

**Turnover Surges 45.4% to RMB853.6 Million for the First Half of 2005**  
**Profit Attributable To Shareholders Increases 24.0% to RMB110.7 Million**

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(Hong Kong, 21 Sep 2005)- 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 2005. During the period, turnover and profit attributable to shareholders increased to approximately RMB853.6 million and RMB110.7 million respectively, representing increases of 45.4% and 24.0% respectively as compared to the corresponding period last year. Earnings per share increased by 16.7% to RMB12.6 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 RMB411.0 million and RMB333.2 million respectively, representing increases of 29.5% and 71.1% respectively over the corresponding period last year. The ratio of connection fees to turnover dropped from 54.1% to 48.1%, while the share of the sales of piped gas rose from 33.2% to 39.0%. 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 RMB91.6 million, with the ratio to turnover decreasing from 11.1% to 10.7%.

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. The long distance pipelines of the West-East Pipeline Project were completed last year. The project cities that have entered into take-or-pay contracts have significant increase in both the number of connections made to commercial/industrial (“C/I”) customers and the gas sales volume, and the gas costs have decreased further.”

In the first half of 2005, 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 were 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 C/I customers. At the same time, the Group applied effective marketing strategies, so that the Group fulfilled its goal on the number of connections made.

During the period, XinAo Gas constructed 1,710 kilometers of intermediate and main pipelines, and hence had a network with 6,581 kilometers of existing pipelines and 59 natural gas processing stations in total. During the period, the Group connected 123,799 new piped natural gas residential households and 516 piped natural gas C/I customers (with a total designed daily capacity of 438,739 m<sup>3</sup>), leading to a total piped natural gas customer base of 904,791 residential households and 2,553 C/I customers (with a total designed daily capacity of 1,662,800 m<sup>3</sup>). The piped natural gas penetration rate for residential households was 8.6%.

In terms of gas sales, the volume of piped gas sold to residential households and C/I customers were 96.5 million m<sup>3</sup> and 120.6 million m<sup>3</sup> respectively. Piped gas sold to C/I customers accounted for 55.6% of the total gas sales volume. The strong increase in piped gas sales came from constant acquisitions of quality new projects that had or would have access to piped natural gas sources and successful marketing in existing projects. During the period, the Group sold 22,799 tons of bottled LPG, increasing 16.8% 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. The increase in the sales of bottled LPG was because of the new acquisitions of

Zhanjiang and Guilin projects. However, the Group expects that the low-margined bottled LPG sales will be replaced by piped natural gas gradually. After the completion of the West-East Pipeline Project last year, the Zhong-Wu Pipeline, another long distance pipeline, also commenced gas supply in August this year. Changsha, Zhuzhou and Xiangtan in Hunan Province, the Group's three main piped coal gas projects, will also be replaced by piped natural gas gradually, which will further enhance the Group's piped gas sales revenue structure and margins.

During the period, the Group secured four new gas projects in Zhaoqing High New Development Zone in Guangdong Province, Yongkang and Huangyan District of Taizhou in Zhejiang Province, and Luoyang in Henan Province. The total connectable urban population also rose to 31,446,000 as at the end of June 2005, representing an increase of 53.5% from 20,488,000 as in June last year. The Group expects to obtain more quality gas projects in medium to large scale in the second half of the year.

The Group also started to construct CNG vehicle refuelling stations ("CNG station") in massive scale. This is a long term strategic target, as the large usage volume of the public transport vehicles will bring strong and steady gas sales revenue to the Group and strengthen our long term business. CNG station business has been in operation in gas projects in Langfang, Shijiazhuang and Xinxiang. Some CNG stations are under construction in our existing gas projects. Developing CNG stations in the Group's existing gas projects not only takes full advantage of the piped natural gas sources and exclusive rights, but also increases the economies of scale of these projects. The Group expects that the CNG station business will become one of the major components of its natural gas sales in the long term.

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US\$200 million (equivalent to RMB1,622 million) at the issue price of 100% with a 7.375% coupon rate. The net proceeds of the bonds will be used for business expansion, including construction of CNG stations and acquisition of new projects, and for general corporate purposes of the Group, including refinancing of existing debts. The Group's cash on hand was over RMB2,200 million, and we have sufficient cash for future business development.

The Group captured the chance of record-low interest rate in the USA to finance the business expansion. As the Group's acquisition strategy will focus on large sized cities, the 7 year term of the Bonds can match the payback period of the investment in large sized cities. With the rising US interest rate cycle, the costs of financing with floating rates are getting higher and higher. Therefore, the Group believed that fixed rates for 7 years could facilitate the Group to have even better cost control. Also, the bonds had 5 times subscription and a record-low coupon rate among the bonds in similar nature in the market at the time of issue. It showed that the bondholders and investors gave strong credit to the Group and recognized the prospect of the Group's business.

Mr. Wang concluded, "The PRC government has approved the construction of several LNG terminals, and the first LNG terminal in Shenzhen is expected to be completed in 2006. Dongguan, the Group's largest project city, will also benefit from it. 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 growth stage. We will continue to exert ourselves and bring good returns to shareholders by outstanding performance."

## **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 56 project cities in 13 provinces, municipalities and autonomous regions, namely Anhui, Beijing, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Jiangsu, Liaoning, Shaanxi, Shandong and Zhejiang, covering a total connectable urban population of over 31 million.

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