



SINO GAS GROUP LIMITED

中油潔能集團有限公司

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

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The Board of Directors (the “Board”) of Sino Gas Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with the comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	NOTES	Six months ended 30th June,	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue	3	82,625	41,177
Cost of sales		(45,691)	(36,515)
Gross profit		36,934	4,662
Other income		1,818	2,537
Selling and distribution costs		(2,895)	(2,117)
Administrative expenses		(19,529)	(12,257)
Finance costs	4	(1,964)	(4,467)
Gain on disposal of a subsidiary		1,980	–
Impairment loss recognised in respect of available-for-sale investments		–	(139,027)
Impairment loss recognised in respect of interests in associates		–	(27,980)
Share of results of associates		746	1,730
Share of results of jointly controlled entities		(56)	–
Profit (loss) before taxation		17,034	(176,919)
Taxation	5	(118)	(27)
Profit (loss) for the period	6	16,916	(176,946)
Attributable to:			
Equity holders of the parent		14,660	(175,724)
Minority interests		2,256	(1,222)
		16,916	(176,946)
Earnings (loss) per share	7		
– basic		1.28 cents	(52.46 cents)
– diluted		1.20 cents	(52.46 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

		30.6.2006 (Unaudited) HK\$'000	31.12.2005 (Audited) HK\$'000
NOTES			
NON-CURRENT ASSETS			
Property, plant and equipment		176,966	143,142
Prepaid lease payments on land use rights		1,345	3,365
Goodwill		199,188	100,158
Interests in associates		48,100	46,859
Interests in jointly controlled entities		8,975	18,220
Available-for-sale investments		4,857	3,319
Deposits paid for acquisition of machinery and equipment		55,207	51,438
		<u>494,638</u>	<u>366,501</u>
CURRENT ASSETS			
Inventories		14,485	10,633
Trade receivables	8	42,272	16,202
Other receivables, deposits and prepayments		42,593	33,513
Prepaid lease payments on land use rights		96	132
Amount due from an associate		3,779	3,617
Loans to shareholders of associates		14,300	14,300
Loans to a shareholder of a jointly controlled entity		9,000	2,700
Amounts due from minority shareholders		375	–
Bank balances and cash		55,074	32,358
		<u>181,974</u>	<u>113,455</u>
CURRENT LIABILITIES			
Trade payables	9	10,423	9,900
Other payables and accrued charges		58,184	46,691
Amounts due to jointly controlled entities		4,855	8,762
Amounts due to minority shareholders		–	1,114
Taxation		1,254	3,556
Borrowings		81,403	76,784
Obligations under a finance lease		241	236
		<u>156,360</u>	<u>147,043</u>
NET CURRENT ASSETS (LIABILITIES)		<u>25,614</u>	<u>(33,588)</u>
Total assets less current liabilities		<u>520,252</u>	<u>332,913</u>
NON-CURRENT LIABILITY			
Obligations under a finance lease		470	592
		<u>519,782</u>	<u>332,321</u>
CAPITAL AND RESERVES			
Share capital		253,671	200,971
Share premium and reserves		219,026	85,055
Equity attributable to equity holders of the parent		472,697	286,026
Minority interests		47,085	46,295
		<u>519,782</u>	<u>332,321</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period from 1st July, 2004 to 31st December, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group redesignated its business segments into three operating divisions – operation of gas stations, trading of gas related products and provision for technical services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Income statement for the six months ended 30th June, 2006

	Operation of gas stations (Unaudited) <i>HK\$'000</i>	Trading of gas related products (Unaudited) <i>HK\$'000</i>	Provision for technical services (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
REVENUE				
External	<u>42,351</u>	<u>12,801</u>	<u>27,473</u>	<u>82,625</u>
Segment result	<u>881</u>	<u>2,623</u>	<u>25,298</u>	<u>28,802</u>
Unallocated other income				1,818
Unallocated corporate expenses				(14,292)
Finance costs				(1,964)
Gain on disposal of a subsidiary				1,980
Share of results of associates				746
Share of results of jointly controlled entities				(56)
Profit before taxation				<u>17,034</u>
Taxation				(118)
Profit for the period				<u><u>16,916</u></u>

Income statement for the six months ended 30th June, 2005

	Operation of gas stations (Unaudited) <i>HK\$'000</i>	Trading of gas related products (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
REVENUE			
External	33,358	7,819	41,177
Segment result	1,095	217	1,312
Unallocated other income			2,537
Unallocated corporate expenses			(11,024)
Finance costs			(4,467)
Impairment loss recognised in respect of available-for-sale investments			(139,027)
Impairment loss recognised in respect of interests in associates			(27,980)
Share of results of associates			1,730
Loss before taxation			(176,919)
Taxation			(27)
Loss for the period			<u>(176,946)</u>

4. FINANCE COSTS

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	1,401	2,932
Other borrowings wholly repayable within five years	-	57
Finance leases	17	43
Imputed interest expense on other borrowings	546	1,038
Imputed interest expense on loan from an associate	-	397
	<u>1,964</u>	<u>4,467</u>

5. TAXATION

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Profit for the period		
The People's Republic of China (the "PRC")	<u>118</u>	<u>27</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the period.

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions.

At 30th June, 2006, the Group has unutilised tax losses of approximately HK\$141 million (31.12.2005: HK\$133 million) available to offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams.

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment:		
Owned assets	1,274	916
Assets held under finance leases	135	270
Amortisation of prepaid lease payments on land use rights	49	5
Share options expense	<u>6,210</u>	<u>–</u>

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30th June,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share		
– profit (loss) for the period attributable to equity holders of the parent	<u>14,660</u>	<u>(175,724)</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,142,714	334,952
Effect of dilutive potential ordinary shares:		
– share options	37,183	–
– warrants	<u>37,235</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>1,217,132</u>	<u>334,952</u>

The weighted average number of shares for the purpose of calculation of basic and diluted loss per share for the six months ended 30th June, 2005 has been adjusted for the consolidation of the Company's shares on 7th October, 2005.

The computation of diluted loss per share for the six months ended 30th June, 2005 did not assume the exercise of the Company's outstanding warrants as their exercise would result in a decrease in net loss per share for the period.

8. TRADE RECEIVABLES

The Group allowed an average credit period of 90 to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	30.6.2006	31.12.2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
0 – 90 days	40,232	14,019
91 – 120 days	–	286
Over 120 days	<u>2,040</u>	<u>1,897</u>
	<u>42,272</u>	<u>16,202</u>

9. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30.6.2006 (Unaudited) <i>HK\$'000</i>	31.12.2005 (Audited) <i>HK\$'000</i>
0 – 90 days	7,017	3,315
91 – 120 days	124	–
Over 120 days	3,282	6,585
	10,423	9,900

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's unaudited consolidated net profit attributable to equity holders for the six months ended 30th June, 2006 amounted to HK\$14.7 million, which represented a significant improvement on the net loss of HK\$175.7 million reported for the corresponding period in the previous year. Turnover for the half-year of 2006 increased to HK\$82.6 million, an increase of approximately 100.5% compared with the previous corresponding period of HK\$41.2 million. Increase in turnover was mainly attributed from the sales of natural gas contributed from the newly constructed compressed natural gas ("CNG") refueling stations, as well as selling of gas related products and technical services to equipment and gas operators.

The Group recorded a profit before taxation of HK\$17 million for the period under review while registered a loss of HK\$176.9 million in the previous corresponding period. Except from the impairment losses recognised in previous corresponding period discussed below, the increase in profit in current period is mainly due to improvement in gross profit but offset by increase in administrative expenses amounted to HK\$7.3 million. Owing to the adoption of new accounting standards, a share options expense amounted to \$6.2 million was recorded in administrative expenses.

The Group only focuses on the vehicles natural gas business since January 2005 and provided for certain non-core businesses for the six months ended 30th June, 2005. As a result, the Group made provisions of HK\$137.9 million in respect of investment in CMEP Limited, an entertainment business and HK\$28 million in respect of interest in an associate which is principally engaged in bio-agricultural business for the six months ended 30th June, 2005.

Operational Review and Business Outlook

The Group will continue to focus its activities of vehicles natural gas 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 in future.

During the period under review, the Group has successfully teamed up with a number of city public bus companies including Zhengzhou City Public Transport Corporation and Xuzhou City Public Transport Co. Limited by setting up joint ventures with them to secure for 20 years bus fuel gas usage contract.

In addition, the Group successfully launched 2 new CNG mother stations and 18 new CNG daughter stations in various cities in the PRC during the period under review. Although the result for first half of 2006 has not reflected the full capacity of these new stations, these new stations should contribute respectable profit in future. Going forward, the Group's targets to complete more mother stations and daughter stations in second half of 2006. The next few years will be a fast growing period for the Group and the Board is confident that the Group is well positioned to capture this growing market in the PRC.

Financial Resources

During the six months ended 30th June, 2006, the financial position of the Group was strengthened by the net proceeds of approximately HK\$50 million received from the placement of 100,000,000 Company's shares in March 2006 and subsequent to the interim reporting date, the Company further raised HK\$87 million by issuing 165,000,000 Company's new shares. The proceeds will be used for the expansion of Group's business.

As at 30th June, 2006, total borrowings of the Group were HK\$82.1 million, of which HK\$41.8 million were related to bank borrowings at operating subsidiaries level funding for the local PRC operations. Shareholders' equity was HK\$472.7 million. Accordingly, the gearing ratio of the Group as at 30th June, 2006 was 17.4%.

During the six months ended 30th June, 2006, the Group was not materially exposed to exchange risk.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2006. (six months ended 30th June, 2005: nil).

Staff Benefit

As at 30th June, 2006, the Group had a total of 406 employees. The total employees' remuneration for the six months ended 30th June, 2006 amounted to approximately HK\$13.3 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 has been no major change on staff remuneration policies during the period.

Charges on Group Assets

The Group had no charges on assets as at 30th June, 2006.

Contingent Liabilities

The Group had no material contingent liabilities as at 30th June, 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30th June, 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of 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 six months ended 30th June, 2006.

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

The Remuneration Committee comprises the three independent non-executive directors of the Company, is responsible for reviewing and evaluating the remuneration policies of executive directors and senior management and making recommendations to the Board from time to time.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE WEBSITE ON THE STOCK EXCHANGE OF HONG KONG LIMITED

The interim results of the Company containing the information required by paragraph 46 of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Sino Gas Group Limited
Ji Guirong
Chairman

Hong Kong, 28th September, 2006

As at the date of this announcement, the Executive Directors are Mr. Ji Guirong (Chairman), Mr. Lo Chi Ho William (Chief Executive Officer), Mr. Sun Wenhao, Mr. Wu Ding and Mr. Ji Hui and the Independent Non-executive Directors are Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei.