

Xinao Gas Expands into Upstream Business of Green Energy To Have Diversified Gas Sources and Gas Reserve for the Group

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Further Enhancing the Group's Sustainable Growth

(Hong Kong, 16 February 2006) – Xinao Gas Holdings Limited (“Xinao Gas” or “the Group”) (stock code: 2688), a privately-owned piped gas operator in the PRC, announced that the Group expanded into the upstream business of green energy. The Group will invest in a coal conversion project in Erdos, Inner Mongolia, the PRC, which will produce methanol and dimethyl ether (“DME”). It will enable the Group to build up a stable gas reserve and further enhance the Group’s advantage in gas sources for sustainable growth.

On 15 February 2006, through Xinao (China) Gas Investment Company Limited (“Xinao China”), a wholly-owned subsidiary of the Group, Xinao Gas has entered into a joint venture contract with Xinao Group Company Limited (“XGCL”) and Xinao Group International Investment Limited (“XGII”) for the establishment of Xinneng Chemical Company Limited (“Xinneng Chemical”). Upon establishment, Xinneng Chemical will be owned by XGCL, XGII and Xinao China as to 45%, 40% and 15% respectively. The joint venture contract is conditional upon the obtaining of necessary approvals from the relevant authorities of the PRC government.

Upon establishment, Xinneng Chemical will engage in the production of methanol and DME. Methanol is widely used in various industries as antifreeze, additive to feed, organic industrial chemical, organic solvent and clean vehicle fuel substitute, etc., whereas DME can be used as a fuel substitute for natural gas and LPG, and can be used by the Group in substitution for natural gas without any impact on the Group’s existing customers.

The registered capital of Xinneng Chemical will be US\$99 million (equivalent to approximately HK\$772 million) and further investment for the whole project is expected to amount to RMB1,578 million (equivalent to approximately HK\$1,517 million). The total commitment of Xinao Gas in Xinneng Chemical will amount to US\$14.85 million (equivalent to approximately HK\$116 million). The joint venture period of Xinneng Chemical will be for a term of 30 years from the date of issue of the business licence of Xinneng Chemical, which term can be extended upon agreement between the Joint Venture Parties.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “ With the rising demand of natural gas in the PRC, it is expected the market will rely on imported natural gas in the future, which may create a certain extent of pressure on both of the price and supply of natural gas. We are delighted to have the opportunity to invest in the upstream business of green energy and to implement the strategy of diversifying our gas sources. In order to further lowering the risk in gas sources, apart from having developed close relationship with our suppliers, we will also build up a gas reserve ourselves, and hence established a solid ground for the sustainable development of Xinao Gas.”

Currently, Xinao Gas has the largest non-pipeline gas transportation system in the PRC, which includes over 150 compressed natural gas (“CNG”) and liquefied natural gas (“LNG”) trucks. When gas source supply is normal, the Group can use the non-pipeline gas transportation system to supply DME to other cities and customers and earn additional

revenue.

Mr. Wang concluded, “Although Xinao Gas has mainly focused on downstream business so far, it has also invested partly in some midstream and upstream businesses. For example, the Group has constructed the over 100 km-long Jiao-Huang Pipeline, which ensures the gas sources for projects near Qingdao, Shandong Province, and built an LNG plant in Weizhou Island, Beihai, which ensures gas sources for projects in Guangdong and Guangxi. Investing in the coal conversion project can extend the business of Xinao Gas along the industrial chain of energy distribution, enable the Group to access upstream resources and fully utilize its distribution channels. The Group can have vertical expansion of its business into related industry with low risks and enhance its future development.”

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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.

The Group currently has 57 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 32 million.

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