

Turnover Surges 75.5% to RMB587.1 Million for the First Half of 2004
Profit Attributable To Shareholders Increases 34.0% to RMB87.8 Million

* * *

Four Gas Projects Secured in the Provinces of Henan, Zhejiang and Hebei
Total Connectable Population Reaches 22.4 Million

(Hong Kong, 14 Sep 2004)- XinAo Gas Holdings Limited (“XinAo Gas” or “the Group”) (stock code: 2688), a privately-owned piped gas operator in the PRC, announced its interim results for the six months ended 30 June 2004. During the period, turnover and profit attributable to shareholders increased to approximately RMB587.1 million and RMB87.8 million respectively, representing increases of 75.5% and 34.0% as compared to the corresponding period last year. Earnings per share increased by 19.1% to RMB10.6 cents. The Board of Directors did not recommend the distribution of an interim dividend.

During the period, the Group’s connection fees and piped gas sales reached RMB317.5 million and RMB194.8 million respectively, representing increases of 66.4% and 1.8 times over the corresponding period last year. The ratio of connection fees to turnover dropped from 57.0% to 54.1%, while the share of the sales of piped gas rose drastically from 20.6% to 33.2%. The change in the ratios of connection fees and piped gas sales illustrates that the Group’s revenue structure has been further improved. The sales of bottled LPG were approximately RMB65.1 million, with the ratio to turnover decreasing from 21.3% to 11.1%.

Mr. Wang Yusuo, Chairman of XinAo Gas, said, “I am delighted that the Group’s business continued to grow rapidly and achieved such desirable earnings performance. In the first half of 2004, the PRC government implemented macro-economic measures, which affected the property industry, but its impact on the Group’s number of new connections made was trivial, as most of the Group’s projects are medium-sized cities with real estates being economical residential housing, and the Group’s operation strategy was to develop the whole cities and made connections to not just new buildings but also existing buildings and commercial/industrial customers. At the same time, we applied effective marketing strategies, so that the Group fulfilled its goal on the number of connections made.”

In the first half of 2004, XinAo Gas constructed 732 kilometers of intermediate and main pipelines, and hence had a network with 2,690 kilometers of existing pipelines and 46 natural gas processing stations. During the period, the Group connected 104,142 new residential households and 304 commercial/industrial customers (with a total designed daily capacity of 187,405 m³), leading to a total customer base of 566,041 residential households and 1,275 commercial/industrial customers (with a total designed daily capacity of 810,658 m³). The piped natural gas penetration rate for residential households was 8.3%.

In terms of gas sales, the volume of gas sold to residential households and commercial/industrial customers were 56.8 million m³ and 60.0 million m³ respectively. Gas sold to commercial/industrial customers accounted for 51.4% of the total gas sales volume. The strong increase in piped gas sales came from constant acquisitions of quality new projects and successful marketing in existing projects. Besides, the large sales volume of piped coal gas in Changsha Project obtained last year also contributed to the high growth in gas sales. During the period, the Group sold 19,522 tons of bottled LPG, decreasing 13.0% when comparing to the corresponding period last year. XinAo Gas’ focus is on the sale of natural gas, and coal gas and

LPG are just transitional gas sources for some projects, which had such businesses when we acquired them.

In the first half of 2004, the Group launched compressed natural gas (CNG) vehicle refueling station business in massive scale and started the construction of refueling stations in Shijiazhuang, Hebei Province, Liaocheng, Shandong Province, Xinxiang, Henan Province and Bengbu, Anhui Province. Developing refueling gas stations in the Group's existing gas projects not only takes full advantage of the exclusive rights and gas source, but also increases the economies of scale of these projects. The Group expects that the refueling gas station business will become one of the major components of its total sales of natural gas.

In terms of business operation, Xinao Gas was dedicated to cost control during the first half of the year. By adopting new project management procedures and central purchase procedures, the Group increases the quality of the construction work with lower construction cost and material cost. Besides, the Group has introduced the inventory management software to have effective control of inventory. Early this year, the Group introduced the regional supervisory system to increase the Group's operation efficiency and have effective risk management, and hence enhances the internal control of the Group.

In terms of collaboration with others, in the first half of the year, the Group successfully brought in International Finance Corporation, the private sector arm of the World Bank Group, as our long term strategic shareholder, and the project companies obtained loans for a total of US\$25 million (approximately RMB207 million) from it. The cooperation with International Finance Corporation illustrates the Group's ability, positive prospects and its importance and contribution in the environmental industry. In addition, the Group signed MOUs with CNOOC Nanhai Western Corporation and China Huayou (Group) Corporation respectively for strategic cooperation in exploring downstream markets.

In the first half of 2004, Xinao Gas successfully expanded into Guangxi and Inner Mongolia and completed the market research on part of Northeast China, Northern China and the Southwest Regions. At the same time, the Group announced that it successfully obtained the gas projects in Shangqiu City, Henan Province, Huzhou City and Longwan District in Wenzhou City, Zhejiang Province and Luquan City, Hebei Province. The total number of operational locations of the Group increased to 48 and the connectable urban population coverage reached 22.4 million.

After Xinxiang and Kaifeng, Shangqiu is the third project the Group obtained in Henan Province, and it has rich natural gas resources. Shangqiu is at the eastern part of Henan, and it has a total area of 10,704 km² and a total population of 8.1 million. Its urban area is 83 km², with 780,000 residents. Shangqiu is an important distribution center and regional commercial center; it is also a main coal base and a newly-developed industrial city. The Yongxia Coalfield east of the city is a major quality coalfield in the PRC; it covers an area of 1000 km² and its reserves reach 10 billion tons. The GDP of Shangqiu for 2003 was RMB33.4 billion.

Huzhou, located at the northern part of Zhejiang Province, is near Shanghai in the east and close to Hangzhou in the south. It is an important city opened to the outside world in the Changjiang Delta region as well as a downstream market of the West-to-East Pipelines. It has a total area of 5,817 km² and a total population of 2,550,000, of which 300,000 are urban population. Its major industries are textiles, mechanics and electronics, building materials, chemicals and biopharmaceutics. In 2003, its total realized output value was RMB48.9 billion.

Longwan is one of the three major districts in Wenzhou, Zhejiang. It is only 6 km away from Binhaiyuan District, another project of the Group, and the securing of the Longwan project allows the Group to have more effective project planning and management. Longwan District covers an area of 279 km² with a total population of 480,000, of which 300,000 are urban population. Longwan District is an important center for industrial development, port transportation and tourism of Wenzhou. With the shift of the center of Wenzhou, the development of Longwan District will be even more prosperous. Its GDP in 2001 reached RMB9.8 billion.

Luquan, located at the central-southern part of Hebei Province, is 15 km east of Shijiazhuang, another project of Xinao Gas and the provincial capital of Hebei. As it has rich natural gas resources, the securing of this project has great strategic significance for the Group's gas market development in Hebei. It covers 603 km², and its total population is 360,000, of which 100,000 are urban population. Luquan has four main industries, namely, building materials, metallurgical machinery, food and pharmaceuticals. The building materials industry produces over 6 million tons of cements per year, accounting for about 15% of the total cement output in Hebei. In 2003, the total GDP of Luquan was RMB9.3 billion.

Mr. Wang stated, "Together with the projects in Guilin (Guangxi), Tongliao (Inner Mongolia) and Zhanjiang (Guangdong), the Group has obtained seven new gas projects since this year, and it reflects our high competence in securing new projects. We will keep up with our good performance. With the Group's rich operation experiences, sound safety track records and stable and sensible development strategies, we will devote ourselves to obtaining more quality new projects and searching for suitable acquisitions to seize a larger share in the downstream natural gas markets in the PRC."

Mr. Wang concluded, "With the main pipelines of the West-to East Pipelines Project being completed, its branch pipelines will also be finished soon, and Zhong-Wu Line will commence gas supply next year as well. Therefore, gas supply will increase tremendously and cover more cities in the PRC. With the government's strong support on using natural gas and the Group's abilities in obtaining quality projects in medium-large cities, we believe that the business of the Group is still in the high growth stage. We will continue to exert ourselves and bring good returns to shareholders by outstanding performance."

- End -

Information on New Projects:

	Project	Huzhou	Longwan District, Wenzhou
City Information	Province	Zhejiang	Zhejiang
	Urban Population	300,000	300,000
Project Company Information	Project Company	Huzhou Xinao Gas Company Limited	Wenzhou Xinao Longwan Gas Company Limited
	Shareholder	Xinao Zhejiang Investment Limited: 50%	Xinao Zhejiang Investment: 100%
		Huzhou City Construction Development Corporation: 50%	
	Registered Capital	US\$9,100,000	US\$6,000,000
	Total Investment	US\$21,000,000	US\$32,000,000
	Business	City piped gas	City piped gas
	Operation Period	30 years	30 years
	Gas Supply Commencement	End of 2004	End of 2004

	Project	Shangqiu	Shangqiu (Engineering)	Luquan
City Information	Province	Henan		Hebei
	Urban Population	780,000		100,000
Project Company Information	Project Company	Shangqiu Xinao Gas Company Limited Shangqiu Xinao Gas Engineering Company Limited		Luquan Fuxin Gas Company Limited
	Shareholder	Xinao (China) Gas Investment Company Limited: 100%		Xinao (China) Gas Investment Company Limited: 49%
				Fudi Gas (Hebei) Company Limited: 51%
	Registered Capital	US\$7,000,000	US\$3,000,000	US\$1,610,000
	Total Investment	US\$12,000,000	US\$4,200,000	US\$2,300,000
	Business	Sale of city piped gas	Connection of city piped gas	City piped gas
	Operation Period	30 years		30 years
	Gas Supply Commencement	Gas supply commenced		End of 2004

Xinao Gas Holdings Limited

Xinao Gas is one of the first privately-owned piped gas operators 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 48 project cities in 12 provinces (including 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 22.4 million.

For Press Enquiry:

Ms. Elaine Lam

Tel: (852) 2528 5666

Fax: (852) 2865 7204

Email: h.lam@xinaogas.com

Website: www.xinaogas.com