and facts provided and opinion expressed to us are true and accurate. We have also sought and received confirmation from the Directors that no material

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facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have however not conducted any independent investigation into the business and affairs of the Group or the Wang Family Companies, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Continuing Connected Transaction and the Annual Caps are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background of and reasons for the Continuing Connected Transaction

The Group is one of the first non state-owned piped gas operators 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 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.

The Wang Family Companies are principally engaged in property development, design, manufacture and sale of compressors and pressure vessels, provisions of integrated business solutions in gas industry and the manufacture and sale of bio-pesticides and bio-veterinary drugs. The Wang Family Companies are companies which are ultimately controlled by Mr. Wang and his family members and their respective associates (i.e. they are entitled to exercise, or control the exercise of, 30% or more of the voting power at the general meeting of the relevant company). As Mr. Wang is a substantial shareholder of the Company, the Wang Family Companies are therefore connected persons of the Company and the transaction contemplated under the Product Sale Agreement constitute continuing connected transaction for the Company under the Listing Rules.

On 27 May 2002, the Stock Exchange granted the Existing Waiver to the Company from strict compliance with the relevant disclosure requirements pursuant to the Listing Rules in respect of the Existing Continuing Connected Transaction. The Existing Waiver was granted for a period of three financial years and expired on 31 December 2004.

The Group and certain Wang Family Companies, namely Xinao Machinery and Enric Compressor, have from time to time entered into the Existing Continuing Connected Transaction. The Company anticipates that during the three financial years ended 31 December 2007, apart from Xinao Machinery and Enric Compressor, the Group will purchase equipment and machinery from other Wang Family Companies. In the circumstances, on 31 January 2005, the Group entered into the Product Sale Agreement with the Wang Family Companies (rather than individual company) which set out the framework and general terms of the Continuing

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Connected Transaction to be conducted for the three years ended 31 December 2007. Since the Board anticipates that the percentage ratios (other than the profit ratio) for the Continuing Connected Transaction on an annual basis will not be less than 2.5% and the annual consideration is expected to be higher than HK\$10,000,000, the Continuing Connected Transaction therefore constitutes “non-exempt continuing connected transaction” of the Company under Rule 14A.35 of the Listing Rules. The Directors therefore consider that it is in the commercial interest of the Company to seek from Independent Shareholders the approval for the Continuing Connected Transaction which will be conducted in the three financial years ended 31 December 2007 up to the limits specified in the Annual Caps.

Since some of the operational locations of the Group are not yet connected by long distance pipelines to gas field, the Group needs to use CNG or LNG trucks to transport natural gas from the gas sources to the Group’s processing stations. Therefore, the Group has to purchase CNG and LNG trucks and ancillary equipment for transporting natural gas before those processing stations are connected to the gas sources by long distance pipelines and intermediate pipelines. The Group, in its ordinary course of business, is also required to purchase gas related machinery (such as gas storage tanks and compressors) which are necessary for the operation of the processing stations. In addition, the Group has commenced the operations of CNG vehicle refueling station business in 2004 in massive scale and will therefore require to purchase related machinery for this business. Certain of the Wang Family Companies are principally engaged in the manufacture, sale and distribution of compressors, pressure vessels, CNG and LNG trucks and other gas related machinery. The Directors advised us that to the best of their knowledge, there are less than five suppliers of these CNG or LNG trucks and related equipments in the PRC and the Wang Family Companies have been providing these products to the Group since 2001. On this basis, we are of the view that it would be in the interest of the Group to enter into the Product Sale Agreement to secure the source of equipment which are necessary for its business operations and to cement a continuous business relationship with one of the few established equipment manufacturers/suppliers in the market.

The PRC is the second largest energy consumer in the world, and its major sources of energy are coal, crude oil and natural gas. The use of coal severely pollutes the environment. As natural gas is among the cleanest, safest, most efficient and economical energy sources, the PRC government is vigorously promoting the use of natural gas as a clean energy source. The Directors advised us that most of the local governments in the 51 existing project cities of the Group have prescribed the installation of piped natural gas as one of the conditions for approving the construction of new buildings. This policy shows clearly the government’s support for the use of natural gas. At the end of 2002, the Ministry of Construction of the PRC issued a memorandum on the “Opinion concerning the speeding up of the development of market economy in the public utilities sector” requiring local authorities to open up the market for the construction and operation of public utilities, including city gas. Foreign investors are now allowed to take a majority stake in or wholly own such projects. The Directors believe that with the liberalisation of the city gas market, utilisation of natural gas in the PRC will have a rapid and healthy development. In light of the growth prospects of the natural gas market in the PRC, the Directors expect that the Group will continue to expand the coverage of its gas operations to cities where natural gas is not being used or the natural gas

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penetration rate is low as well as to further develop new services such as CNG vehicle refueling services. Accordingly, the Directors expect that the Group will continue to purchase the required equipment for its expansion plan from the Wang Family Companies and the entering into the Product Sale Agreement would facilitate the implementation of the business plan of the Group. We concur with the Directors' view in this regard and consider that the Continuing Connected Transaction is entered into in the usual and ordinary course of business of both the Group and the Wang Family Companies.

2. Terms of the Continuing Connected Transaction

Terms of the Product Sale Agreement

Pursuant to the Product Sale Agreement, the Group has agreed to purchase and the Wang Family Companies have agreed to sell products manufactured by the Wang Family Companies. Such products include but not limited to gas refueling stations equipment, gas refueling daughter station trailers, storage tanks, CNG and LNG trailers and compressors. The selling price for the equipment manufactured and sold by the Wang Family Companies will be determined with reference to the market price of the particular products. The Product Sale Agreement is non-exclusive and the Group has the right to purchase all its necessary gas-related machinery from Independent Third Parties. However, it is the intention of the Group that the Wang Family Companies would continue to be its primary supplier.

Pursuant to the Product Sale Agreement, the Group has to pay the Wang Family Companies a cash deposit of 30% of the contract sum within three days from the signing of the sale and purchase agreements by both parties. After delivery of the products, the Group is entitled to testing periods ranging from three days to ten days, during which the Group can test run the equipments and return the products to the Wang Family Companies in case they are found to be defective. The balance of the contract sum has to be settled by the Group within one month from the date it notifies the Wang Family Companies that it is satisfied with the products. We have reviewed contracts for the sale of similar products by the Wang Family Companies to Independent Third Parties and noted that the payment terms offered by the Wang Family Companies to Independent Third Parties are comparable to those offered by the Wang Family Companies to the Group.

Review of Past Transaction

As a condition to the Existing Waiver, the auditors of the Company (the "Auditors") have performed annual review of the Existing Continuing Connected Transaction for the past three financial years ended 31 December 2003 (the "Past Transaction") and have confirmed to the Board that nothing of significance has come to their attention to suggest that the Past Transaction has not been conducted in accordance with the terms of the contracts governing the Past Transaction. The Directors advised us that due to the limited number of suppliers in the market for the equipment that is required for the Group's gas operations, the Group has in the past purchased most of these equipment

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from the Wang Family Companies. For the purpose of our review of the Past Transaction, we have therefore compared the terms of samples of the Past Transaction, including pricing and payment terms, with those terms offered by the Independent Third Parties to the Group for the same or similar type of products. In case no such type of equipment has been purchased from independent suppliers by the Group, we compared the terms of the Past Transaction to the terms offered to Independent Third Parties by the Wang Family Companies. Based on our review and after due enquiry with the Company, we are satisfied that the Past Transaction was in general conducted on normal commercial terms which were no less favourable to the Group than those offered by Independent Third Parties to the Group or by the Wang Family Companies to Independent Third Parties.

The Group has a well-established business relationship with the Wang Family Companies and the Directors regard the Wang Family Companies as valuable strategic partner for the Group. As the terms of the Past Transaction including pricing and payment terms were conducted on normal commercial terms which were no less favourable to the Group than those offered by Independent Third Parties to the Group or by the Wang Family Companies to Independent Third Parties, we consider that it is in the interest of the Company to continue the business relationship with the Wang Family Companies.

3. Annual Caps

The Continuing Connected Transaction is subject to the terms and conditions as more particularly discussed under the section headed "Conditions of the Continuing Connected Transaction" below. In particular, the Continuing Connected Transaction is subject to the Annual Caps for each of the three financial years ended 31 December 2005, 2006 and 2007, which are RMB160 million, RMB250 million and RMB360 million respectively.

In assessing the reasonableness of the Annual Caps, we have discussed with the Directors the basis and assumptions underlying the projections for the purchase of products manufactured by the Wang Family Companies for the purpose of setting the Annual Caps.

The aggregate value of the Past Transaction for each of the two financial years ended 31 December 2003 and for the six months ended 30 June 2004 are set out below:

	Financial year ended		Six months ended
	31 December	31 December	30 June
	2002	2003	2004
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Aggregate value of the Past Transaction	25,980,000	10,701,942	27,261,552

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In 2002, the equipment purchased from the Wang Family Companies were mainly higher priced products, including over twenty CNG trucks for the Group's new project cities which had no pipeline connection to the gas field. As adequate number of CNG trucks had been acquired in the previous year, the equipment purchased during 2003 was mostly ancillary equipment which are of relatively lower prices. Hence, the aggregate value for the Past Transaction in 2003 dropped by 58.8% when compared to 2002. As indicated from the above table, the purchase of equipment increased significantly in the first six months of 2004. Such increase was due to the fact that the Group launched its CNG vehicle refueling station business in a massive scale in the first half of 2004 and capital expenditures were incurred for the acquisition of part of the necessary gas related equipment during the period for the construction of 10 new refueling stations in 2004. A substantial portion of the value of the Past Transaction for the period was related to the purchase of equipment for these newly constructed CNG vehicle refueling stations.

In estimating the total purchases of equipment from the Wang Family Companies for the purpose of setting the Annual Caps for the three years ended 31 December 2007, the Directors have taken into account the estimated number of new gas projects to be commenced and CNG vehicle refueling stations to be built by the Group. In forecasting the number of new gas projects and CNG vehicle refueling stations to be built, the Directors have taken into account various factors including the growth rate of population, the development of transportation network, the economic conditions and the penetration rate of natural gas of such city.

The Directors expect that starting from 2005, a large number of CNG vehicle refueling stations will be constructed by the Group to increase gas usage, as a large number of public vehicles, including buses and taxis, are expected to be converted to using natural gas for environmental protection and cost saving reasons. Since vehicle emission has been a major source of pollution in the PRC, the Directors believed that the PRC government will promote the conversion of CNG vehicles and accelerate the development of vehicle refueling business of the Group. The Directors expect that refueling business will become one of the major components in the Group's gas sales business and estimate that the Group would construct 24, 40 and 60 CNG vehicle refueling stations (excluding those target stations which the gas-related machinery would be rented from the Wang Family Companies under finance lease) in various cities in the PRC in 2005, 2006 and 2007 respectively. Based on the aforesaid construction plan for vehicle refueling stations and the plan for new gas projects, the Directors then estimated the quantity of related equipment such as storage tanks, compressors, LNG and CNG trailers to be purchased from the Wang Family Companies in the coming three years. The unit price of each type of equipment based on the latest market price being quoted by the Wang Family Companies for similar equipment to the Independent Third Parties is then used to calculate the estimated value of purchases from the Wang Family Companies.

Based on the above, the Directors estimated that the total value for the purchase of equipment from the Wang Family Companies would be approximately RMB155.85 million, RMB242.55 million and RMB352.9 million for each of the three years ended 31 December 2005, 2006 and 2007 respectively. For the purpose of setting the Annual Caps of RMB160 million, RMB250 million and RMB360 million, the Directors have built in buffers of approximately 2.6%, 3.0% and 2.0% for each of the years ended 31 December 2005, 2006 and 2007 respectively. The buffers would cater for possible

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adjustments in the quantity and prices of the equipment to be purchased from the Wang Family Companies. The Annual Caps of HK\$250 million for the year ended 31 December 2006 and HK\$360 million for the year ended 31 December 2007 represent year-on-year growth of 56% and 44% respectively, and the quantity of equipment to be purchased for 2005, 2006 and 2007 represents year-on-year growth of approximately 83%, 31% and 26% respectively. The increasing Annual Caps are tailored for the expansion plan of the Group and are in general in line with the number of CNG vehicle refueling stations business planned to be built as discussed above and the gas projects that are planned to commence in the three years ended 31 December 2007.

Having considered the basis from which the Annual Caps are determined as described above, we are of the view that the Annual Caps are fair and reasonable.

4. Conditions of the Continuing Connected Transaction

It is the conditions of the Continuing Connected Transaction that:

- (a) the Continuing Connected Transaction will be entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to independent third parties; and
 - (iii) in accordance with the relevant agreement(s) governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the relevant amount of the Continuing Connected Transaction for each of the three financial years ended 31 December 2007 shall not exceed the relevant Annual Caps;
- (c) the independent non-executive Directors shall review annually the Continuing Connected Transaction and confirm in the Company's corresponding annual report that the Continuing Connected Transaction have been conducted in the manner as stipulated in paragraph (a) above;
- (d) the Auditors shall review annually the Continuing Connected Transaction and confirm in a letter to the Directors (a copy of which shall be provided to the Stock Exchange) whether such Continuing Connected Transaction:
 - (i) has received the approval of the Board;
 - (ii) is in accordance with the pricing policies of the Group;
 - (iii) has been entered into in accordance with the relevant agreement(s) governing the transactions; and
 - (iv) has not exceeded the relevant Annual Caps;

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- (e) the Company shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in the paragraphs (a), (c) and/or (d) respectively;
- (f) each of the member company of the Group shall provide to the Stock Exchange an undertaking and shall procure the relevant counterparties to the Continuing Connected Transaction that, for so long that the shares in the Company are listed on the Stock Exchange, it will provide the Company's auditors with sufficient access to the relevant records for the purpose of the auditors' review of the Continuing Connected Transaction referred to in paragraph (d) above.

In light of the conditions attached to the Continuing Connected Transaction, in particular, (i) the restriction of the value of the Continuing Connected Transaction by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and Auditors of the terms of the Continuing Connected Transaction and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders.

OPINION

Having taking into account the above principal factors, we consider that the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and the terms of the Product Sale Agreement are on normal commercial terms. We also consider that the terms of the Product Sale Agreement and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Product Sale Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transaction and the Annual Caps.

Yours faithfully,
For and on behalf of
Somerley Limited
Beatrice Lung
Director – Corporate Finance

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 the 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 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 Issuers as contained in the Listing Rules, were as follows:

Name of Director	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			
Mr. Wang	Beneficial owner and interest of controlled corporation	3,044,000	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.34%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.34%
Mr. Yang Yu	Beneficial owner	-	-	-	3,350,000	3,350,000	0.38%
Mr. Chen Jiacheng	Beneficial owner	2,300,000	-	2,300,000	-	2,300,000	0.26%
Mr. Zhao Jinfeng	Beneficial owner	1,775,000	-	1,775,000	-	1,775,000	0.20%
Mr. Qiao Limin	Beneficial owner	225,000	-	225,000	-	225,000	0.03%

Name of Director	Capacity	Interests in Shares				(D) Interests in underlying Shares pursuant to share options	(E) = (C) + (D)	Approximate percentage of the Company's total issued share capital
		(A) Personal interests	(B) Corporate interests	(C) = (A) + (B) Total interests in Shares	Total aggregate interests in Shares and underlying Shares			
Mr. Jin Yongsheng	Beneficial owner	2,100,000	-	2,100,000	-	2,100,000	0.24%	
Mr. Yu Jianchao	Beneficial owner	2,100,000	-	2,100,000	-	2,100,000	0.24%	
Mr. Cheung Yip Sang	Beneficial owner	1,887,500 (Note 2)	-	1,887,500 (Note 2)	-	1,887,500	0.21%	
Mr. Cheng Chak Ngok	Beneficial owner	450,000	-	450,000	-	450,000	0.05%	

Note:

1. The two references to 384,486,000 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. Out of 1,887,500 Shares, 125,000 Shares were held by Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the Shares held by his spouse under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or 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 Issuers 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:

(i) *The Company*

Name of Shareholder	Capacity	Interests in Shares				(E) = (C) + (D)	Approximate percentage of the Company's total issued share capital
		(A) Personal interests	(B) Corporate interests	(C) = (A) + (B) Total interests in Shares	(D) Interests in underlying Shares pursuant to share options		
Easywin Enterprises Limited	Beneficial owner	-	384,486,000 <i>(Note 1)</i>	384,486,000	-	384,486,000	43.74%
Mr. Wang	Beneficial owner and interest of controlled corporation	3,044,000	384,486,000 <i>(Note 1)</i>	387,530,000	2,300,000	389,830,000	44.34%
Ms. Zhao	Interest of spouse and interest of controlled corporation	3,044,000	384,486,000 <i>(Note 1)</i>	387,530,000	2,300,000 <i>(Note 2)</i>	389,830,000	44.34%
The Capital Group Companies, Inc.	Investment manager	-	53,421,000	53,421,000	-	53,421,000	6.08%
College Retirement Equities Fund	Investment manager	-	57,242,000	57,242,000	-	57,242,000	6.51%

Note:

1. The three references to 384,486,000 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. 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.

(ii) *The subsidiaries of the Company*

	Name of subsidiaries	Name of shareholders	% of interest held
1.	北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited*)	北京市昌平區市政經濟發展總公司 (Beijing City Changping District Municipal Economic Development Corporation*)	20%
2.	北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*)	北京市平谷縣液化石油氣公司 (Beijing City Pinggu County Liquefied Petroleum Gas Corporation*)	10%

	Name of subsidiaries	Name of shareholders	% of interest held
3.	蚌埠新奧燃氣有限公司 (Bengbu Xinao Gas Company Limited*)	蚌埠市城市建設投資經營有限公司 (Bengbu City Construction Investment & Operation Company Limited*)	30%
4.	蚌埠新奧燃氣發展有限公司 (Bengbu Xinao Gas Development Company Limited*)	蚌埠市城市投資發展有限公司 (Bengbu City Investment Development Company Limited*)	30%
5.	亳州新奧燃氣有限公司 (Bozhou Xinao Gas Company Limited*)	亳州城市建設投資有限責任公司 (Bozhou City Construction Investment Company Limited*)	30%
6.	亳州新奧燃氣工程有限公司 (Bozhou Xinao Gas Engineering Company Limited*)	亳州城市建設投資有限責任公司 (Bozhou City Construction Investment Company Limited*)	30%
7.	長沙新奧燃氣有限公司 (Changsha Xinao Gas Company Limited*)	長沙市燃氣總公司 (Changsha City Gas Corporation*)	45%
8.	常州新奧燃氣有限公司 (Changzhou Xinao Gas Company Limited*)	常州市武進燃氣總公司 (Changzhou City Wujin Gas Corporation*)	40%
9.	滁州新奧燃氣有限公司 (Chuzhou Xinao Gas Company Limited*)	滁州市城市基礎設施開發建設有限公司 (Chuzhou City Infrastructure Development & Construction Company Limited*)	10%
10.	桂林新奧燃氣有限公司 (Guilin Xinao Gas Company Limited*)	桂林旅遊股份有限公司 (Guilin Travel Company Limited*)	40%
11.	海寧新奧燃氣有限公司 (Haining Xinao Gas Company Limited*)	海寧市萬通燃氣有限責任公司 (Haining City Wantong Gas Company Limited*)	15%
12.	淮安新奧燃氣有限公司 (Huaian Xinao Gas Company Limited*)	淮安市燃氣總公司 (Huaian City Gas Corporation*)	20%
13.	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*)	葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Limited*)	10%

	Name of subsidiaries	Name of shareholders	% of interest held
14.	湖南銀通科技有限責任公司 (Hunan Yintong Technology Company Limited*)	陳東如 (Chen Dongru)	20.09%
		湖南省國開經濟技術發展有限責任公司 (Hunan Province Guokai Economic & Technical Development Company Limited*)	10.65%
15.	開封新奧燃氣有限公司 (Kaifeng Xinao Gas Company Limited*)	開封市發展投資有限公司 (Kaifeng City Development Investment Company Limited*)	10%
16.	蘭溪新奧燃氣有限公司 (Lanxi Xinao Gas Company Limited*)	蘭溪東昇能源有限公司 (Lanxi Dongsheng Energy Company Limited*)	20%
17.	連雲港新奧燃氣有限公司 (Lianyungang Xinao Gas Company Limited*)	連雲港市城市建設投資有限責任公司 (Lianyungang City Urban Construction Investment Company Limited*)	30%
18.	連雲港新奧燃氣工程有限責任公司 (Lianyungang Xinao Gas Development Company Limited*)	連雲港市城市建設投資有限責任公司 (Lianyungang City Urban Construction Investment Company Limited*)	30%
19.	聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*)	聊城市熱力公司 (Liaocheng City Heating Corporation*)	10%
20.	青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*)	青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation*)	10%
21.	青島新奧燃氣設施開發有限公司 (Qingdao Xinao Gas Establishment Exploiture Co. Ltd.*)	青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic & Technical Development Zone Heating, Electricity & Gas Corporation*)	10%
22.	青島新奧膠城燃氣有限公司 (Qingdao Xinao Jiaocheng Gas Company Limited*)	膠州市新源城市建設發展有限公司 (Jiaozhou City Xinyuan Urban Construction Development Company Limited*)	10%
23.	青島新奧新城燃氣有限公司 (Qingdao Xinao Xincheng Gas Company Limited*)	青島市城陽區建設工程監理處 (Qingdao City Chengyang District Construction Project Supervisory Office*)	10%

	Name of subsidiaries	Name of shareholders	% of interest held
24.	衢州新奧燃氣有限公司 (Quzhou Xinao Gas Company Limited*)	衢州市城市建設投資有限公司 (Quzhou City Urban Construction Investment Company Limited*)	10%
25.	衢州新奧燃氣發展有限公司 (Quzhou Xinao Gas Development Company Limited*)	衢州市城市建設投資有限公司 (Quzhou City Urban Construction Investment Company Limited*)	10%
26.	日照新奧燃氣有限公司 (Rizhao Xinao Gas Company Limited*)	日照市煤氣公司 (Rizhao City Coal Gas Corporation*)	20%
27.	汕頭新奧燃氣有限公司 (Shantou Xinao Gas Company Limited*)	汕頭市澄海燃氣建設有限公司 (Shantou City Chenghai Gas Construction Company Limited*)	11.31%
		汕頭市澄燃管道供氣有限公司 (Shantou City Chengran Piped Gas Company Limited*)	28.43%
28.	石家莊新奧燃氣有限公司 (Shijiazhuang Xinao Gas Company Limited*)	石家莊燃氣集團有限公司 (Shijiazhuang Gas Group Company Limited*)	30%
29.	泰興新奧燃氣有限公司 (Taixing Xinao Gas Company Limited*)	泰興市管道液化氣公司 (Taixing City Piped Liquefied Petroleum Gas Corporation*)	10%
30.	通遼新奧燃氣有限公司 (Tongliao Xinao Gas Company Limited*)	通遼市日新天然氣有限責任公司 (Tongliao City Rixin Natural Gas Company Limited*)	20%
31.	湘潭新奧燃氣有限公司 (Xiangtan Xinao Gas Company Limited*)	湘潭市煤氣公司 (Xiangtan City Coal Gas Corporation*)	15%
32.	鹽城新奧燃氣有限公司 (Yancheng Xinao Gas Company Limited*)	鹽城市天然氣開發利用有限公司 (Yancheng City Natural Gas Development and Usage Company Limited*)	30%
33.	煙台新奧實業有限公司 (Yantai Xinao Industry Company Limited*)	煙台市管道煤氣公司 (Yantai City Piped Coal Gas Company*)	40%
34.	湛江新奧燃氣有限公司 (Zhanjiang Xinao Gas Company Limited*)	湛江市燃氣集團公司 (Zhanjiang City Gas Group Company*)	40%
35.	株州新奧燃氣有限公司 (Zhuzhou Xinao Gas Company Limited*)	株州市城市建設投資經營有限公司 (Zhuzhou City Urban Construction Investment & Operation Company Limited*)	45%

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. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and his/her associates had any interests which competed or was likely to compete, either directly or indirectly, with the Company's business.

5. 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.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Company since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up.

7. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

Save as disclosed in the announcement of the Company dated 31 January 2005, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

Save as disclosed in the announcement of the Company dated 31 January 2005, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Company.

8. CONSENT OF EXPERT

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley is not interested in any Shares or share in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, Somerley does not have any direct or indirect interest in any asset which had been, since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

9. GENERAL

- (a) The secretary and qualified accountant of the Company is Mr. Cheng Chak Ngok, who is a fellow member of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in England.
- (b) The Company's branch registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Rooms 3101-03, 31st Floor, Tower 1, Lippo Centre, No.89 Queensway, Hong Kong during normal business hours up to and including Monday, 21 March 2005:

- (a) the Product Sale Agreement;
- (b) the letter from Somerley, the text of which is set out in this circular; and
- (c) the consent letter of Somerley referred to in the section headed "Consent of Expert" in this appendix.

NOTICE OF EGM



新奥燃气控股有限公司 XinAo Gas Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of XinAo Gas Holdings Limited (the "Company") will be held at Conference Room, Rooms 3101-03, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong on Monday, 21 March 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"THAT:

- (a) the product sale agreement dated 31 January 2005 (the "Product Sale Agreement") entered into between the Company and its subsidiaries (the "Group") and companies controlled by Mr. Wang Yusuo and/or his associates (the "Wang Family Companies") in respect of the sale and purchase of products manufactured by the Wang Family Companies, a copy of which marked "A" has been produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) the proposed annual caps (the "Annual Caps") in relation to the transactions contemplated under the Product Sale Agreement for each of the three financial years ended 31 December 2007 being RMB160,000,000, RMB250,000,000 and RMB360,000,000 respectively be and are hereby approved,

and the directors of the Company be and are hereby authorized on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Product Sale Agreement and the Annual Caps and the transactions thereby contemplated."

By order of the Board
XINAO GAS HOLDINGS LIMITED
CHENG Chak Ngok
Executive Director and Company Secretary

Hong Kong, 4 March 2005

NOTICE OF EGM

Principal place of business in Hong Kong:

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

Notes:

1. The ordinary resolution to be considered at the Extraordinary General Meeting will be decided by poll. On voting by poll, each shareholder of the Company shall have one vote for each share held in the Company.
2. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting at the Meeting if the shareholder of the Company so desires.
5. As at the date of this notice, the board of directors of the Company comprises nine executive directors, namely Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Chief Executive Officer), Mr. Chen Jiacheng, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok, one non-executive director, namely Ms. Zhao Baoju and three independent non-executive directors, namely Mr. Wang Guangtian, Mr. Xu Liang and Ms. Yien Yu Yu, Catherine.