

**XinAo Gas Announces 2003 Annual Results**  
**Turnover Grows 61% to RMB878 Million, Net Profit Rises 43% to RMB183 Million**

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**Four New Projects in Guilin, Tongliao, Jiaozhou & Jiaonan**  
**Exploring CNG Vehicle Refuelling Business in Four Project Cities**  
**Cooperation with Upstream Suppliers to Enhance Gas Source Advantage**

(Hong Kong, 20 April 2004) – 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 2003. During the year, the Group recorded a turnover of approximately RMB878 million and a net profit of approximately RMB183 million, representing increases of 61% and 43% respectively over 2002. Earnings per share grew 38% to RMB24.8 cents. The Board of Directors of XinAo Gas has resolved not to recommend the payment of a final dividend. Retained earnings will be used to develop existing gas projects and for investment in new projects.

XinAo Gas obtained 13 new projects in 2003, including 1 provincial capital, 6 cities at prefecture level and 6 cities at county level and districts located in Anhui, Guangdong, Henan, Hunan, Jiangsu, Shandong and Zhejiang, thus accomplishing more than the Group’s target of securing 6 to 8 new projects for the year. After Shijiazhuang, capital of Hebei Province, XinAo Gas secured two more large projects, namely Dongguan, Guangdong Province and Changsha, capital of Hunan Province. It reflects the Group’s competence in investment, operation and management. As at the end of 2003, the Group’s total connectable population coverage increased by about 100% to 18.7 million when comparing to 9.5 million in 2002.

During 2003, XinAo Gas was named among “The 200 Best Small Companies” by *Forbes Global*, the “Best Small Cap Company (China)” by *AsiaMoney* and the “Chinese Business 500” by *Yazhou Zhoukan* for three consecutive years. In addition, the Group was also awarded the “Overall Best Managed Company (China)” by *AsiaMoney* and the “Top 20 Chinese Enterprises of Revenue Growth” and the “Top 20 Chinese Enterprises of Assets Growth” by *Yazhou Zhoukan*.

As at the end of 2003, the Group made natural gas connections to 381,283 residential households and 782 commercial/industrial customers (with gas appliances of designed daily capacity of 532,793 m<sup>3</sup>), representing increases of 170,433 households and 280 commercial/industrial customers (with gas appliances of designed daily capacity of 167,680 m<sup>3</sup>) when compared to 2002. In respect of gas facilities, as at the end of 2003, the Group had 1,958 km intermediate and main pipelines, an addition of 1,167 km as compared to 2002. It also had 35 processing stations with a combined daily capacity of approximately 4,709,000 m<sup>3</sup>.

In respect of gas sales, approximately 45 million m<sup>3</sup> and 72 million m<sup>3</sup> were sold to

residential households and commercial/industrial customers respectively, up by 135% and 136% against 2002 respectively. The ratio of gas sales volume to commercial/industrial customers remained around the same level, i.e. over 60%, as in the previous year, strengthening the Group's recurring revenue base in the long term.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, "We are delighted the Group was able to achieve such outstanding growth and win numerous awards from various international magazines in 2003. The fast-growing economy of the PRC leads to high demand growth for natural gas, and the commencement of gas supply of the West-to-East Pipelines ("W-E") facilitates the use of natural gas in industrial production. Last year, our projects in Xinxiang in Henan Province, Chuzhou in Anhui Province and Wujin in Jiangsu Province started to use natural gas from W-E. Xinao Gas will continue to target both industrial/commercial customers and residential households for a better revenue mix and a stable cash flow."

In respect of management, Langfang Xinao launched a pilot project to employ IT systems by connecting gas sale system, call centre, Geographic Information System and Supervisory Control and Data Acquisition System to enhance the Group's operational management. In addition, Bengbu Xinao, Huaian Xinao, Xinxiang Xinao and Shijiazhuang Xinao followed the footsteps of Langfang Xinao, Liaocheng Xinao and Huludao Xinao to launch the "95158" national 24-hour hotline to raise further the quality of customer service.

Xinao Gas took the initiative to enhance project operation and management. During the year, the Group cooperated with Utilise Training & Development Solutions Limited, a professional training institute in the UK, and introduced advanced training system on gas profession from the UK to improve professionalism and occupational knowledge of the staff. Furthermore, the Group launched sales and marketing projects to accelerate connection business in the project cities with effective sales and marketing strategies; the Group started on human resources projects to establish the recruitment standard qualification scheme, the balanced scorecard assessment scheme and the salary points scheme to perfect the Group's management and human resources systems.

Apart from the 2003 results, Xinao Gas also announced the securing of 4 city gas projects, namely Guilin in Guangxi Zhuang Autonomous Region, Tongliao in Inner Mongolia Autonomous Region, and Jiaozhou and Jiaonan in Shandong Province. The number of operational locations of Xinao Gas increases to 43 while urban population coverage reaches 19.6 million.

Through its wholly-owned subsidiary Xinao (China) Gas Investment Limited ("Xinao (China)"), Xinao Gas has entered into a joint venture agreement with Guilin Travel Company Limited ("Guilin Travel") to set up Guilin Xinao Gas Company Limited ("Guilin Xinao"). The registered capital will be US\$6 million (approximately HK\$46.8 million), and Xinao (China) and Guilin Travel will hold 60% and 40% interests respectively. Guilin Xinao will have the exclusive right to operate piped gas business in Guilin City for 30 years. Guilin, a world-famous tourist city for its scenic beauty, is located at the northeastern part of Guangxi

Zhuang Autonomous Region. It has a total urban area of 565 km<sup>2</sup> and an urban population of 640,000. The GDP of the city for 2003 was RMB39.7 billion.

Xinao Huludao Investment Limited, Xinao Gas' wholly-owned subsidiary, and Tongliao City Rixin Natural Gas Company Limited have jointly set up Tongliao Xinao Gas Company Limited ("Tongliao Xinao") and hold 80% and 20% interests respectively. Tongliao Xinao has the exclusive right to operate piped gas business in the city for 30 years, and its registered capital is US\$3 million (approximately HK\$23.4 million). Tongliao, located at the eastern part of Inner Mongolia Autonomous Region, is rich in mineral resources, and its main industries are product processing, energy, pharmaceutical, metallurgy and construction materials. Its urban population in 2003 was 320,000.

Xinao Shandong Investment Limited ("Shandong BVI"), Jiaozhou City Xinyuan City Construction Development Company Limited ("Xinyuan City Construction") and Shandong Shihua Natural Gas Company Limited ("Shandong Shihua") have set up Qingdao Xinao Jiaocheng Gas Company Limited ("Jiaocheng Xinao"), with a registered capital of US\$5 million (approximately HK\$39 million). Besides, Shandong BVI has also set up a wholly owned subsidiary, Qingdao Xinao Jiaonan Gas Company Limited ("Jiaonan Xinao"), with a registered capital of US\$2 million (approximately HK\$15.6 million).

Shandong BVI has an interest of 51% in Jiaocheng Xinao while Xinyuan City Construction and Shandong Shihua have the remaining 10% and 39% interests respectively. Jiaocheng Xinao has the exclusive right to operate piped gas business in Jiaozhou City (except Xincheng District); Jiaonan Xinao will have the exclusive right to operate in part of the city planning zone of Jiaonan City. The exclusive rights granted to both companies are for 30 years. The urban population of Jiaozhou and Jiaonan are 300,000 and 200,000 respectively. Currently, Xinao Gas has secured 10 projects in Shandong, among which Chengyang, Jiaozhou, Huangdao, Jiaonan, Rizhao and Lianyungang form a continuous chain. The Group's operations in Jiaozhou Bay, the most affluent region in Shandong Province, have been transformed from individual spots into linked areas, which have the benefits of economies of scale, facilitate the Group's resources allocation in management, operation and market development and allow better use of gas sources as there will be stable gas supply with cost efficiency for the projects in the region.

Xinao Gas is planning to launch CNG vehicle refuelling business in Liaocheng in Shandong Province, Bengbu in Anhui Province, Langfang and Shijiazhuang in Hebei Province and build 19 gas stations for refuelling CNG for taxis and buses in 2004 and more gas stations in the future. The use of natural gas will reduce air pollution caused by vehicle emission, and its price is 20- 30% lower than gasoline. The Group expects that it will raise the sales volume of natural gas. Also, the CNG refuelling business can fully utilise the Group's existing resources, including gas stations, pipeline networks, gas sources, human resources, brand name effects, etc. It can increase the benefits from economies of scale, widen the revenue base of gas sales, increase further the revenues from natural gas and create stable and steady cash flow.

Besides, Xinao Gas announced that it had entered into a framework agreement with CNOOC Nanhai Western Corporation (“CNOOC NW”) to explore together the gas markets in Guangxi Zhuang Autonomous Region. CNOOC NW is a wholly-owned subsidiary of China National Offshore Oil Corporation (“CNOOC”) and is mainly engaged in the exploration, extraction, production, processing and products sales of offshore oil as well as the production technology and business of oil and gas fields. Under the agreement, CNOOC NW will use the natural gas reserves owned by them to guarantee gas source for the development of piped city gas markets in the Guangxi region. The upstream gas source from NCOOC NW provides good conditions and guarantees for market entry for both companies; Xinao Gas’ operational ability ensures the effective exploration and utilisation of related resources.

Chairman Wang Yusuo concluded, “We are glad for the win-win cooperation with CNOOC NW, which strengthens the Group’s gas source advantage and further enhance the Group’s operational ability. The success of Xinao Gas depends on the continuous efforts and innovation of all the staff and management, as well as the support and trust of our shareholders and investors. To enhance the Group’s advantage in gas sources, we will have closer cooperation with the upstream gas supplier and further increase the Group’s operation ability. Looking forward, we promise that we will maintain our integrity and reliability and seize the golden opportunities in the PRC natural gas market with vigorous and steady investing strategies to maximise the value to our shareholders, investors, customers and staff.”

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## **Xinao Gas Holdings Limited**

Xinao Gas is one of the first privately-owned piped gas operator 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 43 project cities in 12 provinces, municipalities and autonomous regions, namely Anhui, Beijing, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Jiangsu, Liaoning, Shandong and Zhejiang, covering a total connectable urban population of over 19.6 million.

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