

[For Immediate Release]

**XINAO GAS RECORDS SIGNIFICANT TURNOVER GROWTH
OF 70% FOR FIRST HALF OF 2002
REACHES RMB167.2 MILLION
PROFIT ATTRIBUTABLE TO SHAREHOLDERS INCREASES 44%
TO RMB40.5 MILLION
* * *
OBTAINS EXCLUSIVE OPERATION RIGHTS FOR GAS PROJECT
IN XINXIANG, HENAN PROVINCE
TOTAL POPULATION COVERAGE REACHES BREAKTHROUGH AT
OVER 6.5 MILLION**

(Hong Kong, 29 August 2002) – The privately-owned PRC piped gas distributor, Xinao Gas Holdings Limited (“Xinao Gas” or the “Group”) (stock code: 2688) today announced its interim results for the six months ended 30 June 2002. During the period, turnover recorded strong growth of around 70% to approximately RMB167.2 million as compared to the corresponding period last year. Profit attributable to shareholders increased by 44% against the previous corresponding period to approximately RMB 40.5 million.

During the period, gross profit increased by about 47% to approximately RMB86.6 million. Operating profit reached approximately RMB58.9 million. If the listing expenses for the introduction of the Company to the Main Board are not taken into account, profit attributable to shareholders would have been approximately RMB45.9 million, representing a surge of 64%. Calculating profit on this basis, earnings per share would have been RMB6.69 cents, a growth of 14% over the same period last year. The board of Directors do not recommend the distribution of an interim dividend.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “I am delighted to see the Group’s business continue to grow so rapidly, achieving such desirable profit levels. The Group performed well with new project developments during the first half of the year. Basically we have achieved our planned targets for the year, helping to establish solid foundations for the future growth of the Group.”

In the period under review, the Group derived income from gas connection and gas usage charges, amounting to approximately RMB98.6 million and RMB68.1 million respectively. Gas connection fees dropped to 59% from 78% last year in terms of total turnover, while the share for gas usage charges rose from 22% to 41%.

At the same time, the Group announced that it has successfully obtained the exclusive rights to operate a piped gas business in Xinxiang, Henan Province, and has established a joint venture company - Xinxiang Xinao Gas Company Limited (“Xinxiang Xinao”) with Xinxiang City Gas Company (新鄉市燃氣總公司) to distribute piped natural gas to Xinxiang with operation rights for 30 years.

Mr. Wang commented, “Xinxiang is Xinao’s first project in Henan Province. It is the second largest project for the Group, following Bengbu in Anhui Province. Natural gas from the “West to East Pipelines” will be Xinxiang project’s gas source. As at the end of 2000, the urban population for Xinxiang consisted of around 750,000 people. Xinao Gas’s total population coverage for its projects has now reached over 6.5 million since it obtained this new project.”

Xinxiang Xinao is a Sino-Foreign Joint Venture established by Xinxiang City Gas Company and Xinao Henan Investment Limited, a wholly owned subsidiary of Xinao Gas. The registered capital is USD10 million (approximately HK\$78 million). Xinao Henan Investment Limited holds 95% of the ownership while the balance of 5% is held by Xinxiang City Gas Company. The total investment for the Xinxiang project was USD30 million (approximately HK\$234 million). The planned installed and designed annual capacity is up to 100 million cubic meters. The Xinxiang Xinao is expected to start supplying gas to Xinxiang City by the end of this year.”

Mr. Wang continued, “The Group’s business has developed rapidly since the beginning of the year. Contracted cities have increased from 16 at the end of 2001 to our current 24, with total population coverage growing drastically from 3.4 million to over 6.5 million, soaring around 90%. Currently, Xinao Gas has achieved most of its targets for the year, both highlighting the extensive potential of the PRC’s piped city gas market, and illustrating the Group’s high capabilities in obtaining new projects.”

Xinxiang City is administered by Henan Province. As at the end of 2000, the total city population reached 5.4 million while the urban population is 754,000. The planned urban population for 2010 is 1,000,000.

Mr. Wang continued, “With the Xinxiang project in Henan Province, the Group’s operation locations extends to 8 provinces and municipal including Liaoning Province, Beijing Municipality, Hebei, Shandong, Anhui, Jiangsu, Zhejiang and Henan provinces. Xinxiang City is located in the northern part of Henan Province which is a crucial downstream market in the “West to East Pipelines” project. The Northern Henan route for the “West to East Pipelines” will be passing through Xinxiang and its gas sources are expected to be connected by 2005. Before that LPG from Zhongyuan Oil Field (中原油田) will be used as its temporary gas source. Zhongyuan Oil Field is located in Henan Province, which is 125 kilometers away from Xinxiang City. It is operated by PetroChina.”

Based on market research conducted by Xinao Gas in over 40 cities in Henan, Shandong, Jiangsu, Anhui, Zhejiang, Shanghai and Hebei, the Group has identified 20 cities as the major business development areas for the year. During the period, the Group also actively developed cities along the “West to East Pipelines” market and other major cities. The Group has successfully obtained the exclusive distribution rights in 8 additional gas projects, in Yancheng, Huian and Haian in Jiangsu Province, Chuzhou and Luan in Anhui Province, Anji in Zhejiang Province, Rizhao in Shandong Province and Xinxiang in Henan Province. All these new projects are expected to commence gas supplies before the end of 2002.

The Group has also successfully obtained the rights to construct a compressed natural gas station in Yancheng. The gas station is expected to commence operations in October 2002. As the gas field in Yancheng is the only source of natural gas in Jiangsu Province, the construction of the Yancheng Xinao CNG Station is of strategic importance to the Group’s development in the Jiangsu natural gas market.

In the first half of 2002, Xinao Gas made gas connection to 22,878 new household users and 67 commercial and industrial sites, leading to a total customer base of 130,879 households and 422 commercial and industrial sites. The total installed designed daily gas capacity also increased to 323,638 cubic meters. In terms of gas distribution, Xinao Gas sold approximately 5.64 million cubic meters of natural gas to residential customers, and 13.53 million cubic meters of natural gas and 16,682 tonnes of LPG to commercial and industrial customers.

During the period, Xinao Gas constructed an additional 94 kilometers of intermediate and main pipelines, resulting in a total network of 558 kilometers of intermediate and main pipelines and 14 natural gas processing stations. In the second half of the year, the Group is commencing the construction of gas processing stations in 12 cities including Miyun in Beijing Municipality, Xinxiang in Henan Province, Laiyang and Rizhao in Shandong Province, Chuzhou in Anhui Province, Yancheng and Taixing in Jiangsu Province. The gas stations are expected to be in operation by the end of the year.

Liaocheng Xinao and Huludou Xinao obtained ISO9000 quality accreditation during the period, illustrating the Group's comprehensive abilities in establishing quality and safe management systems. Meanwhile, the Group has perfected its call centre system at Langfang Xinao whilst also completing the construction of a call centre at Huludao Xinao, strengthening the customer management and service standards of the Group. Call centres in Bengbu and Liaocheng are also expected to be completed in the second half of the year.

Mr. Wang concluded, "In the future, the Group will continue to aggressively explore new quality project cities, maximizing our market share in the natural gas downstream market. Meanwhile, the Group will concentrate resources to speed up the construction of the natural gas infrastructure, improving the gas penetration rate in existing projects and, balancing the development of households and commercial and industrial customers to assure long-term benefits for the Group. Leveraging the strong foundations of our numerous gas projects, in addition to the commencement of gas supplies along the "West to East Pipelines" in 2004, the costs for natural gas will be greatly reduced, further strengthening the Group's income base and bringing desirable returns to investors."

About Xinao Gas Holdings Limited

Xinao Gas is mainly engaged in the investment in, and the operation and management of gas pipeline infrastructure, and the sale and distribution of piped gas. The Group's other business activities include the sale of gas appliances and equipment, the manufacture of stored value card gas meters, as well as the provision of repair and maintenance services. Currently, the Group operates businesses at 24 locations including Anhui Province, Beijing Municipality, Hebei Province, Henan Province, Jiangsu Province, Liaoning Province, Shandong Province and Zhejiang Province, with a total of 23 gas projects. (The Xincheng project is operated by Huludao Xinao)

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