

Turnover Surges 65.1% to RMB 3,396.5 Million for 2006
Profit Attributable To Shareholders Increases 40.3% to RMB 379.6 Million

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(Hong Kong, 20 April 2007) - 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 2006 (“the Year”). During the Year, turnover and profit attributable to shareholders increased to approximately RMB 3,396,536,000 and RMB 379,617,000 respectively, representing increases of 65.1% and 40.3% respectively as compared to the corresponding period last year (restated). Earnings per share increased by 32.8% to RMB 40.5 cents. The Board of Directors has resolved to recommend the payment of a final dividend HK\$7.75 cents per share.

During the Year, the Group made natural gas connections for 451,072 residential households and 1,493 commercial and industrial (“C/I”) customers (connected to gas appliances of a total installed designed daily capacity of 1,481,611 cubic meters), The number of new connection is 34.8% and 41.7% more over the new connections in last year. In 2006, the Group’s total sales volume of piped gas was 1,327,745,000 cubic meters, 1.82 times more than last year. The ratio of gas sales volume to C/I customers is 77.4%, and the rest of them is the sales to residential customers. During the Year, following the Group’s strategic adjustments, one of the Group’s main focuses for 2006 and the coming few years is to boost gas penetration rate of existing projects continuously. As of 31 December 2006, the Group’s gas penetration rate was 18.9% . Excluding the effect of connectable urban population growth in acquisition and existing projects, the penetration rate would be 22.7%, which is obviously much higher than 16.6% in 2005. This has proven the Group’s ability to boost up penetration rate after securing the gas projects. During the Year, the Group’s connection fees and piped gas sales reached RMB1,354.9 million and RMB 1,623.5 million respectively, representing increases of 31.1% and 1.1 times over the last year. The ratio of connection fees to turnover further dropped from 50.2% to 39.9%, while the ratio of piped gas sales rose drastically from 37.3% to 47.8%. With the rapid growth in the number of connected residential households and C/I customers in the piped gas projects as well as the vehicle gas refuelling stations (“refuelling station”), the Group’s natural gas sales volume have shown apparent upward trend. Sales of piped gas has taken over one-off connection fee to become the Group’s largest revenue.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “I am delighted that the Group’s business has once again proven its strong potential through healthy growth and such desirable

earnings performance. The use of clean energy and development of natural gas industry is an essential trend under the continuous economic development and energy structural adjustment in the People's Republic of China (the "PRC"). Whilst the demand of energy grows with time in association with the continuous rapid economic development in the PRC, natural gas industry in the PRC has already come into its rapid development phase. With the rapid development of the Group in the past few years, The Group has established its pioneering role and market position in the PRC gas industry. the Group's strategic adjustment is supported by concrete fundamentals, which facilitate the Group's continuous business development in the long run."

During the Year, the Group secured five new gas projects, which were located in Nanan City, Huian City, Shishi City and Jinjiang City in Fujian Province and Laian County in Anhui Province. As of the end of 2006, there were 64 city piped gas projects, and the connectable urban population increased by 20.6% against last year to 39,073,000 when compared with the previous year. This further strengthens the Group's long term revenue source and fortifies the Group's leading role in the industry.

Reaping from the advantage of possessing resources, the Group has instigated to develop compressed natural gas vehicle refuelling station business from 2002. The Group has successfully acquired Shanghai Jiuquan Automobile Liquid Gas Development Joint-Stock Limited Company and Shanghai Jiuquan Automobile Natural Gas Development Company Limited. These two companies own 32 refuelling stations in aggregate, comprising about half of the refuelling stations and the vehicle gas sales volume in Shanghai. The successful acquisition of these companies has not only increased the number of refuelling stations immensely, but also led the Group's way into the Shanghai market, providing a foundation for the crystallisation of strategic target in future. The Group has obtained government approvals to construct 212 refuelling stations in total. There are 57 refuelling stations constructed/acquired and come into operation and represented 47 refuelling stations more than the end of last year. It is expected that refuelling station business is one of the Group's business focuses in this year and the future, and it is expected that the revenue from refuelling station business would become one of the Group's major profit sources in the long run.

With a view to broadening energy purchasing channel and to crystallizing the Group's strategic targets of energy distribution, the Group has been actively seeking international purchase of clean energy. The Group has established Xinao Energy Sales Company Limited during the year and obtained the import and export right of natural gas, LPG, methanol,

dimethyl ether (“DME”) and various kinds of gas materials, making the Group the fourth company having the import/export right of natural gas after the PRC’s three oil and gas giants. It turns a new leaf for the Group’s future international energy trading business and strengthens the gas source security for the Group’s gas projects.

During the Year, the Group has invested in the coal chemical project in Erdo, Inner Mongolia and utilises the rich coal resources for DME production. Being a kind of gas fuels, DME is regarded as another clean energy apart from natural gas, which can be used as direct substitute for natural gas and LPG. The project of DME has received great support and encouragement from the PRC government. In the meantime, the early-stage construction work for this project is well in progress. It is expected that phase one of this project will come into operation in 2009 with an annual production capacity of 400,000 tons of DME. At the same time, the liquefied natural gas (“LNG”) processing factory located in Weizhou Island, Beihai, Guangxi province invested by the Group has come into production in 2006. This factory is the fourth LNG processing factory in PRC. The factory has started to provide natural gas to the Group’s projects in Guangdong province and Guangxi province in light of providing additional natural gas source to these projects and lowering the purchasing cost.

With a view to drawing on the best practical management experience of the corporations in the industry worldwide, so as to bring the Group’s management quality in line with the state-of-the-art corporations in this field, the Group has joined force with IBM Global Services (China) Company Limited (“IBM”) in 2006 to launch a consultation project on process streamlining and information system management. In June 2006, the total IT solutions project was commenced officially. Four subsidiaries were selected as the trial run units. The Group was the first enterprise with parallel implementation of the enterprise management software SAP solution for utilities, oil and natural gas industry solution and enterprise resource planning. The total IT solutions project was put into practice on 8 January 2007 as scheduled. As of the end of 2006, the Group has gas projects across 14 provinces, municipalities and autonomous regions in the People’s Republic of China (“PRC”). Therefore, the Group has established eight regional management centers to facilitate management of gas projects.

The Group’s management quality and high degree of transparency has gained recognition of investors and professional institutions. The Company was awarded “Chinese Business 500” by “Yazhou Zhoukan” again during the year, making it the sixth consecutive year the Company gained this award. The Company’s annual report 2005 was also awarded

“Honourable Mention, Best Annual Report Awards” by The Hong Kong Management Association, which revealed that the Company’s annual report has provided clear and accurate disclosure and has served the function of shareholder communication effectively. Apart from shareholders, the Group paid strong emphasis on customer relations. Quality customer service is the key for maintaining good and long term relations between the Company and customers and the bedrock for the Group’s sustainable business development. Succeeding from the recognition and credit obtained by 11 project companies of the Group from local customers as well as government authorities in the cities they operate last year, 12 project companies have obtained awards like “Units with High Consumer Satisfaction” and “Units Trusted by Consumers”, etc, from the local consumer councils during the year.

As there will be more natural gas sources in the future, the Group will continue to obtain some quality projects in large scale or projects that have strategic significance for the Group. Stepping into 2007, Xinao Gas announced that the Group has secured gas projects in Yinzhou District of Ningbo City in Zhejiang Province as a new project in this year. At the moment, the Group operates piped gas business in 65 locations across 14 provinces, municipalities and autonomous regions, covering a connectable urban population of over 39.3 million.

Xinao Gas owns 49% stakes interest of Ningbo Xinao Gas Company Limited (“Ningbo Xinao”) through its wholly-owned subsidiary Xinao (China) Gas Investment Company Limited (“Xinao (China)”), to operate city piped gas business in Ningbo District. The registered capital of Ningbo Xinao is RMB 5 million. The urban population of Yinzhou district is 234,000, and it is a city with good industrial development potential. Located at the east of coastal area in Zhejiang Province, the total area of Yinzhou is 1380.54m³. Its GDP was amounted to RMB34 billion in 2005. Its major economic indicators gained a high ranking among municipal and province. Its overall social economical general development status has ranked 12th in China, 3rd in Zhejiang province and 1st in Ningbo. The city’s main industries is manufacturing of machine, textile and electric instrument.

Mr. Wang concluded, “In future, the PRC government will actively invest in natural gas infrastructure construction, including 50,000 km natural gas pipeline. About 10 LNG import terminals will be built at the Bohai area, the Yangtze River Delta, and the Pearl River Delta, and the capacity of the LNG import facilities will reach 50 million tons. It is expected more rapid development on clean energy and a continuous rapid growth on natural gas, it is expected that the coal-based clean energy industry will usher in a new development area full of vitality. The Group has conducted a scientific and rational adjustment on its development

strategy timely in prudent manner. Instead of focusing on obtaining a large number of new gas projects, we shift our emphasis to boosting gas penetration rates in our existing projects, and exploring channels to provide bottled liquefied petroleum gas (“LPG”) and other clean energy alternatives to the sub-urban areas around the existing project areas, transforming the Company from a high growth company into a public utilities company gradually. The Group will make a correct assessment of the situation and seize the opportunities to contribute to environmental protection of the PRC and endeavour to maximise the benefits of shareholders, customers, employees, society and the corporation.”

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XinAo Gas Holdings Limited

XinAo Gas is one of the first privately-owned piped natural 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.

As of the end of December 2006, the Group currently has 65 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 39,305,000.

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Operational Data for 2006 annual result
(As of 31 December, 2006)

	2006	2005	+/- (%)
Business Development			
No. of projects	64	59	5
Connectable urban population	39,073,000	32,387,000	20.6%
Gas penetration rate (%)	18.9%	16.6%	2.3%
Turnover Analysis			
Connection fees (RMB)	1,354,892,000	1,033,260,000	31.1%
Sales of piped gas (RMB)	1,623,510,000	767,552,000	111.5%
Percentage of segment income in turnover(%)			
-Connection fee	39.9%	50.2%	n/a
-Sales of gas	47.8%	37.3%	n/a
-Sales of bottled LPG	8.3%	9.3%	n/a
-Sales of gas appliances	4%	3.1%	n/a
Gas infrastructure			
Total length of pipeline (km)	9,234	7,268	27.1%
Gas processing station	74	64	10
Capacity of gas processing station	13,563,000	8,786,000	54.4%
Gas vehicle refuelling station	57	10	47
Connection increased in the period			
- Households (household)	451,072	334,637	34.8%
- C/I (Sites)	1,493	1,140	353
- C/I (m ³)	1,481,611	1,045,466	47.1%
Accumulated piped gas connection			
- Households (household)	2,458,735	1,793,216	37.1%
- C/I (Sites)	6,290	4,041	2,249
- C/I (m ³)	5,023,652	2,495,479	101.3%
Sales of gas (m³)			
Sales of piped Gas	1,327,745,000	471,539,000	181.6%
-Residential	299,806,000	198,488,000	51%
-C&I	1,027,939,000	273,051,000	91.2%
Sales of LPG (tons)	58,136	45,179	28.7%