新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

The Board of Directors (the "Directors") of Xinao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2007 together with the comparative audited restated figures for the corresponding period in 2006. The audited consolidated financial statements have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000 (Restated)
Revenue	4	5,756,270	3,396,536
Cost of sales		(4,006,271)	(2,214,078)
Gross profit		1,749,999	1,182,458
Other income		231,049	184,938
Selling expenses		(83,729)	(59,154)
Administrative expenses		(855,127)	(628,478)
Fair value changes on derivative financial instruments		46,012	(1,854)
Fair value changes on convertible bonds		(3,370)	(4,392)
Impairment loss on goodwill		(50,606)	–
Loss on disposal of property, plant and equipment		(33,517)	(7,273)
Impairment loss on property, plant and equipment		(11,535)	-
Share of results of associates		(6,501)	4,685
Share of results of jointly controlled entities		113,015	66,126
Finance costs		(281,173)	(203,424)
Profit before taxation		814,517	533,632
Taxation	5	(108,373)	(49,772)
Profit for the year		706,144	483,860
Attributable to:			
Equity holders of the Company		507,520	379,617
Minority interests		198,624	104,243
		706,144	483,860
Dividends	6		
-Paid		77,274	46,333
-Proposed		126,880	75,923

		2007 RMB	2006 RMB
Earnings per share	7		
-Basic		51.3 cents	40.5 cents
-Diluted		50.3 cents	38.7 cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	2007	2006
	RMB'000	*RMB'000*
Non-current assets		
Property, plant and equipment	6,760,741	5,191,837
Prepaid lease payments	432,479	375,200
Investment properties	94,450	70,885
Goodwill	153,630	184,267
Intangible assets	469,504	267,386
Interests in associates	386,111	340,173
Interests in jointly controlled entities	483,672	295,530
Available-for-sale financial assets	13,733	18,420
Amount due from an associate	138,000	83,000
Amount due from a jointly controlled entity	89,000	69,000
Deposits paid for investments in joint ventures	24,133	54,725
Deposits paid for acquisition of property, plant and equipment	400	14,491
	9,045,853	6,964,914
Current assets		
Inventories	235,356	171,218
Trade and other receivables	1,069,957	797,895
Prepaid lease payments	9,026	6,587
Amounts due from customers for contract work	335,910	311,243
Amounts due from associates	48,585	67,558
Amounts due from jointly controlled entities	68,719	46,255
Amounts due from related companies	43,273	101,784
Cash and cash equivalents	1,693,459	1,567,552
	3,504,285	3,070,092
Current liabilities		
Trade and other payables	2,205,060	1,625,959
Derivative financial liabilities	-	46,012
Amounts due to customers for contract work	305,644	279,902
Amounts due to associates	116,411	56,320
Amounts due to jointly controlled entities	30,234	16,484
Amounts due to related companies	29,779	18,032
Taxation payable	35,846	36,088
Bank and other loans - due within one year	834,779	619,140
Short-term debenture	398,375	-
Financial guarantee liability	1,353	1,502
	3,957,481	2,699,439
Net current (liabilities) assets	(453,196)	370,653
Total assets less current liabilities	8,592,657	7,335,567

Capital and reserves		
Share capital	106,318	102,825
Reserves	3,629,229	2,953,835
Equity attributable to equity holders of the Company	3,735,547	3,056,660
Minority interests	925,111	811,768
Total equity	4,660,658	3,868,428
Non-current liabilities		
Bank and other loans - due after one year	2,387,513	1,750,738
Financial guarantee liability	–	1,228
Convertible bonds	–	127,597
Guaranteed notes	1,433,657	1,525,461
Deferred taxation	110,829	62,115
	3,931,999	3,467,139
	8,592,657	7,335,567

Notes

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the “Directors”) have given careful consideration of the Company and its subsidiaries (collectively referred to as the "Group") in light of its net current liabilities of RMB453,196,000 as at 31 December 2007. Having considered the fund raised from the issue of short-term debenture of RMB600,000,000 subsequent to the balance sheet date and the secured credit facilities of approximately RMB737,455,000 which remains unutilised at the date of approval of the consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW ACCOUNTING POLICY AND NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted a new accounting policy for "Acquisition of additional interests in subsidiaries". The adoption of this new accounting policy had no material effect to prior period of the Group. Accordingly, no prior period adjustment has been recognised.

In the current year, the Group has also applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors anticipate that the application of the other new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. RESTATEMENT

The disclosure of cost of sales, other income, administrative expenses, other expenses, share-based payment and segment information has been restated to conform with current year's presentation. The following comparative figure in the consolidated income statement has been restated:

	As originally Stated	**Restatement**	**As restated**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	2,203,313	10,765	2,214,078
Other income	201,358	(16,420)	184,938
Administrative expenses	545,585	82,893	628,478
Other expenses	59,981	(59,981)	-
Share-based payment expenses	57,370	(57,370)	-
Loss on disposal of property, plant and equipment	-	7,273	7,273

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently divided into four divisions, gas connection, sales of piped gas, distributions of bottled liquefied petroleum gas and sales of gas appliances. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue and contribution by business segment during the year is as follows:

2007

	Gas connection	**Sales of piped gas**	**Distributions of bottled liquefied Petroleum gas**	**Sales of gas appliances**	**Unallocated segment**	**Consolidation**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,925,079	2,641,417	1,092,226	97,548	-	5,756,270
Segment result before depreciation, impairment and loss on disposal of property, plant and equipment	1,246,033	686,213	15,126	25,365	-	1,972,737
Depreciation	(14,594)	(197,308)	(7,038)	(3,443)	-	(222,383)
Loss on disposal of property, plant and equipment	(3,126)	(23,669)	-	-	(6,722)	(33,517)
Impairment loss on property, plant and equipment	-	(11,535)	-	-	-	(11,535)
Impairment loss on goodwill	(50,606)	-	-	-	-	(50,606)
Segment result	1,177,707	453,701	8,088	21,922	(6,722)	1,654,696
Unallocated other income						276,706
Unallocated corporate expenses						(942,226)
						989,176
Share of results of associates	1,456	446	-	-	(8,403)	(6,501)
Share of results of jointly controlled entities	92,932	20,083	-	-	-	113,015
Finance costs						(281,173)
Profit before taxation						814,517
Taxation						(108,373)
Profit for the year						706,144

2006

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Unallocated segment	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,354,892	1,623,510	282,606	135,528	-	3,396,536
Segment result before depreciation and loss on disposal of property, plant and equipment	1,014,011	290,212	15,086	26,446	-	1,345,755
Depreciation	(9,950)	(130,703)	(4,317)	(1,379)	-	(146,349)
Loss on disposal of property, plant and equipment	(1,040)	(5,308)			(925)	(7,273)
Segment result	1,003,021	154,201	10,769	25,067	(925)	1,192,133
Unallocated other income						167,990
Unallocated corporate expenses						(693,878)
						666,245
Share of results of associates	1,492	(4,558)	-	9,891	(2,140)	4,685
Share of results of jointly controlled entities	65,463	663	-	-	-	66,126
Finance costs						(203,424)
Profit before taxation						533,632
Taxation						(49,772)
Profit for the year						483,860

(b) Geographical segment

More than 90 percent of the Group's assets are located in the People’s Republic of China (the “PRC”) as at the balance sheet date.
All of the Group's businesses are derived from activities in the PRC in both years.

5. TAXATION

	2007	2006
	RMB'000	*RMB'000*
PRC Enterprise Income Tax:		
Current tax	111,956	58,360
Overprovision in prior years	(3,479)	(5,747)
	108,477	52,613
Deferred tax:		
Current year	(5,806)	(2,841)
Attributable to a change in tax rate	5,702	-
	(104)	(2,841)
	108,373	49,772

The charge represents PRC Enterprise Income Tax for both years.

Pursuant to the relevant laws and regulations in the PRC, the statutory PRC Enterprise Income Tax rate of 33% is applied to the Group entities except for entities that are entitled to different concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years ("2+3" tax preference). The PRC Enterprise Income Tax rates applicable to these subsidiaries range from 15% to 33% and the reduced tax rates for the relief period range from 7.5% to 16.5%. The charge of PRC Enterprise Income Tax for the years has been provided for after taking these tax incentives into account. The tax benefit will expire during the period from year 2008 to 2012.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, The State Council of the PRC issued Implementation Regulations of the New Law. The new PRC Enterprise Income Tax rate for domestic and foreign enterprises was unified to 25% effective from 1 January 2008 under the New Law and Implementation Regulations.

On 26 December 2007, the State Council of the PRC issued a Circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the "2+3" tax preference can continue enjoying the tax preference base on the original tax rate until after the expiration of the tax preference. Entities that did not start "2+3" tax preference before 2008 because they were still in loss position shall start the "2+3" tax preference from 2008.

The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Income tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	814,517	533,632
Tax at the PRC enterprise income tax rate of 33%	268,791	176,099
Tax effects of:		
Share of results of associates	2,145	(1,546)
Share of results of jointly controlled entities	(37,295)	(21,822)
Income not taxable for tax purpose	(69,915)	(18,217)
Expenses not deductible for tax purpose	92,579	54,729
Tax losses not recognised	85,887	56,321
Utilisation of tax losses previously not recognised	(16,725)	(896)
Deductible temporary differences not recognised	46,105	7,860
Tax concession and exemption granted to PRC subsidiaries	(11,865)	(18,030)
Different tax rates of subsidiaries	(247,855)	(178,979)
Overprovision in respect of prior year	(3,479)	(5,747)
Income tax charge for the year	108,373	49,772

In addition to the income tax expense charged to consolidated income statement, a deferred tax credit of RMB3,356,000 (2006: deferred tax charge of RMB2,449,000) has been recognised in equity in the year.

6. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Final dividend paid in respect of 2006 of HKD7.75 cents (2006: 2005 final dividend of HKD4.81 cents) per share (equivalent to approximately RMB7.79 cents per share (2006: 2005 final dividend of RMB5.00 cents per share))	77,274	46,333
Final dividend proposed in respect of 2007 of HKD13.42 cents (2006: 2006 proposed final dividend of HKD7.75cents) per share (equivalent to approximately RMB12.57 cents per share (2006: 2006 proposed final dividend of RMB7.79 cents per share))	126,880	75,923

The final dividend in respect of 2007 of HKD 13.42 cents (2006: HKD7.75 cents) (equivalent to approximately RMB12.57 cents (2006: RMB7.79 cents) per share on 1,009,759,397 shares (2006: 973,958,599 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The payment of the final dividend will be made on 17 June 2008, to shareholders whose names appear on the register of members of the company on 27 May 2008.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share	507,520	379,617
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	3,370	4,392
Earnings for the purposes of diluted earnings per share	510,890	384,009

	2007	2006
	Number of shares	*Number of shares*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	989,917,751	936,924,000
Effect of dilutive potential ordinary shares:		
- share options	20,084,759	2,344,500
- convertible bonds	5,520,262	53,826,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,015,522,772	993,094,500

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31 December 2007	2006 (Restated)	Increase (Decrease)
Turnover *(RMB)*	5,756,270,000	3,396,536,000	**69.5%**
Gross profit *(RMB)*	1,749,999,000	1,182,458,000	**48.0%**
Profit attributable to equity holders of the Company*(RMB)*	507,520,000	379,617,000	**33.7%**
Earnings per share – Basic *(RMB)*	51.3cents	40.5cents	**26.7%**
Connectable urban population	40,294,000	39,073,000	**3.1%**
Connectable residential households	13,431,000	13,024,000	**3.1%**
New natural gas connections made during the Period:			
– residential households	580,876	451,072	**28.8%**
– commercial/industrial ("C/I") customers	2,115	1,493	**41.7%**
– installed designed daily capacity for C/I customers *(m^3)*	2,212,639	1,481,611	**49.3%**
Accumulated number of natural gas customers:			
– residential households (Note1 & 2)	2,749,352	2,069,783	**32.8%**
– C/I customers (Note1 & 2)	8,206	5,778	**42.0%**
– installed designed daily capacity for C/I customers *(m^3)* (Note1 & 2)	6,930,934	4,372,540	**58.5%**
Accumulated number of piped gas (including natural gas) customers:			
– residential households	3,167,800	2,458,735	**28.8%**
– C/I customers	8,869	6,290	**41.0%**
– installed designed daily capacity for C/I customers *(m^3)*	7,594,338	5,023,652	**51.2%**
Natural gas penetration rate	20.5%	15.9%	–
Piped gas (including natural gas) penetration rate	23.6%	18.9%	–
Unit of piped gas sold to residential households *(m^3)*	359,991,000	299,806,000	**20.1%**
Unit of piped gas sold to C/I customers *(m^3)*	1,596,608,000	852,513,000	**87.3%**
Unit of gas sold to vehicles *(m^3)*	180,889,000	100,684,000	**79.7%**
Unit of bottled liquefied petroleum gas ("LPG") sold *(ton)*	225,156	58,136	**2.9 times**
Number of vehicle refuelling stations	89	57	**32 stations**
Number of natural gas processing stations	83	74	**9 stations**
Total length of existing intermediate and main pipelines (*km*)	11,301	9,234	**22.4%**

Notes:
1. At 31 December 2007, including a total of 748,089 natural gas residential customers and 1,870 natural gas C/I customers (with a total designed daily capacity of 1,192,996m^3) from acquisition/conversion.
2. At 31 December 2006, including a total of 649,396 natural gas residential customers and 1,557 natural gas C/I customers (with a total designed daily capacity of 847,242m^3) from acquisition/conversion.

CHAIRMAN'S STATEMENT

RESULTS OF THE YEAR

After achieving encouraging performance in last year, the Group continued to record substantial growth in its results. The turnover and profit for the year reached RMB5,756,270,000 and RMB706,144,000 respectively, representing increases of 69.5% and 45.9% over last year respectively. Earnings per share increased by 26.7% to RMB51.3 cents.

This year, the Group secured 5 new city piped gas projects, thus raising the number of projects the Group secured in Mainland China to 69, of which Zhejiang Province, Fujian Province and Henan Province each added one additional project while another 2 new projects were located in Anhui Province. Our total connectable population coverage was also on the rise, reaching 40,294,000. On the other hand, the Group also actively developed its vehicle refueling stations business during the year and established 32 new vehicle refuelling stations, among them one was a dimethylether (“DME”) station. As at the end of 2007, the number of vehicle refuelling stations operated by the Group was 89 and the proportion of gas sold in the vehicle segment as compared to the total volume of gas sold amount to 8.5%. The Group believes that the vehicle refuelling stations business is on a track of rapid and steady growth and will further secure the Group’s future sales volume and sales income.

During the year, the Group made piped natural gas connections to 580,876 residential households and 2,115 commercial/industrial (“C/I”) customers (connected to gas appliances of a total installed designed daily capacity of 2,212,639 cubic meters). As of the end of 2007, the accumulated number of residential households and C/I customers of natural gas were 2,749,352 and 8,206 (connected to gas appliances of a total installed designed daily capacity of 6,930,934 cubic meters) respectively, and the accumulated number of residential households and C/I customers of all piped gas were 3,167,800 and 8,869 (connected to gas appliances of a total installed designed daily capacity of 7,594,338 cubic meters) respectively. The sales volume of natural gas for the year grew tremendously by 78.4% as compared to last year to 1,757,891,000 cubic meters. Such increase fully demonstrated the benefits of the economies of scale, the robust development of the Group’s business as well as our achievement in vigorously raising the penetration rate of our existing gas projects.

CORPORATE MANAGEMENT

During the year, the Group continued to carry out informatisation in full swing with 7 gas companies installing the Enterprise Resource Planning (“ERP”) system and our customer caring and services system going online. These systems have achieved stable and expected performance and were wholly endorsed by the management consultation organ.

In order to ensure the thorough and effective implementation of the Group’s strategies, the Group has jointly developed the strategic performance management project with Egate Infotech Company Limited last year. We have also established the balanced score card report and evaluation system and process. Under such system and process, we will review and communicate on the benchmarks and the progress of our action plans quarterly and will further our effort on the monthly review of the Group’s action plans. The introduction of the strategic performance management project and the optimization and the implementation of the balanced score card management system have largely facilitated the execution of our strategies. Such project has delivered fruitful results. In the course of project implementation, we have optimized the Group’s strategy, modified the manner in which strategic orders are disseminated and circulated, identified the strategic responsibilities for different level of staff, formulated an efficient measure to evaluate the execution of our strategic planning, strengthened the strategic coordination between different departments and as such worked out the best solution to implement our strategies efficiently.

INTERNATIONAL AWARDS

During the year, the Company was elected as one of the “Global Chinese Enterprises 1000” by Yazhou Zhoukan and this marked the seventh consecutive years that the Company was awarded by this prestigious magazine. Our Annual Report 2006 was also awarded “Honorable Mention, Best Annual Report Awards ” and the fact that the annual report of the Company was again awarded as an outstanding report since 2006 fully evidenced the accurate and clear disclosure in our reports and our effective communication with our shareholders. These rewards also reflected the recognitions of investors and professional institution towards our management quality and high level of transparency. Our management will endeavor to maintain such precious achievement and make effort to gain more successful achievement and recognition.

HUMAN RESOURCES

As at the end of 2007, the Group had 14,800 employees (2006: 13,355 employees). In addition to the increasing number of gas projects, the Group has also increased its manpower to meet the demand arising from various gas construction projects and energy logistic business.

The Group has adhered to its principle of “people-oriented” and believed that the healthy development of its staff is essential to the delivery of satisfactory services to customers. The Group always considers its staff as the most valued assets and understands that human resources is the vital source of competitiveness and indispensible element of our future success and sustainable development. Therefore, we put great emphasis on recruitment and internal training and offer learning and studying opportunities to employees as a kind of benefits and rewards. The Group encourages employees to have lifelong learning, formulates practical and tailor-made career development plans for employees and creates open career paths for them, which in turn ensures an adequate talent pool the human resources base for the Group's future sustainable and healthy development.

During the year, the Group has, in addition to implement its development strategy, optimised our staff employment qualification system and career development plans through the introduction of personal scorecard and further tailored our appraisal and promotion mechanism. We have also strengthened personnel management, organization management, appraisal management and recruitment management with the help of our informatised projects, which has not only facilitated and solidified our human resources management system, but also has made it more transparent and personalised.

PROSPECTS

The rising global demand for energy and the growing emphasis on environmental protection both help encourage the promotion and use of clean energy. Under such global trend, China's energy industry has to establish a solid foundation through the thorough implementation of a scientific perspective and on such basis achieve the target of building up a stable, economic, clean and safe energy supply system. In order to support the robust and rapid development of the national economy, China's energy industry, on one hand has to increase energy supply and achieve a breakthrough in the bottleneck of energy development while on the other hand, has to make massive effort to adjust and optimise the energy structure and speed up the technology advancement of the industry. In recent years, the pace of development of China's energy sector has obviously accelerated and at the same time the nation is enjoying a more secure energy supply. The Chinese government has also taken the initiative in introducing a series of new ideologies and measures, adjusting the energy structure and putting the country's energy sector on the track of sustainable development.

As the Chinese government speeds up its program of establishing an efficient energy utilisation and environmental friendly society, the state will in no doubt put more emphasis on the promotion and application of clean energy and alternative energy and adopt energy conservation and emission reduction as its primary national policy. During the year, the National Development and Reform Commission ("NDRC") has formally promulgated the "Natural Gas Utilising Policy" with the approval of the State Council of the PRC on 30 August 2008 with a view to alleviating the issue of supply shortage of natural gas, optimising the usage structure of natural gas and encouraging energy conservation and reduction in emission. After taking into consideration of factors such as the social benefits, environmental benefits and economic benefits delivered by the usage of natural gas, the newly promulgated policy categorized the utilisation of natural gas into four classes, namely the priority class, the allowed class, the restricted class and the prohibited class, of which the daily usage of urban population, the usage of gas by public utilities and natural gas vehicle are categorised into the priority class and implying that our target customers are basically of the same category. Apart from this, the NDRC has formulated a series of practical security measures concerning the usage of natural gas, which fully demonstrated the vision of the Chinese government in respect of the utilization of natural gas resource. It is believed that with the encouragement and support of the said measures, the Group is well positioned to secure gas sources and attract new customers.

It is not difficult to conclude that natural gas will become the major fuel in urban gas market in the PRC given that China's demand for natural gas is on the rise, the energy consumption structure is further improving, the urbanisation ratio is climbing every year and the PRC government has put more emphasis on environmental protection. According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan" issued by the Chinese government, during the period from 2006 to 2010, China will basically complete the construction of a preliminary national natural gas pipeline network with designed length of 16,000 km. Such national natural gas pipeline network will then be further improved to secure the safe and reliable supply of natural gas. In particular, the commencement of construction of the second West-East Pipeline and

Sichuan-East Pipeline which connect the eastern and western region of China this year will further secure the gas supply of the Group.

In order to realise the Group's long term development strategies, we have always put top priority on the stable and reliable supply of clean energy and consider such service as the most important element for the Group's development. On top of the full utilisation of long distance pipeline in the PRC, the Group has also actively explored gas sources by self production and has sought to develop international energy trading. The coal chemical project located in Inner Mongolia and which the Group first participated in investment and construction in 2006 has progressed smoothly this year. Next year, such project will produce 400,000 tons of DME annually and as a new energy to be widely used. With a view to developing international energy trading, the Group has also established Xinao Energy Trading Company Limited last year and obtained the rights of import and export of natural gas, LPG and various kinds of gas materials. In June 2007, the Group struck the first deal concerning the international trading of LPG and succeeded in importing 10,000 tons of LPG. Besides enhancing the development of the Group's energy trading business, such move has also fully demonstrated our capability in securing energy resources through international trading and serves to further secure the Group's gas sources.

After recording rapid growth in the past few years, the Group has consolidated its leading position in the industry in terms of customer base and market position. Besides, benefiting from our strenuous effort devoted in the past few years to promote connection services and develop industrial users and gas vehicle refueling station businesses, both characterised by large volume of gas consumption, the Group's income structure has largely improved and this could be seen by the increasing income contribution from gas sales which is more stable and reliable in nature. As at the end of 2007, income attributable to gas sales has increased to account for over half of our overall income, rising from 56.1% in 2006 to 64.9% while the share of one-off income attributable to connection fee as compared to the Group's overall income has diminished, dropping from 39.9% in 2006 to 33.4%. Such superior income structure not only strengthened our profitability and cash flow, but also confirmed that the Group is developing into a real public utilities company. In addition, as at the end of 2007, the overall penetration rate of the Group was 23.6%, lagging far behind the peak gas penetration rate of over 80%, thus showing that there is great scope of development for the Group to attract new customers and increase its gas sales.

In 2008, the Group will continue to enhance its management standard through its informatisation and strategic performance appraisal management projects and deliver more satisfactory and comprehensive services to its customers by adhering to its customeroriented principle. We will also endeavor to ensure our business is operated in a safe manner by establishing a secure and safe working environment and fully standardizing our operation. In order to further improve our results in the piped gas segment, we will take initiatives to participate in the consolidation of the industry and optimize the structure of our projects. Besides focusing on enhancing and consolidating our leading position in the industry, we will also make huge effort to enhance our core competitive strengths through the innovation of energy distribution model, development of energy distribution network, establishment of a strong terminal network and integration of service platform. The Group will also enhance its competitive advantage by utilisation of substituts energy and source our gas in international gas market. In addition, the Group will adapt to changes of national policy and transformation of the industry by taking a proactive stance to formulate new business model while establishing a distribution model through the provision of regional clean energy solution, and thereby becoming the provider of regional clean energy and energy saving solutions. For the coming year, we will continue to make contribution to China's environmental protection and energy sector and spare no effort to maximize the long-term benefits of our shareholders, customers, staff, society and enterprises.

FINANCIAL RESOURCES REVIEW

Liquidity and financial resources

As at 31 December 2007, the Group's cash on hand was equivalent to RMB1,693,459,000 (31 December 2006: RMB1,567,552,000), and its total debts was equivalent to RMB5,054,324,000 (31 December 2006: RMB4,022,936,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 90.0% (31 December 2006: 80.3%).

Under the US$25,000,000 Loan Agreements with International Financial Corporation ("IFC") and the subsequent amendment, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed, according to the Loan Agreement and the subsequent amendment thereto, that so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2007, XGII and Mr. Wang together held 33.24% interests of the Company.

Five-year zero coupon convertible bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375.

During the year, HK$91,300,000 (equivalent to RMB88,963,000) of CBs was converted into 16,790,798 ordinary shares of the Company. There were no outstanding CBs which had not been converted.

Seven-year 7.375% fixed rate bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

As all the operations of the Group are in the PRC, if the appreciation of RMB would continue in the future, the Group will benefit from earning RMB and repaying foreign currency debts, the costs for foreign currency debt will be lowered indirectly.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans, short-term debentures and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings structure

As at 31 December 2007, the Group's total bank and other borrowings amounted to RMB5,054,324,000 (31 December 2006: RMB4,022,936,000), including bank and other loans and guarantee notes of US$ 215,000,000 (equivalent to RMB1,570,489,000 and mortgage loan of HK$19,618,000 (equivalent to RMB18,370,000). Apart from the US$200,000,000 fixed rate guarantee notes and RMB400,000,000 fixed rate short-term debenture, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the loan amount equivalent to RMB1,815,866,000 that are secured by assets with the carrying amount RMB136,540,000, all of the other loans are unsecured. Short-term loans where equivalent to RMB1,233,154,000 while the remaining were long-term loans falling due after more than a year.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest and exchange rates closely and adopt appropriate measure when necessary.

Commitments

	At 31 December 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	121,024	32,716
Group's share of capital commitments contracted but not provide for in an associate	-	919

Financial Guarantee Liability

	At 31 December 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Financial guarantee contracts		
- current	1,353	1,502
- non-current	-	1,228
	1,353	2,730

As at 31 December 2007, the Group had outstanding guarantees issued to banks to secure loan facilities granted to associates and a jointly controlled entity to the extent of RMB43,000,000 (2006: RMB40,000,000) for one to two-year loans and RMB40,000,000 (2006: RMB57,000,000) for a four-year loan, respectively, of which the amounts have been utilised at the balance sheet dates.

During the year ended 31 December 2006, the Group applied HKAS 39 and HKFRS 4 (Amendments) to recognise the fair value of the financial guarantee contract at the date of grant of financial guarantee in accordance with the transitional provision of HKAS 39.

PURCHASE SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2007. Four Audit Committee meetings were held during the financial year.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the year.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the Code Provisions set out in Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year except a deviation from Code Provision E.1.2 because the Chairman of the Board was unable to attend the annual general meeting of the Company held on 29 May 2007 due to business trip. Alternatively, Mr. Yang Yu, the Chief Executive Officer of the Company, attended the said annual general meeting.

DIVIDEND AND CLOSING OF REGISTER OF MEMBERS

The Directors now recommend a final dividend of HK$13.42 cents (2006: HK$ 7.75 cents) (equivalent to approximately RMB12.57 cents (2006: RMB7.79 cents)) per share payable to shareholders of the Company whose names are on the register of members on Tuesday, 27 May 2008. The final dividend is subject to approval by the shareholders in the forthcoming annual general meeting. The register of members will be closed from Wednesday, 21 May 2008 to Tuesday, 27 May 2008, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30p.m. on Tuesday, 20 May 2008.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 22 April 2008

As at the date of this announcement, the Board comprises of eight executive directors, namely WANG Yusuo (Chairman), Mr. YANG Yu (Chief Executive Officer), Mr. CHEN Jiacheng, Mr. ZHAO Jinfeng, Mr. QIAO Limin, Mr. YU Jianchao, Mr. CHEUNG Yip Sang and Mr. CHENG Chak Ngok; two non-executive directors, namely Ms. ZHAO Baoju and Mr. JIN Yongsheng; and three independent non-executive directors, namely Mr. WANG Guangtian, Ms. YIEN Yu Yu, Catherine and Mr. KONG Chung Kau.