

Xinao Gas Obtains Exclusive Right to Operate Piped Gas Business in Zhuzhou City, Hunan Province

* * * *

Further Consolidating Hunan Markets Exploring Business Opportunity in Chang-Zhu-Tan Economic Integration

(Hong Kong, 16 October 2003)- Xinao Gas Holdings Limited (“Xinao Gas” or “the Group”) (Stock code: 2688), a privately-owned piped gas distributor in the PRC, announced that at the fifth China High-Tech Fair held in Shenzhen, Mr. Han Jishen, Deputy General Manager of Xinao Gas, and Mr. Ouyang Su, General Manager of Zhuzhou City Coal Gas Company (“Zhuzhou Coal Gas”), signed a joint venture agreement to set up Zhuzhou Xinao Gas Company Limited (“Zhuzhou Xinao”), a Sino-foreign joint venture, to operate piped gas business in Zhuzhou City.

Zhuzhou Xinao, being set up by Xinao Hunan Investment Limited (“Hunan BVI”), a wholly-owned subsidiary of the Group, and Zhuzhou Coal Gas, will have an exclusive right to operate piped gas business in Zhuzhou City for 30 years. It will mainly engage in the production, distribution and sale of piped gas, the design and installation of piped gas equipment, the production, sale and maintenance of gas equipment and gas appliances as well as the inquiries and training on piped gas business. The registered capital of Zhuzhou Xinao is RMB135 million (approximately HK\$127 million), and Huan BVI holds a 55% interest in it while Zhuzhou Coal Gas holds the remaining 45% interest.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “Zhuzhou is the third project in Hunan Province we secured after obtaining the projects in Changsha, the provincial capital, and Xiangtan. We are glad that the Group’s development in the Hunan markets is smooth and rapid, especially the securing of the city gas projects of the Chang-Zhu-Tan economic cluster, which paves the way for the Group’s further expansion in the downstream markets of the Zhong-Wu Pipeline.”

Hunan Province, the south-eastern hinterland of the PRC and in the midstream of the Changjiang River, is the bridging zone linking the coastal provinces in the east and the interior provinces in the west. The total population of the province was 66 million at the end of 2001. In 2001, the GDP of Hunan Province was RMB398.3 billion while the total industrial output was RMB450.9 billion, increasing 9% and 9.4% respectively as compared to the previous year. The economic cluster of the golden triangle of Chang-Zhu-Tan is the second important economic cluster being set up in the PRC after Jing-Jin-Tang and is placed in the Tenth-Five development plan of the state. Changsha, Zhuzhou and Xiangtan are three important industrial cities in Hunan Province with well-developed transportation network and solid strength. They are the most economically affluent regions in the province. The total urban population of the three cities reached 5.04 million at the end of 2000.

According to the planning of the Chang-Zhu-Tan economic integration, Changsha is an industrial centre with the highest potential growth, focusing on high-tech industries and tertiary industries; Zhuzhou is an industrial centre for enterprises with solid base, and it will develop new industrial advantages relying on its lead in being the transport centre; Xiangtan will strive for becoming the new processing centre and new educational and scientific base.

In 2000, the GDP of these three cities was RMB116.2 billion, increasing 10%, and accounted for 32% of the whole province's GDP; the GDP per capita was RMB9,409.

Zhuzhou City is located at the eastern part of Hunan, with an urban area of 537 km² and an urban population of 680,000. The total area of the city is 11,400 km², and the total population is 3.7 million. The major industries in Zhuzhou are metallurgy, machinery, chemicals, fuels, glass, building materials, electricity, electronic meters, textiles, machine manufacturing, electric engines, locomotive vehicles, etc. The national industrial output of the city was RMB32.2 billion in 2001.

Currently, coal gas is the main gas fuel used in Zhuzhou. The coal gas project started in 1988, and there are now 68,000 residential households using piped coal gas and 280 km of main and intermediate pipelines that covers most of the urban district. In 2001, the total gas sold was 19.3 million m³. By 2004, natural gas will be supplied to Yueyang, Changsha, Zhuzhou and Xiangtan in Hunan Province via the Sichuan-to-Hunan Pipeline Project with an annual capacity of 1 billion m³. The long distance pipeline from Zhong County, Chongqing, Sichuan Province to Wuhan, Hubei Province, 703 km long and with an annual capacity of 3 billion m³, will mainly supply gas to Hunan and Hubei.

Mr. Wang concluded, "Xinao Gas has successfully developed the gas projects in the economic cluster of the golden triangle of Chang-Zhu-Tan, and this will raise the Group's popularity drastically and bear important significance for our future expansion in the southern markets. It will bring stable and long term gas sales revenue to the Group. At present, the total number of projects secured by the Group reaches 39, covering a total urban population over 18.5 million. In the future, we will continue to increase the gas penetration rate in the existing projects while accelerating the building of gas infrastructure in new projects. Leveraging on the government's policy that encourages the use of clean energy, we will reward our shareholders and investors with outstanding results."

- End -

Xinao Gas Holdings Limited

Xinao Gas is one of the first privately-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 LPG 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 39 project cities in Anhui Province, Beijing Municipality, Guangdong Province, Hebei Province, Henan Province, Hunan Province, Jiangsu Province, Liaoning Province, Shandong Province and Zhejiang Province, covering a total urban population of over 18.5 million.

For Press Enquiry:

Ms. Elaine Lam

Tel: (852) 2528 5666 / Fax:(852) 2865 7204

Email:h.lam@xinaogas.com