

GUANGZHOU

SHANGHAI

BEIJING

SHENYANG

XIAN

TIANJIN

NANJIN

WUHAN

CHENDU

SHENZHEN

KUNMING

HANGZHOU

CHONGQING

HEILONGJIANG

HAINAN

FUJIAN

XIZHANG ZIZHIQU

CHANGSHA

DALIAN

HANGZHOU

XIAMEN

中油潔能
SINO GAS

NANLIN

NANCHANG

GUIYANG

HEFEI

FUZHOU

QINDAO

NINGBO

Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

(Stock code : 260)



I N T E R I M R E P O R T 2 0 0 6

CONTENTS

| | <i>PAGE(S)</i> |
|--|----------------|
| CONDENSED CONSOLIDATED INCOME STATEMENT | 2 |
| CONDENSED CONSOLIDATED BALANCE SHEET | 3-4 |
| CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 5 |
| CONDENSED CONSOLIDATED CASH FLOW STATEMENT | 6 |
| NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS | 7-20 |
| MANAGEMENT DISCUSSION AND ANALYSIS | 21-23 |
| OTHER INFORMATION | 24-28 |

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Sino Gas Group Limited (the "Company", together with its subsidiaries, the "Group") presents the unaudited condensed consolidated balance sheet as at 30th June, 2006 and the unaudited condensed consolidated income statement and cash flow statement of the Group for the period then ended as follows.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

| | | Six months ended 30th June, | |
|--|-------|--|-------------------------|
| | | 2006 | 2005 |
| | NOTES | (Unaudited) HK\$'000 | (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

| | NOTES | 30.6.2006 (Unaudited) HK\$'000 | 31.12.2005 (Audited) HK\$'000 |
|---|-------|--------------------------------------|-------------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 176,966 | 143,142 |
| Prepaid lease payments on land use rights | | 1,345 | 3,365 |
| Goodwill | 9 | 199,188 | 100,158 |
| Interests in associates | 10 | 48,100 | 46,859 |
| Interests in jointly controlled entities | | 8,975 | 18,220 |
| Available-for-sale investments | 11 | 4,857 | 3,319 |
| Deposits paid for acquisition of machinery and equipment | | 55,207 | 51,438 |
| | | 494,638 | 366,501 |
| CURRENT ASSETS | | | |
| Inventories | | 14,485 | 10,633 |
| Trade receivables | 12 | 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 |
| | | 181,974 | 113,455 |
| CURRENT LIABILITIES | | | |
| Trade payables | 13 | 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 | 14 | 81,403 | 76,784 |
| Obligations under a finance lease | | 241 | 236 |
| | | 156,360 | 147,043 |
| NET CURRENT ASSETS (LIABILITIES) | | 25,614 | (33,588) |
| Total assets less current liabilities | | 520,252 | 332,913 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2006

| | | 30.6.2006 | 31.12.2005 |
|---|-------|--------------------|------------|
| | | (Unaudited) | (Audited) |
| | NOTES | HK\$'000 | HK\$'000 |
| NON-CURRENT LIABILITY | | | |
| Obligations under a finance lease | | 470 | 592 |
| | | 519,782 | 332,321 |
| CAPITAL AND RESERVES | | | |
| Share capital | 15 | 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 |
| | | 519,782 | 332,321 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

| | Attributable to equity holders of the parent | | | | | | | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 | |
|--|--|------------------------------|------------------------------|---|---|---------------------------------|--|-------------------|-----------------------------------|-------------------|-----------------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Share warrant HK\$'000 | Share options reserve HK\$'000 | Special capital reserve HK\$'000 (Note) | Exchange reserve HK\$'000 | Capital redemption reserve HK\$'000 | | | | Accumulated losses HK\$'000 |
| At 1st January, 2005 | 66,990 | 514,081 | - | - | 828,646 | 5 | 3,865 | (1,102,402) | 311,185 | 28,084 | 339,269 |
| Loss for the period | - | - | - | - | - | - | - | (175,724) | (175,724) | (1,222) | (176,946) |
| Capital contribution from minority shareholders | - | - | - | - | - | - | - | - | - | 536 | 536 |
| At 30th June, 2005 | 66,990 | 514,081 | - | - | 828,646 | 5 | 3,865 | (1,278,126) | 135,461 | 27,398 | 162,859 |
| At 1st January, 2006 | 200,971 | 507,781 | - | - | 828,646 | - | 3,865 | (1,255,237) | 286,026 | 46,295 | 332,321 |
| Income recognised directly in equity - Exchange differences arising on translation of overseas operations | - | - | - | - | - | 4,418 | - | - | 4,418 | 1,221 | 5,639 |
| Profit for the period | - | - | - | - | - | - | - | 14,660 | 14,660 | 2,256 | 16,916 |
| Total recognised income and expense for the period | - | - | - | - | - | 4,418 | - | 14,660 | 19,078 | 3,477 | 22,555 |
| Issue of shares for acquisition of a subsidiary | 24,900 | 52,290 | - | - | - | - | - | - | 77,190 | - | 77,190 |
| Placement of shares | 20,000 | 32,000 | - | - | - | - | - | - | 52,000 | - | 52,000 |
| Share issue expenses | - | (2,015) | - | - | - | - | - | - | (2,015) | - | (2,015) |
| Issue of warrants for acquisition of a subsidiary | - | - | 26,408 | - | - | - | - | - | 26,408 | - | 26,408 |
| Recognition of equity-settled share based payment | - | - | - | 6,210 | - | - | - | - | 6,210 | - | 6,210 |
| Proceeds from shares issued upon exercise of options | 7,800 | - | - | - | - | - | - | - | 7,800 | - | 7,800 |
| Transfer of reserve upon exercise of options | - | 2,996 | - | (2,996) | - | - | - | - | - | - | - |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | - | (2,687) | (2,687) |
| At 30th June, 2006 | 253,671 | 593,052 | 26,408 | 3,214 | 828,646 | 4,418 | 3,865 | (1,240,577) | 472,697 | 47,085 | 519,782 |

Note:

A summary of the terms of the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31st March, 2000 (the "Capital Reduction") in respect of the application of the special capital reserve is set out below:

- (i) The reserve shall not be treated as realised profits; and
- (ii) The reserve shall be treated as an undistributable reserve as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the Capital Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

| | Six months ended 30th June, | |
|---|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Net cash generated from operating activities | 6,318 | 20,825 |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| Loan to a shareholder of a jointly controlled entity | (6,300) | - |
| Purchases of property, plant and equipment | (33,029) | (44,480) |
| Deposits paid for acquisition of machinery and equipment | (3,769) | - |
| Disposal of a subsidiary, net of cash and cash equivalent disposed of | 5,965 | - |
| Other investing cash flows | (1,384) | - |
| | (38,517) | (44,480) |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | |
| New bank loans raised | 29,130 | 39,830 |
| Repayment of bank loans | (26,217) | (52,642) |
| Proceeds of issue of shares, net of issue expenses | 57,785 | - |
| Amount repaid to minority shareholders | (4,735) | - |
| Advance from minority shareholders | - | 158 |
| Advance from related companies | - | 32,433 |
| Other financing cash flows | (1,048) | (223) |
| | 54,915 | 19,556 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 22,716 | (4,099) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 32,358 | 10,686 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD represented by bank balances and cash | 55,074 | 6,587 |

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 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 annual financial statements of the Company and its subsidiaries (the "Group") 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) HK\$'000 | Trading of gas related products (Unaudited) HK\$'000 | Provision for technical services (Unaudited) HK\$'000 | Consolidated (Unaudited) HK\$'000 |
|--|---|---|--|--|
| REVENUE | | | | |
| External | 42,351 | 12,801 | 27,473 | 82,625 |
| Segment result | 881 | 2,623 | 25,298 | 28,802 |
| 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 | | | | 17,034 |
| Taxation | | | | (118) |
| Profit for the period | | | | 16,916 |

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

| | Operation of gas stations (Unaudited) HK\$'000 | Trading of gas related products (Unaudited) HK\$'000 | Consolidated (Unaudited) HK\$'000 |
|--|--|--|---|
| 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 | | | (176,946) |

4. FINANCE COSTS

| | Six months ended 30th June, | |
|---|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| 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 |
| | 1,964 | 4,467 |

5. TAXATION

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

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 (Unaudited) HK\$'000 | 2005 (Unaudited) 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 | 6,210 | - |

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 (Unaudited) HK\$'000 | 2005 (Unaudited) 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 | 14,660 | (175,724) |
| | | |
| | 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 | 37,235 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | 1,217,132 | 334,952 |

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. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$19 million and HK\$14 million on additions to construction in progress, and other property, plant and equipment respectively.

9. GOODWILL

| | 1.1.2006 to 30.6.2006 (Unaudited) HK\$'000 | 1.7.2004 to 31.12.2005 (Audited) HK\$'000 |
|---|---|---|
| COST | | |
| At beginning of the period | 100,158 | 100,990 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 | - | (2,583) |
| Arising on acquisition of additional interests in subsidiaries | - | 1,466 |
| Arising on acquisition of subsidiaries | 99,030 | 285 |
| At end of the period | 199,188 | 100,158 |
| AMORTISATION | | |
| At beginning of the period | - | 2,583 |
| Elimination of accumulated amortisation upon the application of HKFRS 3 | - | (2,583) |
| At end of the period | - | - |
| CARRYING VALUES | | |
| At end of the period | 199,188 | 100,158 |

Addition for the six months ended 30th June, 2006 represents the goodwill arising from acquisition of a subsidiary, Jetco Innovations Limited ("Jetco"), details of the acquiree and the transaction have been disclosed in note 17.

For the six months ended 30th June, 2006, management of the Group determined that there are no impairment of all existing cash generating units containing the goodwill by reference to the estimated recoverable amounts of the units.

10. INTERESTS IN ASSOCIATES

| | 30.6.2006 (Unaudited) HK\$'000 | 31.12.2005 (Audited) HK\$'000 |
|---|---|-------------------------------------|
| Cost of investment in unlisted associates | 74,839 | 74,111 |
| Impairment loss recognised | (27,980) | (27,980) |
| | 46,859 | 46,131 |
| Share of post-acquisition profit | 1,241 | 728 |
| | 48,100 | 46,859 |

The impairment loss represents a write-down of the carrying amount of goodwill of an associate to its recoverable amount based on the estimated future cash flow projections.

11. AVAILABLE-FOR-SALE INVESTMENTS

| | 30.6.2006 (Unaudited) HK\$'000 | 31.12.2005 (Audited) HK\$'000 |
|-------------------------------------|---|-------------------------------------|
| Unlisted overseas equity securities | 149,746 | 148,208 |
| Impairment loss recognised | (144,889) | (144,889) |
| | 4,857 | 3,319 |

Available-for-sale investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

The impairment loss represents write-downs of the costs of investments to their respective recoverable amounts based on the estimated future cash flow projections.

12. 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 (Unaudited) HK\$'000 | 31.12.2005 (Audited) HK\$'000 |
|---------------|---|-------------------------------------|
| 0 – 90 days | 40,232 | 14,019 |
| 91 – 120 days | – | 286 |
| Over 120 days | 2,040 | 1,897 |
| | 42,272 | 16,202 |

13. TRADE PAYABLES

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

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

14. BORROWINGS

During the period, the Group repaid bank loans of HK\$26,217,000 and obtained new bank loans amounting to HK\$29,130,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the acquisition of property, plant and equipment.

15. SHARE CAPITAL

Shares

| | Number of shares '000 | Nominal value HK\$'000 |
|---|-----------------------------|------------------------------|
| Ordinary shares of HK\$0.20 each | | |
| Authorised: | | |
| At 1st January, 2006 and 30th June, 2006 | 10,000,000 | 2,000,000 |
| Issued and fully paid: | | |
| At 1st January, 2006 | 1,004,855 | 200,971 |
| Issue of shares for acquisition of a subsidiary | 124,500 | 24,900 |
| Issue of shares by placements | 100,000 | 20,000 |
| Issue of shares upon exercise of options | 39,000 | 7,800 |
| At 30th June, 2006 | 1,268,355 | 253,671 |

On 22nd March, 2006, the Company allotted and issued 124,500,000 new ordinary shares of HK\$0.20 each at an issue price of HK\$0.255 each as part of consideration for acquisition of Jetco. Details of the transaction have been disclosed in note 17.

On 15th March, 2006, the Company had entered into the placing arrangement (the "Placing") with ABN AMRO Bank N.V. and Sun Shining Investment Corp. ("the "Placees"). As a result, an aggregate of 100,000,000 shares at a price of HK\$0.52 per share were placed to the Placees. The Placing were completed on 24th March, 2006.

During the period, 39,000,000 shares of HK\$0.20 each in the Company were issued upon the exercise of share options at an exercise price of HK\$0.20.

All the shares issued during the period rank pari passu in all respects with the existing shares.

Unlisted warrants

In connection with the acquisition of a subsidiary as disclosed in note 17, the Company also placed 55,500,000 2008-warrants, with an issue price of HK\$0.002 per unit, at an initial subscription price of HK\$0.20 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2008-warrants.

In connection with the placements of shares completed on 20th September, 2004, the Company also placed (a) HK\$19,200,000 2005-warrants, with an issue price of HK\$0.003 per unit, at an initial subscription price of HK\$0.096 (subject to adjustment) for a period of twelve months commencing from the date of allotment and issue of 2005-warrants; and (b) HK\$19,600,000 2006-warrants, with an issue price of HK\$0.005 per unit, at an initial subscription price of HK\$0.098 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2006-warrants, to the placees. On 17th August, 2005, the subscription price of the 2005-warrants and 2006-warrants were adjusted to HK\$0.056 per share and HK\$0.057 per share respectively as a result of the issuance of new shares under the open offer. The 2005-warrants then lapsed on 20th September, 2005. On 7th October, 2005, the subscription price of the 2006-warrants was further adjusted to HK\$0.57 per share as a result of the share consolidation.

Neither 2008-warrants nor 2006-warrants were exercised during the six months ended 30th June, 2006.

The 2006-warrants lapsed on 20th September, 2006.

16. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15th April, 2005 for the purpose of providing incentives to directors, employees and any other persons. Under the Scheme, the Board of Directors (the "Board") of the Company may grant options to eligible employees, including directors of the Group or any person who in the sole discretion of the Board has contributed or may contribute to the Group (the "Eligible Participants"), to subscribe for shares in the Company.

At 30th June, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 61,000,000 (31.12.2005: nil), representing 4.8% (31.12.2005: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

| Option type | Date of grant | Vesting period | Exercise period | Exercise Price |
|--------------------|----------------------|---------------------------------|------------------------|-----------------------|
| 2006 | 3/1/2006 | Nil – 12 months from grant date | 1/2/2006 – 31/1/2015 | HK\$0.20 |

16. SHARE OPTIONS (Continued)

The following table discloses movements of the Company's share options held by the Eligible Participants during the six months ended 30th June, 2006.

| Option type | Outstanding at 1/1/2006 | Granted during the six months ended 30/6/2006 | Exercised during the six months ended 30/6/2006 | Outstanding at 30/6/2006 |
|--------------------|--------------------------------|--|--|---------------------------------|
| 2006 | – | 100,000,000 | 39,000,000 | 61,000,000 |

In the current period, share options were granted on 3rd January, 2006, and the closing price of the Company's shares on the date of grant of the options was HK\$0.20. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model was HK\$7,471,000.

The following assumptions were used to calculate the fair values of share options:

| | |
|--------------------------|-------------------|
| Share price | HK\$0.20 |
| Exercise price | HK\$0.20 |
| Expected life of options | 0.74 – 2.08 years |
| Expected volatility | 88.3% |
| Expected dividend yield | 0% |
| Risk free rate | 3.87 – 4.02% |

The variables and assumptions used in computing the fair value of the share options in the Black-Scholes option pricing model are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised total expense of HK\$6,210,000 for the six months ended 30th June, 2006 (six months ended 30th June, 2005: nil) in relation to share options granted by the Company.

17. ACQUISITION OF A SUBSIDIARY

On 1st February, 2006, the Group entered into a sale and purchase agreement with Bonus World Limited and Mr. Zhou Fang Yi to acquire the entire share capital of Jetco at an aggregate consideration of HK\$31,858,500. The consideration was satisfied by allotment and issue of 124,500,000 new ordinary shares in the Company of HK\$0.20 each at an issue price of HK\$0.255 each and 55,500,000 warrants at an issue price of HK\$0.002 per unit, at a subscription price of HK\$0.20 each. However, the cost of investment in Jetco was based on the consideration of the fair value of the new issue of shares and warrants by reference to the closing market price of the shares of the Company at the date of the allotment of HK\$0.62 per share, which was amounted to HK\$103,598,000 in aggregate.

Jetco holds 50% interest in Shandong Sinogas Company Limited ("Shandong Sinogas"), a former jointly controlled entity of the Group which is established in the PRC and engaged in provision of gas related services. After the acquisition, Shandong Sinogas became a subsidiary of the Company.

The transaction has been accounted for by the purchase method of accounting. As Shandong Sinogas is still in preliminary stage and the assets were newly acquired, the directors of the Company determined that the fair values of the assets and liabilities of Jetco approximate to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

| | HK\$'000 |
|--|-----------------|
| Net assets acquired: | |
| Property, plant and equipment | 9,682 |
| Trade and other receivables | 4,851 |
| Bank balances and cash | 76 |
| Trade and other payables | (501) |
| | 14,108 |
| Less: Interest acquired in previous years as interest in a jointly controlled entity, including share of post-acquisition results | (9,540) |
| | 4,568 |
| Goodwill arising on acquisition | 99,030 |
| | 103,598 |
| Satisfied by: | |
| Issue of new ordinary shares | 77,190 |
| Issue of warrants | 26,408 |
| | 103,598 |

17. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash inflow arising on acquisition represents bank balances and cash acquired.

The goodwill arising on the acquisition of Jetco is attributable to the anticipated profitability of the Group's gas related activities in regional market and the anticipated future operating synergies from the combination.

The subsidiary acquired during the period contributed HK\$13,745,000 and HK\$13,711,000 to the Group's revenue and profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2006, total Group's revenue and profit for the period would have been similar as current period actual amount. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

18. DISPOSAL OF A SUBSIDIARY

The net assets of a subsidiary disposed of were as follows:

| | HK\$'000 |
|---------------------------------------|----------|
| Net assets disposed of | 6,717 |
| Minority interests | (2,687) |
| | 4,030 |
| Gain on disposal of a subsidiary | 1,980 |
| Total consideration satisfied by cash | 6,010 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 6,010 |
| Bank balances and cash disposed of | (45) |
| | 5,965 |

The subsidiary disposed of during the current period did not have significant contributions to the Group's cash flows or operating results for the period.

19. CAPITAL COMMITMENTS

At 30th June, 2006, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK\$21,886,000 (31.12.2005: HK\$22,295,000) contracted for but not provided in the financial statements.

20. RELATED PARTY TRANSACTIONS

During the period, the Group entered into a loan agreement with Sanlin Resources Limited ("Sanlin"), a shareholder of a jointly controlled entity in which the Group granted loan of HK\$6,300,000 (six months ended 30th June, 2005: nil). The loan was unsecured, interest bearing at 3% per annum and was repayable within one year.

21. POST BALANCE SHEET EVENTS

On 10th July, 2006, the Company has entered into five subscription agreements with five subscribers respectively, including Billirich Investment Limited, a wholly-owned subsidiary of CATIC International Holdings Limited, a substantial shareholder of the Company, pursuant to which the subscribers agreed to subscribe and the Company agreed to issue and allot an aggregate of 165,000,000 new shares of the Company at the subscription price of HK\$0.53 per share (the "Subscription"). The net proceeds from the Subscription are estimated to be approximately HK\$87 million. The Subscription was completed on 31st August, 2006.

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 People's Republic of China (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 of Directors (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.

LITIGATION

The Company was served on a writ of summons under High Court Action No. 1938 of 2005 (the "Action") in October 2005 wherein the plaintiff, an independent third party, claimed against the Company for the sum of HK\$2,150,000 being an alleged debt due and owing by the Company under a loan agreement entered into between the Company and the plaintiff dated 12th October, 2004 together with interest thereon since 12th February, 2005. The Company disputes such claims and is in the course of defending the Action.

The Company in October 2005 commenced High Court Action No. 2001 of 2005 against Mr. Zhang Jiahua and Ms. Wen Fu Rong, the defendants, for sums including HK\$12,000,000 and HK\$2,300,000, and interest, due and owing to the Company under two loan agreements entered into between Mr. Zhang Jiahua, Ms. Wen Fu Rong and the Company. In January 2006, the Company obtained judgment against the defendants for the sums of HK\$2,436,109.59 and HK\$12,508,931.51 plus further interest, and indemnities and costs to be assessed. The Company is taking enforcement action against the defendants in respect of the judgment.

Speed Wealth Enterprises Limited ("Speed Wealth") (a wholly owned subsidiary of the Company) in November 2005 commenced High Court Action No. 2302 of 2005 against Mr. Zhang Jiahua and Ms. Wen Fu Rong seeking various remedies in respect of the breach (relating to failure and refusal of Mr. Zhang Jiahua and Ms. Wen Fu Rong to prepare financial statements and to convene shareholders' meetings of Solution Technology Limited) of a shareholders agreement dated 29th March, 2004. Speed Wealth and the defendants are shareholders in an investment holding company, Solution Technology Limited. Speed Wealth is the beneficial owner of 49% of the shares in Solution Technology Limited, and each of the defendants is a beneficial owner of 25.5% of the shares. The writ of summons has been served upon the defendants. The defendants have not yet acknowledged service. Speed Wealth's claims in this litigation action are different from the Company's claims in High Court Action No. 2001 of 2005. The claims in the two actions are in respect of different causes of action arising out of different contracts. The Board considers that there is no material impact on the Group as a result of the breach.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

SHARE OPTIONS

Pursuant to the Company's share option scheme adopted on 15th April, 2005, the Company has granted options on the shares in favour of the following directors, the details of which are as follow:

| Directors | Note | Option grant date | Exercise price HK\$ | Capacity | Underlying shares outstanding as at 30th June, 2006 | Approximate percentage of the total issued share capital % |
|--------------------|------|-------------------|------------------------|------------------|---|---|
| Ji Hui | (1) | 3rd January, 2006 | 0.20 | Beneficial owner | 2,000,000 | 0.16 |
| Lo Chi Ho, William | (1) | 3rd January, 2006 | 0.20 | Beneficial owner | 10,000,000 | 0.79 |
| Total | | | | | 12,000,000 | 0.95 |

Notes:

(1) The exercise period is from 1st February, 2006 to 31st January, 2015

Save as disclosed above, as at 30th June, 2006, none of the directors or any chief executive of the Company has an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which would have to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange.

As at 30th June, 2006, save for Mr. Ji Guirong who is also a director of CATIC International Holdings Limited, a substantial shareholder of the Company, none of the directors and chief executive of the Company was a director or employee of a company which had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests disclosed above in respect of the directors, the following shareholders had notified the Company of their relevant interests and short positions in the issued share capital of the Company:

| Substantial shareholders | Number of shares held <i>(Note 1)</i> | Capacity | Approximate percentage of the total issued share capital % |
|---|---|---|---|
| Billirich Investment Limited | 265,500,000 <i>(long)</i> | Beneficial owner | 20.93 |
| CATIC (H.K.) Limited | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |
| CATIC International Holdings Limited | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |
| China Aviation Industry Corporation II | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |
| China Aviation Industry Corporation I | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |
| China National Aero-Technology Import & Export Corporation | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |

SUBSTANTIAL SHAREHOLDERS (Continued)

| Substantial shareholders | Number of shares held <i>(Note 1)</i> | Capacity | Approximate percentage of the total issued share capital % |
|---------------------------------|---|---|--|
| Tacko International Limited | 265,500,000 <i>(long)</i> | Interest of controlled corporation <i>(Note 2)</i> | 20.93 |
| Bonus World Limited | 180,000,000 <i>(long)</i> | Beneficial owner <i>(Note 3)</i> | 14.19 |
| JPMorgan Chase & Co. | 156,160,000 <i>(long)</i> 60,230,000 <i>(pool)</i> | <i>(Note 4)</i> <i>(Note 4)</i> | 12.31 4.75 |
| Legg Mason Inc. | 113,510,000 <i>(long)</i> | Investment manager | 8.95 |

Note:

1. "Long" means long position. "Pool" means lending pool.
2. The entire issued share capital of Billirich Investment Limited is wholly-owned by CATIC International Holdings Limited, whose issued share capital is listed on the Main Board of the Stock Exchange. Tacko International Limited, the controlling shareholder of CATIC International Holdings Limited which owns approximately 35.70% equity interest in CATIC International Holdings Limited, is a wholly-owned subsidiary of CATIC (H.K.) Limited, which is in turn a wholly-owned subsidiary of China National Aero-Technology Import & Export Corporation. China National Aero-Technology Import & Export Corporation is owned as to 50% by China Aviation Industry Corporation I and as to 50% by China Aviation Industry Corporation II.
3. Bonus World Limited's interest in the Company includes 124,500,000 shares and 55,500,000 non-listed warrants issued on 22nd March, 2006 which are exercisable during the period from the date of issue to 22nd March, 2008 at an initial subscription price of HK\$0.20 per share (subject to adjustment).

SUBSTANTIAL SHAREHOLDERS (Continued)

Note: (Continued)

4. According to the substantial shareholder notice filed by JPMorgan Chase & Co. dated 16th May, 2006, the shares were held in the following capacities:

| | |
|----------------------------------|------------|
| Beneficial owner | 59,030,000 |
| Investment manager | 36,900,000 |
| Custodian/approved lending agent | 60,230,000 |

Save as disclosed above, as at 30th June, 2006, so far as was known to any director or chief executive of the Company, no person other than a director or chief executive of the Company had any interests or short positions in the shares and the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

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 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 of Directors (the "Board") from time to time.

By order of the Board

JI GUIRONG

Chairman

Hong Kong, 28th September, 2006

As at the date of this interim report, the executive directors of the Company 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 of the Company are Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei.