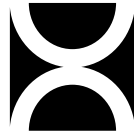


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XINAO GAS HOLDINGS LIMITED

(新奧燃氣控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

(Website: www.xinaogas.com)

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

The Directors are pleased to announce that the Group (through China BVI, an indirectly wholly-owned subsidiary of the Company), on 7 August 2003, entered into the Changsha Agreement with Changsha Gas to set up Changsha Xinao. Upon establishment, Changsha Xinao will engage in the provision of piped gas for a period of 20 years to the Changsha City Planning Area (長沙市城市規劃區), Hunan Province, PRC and Changsha Xinao will become a subsidiary of the Company.

The Directors consider the Changsha Agreement to be an important milestone for the Group since Changsha Xinao is the second provincial capital project of the Group and the second operational location the Group has secured in Hunan Province, PRC, thereby signifies the success of the Group's marketing efforts into establishing a stronger foothold in Hunan Province, PRC. The Directors believe that the Changsha Agreement was entered into upon normal commercial terms and in the ordinary course of business of the Company.

As the registered capital of Changsha Xinao exceeds 15% of the consolidated net tangible asset value of the Company, the signing of the Changsha Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing details of the transaction in this announcement to the shareholders of the Company as soon as practicable.

THE CHANGSHA AGREEMENT DATED 7 AUGUST 2003

The Parties

- (a) China BVI, an indirectly wholly-owned subsidiary of the Company; and
- (b) Changsha Gas, an independent party not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of their respective associates.

* *For identification purpose only*

Business of Changsha Xinao

Upon establishment, Changsha Xinao will engage in the provision of piped gas for a period of 20 years to the Changsha City Planning Area (長沙市城市規劃區), Hunan Province, PRC and Changsha Xinao will become a subsidiary of the Company.

Total investment

RMB266.0 million (equivalent to approximately HK\$250.9 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 date of this announcement, 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.

Registered capital

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

- (a) 55% (being RMB82.5 million or approximately HK\$77.8 million) will be contributed in cash by China BVI; and
- (b) 45% (being RMB67.5 million or approximately HK\$63.7 million) will be contributed by Changsha Gas in the form of 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:

- (a) initial 40% – within one month from Changsha Xinao obtaining the business license;
- (b) another 30% – within three months from Changsha Xinao obtaining the business license; and
- (c) 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 two months from the date of this announcement.

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:

- (a) Changsha Xinao having obtained a business licence in PRC; and
- (b) Changsha Xinao having obtained a document of exclusive rights to supply piped gas to the Changsha City Planning Area (長沙市城市規劃區), Hunan Province, PRC.

Board of Directors

The board of directors of Changsha Xinao will comprise 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 the term can be extended upon agreement between the Parties.

Profits

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

Dissolution

Upon termination of the Changsha Agreement, 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.

GENERAL

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.

The Directors consider that the Changsha Agreement to be an important milestone for the Group since Changsha Xinao is the second provincial capital project of the Group and the second operational location the Group has secured in Hunan Province, PRC, thereby signifies the success of the Group's marketing efforts into establishing a stronger foothold in Hunan Province, PRC. Since Changsha is the provincial capital of Hunan Province, the Company expects that there will be a large demand of natural gas by its population and therefore expects that there will be significant contribution to the future earnings of the Company.

The Directors believe that the Changsha Agreement was entered into upon normal commercial terms and in the ordinary business of the Company. The Directors consider that terms of the Changsha Agreement are fair and reasonable and the Changsha Agreement is in the interest of the shareholders of the Company.

As the registered capital of Changsha Xinao exceeds 15% of the consolidated net tangible asset value of the Company, the signing of the Changsha Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. The Company will issue a circular containing details of the transaction in this announcement to the shareholders of the Company as soon as practicable.

DEFINITIONS

“Changsha Agreement”	a conditional joint venture agreement dated 7 August 2003 entered into between China BVI and Changsha Gas
“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
“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 of Hong Kong Limited
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Parties”	China BVI and Changsha Gas, the parties to the Changsha Agreement
“PRC”	the People’s Republic of China
“China BVI”	Xinao Gas China Investment Limited, an indirectly wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“HK\$”	Hong Kong Dollars
“RMB”	Renminbi
“%”	per cent.

In this announcement, amounts stated in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1 = RMB1.06.

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

Hong Kong, 7 August 2003

Please also refer to the published version of this announcement in The Standard and Hong Kong Economic Times.