



Sino Gas Group Limited
中油潔能集團有限公司

(incorporated in Hong Kong with limited liability)
 (Stock Code: 260)

Results Announcement
For the year ended 31 December 2007

The board of directors (the “Board”) of Sino Gas Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 together with the comparative figures for 2006 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
REVENUE	4	169,524	160,838
Cost of sales		<u>(147,982)</u>	<u>(118,348)</u>
Gross profit		21,542	42,490
Other income and gain	5	9,217	44,724
Selling and distribution costs		(13,231)	(8,073)
Administrative expenses		(61,442)	(38,841)
Other operating expenses, net		(1,917)	(2,615)
Finance costs	6	(11,863)	(3,436)
Impairment of items of property, plant and equipment		(10,232)	(36,706)
Impairment of interests in associates		(8,844)	(39,091)
Impairment of loans to shareholders of an associate		–	(14,300)
Impairment of available-for-sale investments		–	(2,238)
Impairment of goodwill		(71,740)	–
Impairment of trade receivables		(13,326)	(1,828)
Impairment of deposits and other receivables		(20,505)	(116,147)
Share of profits and losses of:			
Jointly-controlled entities		(1,793)	(251)
Associates		(103)	(137)
LOSS BEFORE TAX	7	(184,237)	(176,449)
Tax	8	(1,381)	(7,909)
LOSS FOR THE YEAR		<u>(185,618)</u>	<u>(184,358)</u>

	<i>Note</i>	2007 HK\$'000	2006 <i>HK\$'000</i>
Attributable to:			
Equity holders of the parent		(183,282)	(132,748)
Minority interests		<u>(2,336)</u>	<u>(51,610)</u>
		<u>(185,618)</u>	<u>(184,358)</u>
 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	9	<u>(11.18 cents)</u>	<u>(10.51 cents)</u>

CONSOLIDATED BALANCE SHEET

31 December 2007

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	246,623	175,378
Prepaid land lease payments	15,298	11,692
Goodwill	128,425	199,372
Interests in jointly-controlled entities	10,220	9,043
Interests in associates	–	8,365
Available-for-sale investments	5,029	1,800
Deposits paid for acquisition of plant and machinery	73,327	14,226
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Total non-current assets	478,922	419,876
CURRENT ASSETS		
Inventories	6,433	12,330
Trade receivables	15,911	37,471
Prepayments, deposits and other receivables	52,022	32,014
Due from an associate	7,416	–
Due from a jointly-controlled entity	–	1,678
Due from minority shareholders	17,298	8,077
Loan to a minority shareholder	9,000	–
Loan to a partner of a jointly-controlled entity	–	9,000
Cash and bank balances	135,232	59,547
	<hr/>	<hr/>
Total current assets	243,312	160,117
CURRENT LIABILITIES		
Trade payables	17,585	15,182
Other payables and accruals	41,843	26,661
Due to an associate	–	82
Due to a jointly-controlled entity	2,782	–
Due to minority shareholders	2,818	1,402
Tax payable	10,792	9,154
Interest-bearing bank and other borrowings	72,612	52,905
Finance lease payables	257	247
	<hr/>	<hr/>
Total current liabilities	148,689	105,633
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NET CURRENT ASSETS	94,623	54,484
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TOTAL ASSETS LESS CURRENT LIABILITIES	573,545	474,360
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	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	22,088	30,495
Convertible bonds	80,506	–
Finance lease payables	88	345
	<hr/>	<hr/>
Total non-current liabilities	102,682	30,840
	<hr/>	<hr/>
Net assets	470,863	443,520
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	350,371	290,671
Reserves	80,102	130,445
	<hr/>	<hr/>
	430,473	421,116
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Minority interests	40,390	22,404
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Total equity	470,863	443,520
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NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendments	Share-based Payment ¹
HKFRS 3 (Revised)	Business Combinations ⁵
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁵
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ⁴
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) operation of gas stations segment engages in the operation of petroleum, compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") refueling stations; and
- (ii) trading of gas related products segment engages in the trading of motor vehicles conversion parts and gas station equipment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) **Business segments**

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

	Operation of gas stations		Trading of gas related products		Consolidated	
	2007	2006	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:						
Sales to external customers	148,790	135,808	20,734	25,030	169,524	160,838
Other revenue	2,425	–	2,044	2,542	4,469	2,542
Total	151,215	135,808	22,778	27,572	173,993	163,380
Segment results	(26,879)	19,929	(35,877)	(147,054)	(62,756)	(127,125)
Interest and rental income and unallocated gains					4,748	42,182
Unallocated expenses					(31,886)	(34,291)
Finance costs					(11,863)	(3,436)
Impairment of interests in associates	(8,844)	(39,091)	–	–	(8,844)	(39,091)
Impairment of loans to shareholders of an associate					–	(14,300)
Impairment of goodwill	(71,740)	–	–	–	(71,740)	–
Share of profits and losses of:						
Jointly-controlled entities	(1,793)	(251)	–	–	(1,793)	(251)
Associates	(103)	(137)	–	–	(103)	(137)
Loss before tax					(184,237)	(176,449)
Tax					(1,381)	(7,909)
Loss for the year					(185,618)	(184,358)

	Operation		Trading of		Consolidated	
	of gas stations		gas related products			
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	539,468	416,011	70,494	67,718	609,962	483,729
Interests in associates	–	8,365	–	–	–	8,365
Interests in jointly-controlled entities	10,220	9,043	–	–	10,220	9,043
Unallocated assets					102,052	78,856
Total assets					722,234	579,993
Segment liabilities	22,159	9,541	36,750	26,176	58,909	35,717
Unallocated liabilities					192,462	100,756
Total liabilities					251,371	136,473
Other segment information:						
Depreciation	7,714	2,465	645	955	8,359	3,420
Corporate and other unallocated amounts					1,019	407
					9,378	3,827
Capital expenditure	83,013	151,936	2,652	4,520	85,665	156,456
Corporate and other unallocated amounts					625	24,028
					86,290	180,484
Impairment losses recognised in the income statement in respect of:						
Items of property, plant and equipment	10,061	–	171	36,706	10,232	36,706
Available-for-sale investments	–	–	–	2,238	–	2,238
Goodwill	71,740	–	–	–	71,740	–
Trade receivables	10,300	255	3,026	1,573	13,326	1,828
Deposits and other receivables	9,905	18,192	10,600	97,955	20,505	116,147

(b) **Geographical segments**

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

	Hong Kong		Mainland China		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>–</u>	<u>–</u>	<u>169,524</u>	<u>160,838</u>	<u>169,524</u>	<u>160,838</u>
Other segment information:						
Segment assets	<u>97,023</u>	<u>77,056</u>	<u>625,211</u>	<u>502,937</u>	<u>722,234</u>	<u>579,993</u>
Capital expenditure	<u>625</u>	<u>24,028</u>	<u>85,665</u>	<u>156,456</u>	<u>86,290</u>	<u>180,484</u>

5. OTHER INCOME AND GAIN

An analysis of the Group's other income and gain is as follows:

	2007	2006
	HK\$'000	HK\$'000
Other income		
Interest income	4,588	1,602
Income from the installation of infrastructure for CNG supply	2,044	2,542
Government grants received*	2,425	–
Rental income	–	259
Others	160	683
	<u>9,217</u>	<u>5,086</u>
Gain		
Gain on disposal of subsidiaries	–	39,638
	<u>9,217</u>	<u>44,724</u>

* Various government grants have been received to subsidise the operation of gas stations in various provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest on loans/bonds wholly repayable within five years:		
Bank loans	5,334	2,728
Other loans	14	–
Convertible bonds	5,728	–
Interest on bank loans wholly repayable after five years	766	131
Interest on a finance lease	21	31
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	11,863	2,890
Other finance costs:		
Increase in the discounted amounts of a loan from an associate and other loans arising from the passage of time	–	546
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	11,863	3,436
	<hr/> <hr/>	<hr/> <hr/>

7. LOSS BEFORE TAX

The Group's loss before tax is arrived after charging/(crediting):

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cost of inventories sold*	142,560	114,715
Cost of services provided	–	3,633
Auditors' remuneration	1,700	1,450
Depreciation	9,378	3,827
Recognition of prepaid land lease payments	990	558
Minimum lease payments under operating leases in respect of land and buildings	5,225	4,396
Loss on disposal of items of property, plant and equipment**	1,939	2,615
Provision for inventories*	5,422	–
Foreign exchange differences, net	119	(1,877)
	<u>119</u>	<u>(1,877)</u>

* Cost of sales disclosed in the consolidated income statement represents cost of inventories sold which included wages and salaries of HK\$2,029,000 (2006: HK\$167,000) disclosed under employee benefits expense and depreciation charges of HK\$5,209,000 (2006: HK\$1,023,000), and also provision for inventories of HK\$5,422,000 (2006: Nil) above.

** Included in "Other operating expenses, net" on the face of the consolidated income statement.

8. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Group:		
Current – Mainland China	1,381	7,909
	<u>1,381</u>	<u>7,909</u>
Total tax charge for the year	<u>1,381</u>	<u>7,909</u>

Certain subsidiaries of the Group in Mainland China were eligible for exemption from corporate income tax ("CIT") for the two or three years starting from the first year in which assessable profits were generated, and a 50% exemption from CIT for the following three years.

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$183,282,000 (2006: HK\$132,748,000), and the weighted average number of 1,639,415,300 (2006: 1,263,228,999) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

Diluted loss per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed, as the share options, warrants and convertible bonds outstanding during these years had anti-dilutive effects on the basic loss per share amounts for these years.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's consolidated revenue for the year ended 31 December 2007 amounted to HK\$169.5 million, compared with HK\$160.8 million reported in the previous corresponding year. Excluding the revenue on other gas related services amounted to HK\$29 million recorded in the revenue related to the operation of gas stations in previous year, there is an increase in gas sales revenue of approximately HK\$42 million for the current year, a jump in 39.3%. The increase in gas sales revenue was mainly contributed from the newly constructed CNG refueling stations in the People's Republic of China (the "PRC") in this year.

The Group recorded a gross profit from gas sales activities of HK\$21.5 million for the year ended 31 December 2007, which represented a slight improvement on the gas sales gross profit of HK\$17.1 million reported in the previous year while excluding the gross profit from other gas related services of HK\$25.4 million in the previous year.

Although there was improvement on gas sales revenue in 2007, the launch of new gas refueling stations during the year resulted in the surge of related fixed overheads, which could not be balancing off by the increase in gas sales owing to the initial running under-utilizations. Couple with the provisions in goodwill and other historical investments, the Group's consolidated loss attributable to equity holders for the year ended 31 December 2007 amounted to HK\$183.3 million, compared with the loss amounted to HK\$132.7 million for the previous year. The increase in fixed overheads was mainly due to the normal increment in depreciation and staff costs, and also finance costs on bank borrowings and convertible bonds issued during the year.

Besides, an employee share options expense amounted to approximately HK\$12.7 million (2006: HK\$7.5 million) was recorded in administrative expenses during the year.

The Group has focused on the CNG vehicles refueling stations business since January 2005 and its business achievement up-to-date is respectable. The Board is confident of its business outlook and the Group is in well position to achieve its business roadmap.

Operational review

During the year, the Group has successfully constructed 4 new mother stations in the PRC to secure additional gas supply in facilitating further downstream CNG refueling stations expansion in future.

In 2007, the Group has also successfully penetrated into a number of new cities in the PRC including Guangzhou, which the Group have already constructed 2 new gas refueling stations and is committed to build more stations to penetrate this vast vehicles market.

In addition to Guangzhou, the Group has successfully established presence and increased its retail penetrations in various cities in the PRC, including Changchun, Jinan, Chengdu, Xuzhou, Anhui and Henan Province. Although the result for the year 2007 has not yet reflected the full capacity of these new projects, the Board expects these new projects should contribute respectable revenue and profit in the near future. In addition to expand presence in existing cities, the Group is expanding into other key major cities in the PRC including Jiangxi Province and Shanxi Province. Going forward, the Group continues to focus on the vehicles gas consumption market and targets to complete more CNG mother and daughter stations. The next few years will be a great leap period for the Group and the Board is confident that the Group is well positioned to capture this growing market in the PRC.

Business outlook

The Group will continue to focus its activities of gas related business and expand its natural gas business in the PRC. The use of CNG in the PRC is becoming more popular, partly due to government policies in the PRC in promoting natural gas as a more environmental friendly energy source and partly due to the fact that natural gas is more cost-efficient than other energy sources such as petroleum. In addition to the use of CNG in households and for industrial purposes, CNG has also become increasingly popular energy sources for motor vehicles because it is a cheaper and cleaner substitute of petroleum. The Group will continue to construct more CNG refueling stations in various cities in the PRC. Leveraging on its experience and management expertise, the Group will further consolidate its leading marketplace in the PRC.

Financial resources

During the year ended 31 December 2007, the financial position of the Group was strengthened by the net proceeds of approximately HK\$145.3 million received from the issuance of 284,500,000 Company's shares and 41,000,000 options in January and June 2007, respectively, and by issuing convertible bonds with aggregate principal amounts of HK\$85.8 million to shareholders in January and March 2007. The proceeds are used for the expansion of the Group's gas related business.

At 31 December 2007, the Group's borrowings (including interest-bearing bank and other loans and finance lease payables) amounted to approximately HK\$95 million (2006: HK\$84 million), of which HK\$62 million (2006: HK\$50 million) were related to bank borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of total borrowings to equity attributable to equity holders of the parent of HK\$430.5 million (2006: HK\$421.1 million) was 22.1% (2006: 19.9%). Cash and bank balances were HK\$135.2 million (2006: HK\$59.5 million). Accordingly, the Group has maintained a net cash position as at 31 December 2007.

During the year ended 31 December 2007, the Group was not materially exposed to foreign currency risk.

Dividend

The Board does not recommend the payment of dividend for the year ended 31 December 2007 (2006: Nil).

Staff benefit

At 31 December 2007, the Group had a total of 673 employees. The total employees' remuneration for the year ended 31 December 2007 amounted to approximately HK\$36.3 million. The Group continues to provide remuneration package to employees according to market practices, their experience and performance. Other benefits include contribution of statutory mandatory provident fund for the employees and medical scheme. There was no major change on staff remuneration policies during the year.

Charges on group assets

At 31 December 2007, the Group had pledged equity interests of certain subsidiaries of the Company and the office premises in Hong Kong for the loans granted from a local financial institution.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year.

AUDIT COMMITTEE

The members of the audit committee are Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei, all of whom are independent non-executive directors. During the year, the audit committee held two meetings to review the accounting standards and practices adopted by the Group and to discuss on matters regarding the internal control and financial reporting (including the interim and annual results before proposing them to the Board for approval) with the management and external auditors. The audit committee has reviewed the annual results of the Company for the year.

PUBLICATION ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

The results announcement of the Company containing all information required by paragraph 45 of Appendix 16 of the Listing Rules is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.irasia.com/listco/hk/sinogas) in due course.

By order of the Board
Sino Gas Group Limited
Lo Chi Ho, William
Chief Executive Officer

Hong Kong, 25 April 2008

As of the date of this announcement, the Board comprises seven directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Lo Chi Ho William (Chief Executive Officer), Mr. Sun Wenhao and Mr. Ji Hui are the executive directors; Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei are the independent non-executive directors.