

**Xinao Gas Announces 2005 Annual Results**  
**Turnover Surges 42.8% to RMB2.057 Billion, Net Profit Rises 20.9% to RMB303 Million**  
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**5 New Projects in Anhui, Fujian and Zhejiang Provinces**  
**Further Strengthen the East China Markets**

(Hong Kong, 21 April 2006) – Xinao Gas Holdings Limited (“Xinao Gas” or “the Group”) (Stock code: 2688), a privately-owned piped gas operator in the PRC, announced its annual results for the year ended 31 December 2005. During the year, turnover surged 42.8% to RMB2.057 billion. Net profit increased to RMB303 million, representing an increase of 20.9% as compared to the previous year. Earnings per share increased by 15.2% to RMB34.1 cents. The Board of Directors of Xinao Gas has resolved to recommend the payment of a final dividend HK\$4.81 cents per share.

During the period, the Group’s connection fees and piped gas sales reached RMB1,033 billion and RMB768 million respectively, representing increases of 25.6% and 78.6% over the previous year. The ratio of connection fees to turnover further dropped from 57.1% to 50.2%, while the ratio of piped gas sales rose drastically from 29.8% to 37.3%. 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 RMB191 million, with the ratio to turnover decreasing from 10.4% to 9.3%.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “We are delighted that the Group’s business maintains its strong growth. During the year, the international oil prices continued to increase, which promoted the use and demand for oil substitutes, such as natural gas and dimethyl ether (“DME”). In addition, the PRC government has established a new pricing mechanism for natural gas, which can accelerate market liberalisation and lay a better foundation for the continuous development of the gas operators.”

According to the new policy on reforming natural gas wellhead price mechanism issued at the end of last year, the PRC Government adjusts the price of natural gas to make better use of natural gas, and at the same time it requests the local governments to allow gas distributors to make reasonable adjustment on gas tariffs and ensure the safe and stable supply of natural gas. Consequently, apart from reinforcing its communication with upstream suppliers like PetroChina to ensure gas supply, the Group has also made applications to local governments for gas tariff adjustments. As at today, the Group has successfully adjusted the gas tariffs for 2 projects in Jiangsu Province: gas tariffs for residential and commercial/industrial (“C/I”) users in Gaoyou have been increased from RMB2.80 per cubic meters to RMB3.00 and RMB3.20 respectively; gas tariffs for residential and C/I users in Xinghua have been increased from RMB2.60 and RMB2.80 per cubic meters to RMB2.95 and RMB3.15 respectively.

In 2005, the Group secured seven new piped gas projects, more than the Group’s target of securing four to six new projects set at the beginning the year. The Group’s number of projects increased from 52 last year to 59 this year. The connectable population grew by 11.2 % to 32,387,000 (approximately 10,796,000 households) by the end of 2005 from 29,128,000 (approximately 9,709,000 households) in the previous year. This makes the Group one of the largest professional city gas operators in the PRC in terms of connectable population coverage. At the same time, the Group has taken active measures to develop CNG stations business in its existing projects. The Group has in total obtained approval from governments to build 60 CNG stations by the end of 2005, of which 10 have been completed and are in operation.

During the year, Xinao Gas constructed 2,397 km intermediate and main pipelines. The Group had a total of 7,268 km intermediate and main pipelines and 64 processing stations as at the end of 2005. During the year, the Group made connection for 334,637 piped natural gas residential households and 1,140 piped natural gas C/I customers (connected to gas appliances of a total installed designed daily capacity of 1,045,466 cubic meters). The increases in residential households and the installed designed daily capacity for C/I customers are 32.1% and 99.0% respectively when compared to the previous year. Accumulated natural gas connected household and C/I users has reached 1,793,216 and 4,041 (connected to gas appliances of a total installed designed daily capacity of 2,495,479 cubic meters). The Group's gas penetration rate has also increased significantly from 10.0% in 2004 to 16.6%.

During the year, the Group and the joint venture partner in Shijiazhuang, the capital of Hebei Province, made further investment in the project and acquired about 270,000 residential households using coal gas into Shijiazhuang Xinao Gas Company Limited, the Group's subsidiary. The Group will convert those coal gas users into piped natural gas users gradually. Apart from contributing to environmental protection, it can also increase the Group's gas sales in the long run.

In terms of piped gas sales, the piped gas sold reached 472 million cubic meters, increased drastically by 90.4% over the previous year. Piped natural gas sales volume was 322 million cubic meters, making up 68.2% of total volume of gas sales. The Group sold 199 million cubic meters and 273 million cubic meters piped gas to residential households and C/I customers respectively, representing increases of 89.2% and 91.2% respectively over the previous year. The sales volume of gas to C/I customers made up 57.8% of the total volume of gas sales. With the Group's adjustment of business strategy, the Group will boost the penetration rates in the coming years, and it is expected that the Group will continue to have considerable growth in gas sales in the coming years.

In respect of gas source, the construction of the LNG project in Weizhou Island, Beihai, Guangxi was completed in 2005, and is now producing qualified products for supplying to the Group's projects in Guangdong and Guangxi. It is the fourth LNG plant in the PRC in production. This can further secure the gas source and reduce the purchase cost of gas.

In 2006, the Group will establish a joint venture for coal conversion business to convert coal into DME, so as to further ensure gas sources, reduce purchase cost of gas and support the Group's policy of boosting penetration rates. DME is also a clean fuel and can directly substitute natural gas and LPG without any alternation to the existing piped gas facilities. It is expected that the coal conversion project will commence production in 2009. In addition, the Group completed the construction of a production line with an annual production capacity of 10,000 tons of DME in Bengbu City, Anhui Province, and it commenced production by the end of the year. Besides, the Group has started the research on the technology for replacing natural gas and LPG by DME.

On the other hand, to further enhance management quality, the Group has engaged IBM Global Services (China) Company Limited ("IBM") as consultant to launch a consultation project on process streamlining and information system management. The Group will carry out informatisation and processing streamline in full swing, which will enable the Group to have quicker response to customers, enhance service standards, facilitate the management to access timely and accurate information for business decision and development, and strengthen management capabilities.

During the year, the Group issued 7-year bonds in the aggregate principle amount of

US\$200 million (equivalent to RMB1,614 million). The Group captured the chance of record-low interest rate in the USA to finance business expansion, and further enlarged the investor base. Apart from the US\$200 million bonds that bring the Group adequate funds for development, the Group may also enjoy the benefits of the continuous appreciation of Renminbi. The Group on the whole obtains foreign funding for the investment in the PRC gas projects. As the Group's profit is in Renminbi, it will be converted into foreign currencies for future repayment of the loans (including the US\$200 million bonds). Therefore, it will indirectly lower the Group's capital costs.

Because of its excellent management, the Group continued to receive awards from prominent international financial magazines during the year: "Asia's Best Managed Companies (Medium Cap in China)" by *AsiaMoney*, from which the Company has gained awards for five consecutive years, "Chinese Business 500" by *Yazhou Zhoukan* for five consecutive years and "The Best Small Cap" by *FinanceAsia*. In addition, the Company's issue of US\$200 million of 7-year high yield bonds in August 2005 was highly regarded by the investment community: The bonds had a lowest-ever coupon rate among the Chinese high yield bonds and was awarded "Best Asian High Yield Bond Issue for 2005" by the renowned international financial magazine *EuroWeek*. These all showed that the market and the investors recognized and appreciated the Company's prospects and credibility.

On the other hand, Xinao Gas announces that the Group has secured 5 new city gas projects, namely, Xiaoshan District of Hangzhou City in Zhejiang Province, Fengyang County of Chuzhou City in Anhui Province, Nanan City, Hui'an City and Shishi City in Fujian Province. Those 3 projects in Fujian are new projects secured in 2006. At the moment, the Group operates piped gas business in 62 locations across 14 provinces, municipalities and autonomous regions, covering a connectable urban population of over 33 million.

Xinao Gas owns Hangzhou Xiaoshan Piped Natural Gas Development Company Limited ("Xiaoshan Gas") through its wholly-owned subsidiary Xinao (China) Gas Investment Company Limited ("Xinao (China)"), to operate city piped gas business in Xiaoshan District. The registered capital of Xiaoshan Gas is RMB10 million, while Xinao (China) holds 95% interest. Besides, the Group established the wholly-owned Fengyang Xinao Gas Company Limited ("Fengyang Xinao") through Xinao (China) to operate city piped gas business in Fengyang County. The registered capital of Fengyang Xinao is US\$2 million (approximately RMB16.1 million).

Xiaoshan, located at the south bank of Qiantang River, is regarded as the southern gate of Hangzhou City. Xiaoshan has a total area of 1,420 km<sup>2</sup>, with an urban population of 259,000. With favourable geographic location, Xiaoshan has a large and modern airport, Hangzhou Xiaoshan International Airport, which had a passenger turnover of 3.2 million in 2004. The GDP of Xiaoshan in 2004 reached RMB 50.0 billion, and is approximately 20% of the GDP of Hangzhou. Fengyang County of Chuzhou City is located in the northeastern part of Anhui Province. The county is only 8 km away from the Group's pipeline network in Bengbu project. Fengyang has a total population of 790,000, of which 110,000 are urban population. Its major industry is glass making.

Furthermore, the Group secured 3 new projects in Fujian Province. Nanan City Gas Company Limited ("Nanan Gas") is a joint venture set up by the Group's subsidiary Quanzhou City Gas Company Limited ("Quanzhou Gas") and Nanan City Commercial, Industrial and Agricultural Investment and Operation Company Limited. Nanan Gas will operate city piped gas business in Nanan, and its registered capital is RMB30 million. Quanzhou Gas holds 70% interest of Nanan Gas. In addition, Quanzhou Gas has set up wholly-owned subsidiaries Shishi

Xinao Gas Company Limited (“Shishi Xinao”) and Huian County Gas Company Limited (“Huian Gas”). These two project companies will operate city piped gas business in Shishi and Huian respectively. Shishi Xinao and Huian Gas’s registered capital are RMB10 million and RMB20 million respectively.

Nanan City is located at the southeast coast of Fujian, with a total area of 2,036 km<sup>2</sup> and an urban population of 383,000. It is the largest stone material processing and sales center in the PRC and the second largest pottery production center in Fujian Province. Its GDP was RMB 21.0 billion in 2004. Shishi is located between Quanzhou, the Group’s existing gas project, and Xiamen Special Economic Zone. Its total area is 160 km<sup>2</sup>, and the urban population is 102,000. Shishi is a large production and trading center for textiles and clothing in the PRC. Its GDP in 2004 was RMB14.3 billion. Huian has a total area of 668 km<sup>2</sup> and an urban population of 141,000. The city’s main industries are stone material and stone crafting, water products, construction, food and beverage, etc. .

Mr. Wang concluded, “According to the 11th Five-Year Plan, the PRC government will strengthen the development of basic industries and infrastructures, emphasise both oil and gas, reinforce the exploration and exploitation of oil and gas, extend the cooperation with other countries, increase strategic oil reserve capacity and develop oil substitutes steadily. Meanwhile, the Group has also prepared itself for long term development. The Group has made strategic adjustments on its development plans. Instead of high speed expansion in new markets, we shift our emphasis to boosting gas penetration rates in our existing projects and developing compressed natural gas (CNG) vehicle refueling stations, which can increase the long term natural gas sales. With more comprehensive pipeline network and infrastructure facilities in the Group’s project cities and further increase in the natural gas penetration rates, the Group will continue with its growth. We will endeavour to deliver outstanding results to reward our shareholders.”

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### **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 62 project cities in 14 provinces, municipalities and autonomous regions, namely Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Jiangsu, Liaoning, Shaanxi, Shandong and Zhejiang, covering a total connectable urban population of over 33 million.

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