

CHAIRMAN'S STATEMENT

TO ALL SHAREHOLDERS

On behalf of the board of directors, I am pleased to present our first report as the new management team of Sino Gas Group Limited. 2005 proved to be a challenging year to the Group. In line with the strengthening of the People's Republic of China (the "PRC") economy and growing demand of vehicles usage for compressed natural gas ("CNG"), the Group has managed to open up eight new cities and leveraging on the supply by the two West to East pipelines across the PRC to meet the increasing vehicles demand for CNG as a cheaper and cleaner substitute of petroleum.

To focus on the CNG refueling station related business and as part of the Group reorganisation, the Group has made provision of its non-gas related peripheral investments amounted to HK\$167 million for the twelve months ended 30th June, 2005 in facilitating the reporting of its gas related results in future.

In fact, the Group has achieved a turnaround situation in the final six months ended 31st December, 2005. Despite reported a loss of HK\$159.8 million for the eighteen months ended 31st December, 2005 comparing to the reported loss of HK\$182.7 million for the twelve months ended 30th June, 2005 owing mainly to the provision made, the Group has attained a net profit of HK\$22.9 million for the six months ended 31st December, 2005.

Furthermore, the Group maintains a healthy balance sheet with a loan gearing ratio of only 27.1% as at 31st December, 2005. Its financial position is further strengthened by the net proceeds of approximately HK\$50 million from the recent placement of 100,000,000 shares in March 2006. This offers a solid ground for the Group's expansion in its natural gas business.

Going forward, we take comfort from the fact that vehicles demand for CNG continues to grow in the PRC. As an early mover in this sector, we believe our scheduled plan for the construction of new CNG refueling stations in the next few years should meet the growing demand, particularly the buses and taxis markets.

Given the completion of new CNG refueling stations in the first quarter of 2006, the Group is currently operating 33 CNG and liquefied petroleum gas ("LPG") refueling stations in the PRC. The Group will continue to construct more CNG refueling stations in various cities in the PRC including middle part of the PRC, Pearl River Delta Area and Changjiang River Delta Area of the PRC. This nation-wide network of gas refueling stations will further strengthen our leading market place in the PRC.

As a market leader in the PRC, we remain totally committed to develop this CNG refueling station business and continue to seek complementary growth opportunities. We believe our commitment to cultivate this business will translate the next few years into a high growth period.

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The presentation of the financial results, specifically the comparison between the twelve months 2004 and the eighteen months 2005 figures, continues to be distorted by the differences in the length of reporting period and the nature of operations in the two periods. The current reporting period consists of eighteen months from 1st July, 2004 to 31st December, 2005. For the purpose of comparison with the previous year ended 30th June, 2004, the results for the eighteen months are split between twelve months ended 30th June, 2005 and six months ended 31st December, 2005 as follows:

	6 months ended 31.12.2005	12 months ended 30.6.2005	18 months ended 31.12.2005	12 months ended 30.6.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>78,219</u>	<u>93,805</u>	<u>172,024</u>	<u>157,227</u>
Profit (loss) before minority interests	<u>35,689</u>	<u>(183,273)</u>	<u>(147,584)</u>	<u>(5,906)</u>
Profit (loss) after minority interests	<u>22,889</u>	<u>(182,656)</u>	<u>(159,767)</u>	<u>(7,028)</u>

Six months ended 31st December, 2005 compared to twelve months ended 30th June, 2005

Turnover of the Group for the six months ended 31st December, 2005 was HK\$78.2 million as compared to turnover of HK\$93.8 million for the twelve months ended 30th June, 2005. Net profit for the six months ended 31st December, 2005 was HK\$22.9 million as compared to a net loss of HK\$182.7 million for the twelve months ended 30th June, 2005.

Twelve months ended 30th June, 2005 compared to twelve months ended 30th June, 2004

Turnover of the Group for the twelve months ended 30th June 2005 was HK\$93.8 million as compared to turnover of HK\$157.2 million for the twelve months ended 30th June, 2004. Net loss for the twelve months ended 30th June, 2005 was HK\$182.7 million as compared to a net loss of HK\$7 million for the twelve months ended 30th June, 2004.

The loss for the twelve months ended 30th June, 2005 was mainly derived from the Group's reorganisation. The Group made provision of HK\$137.9 million in respect of investment in CMEP Limited, an entertainment business, during the twelve months ended 30th June, 2005. Please refer to the note 19 of the financial statements for the background of the investment and the reason for the provision. The Group also provided for HK\$28 million in respect of interests in an associate which is principally engaged in bio-agricultural business by reference to the estimated recoverable amounts of such investments.

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SEGMENT RESULTS

The turnover for the eighteen months ended 31st December, 2005 included HK\$156.7 million on gas related sales, HK\$14 million on securities trading and investment holding and HK\$1.3 million on treasury activities, as compared to HK\$18.2 million, HK\$137.8 million and HK\$1.2 million respectively for the year ended 30th June, 2004.

The activities of gas related business for the eighteen months ended 31st December, 2005 contributed HK\$47.1 million profit to the total segment results of the Group. This represented a 15 times increase on the segment profit of HK\$3.1 million for the twelve months ended 30th June, 2004.

FINANCIAL RESOURCES

Total bank borrowings of the Group as at 31st December, 2005 amounted to HK\$37.7 million were short-term bank loans at operating subsidiaries level funding the local PRC operations denominated in Renminbi.

During the eighteen months ended 31st December, 2005, the financial position of the Group was strengthened by the net proceeds of approximately HK\$148.3 million received upon equity issued. The Company has issued 200,000,000 shares (before 10 to one share consolidation) by placement in August 2004 and 6,699,033,510 offer shares (before 10 to one share consolidation) on the basis of two offer shares for every existing share held in July 2005.

Subsequent to the balance sheet date, the Company issued 100,000,000 placement shares in March 2006 raising further equity funds of approximately HK\$50 million.

As at 31st December, 2005, total borrowings of the Group were HK\$77.6 million and shareholders' equity was HK\$286 million. Accordingly, the gearing ratio of the Group as at 31st December, 2005 was 27.1%.

During the eighteen months ended 31st December, 2005, the Group was not materially exposed to exchange risk.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the eighteen months ended 31st December, 2005. The Company did not declare a dividend for the year ended 30th June, 2004.

STAFF BENEFIT

The Company reviews remuneration package on annual basis. Apart from salary, other benefits include contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies, discretionary bonus and share option scheme.

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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 market place in the PRC in future.

In closing, I would like to thank our employees for their dedication and hard work, the Directors for their wise counsel, and our business partners for their continuing support. Our thanks also go to you, the shareholders, for your confidence and trust in the Company.

Ji Guirong

Chairman

19th April, 2006