

Xinao Gas Successfully Expands into Gas Market of Changsha, Hunan Province

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Second Provincial Capital Project Total Connectable Population Exceeds 16 Million

(Hong Kong, 7 August 2003)- Xinao Gas Holdings Limited (“Xinao Gas” or “the Group”) (Stock code: 2688), a privately-owned piped gas distributor in the PRC, announced its successful expansion into the gas market of Changsha City, Hunan Province. Xinao Gas, through its wholly-owned subsidiary Xinao Gas China Investment Limited (“Xinao China”), has entered into a joint venture agreement with Changsha City Gas Corporation (“Changsha Gas”) to set up Changsha Xinao Gas Company Limited (“Changsha Xinao”), a Sino-foreign joint venture, to operate piped gas distribution business in Changsha.

Changsha Xinao will have the exclusive right to operate piped gas business in the city of Changsha for 20 years once it is set up. Changsha Xinao will engage in the production, distribution and sale of piped gas; design and installation of gas pipeline infrastructure, production, sale, and maintenance of gas equipment and appliances; installation, operation and management of gas storage, transportation and distribution facilities; provision of consultation services and staff training services in relation to gas supply. The registered capital of Changsha Xinao will be RMB 150 million (approximately HKD 142 million), and Xinao China will hold a 55% interest in Changsha Xinao while Changsha Gas holds the remaining 45% interest.

Changsha is the capital of Hunan Province. It is in the northeastern part of the province and is close to Xiangtan and Zhuzhou in the south. There are 5 districts under Changsha’s jurisdiction, covering a total urban area of 566 km². By the end of 2001, the total population of Changsha was 5.87 million, of which 1.8 million were urban residents. In 2002, the GDP of Changsha reached RMB 81.3 billion, increased 12.7% when compared with 2001. Textiles, food and machinery are the major industries in Changsha, and the future development of Changsha will be focusing on vehicles, electronic information, green electrical appliances, new materials, fine chemicals and biopharmaceutics.

Mr. WANG Yusuo, Chairman of Xinao Gas, said, “Following the Shijiazhuang Project, Changsha is the second project in provincial cities and this fully reflects Xinao Gas’ ability to secure large projects. In developing the piped natural gas market of Changsha, we aim to accelerate the utilization of natural gas in Changsha, improve the city environment, facilitate social and economic developments and boost efficiency. We hope that both parties of the joint venture can get a reasonable return on investment.”

Currently, bottled LPG is the main source supply in Changsha. In 2002, the total sales volume of bottled LPG in Changsha was 90,000 tons and there were about 300,000 residential households. Changsha Gas, established in 1993, supplies piped coal gas to the northern urban part. There are now about 80,000 households using coal gas and 12,000 households using substitute natural gas (SNG).

The “Agreement on the sale and distribution of natural gas from Zhong-Wu Pipeline” signed by the Changsha municipal government and PetroChina Company Limited states that Changsha will be connected to the gas source from Sichuan and Chongqing in June 2005. According to the city gas distribution planning, natural gas will become the major source of gas supply in Changsha and will gradually replace the existing piped coal gas, SNG and bottled LPG. Zhong-Wu Pipeline runs 703 km from Zhong County to Wuhan City, with a designed annual capacity of 3 billion m³, and it mainly supplies gas to Hunan and Hubei.

Mr. Wang concluded, “The success of Shijiazhuang, Dongguan and Changsha Projects will boost the Group’s future income from gas sales and pave the way for the Group’s further exploration of gas markets in large cities. At the moment, the number of the Group’s operating locations has increased to 33, covering a total urban population of 16 million. Leveraging on the government’s policy to encourage the use of clean energy, we are committed to increasing the penetration rate of piped gas in our existing projects as well as accelerating the construction of infrastructure in new piped gas projects. We will also make every effort to create strong financial results for our shareholders and investors.”

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Xinao Gas Holdings Limited

Xinao Gas is one of the first non-state-owned piped gas distributors 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 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.

Currently, the Group has 33 project cities in Anhui Province, Beijing Municipality, Hebei Province, Henan Province, Jiangsu Province, Liaoning Province, Shandong Province, Zhejiang Province, Hunan Province and Guangdong Province.

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