

Turnover Doubles to RMB335 Million for the First Half of 2003
Profit Attributable To Shareholders Increases 61.9% to RMB65.51 Million

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Four Gas Projects Secured in Jiangsu and Zhejiang Provinces
Total Connectable Population Reaches 17 Million

(Hong Kong, 22 Sep 2003)- Xinao Gas Holdings Limited (“Xinao Gas” or “the Group”) (Stock code: 2688), a privately-owned piped gas distributor in the PRC, announced its interim results for the six months ended 30 June 2003. During the period, turnover recorded a strong growth and doubled to approximately RMB335 million as compared to the corresponding period last year. Profit attributable to shareholders surged to approximately RMB65.51 million, representing an increase of 61.9% as compared to the corresponding period last year. Earnings per share increased by 50.8% to RMB8.9 cents. The Board of Directors does not recommend the distribution of an interim dividend.

During the period, the Group’s connection fees and natural gas sales were approximately RMB190.8 million and RMB69.1 million respectively. The ratio of connection fees to turnover dropped from 59% of the corresponding period last year to 57.0%, while the share of the sales of natural gas rose from 17.3% to 20.6%. The sales of LPG were approximately RMB71.37 million, accounted for 21.3% of the total turnover.

In the first half of the year, Xinao Gas constructed additional 500 kilometers of intermediate and main pipelines, resulting in a network with 1,291 kilometers of existing intermediate and main pipelines and 28 natural gas processing stations. During the period, the Group connected 68,821 new residential households and 105 commercial/industrial customers (with a designed daily capacity of 128,218 m³), leading to a total customer base of 279,671 residential households and 607 commercial/industrial customers (with a total designed daily capacity of 493,332m³). In terms of gas distribution, the volume of gas sold to residential households and commercial/industrial customers were 13.6 million m³ and 31.7 million m³ respectively. Gas sold to commercial/industrial customers accounted for 70% of the total gas sales and continued to be the major revenue of the Group’s gas sales. During the period, the Group sold 22,430 tons LPG.

In respect of the new project development, Xinao Gas succeeded in expanding into Guangdong and Hunan Provinces and obtained 7 new projects, including Dongguan, Xiangtan, Chaohu, Wujin, Wenzhou, Jinhua and Lanxi. As at the end of June 2003, the connectable population covered by the Group surged 1.5 times to approximately 14.6 million (4.9 million households) from 9.5 million (3.2 million households) as at the end of 2002.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “I am delighted to see the Group’s business continue to grow rapidly and achieve such desirable earnings performance. The number of new projects increased rapidly during the first half of the year, and basically we have achieved our planned targets for the year. This highlighted the extensive potential of the piped city gas markets in PRC and also illustrated the Group’s high capabilities in obtaining new projects.”

At the same time, the Group announced that it successfully obtained the exclusive rights for piped gas operation in Lianyungang City in Jiangsu Province, Binhaiyuan District

of Wenzhou Economic and Technical Development Zone, Jinhua Economic and Technical Development Zone and Lanxi City in Zhejiang Province. The total number of operational locations of the Group increased to 37 and the connectable population coverage reached 17 million.

Xinao Jiangsu Investment Limited (“Jiangsu BVI”), a wholly-owned subsidiary of Xinao Gas, has signed a joint venture contract with Lianyungang City Construction Investment Company Limited (“Lianyungang Construction”) to establish Lianyungang Xinao Gas Company Limited (“Lianyungang Xinao”), a joint venture company, to operate piped gas business in the city with exclusive right of 50 years. The registered capital of Lianyungang Xinao is RMB49.5 million (approximately HKD46.7 million), and Jiangsu BVI holds a 70% interest in Lianyungang Xinao while Lianyungang Construction holds the remaining 30% interest.

Lianyungang City is located in the northeastern part of Jiangsu Province, covering a total area of 5,409 km². Its total population is 4.65 million, of which 630,000 are urban population. It is regarded as the oriental bridgehead of the Euroasia Transcontinental Bridge. The Bridge starts from Lianyungang, the PRC in the east and ends at Rotterdam, The Netherlands in the west, passing 7 countries and having a sphere of influence covering more than 30 countries and regions. Since the commencement of the Bridge in 1992, Lianyungang has accounted for more than 90% of the international transit containers.

The port in Lianyungang is a great advantage of the city, as there can be large scale seaside industries, especially the construction of large port electricity stations, steelworks, chemical industrial bases as well as industries like transport machinery, ship building and repair and agricultural by-product processing. In 2002, the handling capacity of the port in Lianyungang reached 33.16 million tons and 205,000 containers. It has established shipping relations with about 1,000 ports in more than 150 countries and regions. It has become a major port for international trade. The economy of Lianyungang City has been growing steadily. In 2002, its GDP reached RMB35.03 billion, and the financial revenue reached RMB2.698 billion, increasing by 11.4% and 31.2% respectively.

Xinao Gas established two wholly owned subsidiaries in Zhejiang Province, Wenzhou Xinao Gas Company Limited (“Wenzhou Xinao”) and Jinhua Xinao Gas Company Limited (“Jinhua Xinao”), in Wenzhou city and Jinhua City respectively.

Xinao Huludao Investment Limited (“Huludao BVI”), a wholly-owned subsidiary of Xinao Gas established Wenzhou Xinao, with registered capital of USD3.10 million (approximately HKD24.18 million), to operate piped gas business in Binhaiyuan District, Wenzhou Economic and Technical Development Zone with exclusive right of 30 years. The construction of Binhaiyuan District started from September 2001. It aims at drawing in capital-oriented or technology-oriented industries, such as textiles and clothing, mechanical electronics, materials, fine chemicals, biopharmaceutics and environmental protection. 19 enterprises in Binhaiyuan District have commenced production or trial production. It is expected that the industrial output of Binhaiyuan District will break through RMB2 billion.

Xinao Liaocheng Investment Limited (“Liaocheng BVI”), a wholly-owned subsidiary of Xinao Gas, established Jinhua Xinao, with registered capital of USD5 million (approximately HKD39 million), to operate piped gas business in Jinhua Economic and Technical Development Zone with exclusive right of 30 years. Jinhua Economic and Technical Development Zone was set up in 1992, with a planned total area of 72.8 km² and

a population of approximately 145,000. In 2002, the GDP and total industrial output of the Development Zone were RMB183.8 million and RMB435 million respectively, increasing 15.6% and 26.2% as compared to the corresponding year respectively.

Xinao Zhejiang Investment Limited (“Zhejiang BVI”), a wholly-owned subsidiary of Xinao Gas, established a joint venture company, Lanxi Xinao Gas Company Limited (“Lanxi Xinao”), with Lanxi Dongsheng Energy Company Limited (“Lanxi Dongsheng”). Lanxi Xinao operates piped gas business in Lanxi City with exclusive right of 30 years. The registered capital of Lanxi Xinao is USD1.5 million (approximately HKD11.7 million); Zhejiang BVI holds its 80% interest and the remaining 20% interest is held by Lanxi Dongsheng.

Lanxi City is an important industrial city located in the mid-western part of Zhejiang Province. Its total area is 1,313 km², and total population is approximately 660,000, of which 165,000 are the urban population. Lanxi, being one of the cities with advanced industries in Zhejiang, has strong industrial strength. There are industries such as pharmaceuticals, building materials, metallurgy, machinery, chemicals, textiles, food, etc. In 2002, the GDP and the total industrial added value of the city is RMB803 million and RMB412 million respectively, representing increases of 11% and 12.8% respectively.

Mr. Wang concluded, “The Group will continue to actively explore new quality cities and maximise our share in the PRC natural gas downstream markets in the future. Meanwhile, we will concentrate resources to speed up the construction of the natural gas infrastructure, raising the gas penetration rate in existing projects and balancing the development of residential and commercial/industrial customers to assure long-term benefits of the Group. We expect the commencement of gas supplies along the “West to East Pipelines” in 2004 will greatly reduce the costs for natural gas, and this will further develop and strengthen the Group’s income base and bring higher returns to shareholders.”

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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 37 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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