Sino Gas Group Limited
中油潔能集團有限公司

(incorporated in Hong Kong with limited liability)
(Stock Code: 260)
website: http://www.irasia.com/listco/hk/sinogas

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006 together with the comparative figures for the eighteen months period ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	**Year ended 31 December 2006** ***HK$'000***	Period from 1 July 2004 to 31 December 2005 *HK$'000*
REVENUE	4	**160,838**	170,736
Cost of sales		**(118,348)**	(113,367)
Gross profit		**42,490**	57,369
Other income and gains	5	**44,724**	16,087
Selling and distribution costs		**(8,073)**	(6,021)
Administrative expenses		**(38,841)**	(40,375)
Other operating income/(expenses), net		**(4,443)**	7,771
Finance costs	7	**(3,436)**	(10,545)
Impairment of items of property, plant and equipment		**(36,706)**	–
Impairment of deposits and other receivables		**(116,147)**	–
Impairment of available-for-sale investments		**(2,238)**	(139,027)
Impairment of interests in associates		**(39,091)**	(27,980)
Impairment of loans to shareholders of an associate		**(14,300)**	–
Share of profits and losses of:			
Jointly-controlled entities		**(251)**	(235)
Associates		**(137)**	(826)
LOSS BEFORE TAX	6	**(176,449)**	(143,782)
Tax	8	**(7,909)**	(3,802)
LOSS FOR THE YEAR/PERIOD		**(184,358)**	(147,584)
Attributable to:			
Equity holders of the parent		**(132,748)**	(159,767)
Minority interests		**(51,610)**	12,183
		(184,358)	(147,584)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
– Basic		**(10.51 cents)**	(31.93 cents)

CONSOLIDATED BALANCE SHEET

31 December 2006

	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**175,378**	143,142
Prepaid land lease payments	**11,692**	3,365
Goodwill	**199,372**	100,158
Interests in jointly-controlled entities	**9,043**	18,220
Interests in associates	**8,365**	46,859
Available-for-sale investments	**1,800**	3,319
Deposits paid for acquisition of plant and machinery	**14,226**	51,438
Total non-current assets	**419,876**	366,501
CURRENT ASSETS		
Inventories	**12,330**	10,633
Trade receivables	**37,471**	16,202
Prepayments, deposits and other receivables	**32,014**	33,645
Loans to shareholders of an associate	**–**	14,300
Due from an associate	**–**	3,617
Due from a jointly-controlled entity	**1,678**	–
Due from minority shareholders	**8,077**	–
Loan to a partner of a jointly-controlled entity	**9,000**	2,700
Cash and bank balances	**59,547**	32,358
Total current assets	**160,117**	113,455
CURRENT LIABILITIES		
Trade payables	**15,182**	9,900
Other payables and accruals	**26,661**	46,691
Due to an associate	**82**	-
Due to jointly-controlled entities	**–**	8,762
Due to minority shareholders	**1,402**	1,114
Tax payable	**9,154**	3,556
Interest-bearing bank and other borrowings	**52,905**	76,784
Finance lease payables	**247**	236
Total current liabilities	**105,633**	147,043
NET CURRENT ASSETS/(LIABILITIES)	**54,484**	(33,588)
TOTAL ASSETS LESS CURRENT LIABILITIES	**474,360**	332,913
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**30,495**	–
Finance lease payables	**345**	592
Total non-current liabilities	**30,840**	592
Net assets	**443,520**	332,321
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**290,671**	200,971
Reserves	**130,445**	85,055
	421,116	286,026
Minority interests	**22,404**	46,295
Total equity	**443,520**	332,321

Notes:

1. **BASIS OF PREPARATION AND PRESENTATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include 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 (HK$'000) except when otherwise indicated.

The comparative consolidated financial statements covered a financial period of eighteen months from 1 July 2004 to 31 December 2005. Accordingly, the comparative amounts for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and the related notes are not comparable with those of the current year.

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 interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) **HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 27 Consolidated and Separate Financial Statements**

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements. This change has had no material impact on these financial statements.

(c) **HKAS 39 Financial Instruments: Recognition and Measurement**

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(d) **HK(IFRIC)-Int 4 Determining whether an Arrangement contains a lease**

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
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
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to HKAS 34 Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about the products and services provided by the segments, geographical areas in which the Group operates and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

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 the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, 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;

(ii) trading of gas related products segment engages in the trading of motor vehicles conversion parts and gas station equipment; and

(iii) trading of securities and investment holding segment engages in the trading of and investment in equity investments.

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 year ended 31 December 2006 and the period from 1 July 2004 to 31 December 2005.

	Operation of gas stations		**Trading of gas related products**		**Securities trading and investment holding**		**Consolidated**	
	Year ended 31 December 2006	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**135,808**	136,001	**25,030**	20,728	**–**	14,007	**160,838**	170,736
Other revenue	**–**	–	**2,542**	–	**–**	–	**2,542**	–
Total	**135,808**	136,001	**27,572**	20,728	**–**	14,007	**163,380**	170,736
Segment results	**19,929**	44,397	**(147,054)**	2,676	**(2,238)**	(139,149)	**(129,363)**	(92,076)
Interest and rental income and unallocated gains							**2,544**	4,143
Unallocated expenses							**(32,053)**	(26,749)
Finance costs							**(3,436)**	(10,545)
Gain on disposal of subsidiaries	**–**	–	**–**	–	**39,638**	2,917	**39,638**	2,917
Gain on disposal of an associate						1,446	**–**	1,446
Gain on disposal of an available-for-sale investment						6,123	**–**	6,123
Impairment of interests in associates	**(30,784)**	–	**–**	–	**(8,307)**	(27,980)	**(39,091)**	(27,980)
Impairment of loans to shareholders of an associate							**(14,300)**	–
Share of profits and losses of:								
Jointly-controlled entities	**(11)**	(51)	**–**	–	**(240)**	(184)	**(251)**	(235)
Associates	**1,016**	671	**–**	–	**(1,153)**	(1,497)	**(137)**	(826)
Loss before tax							**(176,449)**	(143,782)
Tax							**(7,909)**	(3,802)
Loss for the year/period							**(184,358)**	(147,584)

	Operation of gas stations		Trading of gas related products		Securities trading and investment holding		Consolidated	
	Year ended 31 December 2006	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities								
Segment assets	**416,011**	229,078	**67,718**	131,993	**1,800**	21,448	**485,529**	382,519
Interests in associates	**8,365**	37,683	**–**	–	**–**	9,176	**8,365**	46,859
Interests in jointly-controlled entities	**–**	9,369	**–**	–	**9,043**	8,851	**9,043**	18,220
Unallocated assets							**77,056**	32,358
Total assets							**579,993**	479,956
Segment liabilities	**9,541**	19,993	**26,176**	35,481	**–**	–	**35,717**	55,474
Interest-bearing bank and other borrowings	**–**	–	**–**	–	**–**	–	**83,992**	77,612
Unallocated liabilities							**16,764**	14,549
Total liabilities							**136,473**	147,635

	Operation of gas stations		Trading of gas related products		Securities trading and investment holding		Consolidated	
	Year ended 31 December 2006	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Depreciation	**2,465**	1,932	**955**	1,122	**324**	947	**3,744**	4,001
Corporate and other unallocated amounts							**83**	–
							3,827	4,001
Capital expenditure	**151,936**	94,543	**4,520**	36,347	**728**	18	**157,184**	130,908
Corporate and other unallocated amounts							**23,300**	–
							180,484	130,908
Impairment losses recognised in the income statement in respect of:								
Available-for-sale investments	**–**	–	**1,462**	–	**776**	139,027	**2,238**	139,027
Trade receivables	**255**	–	**1,573**	–	**–**	–	**1,828**	–
Deposits and other receivables	**17,415**	–	**97,955**	–	**777**	–	**116,147**	–
Property, plant and equipment	**–**	–	**36,706**	–	**–**	–	**36,706**	–

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2006 and the period from 1 July 2004 to 31 December 2005.

	Hong Kong		Mainland China		Consolidated	
	Year ended 31 December 2006	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005	**Year ended 31 December 2006**	Period ended 31 December 2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**–**	14,007	**160,838**	156,729	**160,838**	170,736
Other segment information:						
Segment assets	**77,056**	32,650	**502,937**	447,306	**579,993**	479,956
Capital expenditure	**24,028**	18	**156,456**	130,890	**180,484**	130,908

5. OTHER INCOME AND GAINS

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

	Year ended 31 December 2006 *HK$'000*	Period from 1 July 2004 to 31 December 2005 *HK$'000*
Other income		
Interest income	**1,602**	1,288
Income from installation of infrastructure for CNG supply	**2,542**	–
Rental income	**259**	478
Commission income	**–**	2,312
Others	**683**	1,523
	5,086	5,601
Gains		
Gain on disposal of subsidiaries	**39,638**	2,917
Gain on disposal of an associate	**–**	1,446
Gain on disposal of an available-for-sale investment	**–**	6,123
	39,638	10,486
	44,724	16,087

6. LOSS BEFORE TAX

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

	Year ended 31 December 2006 *HK$'000*	Period from 1 July 2004 to 31 December 2005 *HK$'000*
Cost of inventories sold*	**114,715**	99,245
Cost of services provided	**3,633**	–
Cost of equity investments held for trading sold	**–**	14,122
Auditors' remuneration	**1,450**	1,563
Depreciation	**3,827**	4,001
Recognition of prepaid land lease payments	**558**	10
Minimum lease payments under operating leases in respect of land and buildings	**4,396**	3,363
Loss on disposal of items of property, plant and equipment***	**2,615**	3,038
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries and allowances	**12,177**	10,656
Equity-settled employee share option expense	**6,591**	–
Pension scheme contributions	**200**	618
Less: Forfeited contributions	**(140)**	(316)
Net pension scheme contributions**	**60**	302
	18,828	10,958
Impairment of deposits and other receivables#	**116,147**	–
Impairment/(reversal of impairment) of trade receivables***	**1,828**	(10,809)
Foreign exchange differences, net	**(1,877)**	1,214

* Included wages and salaries of HK$167,000 (period ended 31 December 2005: Nil) disclosed under employee benefits expense and depreciation charges of HK$1,023,000 (period ended 31 December 2005: Nil) disclosed under depreciation.

** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (period ended 31 December 2005: Nil).

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

As at 31 December 2006, the directors had performed an impairment testing on the Group's deposits and other receivables and considered that certain deposits cannot be recovered as a result of the deterioration of the financial positions of relevant debtors and/or the termination of certain contracts for acquisition of plant and machinery as a result of the change of the principal activities of certain subsidiaries and accordingly, provision for impairment of HK$116,147,000 was charged to the consolidated income statement during the year (period ended 31 December 2005: Nil).

7. FINANCE COSTS

	Group	
	Year ended 31 December 2006 *HK$'000*	Period from 1 July 2004 to 31 December 2005 *HK$'000*
Interest on bank loans wholly repayable within five years	**2,728**	6,055
Interest on bank loans wholly repayable after five years	**131**	-
Interest on other loans wholly repayable within five years	**–**	63
Interest on finance leases	**31**	126
Total interest	**2,890**	6,244
Other finance costs:		
Increase in discounted amount of a loan from an associate and other loans arising from the passage of time	**546**	4,301
	3,436	10,545

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 (period ended 31 December 2005: 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.

	Year ended 31 December 2006 *HK$'000*	Period ended 1 July 2004 to 31 December 2005 *HK$'000*
Group:		
Current – Mainland China	**7,909**	3,802
Total tax charge for the year/period	**7,909**	3,802

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.

The share of tax attributable to associates and jointly-controlled entities amounting to nil (period ended 31 December 2005: HK$195,000) and nil (period ended 31 December 2005: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

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/period attributable to ordinary equity holders of the parent of HK$132,748,000 (period ended 31 December 2005: HK$159,767,000), and the weighted average number of 1,263,228,999 (2005: 500,391,862) ordinary shares in issue during the year/period, as adjusted to reflect the rights issue during the year/period.

Diluted loss per share amounts for the year ended 31 December 2006 and period ended 31 December 2005 have not been disclosed, as the share options and warrants outstanding during the year/period had anti-dilutive effects on the basic loss per share for the year/period.

10. POST BALANCE SHEET EVENTS

(a) On 19 December 2006, the Company entered into a share subscription agreement with an independent third party to issue 42,500,000 ordinary shares of the Company at a subscription price of HK$0.55 per share for a total cash consideration of HK$23,375,000, before expenses. On the same date, the Company entered into a convertible bond agreement with this party to issue convertible bonds with a principal amount of HK$39,000,000. The convertible bonds can be converted into the ordinary shares of the Company at the initial conversion price of HK$0.65 per conversion share. These transactions were completed on 10 January 2007 upon the approval of the Stock Exchange.

(b) In January 2007, the Company issued convertible bonds with principal amounts of HK$15,600,000 and HK$31,200,000 to existing shareholders, respectively. Assuming full conversion of the convertible bonds at the conversion price of HK$0.65 per share, the convertible bonds can be converted into 72,000,000 ordinary shares of the Company.

(c) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

The convertible bonds as mentioned in (a) and (b) above are interest-bearing at 2% per annum and the holders have the right to convert the convertible bonds into ordinary shares of the Company at HK$0.65 per share (subject to adjustment upon the change in the capital structure of the Company) and the convertible bonds will mature two years after the issue of the convertible bonds. Besides, upon the occurrence of certain mandatory conversion events, the Company shall have the right to require the conversion of the principal amount then outstanding and all interest accrued thereon into ordinary shares of the Company at the then conversion price.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated loss attributable to equity holders for the year ended 31 December 2006 amounted to HK$132.7 million, which represented a slight improvement on the net loss of HK$159.8 million reported in the previous corresponding period. Increase in revenue was mainly attributable to the sales of natural gas which contributed from the newly constructed CNG refueling stations, as well as the CNG equipment related income for providing solutions to equipment and gas operators.

The Group recorded a gross profit from operating activities of HK$42.5 million for the year, mainly due to the increase in gas stations operated. The reported loss for the year was mainly due to the one-off provision of approximately HK$168.8 million made in relation to the Group's restructuring of its subsidiaries' non-profitable investments acquired in prior periods. This provision does not adversely affect the Group's existing operations and the Board believes this restructuring is an exception and creates a stronger balance sheet for the Group to expand its business further in the People's Republic of China (the "PRC"). Besides, due to the adoption of new accounting standards, an employee share options expense amounted to approximately 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 achievements up-to-date is respectable. After the Group's restructuring and its one-off provision, the Group is in better position to achieve its business roadmap.

OPERATIONAL REVIEW

During the year, the Group has successfully teamed up with Zhengzhou Public Bus Co. Limited and Xuzhou Public Bus Co. Limited by setting up joint ventures with them to secure 20 years bus fuel gas usage contracts.

In addition, the Group has successfully established presence and increasing its retail penetrations in various cities in the PRC, including Guangzhou, Changchun, Jinan, Chengdu, and Henan province. Although the result for the year 2006 has not yet reflected the full capacity of these new projects, the Board expects these new projects should contribute respectable profit in the near future. Going forward, the Group continues to focus on the vehicles gas consumption market and targets to complete more 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 2006, the financial position of the Group was strengthened by the net proceeds of approximately HK$137 million received from the issuance of 265,000,000 Company's shares in March and August 2006, respectively, and subsequent to the balance sheet date, the Company further raised HK$62.4 million (before issue expenses) by issuing 42,500,000 Company's new shares and convertible bonds with a principal amount of HK$39 million to an independent third party, and HK$46.8 million (before issue expenses) by issuing convertible bonds with principal amounts of HK$15.6 million and HK$31.2 million to existing shareholders, respectively. The proceeds will be used for the expansion of Group's business.

At 31 December 2006, total borrowings of the Group were approximately HK$84 million, of which HK$50 million were related to bank borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi. Shareholders' equity was HK$421.1 million. Accordingly, the gearing ratio of the Group as at 31 December 2006 was 20%.

During the year ended 31 December 2006, the Group was not materially exposed to exchange risk.

DIVIDEND

The Board does not recommend the payment of dividend for the year ended 31 December 2006 (period ended 31 December 2005: Nil).

STAFF BENEFIT

At 31 December 2006, the Group had a total of 689 employees. The total employees' remuneration for the year amounted to approximately HK$22.7 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 has no major change on staff remuneration policies during the year.

CHARGE ON GROUP ASSETS

At 31 December 2006, 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.

CONTINGENT LIABILITIES AND LITIGATION

At 31 December 2006, the Group granted the corporate guarantees of HK$9 million and HK$100 million to an associate and an independent third party respectively. The Company also granted the corporate guarantees of HK$26.3 million to certain subsidiaries. In addition, the Company is currently a defendant in lawsuit brought by a third party alleging the Company for the debt amounted to HK$2.1 million under a loan agreement dated 12 October 2004 together with the interest thereon since 12 February 2005. The Company is in the course of defending such litigation and the related liabilities had been accrued for in the financial statements at the balance sheet date.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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, 24 April 2007

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