

**XinAo Gas Obtains Gas Project in Zhanjiang, Guangdong
Further Consolidating Market Position in Southern China**

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**Number of Projects Increases to 44
Total Urban Population Coverage Tops 20.40 Million**

(Hong Kong, 28 May 2004) – XinAo Gas Holdings Limited (“XinAo Gas” or “the Group”) (Stock code: 2688), a privately-owned piped gas operator in the PRC, announced that the Group, through its wholly-owned subsidiary XinAo (China) Gas Investment Limited (“XinAo China”), entered into the joint venture agreement with Zhanjiang City Gas Group Corporation (“Zhanjiang Gas”) to set up Zhanjiang XinAo Gas Company Limited (“Zhanjiang XinAo”), a Sino-foreign joint venture operating piped gas business in Zhanjiang.

Zhanjiang XinAo will engage in the production and sale of piped gas and gas appliances; design, construction and installation of gas infrastructures; production, sale, and maintenance of gas appliances; provision of consultation services and staff training services in relation to gas business; storage and operation of bottled LPG and examination of LPG bottles in use. It has the exclusive rights to operate piped gas business in the urban area of Zhanjiang (including the Economic and Technical Development Zone) for 50 years. The registered capital of Zhanjiang XinAo will be RMB85 million (approximately HK\$80.19 million), and XinAo China will hold a 60% interest in Zhanjiang XinAo while Zhanjiang Gas holds the remaining 40% interest.

Mr. WANG Yusuo, Chairman of XinAo Gas, said, “Zhanjiang is our second project in Guangdong Province after Dongguan obtained last year. Guangdong has high population density and affluent economy. With the commencement of imported liquefied natural gas by China National Offshore Oil Corporation (“CNOOC”) and British Petroleum in 2007, Guangdong Province will have secured and sufficient gas source. Therefore, it is our major target in market exploration. The success in obtaining Dongguan and Zhanjiang shows the support and trust from local governments on XinAo Gas. It has strategic significance on the Group for our future expansion in the gas markets of the affluent Guangdong Province.”

Zhanjiang is located in the southwest of Guangdong Province, covering an area of 13,325 km², of which 1460 km² is urban area with an urban population of 740,000. Zhanjiang is a famous harbour city and industrial centre in Guangdong. In 2002, it ranked 56 among 200 cities in the PRC in overall competitiveness and ranked 9 among the cities in Guangdong. There are a total of 13 harbours in Zhanjiang, with annual throughput capacity of 35.86 million tons in 2002. Its main industries are chemicals, food and energy. In 2002, its GDP and total industrial output value reached RMB46.4 billion and RMB44.4 billion respectively, representing increases of 8.7% and 14.8% over the previous year. Also, Zhanjiang is rich in natural resources, and there are abundant oil and gas reserves in Beibu Bay, which is the major exploitation oilfield of CNOOC Nanhai Western Corporation.

The urban residents of Zhanjiang mainly use LPG from Maoming, Guizhou Province and overseas. During 2002, about 150,000 households were using LPG and consumed about 340,000 tons of LPG. The principal business of Zhanjiang Gas is the sale of bottled LPG.

Starting to build gas pipelines in 1994, Zhanjiang Gas has increased investment on pipelines since 2001, and it has completed about 50 km pipelines and has about 8,000 users. The Group expects that after the establishment of Zhanjiang Xinao, piped natural gas will gradually replace other gas fuels in the city. It is estimated that the large demand from commercial/industrial users and residential households will bring high returns to the Group.

Apart from Zhanjiang project, Xinao Gas also announced that, through its wholly-owned subsidiary Langfang Xinao Gas Company Limited (“Langfang Xinao”), the Group acquired 20% equity interest in Zhucheng Xinao Gas Company Limited (“Zhucheng Xinao”) from Zhucheng City Gas and Heating Corporation, its PRC JV partner, for a consideration of RMB5,000,000 (approximately HK\$4,717,000). After the acquisition, Xinao Gas’ interests in Zhucheng Xinao will increase from 80% to 100%. The Board of Directors of Xinao Gas anticipates steady growth in the demand for piped gas in the Zhucheng district centre for the foreseeable future. The results of Zhucheng Xinao have been good since its establishment in 2001. This acquisition is expected to bring further long-term revenue to the Group.

Mr. Wang concluded, “With our continuous efforts, Xinao Gas’ business expansion is going on smoothly. Now the Group has 44 city projects covering over 20.40 million urban population. In the future, we will continue to increase the gas penetration rate in the existing markets and accelerate the construction of gas infrastructure in new projects. Leveraging on the government’s policy of encouraging the use of clean energy, we will deliver outstanding performance to reward our shareholders and investors.”

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Xinao Gas Holdings Limited

Xinao Gas is one of the first privately-owned piped gas operator 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.

The Group currently has 44 project cities in 12 provinces, municipality or autonomous regions, namely Anhui, Beijing, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Jiangsu, Liaoning, Shandong and Zhejiang, covering a total connectable urban population of over 20.40 million.

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