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This document, for which the directors (the “Directors”) of Xinao Gas Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group's turnover was approximately RMB68.7 million for the three months ended 31 March 2002, representing an increase of approximately 104.1% over the same period last year.
- Connection fees of approximately RMB29.3 million (representing approximately 42.6% of the Group's turnover) were derived from the provision of new connections to 6,187 households and 14 commercial and industrial sites.
- Gas usage charges was approximately RMB38.5 million (representing approximately 56.1% of the Group's turnover) for the three months ended 31 March 2002. Such gas usage charges were derived from the sale of a total of approximately 11.8 million cubic metres of piped natural gas and 9,122 tonnes of liquefied petroleum gas.
- Net profit increased by approximately 1.4 times to approximately RMB10.4 million for the three months ended 31 March 2002 when compared to the same period last year.
- As at 31 March 2002, the Group had made gas connections to a total of 120,625 households (including 6,437 households from the acquisition of new projects companies during the three months ended 31 March 2002) and 369 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 283,104 cubic metres).
- As at 31 March 2002, the Group owned and operated a total of 493 kilometres of intermediate pipelines and main pipelines and 13 processing stations.
- Basic earnings per Share increased by approximately 59.2% to approximately RMB1.64 cents per Share for the three months ended 31 March 2002 when compared with the same period last year.

ABOUT XINAO GAS HOLDINGS LIMITED

Xinao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is one of the first non state-owned piped gas distributors in the People's Republic of China (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 in the PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply.

The Group derives its revenues principally from connection fees receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues are also derived from the sale of gas appliances and the provision of repair, maintenance and other gas related services.

The ordinary shares of HK\$0.10 each in the share capital of the Company (“Shares”) were listed on GEM on 10 May 2001.

RESULTS

The Directors are pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	<i>Notes</i>	Three months ended	
		31 March	
		2002	2001
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	68,655	33,636
Cost of sales		(41,225)	(17,768)
Gross profit		27,430	15,868
Other revenue		1,762	1,199
Tax refund		2,858	–
Selling expenses		(1,773)	(491)
Administrative expenses		(15,408)	(6,027)
Other operating expenses		(337)	(80)
Profit from operations		14,532	10,469
Interest expense		(2,230)	(3,499)
Profit before taxation		12,302	6,970
Taxation	3	(439)	(2,141)
Profit before minority interests		11,863	4,829
Minority interests		(1,448)	(519)
Profit for the period		<u>10,415</u>	<u>4,310</u>
Earnings per Share (RMB)	4		
Basic		<u>1.64 cents</u>	<u>1.03 cents</u>
Diluted		<u>1.64 cents</u>	<u>N/A</u>

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000. On 28 March 2001, pursuant to a reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Shares on GEM, the Company became the holding company of the subsidiaries included in the Reorganisation. The Shares were listed on GEM on 10 May 2001.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation completed on 28 March 2001 referred to above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganisation for the entire financial period presented.

During the three months ended 31 March 2002, the Company completed the establishment of two subsidiaries, namely 泰興新奧燃氣有限公司 (Taixing Xinao Gas Company Limited*) and 鄒平新奧燃氣有限公司 (Zouping Xinao Gas Company Limited*). The results of these subsidiaries are included from their effective dates of establishment.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

The Group’s turnover comprises the following:

	Three months ended	
	31 March	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Gas connection fees	29,287	19,829
Sale of gas	38,527	13,787
Sale of gas appliances	841	20
	<u>68,655</u>	<u>33,636</u>

All of the Group’s business are derived from activities in the PRC, including Hong Kong, in both periods.

3. Taxation

Pursuant to the relevant laws and regulations in the PRC and subject to obtaining approval from the relevant tax authority, all of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from income tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%. The charge of PRC enterprise income tax for the three months ended 31 March 2002 has been provided for after taking these tax incentives into account.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

4. Earnings per Share

The calculation of basic earnings per Share is based on the unaudited consolidated net profit for the three months ended 31 March 2002 of approximately RMB10,415,000 (2001: RMB4,310,000) and the weighted average number of approximately 634,333,000 Shares in issue during the period ended 31 March 2002 (2001: 420,000,000 Shares).

The calculation of diluted earnings per Share is based on the unaudited consolidated net profit for the three months ended 31 March 2002 of approximately RMB10,415,000 and the weighted average number of approximately 634,333,000 Shares in issue during the three months ended 31 March 2002, as used in the basic earnings per Share calculation; and the weighted average number of 1,577,000 Shares assumed to have been issued at no consideration on the deemed exercise of all share options during the three months ended 31 March 2002.

Diluted earnings per Share for the three months ended 31 March 2001 is not presented as there were no potential diluting Shares in existence.

5. Reserves

There has been no transfer to or from reserves during the three months ended 31 March 2002 and the corresponding period in 2001.

INTERIM DIVIDEND

The Directors have resolved not to recommend the payment of an interim dividend by the Company for the three months ended 31 March 2002 (2001: Nil).

BUSINESS REVIEW

The Group achieved a satisfactory growth in both turnover and profit during the three months ended 31 March 2002 (the “Relevant Period”). During the Relevant Period, the Group’s turnover increased by approximately 104.1% to approximately RMB68.7 million when compared to the same period last year. Such growth was fuelled by both an increase in connection fees from the expansion of the customer base and an increase in gas usage charges due to higher gas consumption and the sale of liquefied petroleum gas (“LPG”) by 蚌埠新奥燃气有限公司 (Bengbu Xinao Gas Company Limited*, “Bengbu Xinao”). LPG is supplied by Bengbu Xinao to the Bengbu city centre during the transitional phase when the construction of natural gas pipeline infrastructure is not yet completed in the Bengbu city centre. It is currently envisaged that Bengbu Xinao will commence the supply of natural gas in August 2002 and the supply of LPG will be gradually replaced by the supply of natural gas thereafter.

The first quarter performance is traditionally weak as the Group’s results are subject to seasonal factors where weather conditions couple with public holidays during Chinese New Year preclude construction work for piped gas connections from taking place in the coldest months (being late December to February) and thus the Company recorded relatively little connection fees.

During the Relevant Period, the Group’s connection fees reached approximately RMB29.3 million, representing an increase of approximately 47.7% over the same period last year. Connection fees accounted for approximately 42.6% of the Group’s turnover. During the Relevant Period, the Group made new gas connections to a total of 6,187 households and 14 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 13,357 cubic metres). As at 31 March 2002, the Group had made gas connections to a total of 120,625 households and 369 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 283,104 cubic metres). In relation to gas usage charges, the Group sold a total of approximately 3.1 million cubic metres of natural gas to residential customers, approximately 8.7 million cubic metres of natural gas to commercial and industrial customers and 9,122 tonnes of LPG during the Relevant Period and generated gas usage charges of approximately RMB38.5 million (being RMB17.7 million from the sale of natural gas and RMB20.8 million from the sale of LPG), representing an increase of approximately 1.8 times over the same period last year.

Net profit for the period was approximately RMB10.4 million, representing an increase of approximately 1.4 times over the same period last year. For the three months ended 31 March 2002, basic earnings per Share was approximately RMB1.64 cents, representing an increase of approximately 59.2% over the same period last year.

During the Relevant Period, the Group built an additional 29 kilometres of intermediate pipelines and main pipelines. As at 31 March 2002, the Group's total length of intermediate pipelines and main pipelines reached 493 kilometres and the Group had 13 processing stations.

As at the date of this announcement, the Group has obtained relevant approvals to operate piped gas businesses in 17 locations in the PRC with a population coverage of over four million people compared to 15 locations in the PRC as at 31 December 2001.

PROSPECTS

The Directors and management of the Company remain confident about the future prospects of the Company. During the Relevant Period, the Company successfully raised net proceeds amounting to approximately HK\$326 million through a top-up placement of 110,000,000 Shares at HK\$3.05 each to professional and institutional investors. Together with the unutilised proceeds from the initial public offering in May 2001 the Group has sufficient working capital to meet its current development and expansion plans.

The Group will continue to actively explore and identify suitable investment opportunities in focused areas in the PRC which include cities in the downstream market of the West to East Pipelines and Shangdong Province. The Group believes that, with its experience in the industry, numerous new projects can be obtained by the Group in the future.

During the Relevant Period, the Group has also entered into a Sino-foreign joint venture contract for the establishment of 鹽城新奧壓縮天然氣有限公司 (Yancheng Xinao Compressed Natural Gas Company Limited*, "Yancheng Xinao CNG"). Yancheng Xinao CNG will be engaged in the production, transportation and sale of compressed natural gas ("CNG"). As Yancheng Xinao CNG has the right to use the only natural gas source in Jiangsu Province, it is of strategic importance to the Group in securing further projects in Jiangsu Province. It is currently intended that Yancheng Xinao CNG will commence CNG supply from August 2002 onwards.

The Company has on, 23 April 2002, issued and despatched a listing document and a shareholders' circular in relation to the proposed transfer of listing status to the main board of the Stock Exchange from GEM. An extraordinary general meeting of the Company has been convened to be held at 9:45 a.m. on 21 May 2002 to consider and approve, amongst other things, the proposed voluntary withdrawal of listing on GEM.

All members of the Directors and staff are fully committed to achieving the above objectives. We are confident that the Group would yield satisfactory returns for our shareholders and will continue to provide a safe and reliable gas supply service to our valued customers.

DIRECTORS' INTEREST IN SHARES

As at 31 March 2002, the interests of each of the Directors and their respective associates in the Company and its associated corporations (within the meanings of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which were taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register required to be kept therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Personal interest	Family interest	Corporate interest	Other interest	Total
Mr. Wang Yusuo ("Mr. Wang")	–	–	420,000,000 Shares	–	420,000,000 Shares (Note)
Ms. Zhao Baoju ("Ms. Zhao")	–	–	420,000,000 Shares	–	420,000,000 Shares (Note)

Note: The two references to 420,000,000 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.

Save as disclosed above, as at 31 March 2002, none of the Directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company has adopted the share option scheme on 24 April 2001 (the "Share Option Scheme"). Up to 31 March 2002, options to subscribe for an aggregate of 18,000,000 Shares have been granted by the Company under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Share Option Scheme, the Company has granted options on the Shares in favour of certain Directors and employees. Details of the options granted to the Directors are as follows:

	Number of share options outstanding as at the date of this announcement
Yang Yu	2,400,000
Zhao Jinfeng	1,500,000
Qiao Limin	1,500,000
Jin Yongsheng	1,500,000
Yu Jianchao	1,500,000
Cheung Yip Sang	1,500,000
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	9,900,000
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Note: The options were granted on 31 January 2002 at an exercise price of HK\$2.625 each. 50% of the options may be exercised between the period from 1 August 2002 and 30 January 2004 and thereafter, options may be exercised at any time up until 31 January 2012.

Save as disclosed above, at no time during the Relevant Period was the Company, its ultimate holding company or its subsidiaries, a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 March 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	Number of Shares held	Approximate percentage of shareholding
Easywin Enterprises Limited	420,000,000 (<i>Note</i>)	56.99%
Mr. Wang	420,000,000 (<i>Note</i>)	56.99%
Ms. Zhao	420,000,000 (<i>Note</i>)	56.99%

Note: The three references to 420,000,000 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.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the Relevant Period.

COMPETING INTEREST

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As confirmed by the Company's sponsor, N M Rothschild & Sons (Hong Kong) Limited (the "Sponsor"), as at 31 March 2002, neither the Sponsor nor its directors, employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to a sponsor's agreement dated 10 May 2001 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules, the Sponsor is entitled to receive fees for acting as the Company's retained sponsor for the period from 10 May 2001 to 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee on 28 March 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

By order of the board
Xiniao Gas Holdings Limited
Wang Yusuo
Chairman

Hong Kong, 9 May 2002