

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the eighteen months ended 31st December, 2005.

CHANGE OF COMPANY NAME

On 28th February, 2005, the Directors announced the change of name of the Company from Millennium Group Limited 豐泰集團國際有限公司 to Sino Gas Group Limited 中油潔能集團有限公司. The change of the Company name is passed by a special resolution at the extraordinary general meeting held on 15th April, 2005.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the directors resolved to change the financial year end date of the Company from 30th June to 31st December. As a result, the financial statements of the Company and its subsidiaries (the "Group") for the current period covered eighteen months period ended 31st December, 2005. The change is to align the financial year end date of the Company with those of its major operating subsidiaries incorporated in the Peoples' Republic of China (the "PRC") and with that of its single largest shareholder.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 43, 17 and 18 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group together accounting for approximately 74.1% of the Group's total purchases for the period, with the largest supplier accounting for approximately 54.2% of the Group's total purchases. The five largest customers of the Group together accounting for approximately 38% of the Group's total sales for the period, with the largest customer accounting for approximately 20.6% of the Group's total sales.

At no time during the period, did a director, an associate of director or a shareholder of the Company which to the knowledge of the directors owns more than 5% of the Company's share capital have an interest in any of the Group's five largest suppliers and customers.

RESULTS

The results of the Group for the eighteen months ended 31st December, 2005 are set out in the consolidated income statement on page 19.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on pages 79-80.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the period in the property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the period in the share capital and share options of the Company are set out in note 29 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Ji Guirong	(appointed on 13th January, 2005)
Sun Wenhao	(appointed on 13th January, 2005)
Wu Ding	(appointed on 1st February, 2005)
Lo Chi Ho, William	(appointed on 17th May, 2005)
Ji Hui	(appointed on 17th May, 2005)
George Han Hsiao Yue	(retired on 15th November, 2005)
Liu Yangu	(retired on 15th November, 2005)
Ka Ying	(appointed on 26th July, 2004 and retired on 15th November, 2005)
Yang Yingsong	(resigned on 26th July, 2004)
Wen Tong Yun	(appointed on 26th July, 2004 and resigned on 28th September, 2004)
Bruce Cheung Kang Tong	(resigned on 21st October, 2004)

Independent non-executive directors:

Wang Zhonghua	(appointed on 13th January, 2005)
Zhong Qiang	(appointed on 1st February, 2005)
Xiao Wei	(appointed on 17th May, 2005)
Li Xinzhong	(resigned on 7th December, 2005)
Tian Jianli	(retired on 15th November, 2005)
Li Zheng	(appointed on 27th September, 2004 and retired on 15th November, 2005)
Gerald Godfrey	(resigned on 11th October, 2004)

In accordance with Article 87 of the Company's articles of association, Mr. Lo Chi Ho, William, Mr. Wu Ding and Mr. Ji Hui will retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-appointment as directors of the Company.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of independent non-executive directors are subject to reappointment or retirement by rotation in accordance with Articles 86(B), 87 and 88 of the Company's articles of association.

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DIRECTORS' INTERESTS IN SHARES

At 31st December, 2005, none of the directors nor their associates had any interests or short positions in any shares of the Company or any of its associated corporations, except Ms. Ka Ying, a former director of the Company, deemed to be interested in 9,800 shares representing approximately 30.6% of the issued capital of Global King Investments Limited, a subsidiary of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 29, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of share in, or debenture of the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Ordinary shares of HK\$0.20 each of the Company

Long positions

Substantial shareholders	Notes	Number of shares held	Approximate percentage of the total issued share capital %
Billirich Investment Limited	1	265,500,000	26.42
CATIC (H.K.) Limited	1	265,500,000	26.42
CATIC International Holdings Limited	1	265,500,000	26.42
China Aviation Industry Corporation II	1	265,500,000	26.42
China Aviation Industry Corporation I	1	265,500,000	26.42
China National Aero-Technology Import & Export Corporation	1	265,500,000	26.42
Tacko International Limited	1	265,500,000	26.42
Integrated Asset Management (Asia) Limited		209,153,365	20.81
Kingsway Lion Spur Technology Limited	2	100,608,000	10.01
Festival Developments Limited	2	100,608,000	10.01
SW Kingsway Capital Holdings Limited	2	100,608,000	10.01
World Developments Limited	2	100,608,000	10.01
Innovation Assets Limited	2	100,608,000	10.01
Kingsway International Holdings Limited	2	100,608,000	10.01
Mr. Lam Ka Chung William	2	100,608,000	10.01
Madam Lam Wong Yuk Sin Mary	2	100,608,000	10.01
Mr. Choi Koon Shum Jonathan	2	100,608,000	10.01
Madam Kwan Wing Kum Janice	2	100,608,000	10.01

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Notes:

1. The entire issued share capital of Billirich Investment Limited ("Billirich ") is wholly-owned by CATIC International Holdings Limited ("CATIC International"), whose issued share capital is listed on the Main Board of the Stock Exchange. Tacko International Limited, the controlling shareholder of CATIC International which owns approximately 35.70% equity interest in CATIC International, 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 ("CNAT"). CNAT is owned as to 50% by China Aviation Industry Corporation I and as to 50% by China Aviation Industry Corporation II. Billirich is the beneficial owner of 265,500,000 shares of the Company.
2. Kingsway Lion Spur Technology Limited ("Lion Spur") is a wholly-owned subsidiary of Festival Developments Limited ("Festival"), which is a wholly-owned subsidiary of SW Kingsway Capital Holdings Limited ("SWKCHL"). SWKCHL is approximately 74% owned by World Developments Limited ("WDL"), which is a wholly-owned subsidiary of Innovation Assets Limited ("IAL"). IAL is a wholly owned subsidiary of Kingsway International Holdings Limited ("KIHL"). KIHL is approximately 40% beneficially owned by Lam Ka Chung William ("Mr. Lam") and approximately 46% owned by Choi Koon Shum Jonathan ("Mr. Choi"). Lam Wong Yuk Sin Mary ("Mrs. Lam") is the spouse of Mr. Lam, and Madam Kwan Wing Kum Janice ("Madam Kwan") is the spouse of Mr. Choi. Accordingly, each of Lion Spur, Festival, SWKCHL, WDL, IAL, KIHL, Mr. Lam, Mrs. Lam, Mr. Choi and Madam Kwan is deemed to be interested in these shares. Lion Spur is the beneficial owner of 100,608,000 shares of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions representing 5% or more of the issued share capital of the Company as at 31st December, 2005.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance subsisted at any time during the period to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

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CONNECTED TRANSACTIONS

During the period, the Group has the following connected transactions:

1. On 28th February, 2005, the Company and Beijing Sinogas Company Limited ("Beijing Sinogas") entered into a master agreement in relation to the supply of equipment and machinery for the operations of liquefied natural gas ("LNG") and compressed natural gas ("CNG") refueling stations in the PRC. As of that date, Beijing Sinogas is then owned indirectly as to 51% by the Company and as to 49% by Best Rich International Limited ("Best Rich"), which is in turn owned as to 50% each by Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company. The transactions therefore constituted continuing connected transactions for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").
2. On 14th March, 2005, the Company and Beijing Sinogas entered into a facility agreement pursuant to which the Company had conditionally agreed to provide a facility up to HK\$40,000,000 (the "Facility") to Beijing Sinogas. By virtue of indirect interest of Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company, in Beijing Sinogas, the provision of the Facility constituted a continuing connected transaction for the Company under the Listing Rules.

These transactions are only subject to the reporting, announcement requirements and independent shareholders' approval under the Listing Rules. Details of these continuing connected transactions have been disclosed by way of a press notice in compliance with the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

3. On 12th May, 2005, Global King Investments Limited ("Global King"), a then indirect 51% owned subsidiary of the Company held via a 100% owned subsidiary, Grand Corporate Investments Limited ("Grand Corporate"), conducted the Global King rights issue of a maximum of 12,000 Global King rights shares on the basis of six Global King rights shares for every ten existing Global King shares (the "Subscription"). On 23rd May, 2005, Grand Corporate subscribed in full for its entitlement under the Global King rights issue and applied for excess Global King rights shares (being 12,000 Global King rights shares in aggregate) at an aggregate consideration of HK\$30 million. After the Subscription, Global King is owned indirectly as to approximately 69.4% by the Company and as to approximately 30.6% by Best Rich, which is in turn owned as to 50% each by Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company. Accordingly, Global King is considered as a connected person of the Company for the purpose of the Listing Rules and as such, the Subscription also constituted a connected transaction for the Company and the Global King Subscription was duly approved by the independent shareholders on 27th July, 2005. Details of this connected transactions have been disclosed by way of a press notice in compliance with Listing Rules.
4. On 7th September, 2005, the Company provided a guarantee in favour of Hua Xia Bank in respect of the facility to be granted by Hua Xia Bank to Beijing Sinogas. Beijing Sinogas is owned indirectly as to approximately 69.4% by the Company and as to approximately 30.6% by Best Rich, which is in turn owned as to 50% each by Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company. Details of this connected transaction have been disclosed by way of a press notice in compliance with Listing Rules.

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5. On 25th November, 2005, China Source Enterprises Limited ("China Source"), a wholly owned subsidiary of the Company, entered into an equity transfer agreement with 青島中油通用機械有限公司 ("青島通用"), pursuant to which China Source acquired and 青島通用 sold 39% interest in the registered capital of Changchun Sinogas Company Limited ("Changchun Sinogas"). Upon completion of the equity transfer agreement, China Source owned 90% interest in the registered capital of Changchun Sinogas. Prior to the completion of the equity transfer, 青島通用 owned 39% interest of Changchun Sinogas and was therefore a substantial shareholder of Changchun Sinogas and a connected person of the Company as defined in the Listing Rules. Accordingly, the equity transfer constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Details of this connected transaction have been disclosed by way of a press notice in compliance with Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.

CORPORATE GOVERNANCE

The Company has complied throughout the eighteen months period ended 31st December, 2005 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the Remuneration Committee of the Board was established on 17th May, 2005 instead of at the beginning of the period.

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. The Audit Committee Members have reviewed the interim and annual reports of the Group for the financial period under review and the Audit Committee held three meetings during the eighteen months period ended 31st December, 2005.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the period from 1st July, 2004 to 31st December, 2005.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the board

Lo Chi Ho, William
Chief Executive Officer

Hong Kong, 19th April, 2006