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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 2010

The board of directors (the "Board") of Sino Gas Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with the comparative figures for 2009 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
REVENUE	4	**943,433**	614,325
Cost of sales		**(795,691)**	(475,067)
Gross profit		**147,742**	139,258
Other income and gains	4	**20,327**	18,874
Selling and distribution costs		**(65,955)**	(40,686)
Administrative expenses		**(105,621)**	(76,944)
Other operating expenses, net		**(5,062)**	(1,599)
Finance costs	6	**(15,245)**	(11,562)
Impairment of items of property, plant and equipment	5	**–**	(1,058)
Impairment of trade and bills receivables	5	**(1,550)**	(196)
Write-back of impairment/(impairment) of deposits and other receivables	5	**(2,061)**	3,168
Share of profits and losses of jointly-controlled entities		**2,411**	1,779
Share of profits and losses of associates		**(107)**	–

	Notes	**2010** *HK$'000*	2009 *HK$'000*
PROFIT/(LOSS) BEFORE TAX	5	**(25,121)**	31,034
Income tax expense	7	**(10,631)**	(13,945)
PROFIT/(LOSS) FOR THE YEAR		**(35,752)**	17,089
Attributable to:			
Owners of the parent		**(27,937)**	(5,023)
Non-controlling interests		**(7,815)**	22,112
		(35,752)	17,089
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		**(HK1.38 cents)**	(HK0.28 cent)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(35,752)**	17,089
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**19,860**	3,592
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(15,892)**	20,681
Attributable to:		
Owners of the parent	**(9,982)**	(1,763)
Non-controlling interests	**(5,910)**	22,444
	(15,892)	20,681

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**423,051**	426,842
Investment property		**5,834**	–
Prepaid land lease payments		**40,603**	39,760
Goodwill		**128,462**	128,462
Investments in jointly-controlled entities		**14,625**	14,176
Investments in associates		**33,634**	1,140
Available-for-sale investments		**–**	3,326
Prepayments and deposits		**12,950**	31,135
Due from a non-controlling shareholder		**17,700**	17,100
Total non-current assets		**676,859**	661,941
CURRENT ASSETS			
Inventories		**5,695**	8,767
Trade and bills receivables	10	**15,077**	11,751
Prepayments, deposits and other receivables		**38,609**	31,003
Loan to a non-controlling shareholder		**–**	9,500
Due from non-controlling shareholders		**16,883**	16,660
Due from a jointly-controlled entity		**2,214**	–
Available-for-sale investment		**23,600**	–
Cash and bank balances		**146,807**	118,944
Total current assets		**248,885**	196,625
CURRENT LIABILITIES			
Trade payables	11	**9,242**	11,814
Other payables and accruals		**39,171**	41,550
Due to non-controlling shareholders		**1,444**	1,060
Due to an associate		**113**	109
Due to a jointly-controlled entity		**461**	503
Loans from a shareholder		**–**	30,974
Tax payable		**17,055**	16,823
Interest-bearing bank and other borrowings		**109,300**	129,841
Convertible bonds		**57,237**	–
Total current liabilities		**234,023**	232,674
NET CURRENT ASSETS/(LIABILITIES)		**14,862**	(36,049)
TOTAL ASSETS LESS CURRENT LIABILITIES		**691,721**	625,892

	2010	2009
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Other payables and accruals	**1,123**	–
Loans from a shareholder	**30,974**	–
Interest-bearing bank and other borrowings	**–**	37,388
Convertible bonds	**–**	50,570
Total non-current liabilities	**32,097**	87,958
Net assets	**659,624**	537,934
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**428,471**	361,471
Equity component of convertible bonds	**12,872**	12,872
Reserves	**161,414**	91,964
	602,757	466,307
Non-controlling interests	**56,867**	71,627
Total equity	**659,624**	537,934

Notes:

1. CORPORATE INFORMATION

Sino Gas Group Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Unit 704D, 7/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

During the year, the Group was principally involved in the operation of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") refueling stations.

2.1 BASIS OF PREPARATION

These financial information 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial information are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial information include the financial information of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial information of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial information.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial information.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group.

2.3 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 information:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Deferred tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Addition") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3. OPERATING SEGMENT INFORMATION

In determining the Group's geographical segments, revenues and results 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. As the Group's major operations and markets are located in the Mainland China, no further geographical segment information is provided.

For management purpose, the Group has only one reportable operating segment, which is the operation of gas stations and engaging in the operation of CNG and LPG refueling stations.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents sales of CNG and LPG by operation of gas stations during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Operation of gas stations	**943,433**	614,325
Other income		
Interest income	**645**	409
Installation service income	**–**	10,260
Government grants received*	**2,997**	3,092
Rental income	**2,534**	922
Trading of gas-related products	**193**	982
Others	**688**	824
	7,057	16,489
Gains		
Gain on disposal of items of property, plant and equipment	**9,437**	–
Gain on disposal of subsidiaries	**1,667**	2,248
Gain on disposal of an available-for-sale investment	**2,166**	–
Excess over the cost of business combination	**–**	137
	13,270	2,385
	20,327	18,874

* 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.

5. PROFIT/(LOSS) BEFORE TAX

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold*	**776,614**	460,845
Auditors' remuneration	**2,694**	1,800
Depreciation on property, plant and equipment	**37,490**	29,474
Depreciation on investment property	**24**	–
Minimum lease payments under operating leases in respect of land and buildings	**14,033**	7,735
Less: minimum lease payments capitalised	**(746)**	(672)
Net minimum lease payments under operating leases in respect of land and buildings	**13,287**	7,063
Amortisation of land lease payments	**3,830**	2,421
Loss/(gain) on disposal of items of property, plant and equipment	**(9,437)**	14
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries and allowances	**56,691**	41,272
Equity-settled share option expense	**16,956**	–
Pension scheme contributions	**101**	167
Less: Forfeited contributions	**(10)**	–
Net pension scheme contributions***	**91**	167
	73,738	41,439
Impairment of items of property, plant and equipment	**–**	1,058
Impairment of trade and bills receivables	**1,550**	196
Impairment/(write-back of impairment) of deposits and other receivables	**2,061**	(3,168)
Impairment of inventories**	**5,062**	1,585
Foreign exchange differences, net	**(291)**	3

* Cost of sales disclosed on the face of the consolidated income statement comprises cost of inventories sold, wages and salaries of HK$4,902,000 (2009: HK$3,824,000) disclosed under employee benefit expense and depreciation charges of HK$14,175,000 (2009: HK$10,398,000) above.

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

*** At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2010	2009
	HK$'000	*HK$'000*
Interest on loans/bonds wholly repayable within five years:		
Bank loans	**6,262**	3,613
Other loans	**4,143**	3,984
Convertible bonds	**7,841**	6,220
Interest on bank loans wholly repayable after five years	**–**	590
Interest on a finance lease	**–**	1
Total interest expense on financial liabilities	**18,246**	14,408
Less: interest capitalised	**(3,001)**	(2,846)
	15,245	11,562

7. INCOME 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 (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	2010	2009
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**10,631**	13,945

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

The share of tax attributable to jointly-controlled entities amounting to HK$967,000 (2009: HK$701,000) is included in "Share of profits and losses of jointly-controlled entities" in the consolidated income statement.

Pursuant to the PRC Corporate Income Tax Law, 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$27,937,000 (2009: HK$5,023,000), and the weighted average number of ordinary shares of 2,031,135,848 (2009: 1,807,355,026) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

9. DIVIDEND

The directors do not recommend the payment of dividend to shareholders for the year ended 31 December 2010 (2009: Nil).

10. TRADE AND BILLS RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade and bills receivables	**16,682**	11,947
Impairment	**(1,605)**	(196)
	15,077	11,751

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**15,006**	11,371
91 to 120 days	**71**	43
Over 120 days	**1,605**	533
	16,682	11,947

11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**5,563**	5,866
91 to 120 days	**14**	10
Over 120 days	**3,665**	5,938
	9,242	11,814

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

CHAIRMAN'S STATEMENT

While the Group continued to achieve significant growth of 54% in turnover in 2010, the operating results were below expectation due to squeeze in profit margins amid an increasingly competitive operating environment and high selling and distribution costs and administrative expenses. Consolidated loss attributable to owners of the parent for the year ended 31 December 2010 amounted to HK$27,937,000 which was largely due to a one-off non-cash share-based payment expense of HK$21,196,000 arising from the grant of 200,000,000 share options under the Group's share option incentive scheme to eligible participants. If this one-off non-cash expense item was excluded, the underlying consolidated loss attributable to owners of the parent would have been HK$6,741,000 in 2010 (2009: HK$5,023,000). Appropriate measures are being taken by management to improve overall operating efficiency and for more effective deployment of resources of the Group.

The outlook for the natural gas sector in China is bright. In China's 12th Five-Year Plan, it is estimated that annual growth in production of natural gas will be maintained at 13% - 15%. The proportion of natural gas to the total energy consumption in China is anticipated to increase from the current level of approximately 4% to 8% by the end of the 12th Five-Year Plan. It is estimated that the consumption of natural gas will increase by 20% to reach 130 billion m^3 in 2011. There are supporting government policies to encourage the usage of natural gas as an alternative source of clean energy to petrol as well as setting a target to gradually raise natural gas prices for vehicle use to an average of 75% of petrol prices. The Group is well-positioned to capture the growth potential of the natural gas sector in China.

Barring unforeseen circumstances, the Group's operating results are expected to improve in 2011 after implementation of appropriate measures to improve the overall operating efficiency. Meanwhile, the Group will continue to look for appropriate investment opportunities to enhance shareholder return and maximize long-term benefits for shareholders, staff and the community. On behalf of the Group, I would like to thank Mr. Sun Wenhao (who resigned as executive director of the Company in December 2010) for his valuable contributions to the Group in the past and extend its warm welcome to Mr. Zang Zheng in joining the Board. I would also like to extend my thanks to the Board, all staff, professionals and shareholders for their support during the year.

Ji Guirong
Chairman
Hong Kong

10 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

1) Financial Review

The Group continued to register strong growth in consolidated revenue amounting to HK$943,433,000 for the year ended 31 December 2010, up 54% from the previous year. The consolidated revenue was derived from the operation of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") vehicle refueling stations in China.

The Group's gross profit for the year ended 31 December 2010 was HK$147,742,000 (2009: HK$139,258,000), an increase of 6% over the corresponding period of last year.

Despite the substantial increase in revenue, the operating result was below expectation due to a significant decline of gross profit margin from 23% in 2009 to 16% in 2010, which was mainly caused by (i) overall lower profit margins of LPG and CNG businesses (ii) as mentioned in the 2010 interim report, there was a time lag (up to 4 months in certain regions) between the hike of natural gas standard supply price of 23-25% sanctioned by National Development and Reform Commission of China and the grant of local government approval for the Group to raise the sales price to its customers (iii) several months prior to and during the period of the Asian Games held in Guangzhou, the municipal government put a temporary freeze on LPG prices, as a result of that, higher LPG supply prices could not be passed on to customers during that period and (iv) intensified competition.

The Group's consolidated loss attributable to owners of the parent for the year ended 31 December 2010 was HK$27,937,000, up significantly from a loss of HK$5,023,000 in 2009 due to hefty increases in selling and distribution costs and administrative expenses, which was largely due to a one-off non-cash share-based payment expense of HK$21,196,000 included in administrative expenses arising from the grant of 200,000,000 share options under the share option incentive scheme to eligible participants in 2010. If this one-off non-cash expense item was excluded, the underlying consolidated loss attributable to owners of the parent would have been HK$6,741,000 in 2010 (2009: HK$5,023,000).

2) Operational Review

(1) Gas Business

The Group continued to achieve significant growth: sales of CNG and LPG reached 142,260,000 m^3 and 49,236 tons respectively for the year ended 31 December 2010, representing an increase of 32% and 49% respectively over the previous year.

Major business development of the gas business is summarised below:

South-western China District: The Group's business in this district concentrates in Chengdu, the hub of Southwest. The Group has reached an agreement in principle with an entity under Chengdu municipal government to form a joint venture to build 8 CNG refueling stations in stages in the vicinity of the Third Ring Road.

Inland China District: In Zhengzhou, 2 new CNG stations have commenced operation. The Group has expanded its business to provide refueling service to taxis and private cars as well.

Central China District: In Anhui, 4 CNG stations are now in operation. In Xuzhou, the Group maintained a strong market position with over 50% market share.

Southern China District: In Guangzhou and Ganzhou, the Group further enhanced its market position and competitiveness.

Shandong District: Despite keen competition, the Group has increased its market share in Jinan to over 50% and has begun selling gas to industrial users.

North-eastern China District: In addition to maintaining its leading market position in the area the Group operates in, the Group is in discussion with a potential joint venture partner to build a LNG storage tank in Changchun.

(2) Vehicle Conversion Kit

A new generation of multiple-injection vehicle conversion kits developed by the Group has passed the testing standards of the Chinese government for production. However, in light of the fierce competition in China for similar products, the Group will make further study on the market situation before taking a decision on the future development plan of this product.

Business Outlook

Since the Group commenced its LPG/CNG refueling stations business in China in 2004, the development of China's market for LPG/CNG fueled vehicles is gradually taking shape. As the economy continued to improve in 2009 and 2010, a number of major state-owned energy enterprises and privately-owned enterprises have entered this market segment, which led to intensified competition for the Group's business. Nonetheless, the use of CNG as an alternative source of clean energy to petrol is well supported by China's government policies and is in line with China's commitment to reducing the emission of CO_2 to the international community at the 2009 Copenhagen Climate Change Summit and the 2010 UN Climate Summit in Cancun. Following the increase in car ownership and growing concern of pollution in China, it is expected that both the usage and prices of CNG as vehicle fuel will be on an upward trend in the coming years.

On the other hand, the Group operates in an increasingly challenging environment where profit margins are squeezed as a result of intensified competition and tight gas supply coupled with inflationary pressure on operating costs. To address these difficulties, management is taking measures to reduce costs, increase the utilization rate of the designed capacity of its gas stations and look for ways for more effective deployment of its resources in 2011.

Barring unforeseen circumstances, the Group's operating results in 2011 are expected to improve after implementation of the above-mentioned measures. The Board is optimistic about the long term development of the Group and will continue to look for suitable investment opportunities to broaden its earnings base and enhance its shareholder value.

Financial Resources

During the year ended 31 December 2010, the financial position of the Group was strengthened by the net proceeds of approximately HK$125.3 million received from the issuance of totaling 335,000,000 Company's ordinary shares in April, May and June 2010. The proceeds are used for the Group's general working capital.

At 31 December 2010, the Group's borrowings (including interest-bearing bank and other borrowings and loans from a shareholder) amounted to approximately HK$140.3 million (2009: HK$198.2 million), of which HK$107.2 million (2009: HK$142.6 million) were related to bank and other borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of Group's borrowings to equity attributable to owners of the parent of HK$602.8 million (2009: HK$466.3 million) was 23.3% (2009: 42.5%). Cash and bank balances were HK$146.8 million (2009: HK$118.9 million).

During the year ended 31 December 2010, 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 2010 (2009: Nil).

Staff Benefit

At 31 December 2010, the Group had a total of 1,332 employees (2009: 1,171). The staff costs for the year ended 31 December 2010 amounted to approximately HK$80.6 million (2009: HK$46.3 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.

Human Resources

The Group firmly believes that talent is the most important corporate asset, therefore, it places a lot of emphasis in recruiting and cultivation of talent.

In 2009, the Group signed an agreement with a vocational school in Chongqing for training of technical personnel in the natural gas sector. With this program, a continuous supply of technical professionals to join the Group is guaranteed enhancing the skill level and professionalism of the Group.

The Group treasures its existing staff. Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group provides internal training for existing staff and makes further study part of the welfare or incentive system for staff. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan for their career development, which lays a solid foundation for sound and sustainable development of the Group.

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 PRACTICES

The Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year, save and except that the independent non-executive directors of the Company have not been appointed for a specific term, deviating from the code provision A.4.1 of the Code. However, the independent non-executive directors of the Company are subject to retirement and re-election at least once every three years in accordance with the articles of association of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the year.

AUDIT COMMITTEE

The audit committee, comprises the three independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's consolidated results for the year have been reviewed by the audit committee, who is of the opinion that such financial information comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

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 to 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
Ji Hui
Chief Executive Officer

Hong Kong, 10 March 2011

As of the date of this announcement, the Board comprises six directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Ji Hui (Chief Executive Officer) and Mr. Zang Zheng are the executive directors; Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei are the independent non-executive directors.