

Turnover Surges 59.3% to RMB2,309.6 Million for the First Half of 2007
Profit Attributable To Equity Shareholders Increases 40.1% to RMB175.5 Million
Earnings per share increased by 31.6% to RMB17.9 cents

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(Hong Kong, 19 September 2007) - 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 2007 (“the Period”). During the Period, turnover and profit attributable to equity shareholders increased to RMB2,309,610,000 and RMB175,497,000 respectively, representing increases of 59.3% and 40.1% respectively as compared to the corresponding period last year. Earnings per share increased by 31.6% to RMB17.9 cents. The Board of Directors did not recommend the payment of an interim dividend.

During the Period, gas connection fee revenue reached RMB776,937,000, representing an increase of 33.3% over the corresponding period last year and accounting for 33.7% of the total revenue. The average connection fees for residential households and commercial/industrial (“C/I”) customers were RMB2,828 and RMB262 (per m³) respectively. As compared to 2006, the average connection fees remained at same level, which reveals that China maintains a stable policy over connection fees. The growth of piped gas sales accelerates annually. The piped gas sales record its first time contributing over 50% of revenue, which shows that the Group has a more stable and long-term revenue base. The further decrease in reliance on one-off connection fee optimizes the revenue structure.

Mr. Wang Yusuo, Chairman of Xinao Gas, said, “I am delighted to see our Group has continued to maintain healthy growth, especially the gradual optimization of revenue structure. It is expected to bring stable growth and cash flow in a long term. Sufficient gas source is an essence in maintaining growth of the Group. After the Liquefied Natural Gas (“LNG”) factory in Weizhou Island, Beihai City, Guangxi came into operation last year, the LNG import terminal in Shenzhen, Guangdong province has commenced gas supply in the fourth quarter of 2006, which is beneficial to a big project of the Group, Dongguang. As China is planning and constructing more long distance pipelines, the Group can acquire more high-quality projects in the future and further diversify its gas sources.”

During the Period, the Group secured 2 new piped gas projects, Yinzhou District of Ningbo City in Zhejiang Province and Quanjiao in Anhui Province. The Group’s number of projects increased from 64 last year to 66, the connectable urban population raised to 39,417,000 (representing about 13,139,000 households). The Group stake to its existing strategy in the acquisition of peripheral towns and cities near the existing gas projects, which could fortify the economies of scale for existing gas projects. For example, Quanjiao is near to an existing gas project, Chuzhou, the distance between two projects is only 18km. The acquisition of Quanjiao can further expand the economies of scale of Chuzhou project.

The Group carried on its effort in acquisition of high-quality new piped gas projects, boosting gas penetration rates in our existing gas projects, developing compressed natural gas refuelling stations that can increase long-term natural gas sales and developing energy distribution channels to peripheral towns and cities of our gas projects, so as to have sustainable business expansion. Currently, the Group has an overall gas penetration rate of 20.9% only, and from the Group's past experience, the penetration rates can reach as high as 70% to 80%. In association with the rapid economic growth of China, the demand of natural gas from C/I customers is rocketing continuously. The Group is still at the rapid development stage in its connection and gas sales business to residential and C/I customers, which provides good revenue protection in the future. The number of vehicle refuelling stations ("refuelling stations") has further increased from 57 by the end of 2006 to 72, whilst the gas sales to vehicles has increased by 4.2 times. Thanks to its contribution to environmental protection, refuelling stations which provide clean energy for vehicle refuelling, is expected to experience rapid business growth continuously. The Group can take advantage of the existing gas source in the refuelling station business, as well as increase the economies of scale for the gas projects on hand. The Group expects that the refuelling station business will become one of Group's major catalysts to increase long-term gas sales.

In order to alleviate the disparity between demand and supply of natural gas, to enhance natural gas utilization structure and to facilitate the work for energy saving and emission reduction, the "Natural Gas Utilization Policy" (the "Policy") as approved by the State Council and drawn up by National Development and Reform Commission ("NDRC") has been formally released and executed on 30 August 2007. Under the Policy, natural gas is categorized into several types with the efficacy in social, environmental and economic dimensions considered. The types include prioritized type, approved type, restricted type and prohibited type, among which natural gas used by residential households, public services and facilities as well as vehicle-used natural gas are categorized into prioritized type. The gas utilization under prioritized type agrees with the business area of the Group. In addition, NDRC established a series of concrete protection measures in natural gas utilization. Constitution of the Policy reveals the rational attitude of China government in natural gas utilization. With the support of the Policy, the Group's gas sources are under fundamental protection.

Apart from securing more external gas sources, the Group has actively invested in internal gas sources. Since the construction for a coal conversion project at Erdos, Inner Mongolia, which is one of Group's upstream investments, has been kicked off last year, the construction is progressing satisfactorily. It is expected that the project can come into production by 2009, which enables the Group to make use of dimethyl ether ("DME"), a kind of clean energy, as a substitute for part of natural gas and liquefied petroleum gas ("LPG") directly. The gas source has thus been further diversified with increased flexibility. At the same time, the Group has implemented plans for development diversification

including bottled LPG and energy sales to peripheral towns and cities.

Mr. Wang concluded, “The implementation of policy beneficial to the downstream natural gas operator has revealed the rational attitude of China government in natural gas utilization. It augments the Group’s development in downstream business and enables the Group to connect customers more extensively under enhanced gas sources protection. Along with its rapid development, the Group has put great emphasis on the management and supervision of internal resources. Accordingly, the Group has started to build up an advanced Enterprise Resource Planning (“ERP”) system to enhance internal resources utilization and internal control since last year. The advanced system enables management to grasp more accurate and timely information every time a decision is to be made. This facilitates more effective realization of revenue increase, cost minimization and risk control, which would in turn maximize the benefit of all shareholders, employees and society. The Group can also make a contribution to environmental protection business.”

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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 equipments, 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 June 2007, the Group has 66 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 39,417,000.

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Basic Financial and Operational Data for 2007 interim results
(As of 30 June, 2007)

	Six months ended 30 June		Increase (Decrease)
	2007 (Unaudited)	2006 (Unaudited and restated)	
Revenue (RMB)	2,309,610,000	1,450,162,000	59.3%
Gross profit (RMB)	771,475,000	508,325,000	51.8%
Profit attributable to equity holders of the Company	175,497,000	125,252,000	40.1%
Earnings per share – Basic (RMB)	17.9 cents	13.6 cents	31.6%
Turnover analysis			
Gas connection (RMB)	776,937,000	583,036,000	33.3%
Sales of piped gas (RMB)	1,340,480,000	696,170,000	92.6%
Percentage of segment income in turnover(%)			
– gas connection	33.7	40.2	n/a
– sales of piped gas	58.0	48.0	n/a
– distributions of bottled liquefied petroleum gas	6.6	8.9	n/a
– sales of gas appliances	1.7	2.9	n/a
Connectable urban population	39,417,000	33,615,000	17.3%
Connectable residential households	13,139,000	11,205,000	17.3%
New natural gas connections made during the Period:			
– residential households	225,606	194,787	15.8%
– commercial/industrial (“C/I”) customers	837	603	38.8%
– installed designed daily capacity for C/I customers (m ³)	809,581	601,412	34.6%
Accumulated number of natural gas customers:			
– residential households	2,335,758 ⁽¹⁾	1,783,150 ⁽²⁾	31.0%
– C/I customers	6,639 ⁽¹⁾	4,670 ⁽²⁾	42.2%
– installed designed daily capacity for C/I customers (m ³)	5,183,417 ⁽¹⁾	3,367,699 ⁽²⁾	53.9%
Accumulated number of piped gas (including natural gas) customers:			
– residential households	2,751,582	2,174,193	26.6%
– C/I customers	7,280	5,185	40.4%
– installed designed daily capacity for C/I customers (m ³)	5,835,242	4,051,134	44.0%
Natural gas penetration rate	17.8%	15.9%	–
Piped gas (including natural gas) penetration rate	20.9%	19.4%	–
Unit of piped gas sold to residential households (m ³)	183,188,000	158,265,000	15.7%
Unit of piped gas sold to C/I customers (m ³)	848,459,000	324,878,000	1.6 times
Unit of bottled liquefied petroleum gas (“LPG”) sold (ton)	36,422	24,697	47.5%
Number of vehicle refuelling stations	72	47	25
Number of natural gas processing stations	77	73	4
Total length of existing intermediate and main pipelines (km)	10,058	8,446	19.1%

Notes:

1. Including a total of 695,591 natural gas residential customers and 1,582 natural gas C/I customers (with a total designed daily capacity of 868,146m³) from acquisition/conversion.
2. Including a total of 619,048 natural gas residential customers and 1,412 natural gas C/I customers (with a total designed daily capacity of 662,707m³) from acquisition/conversion.