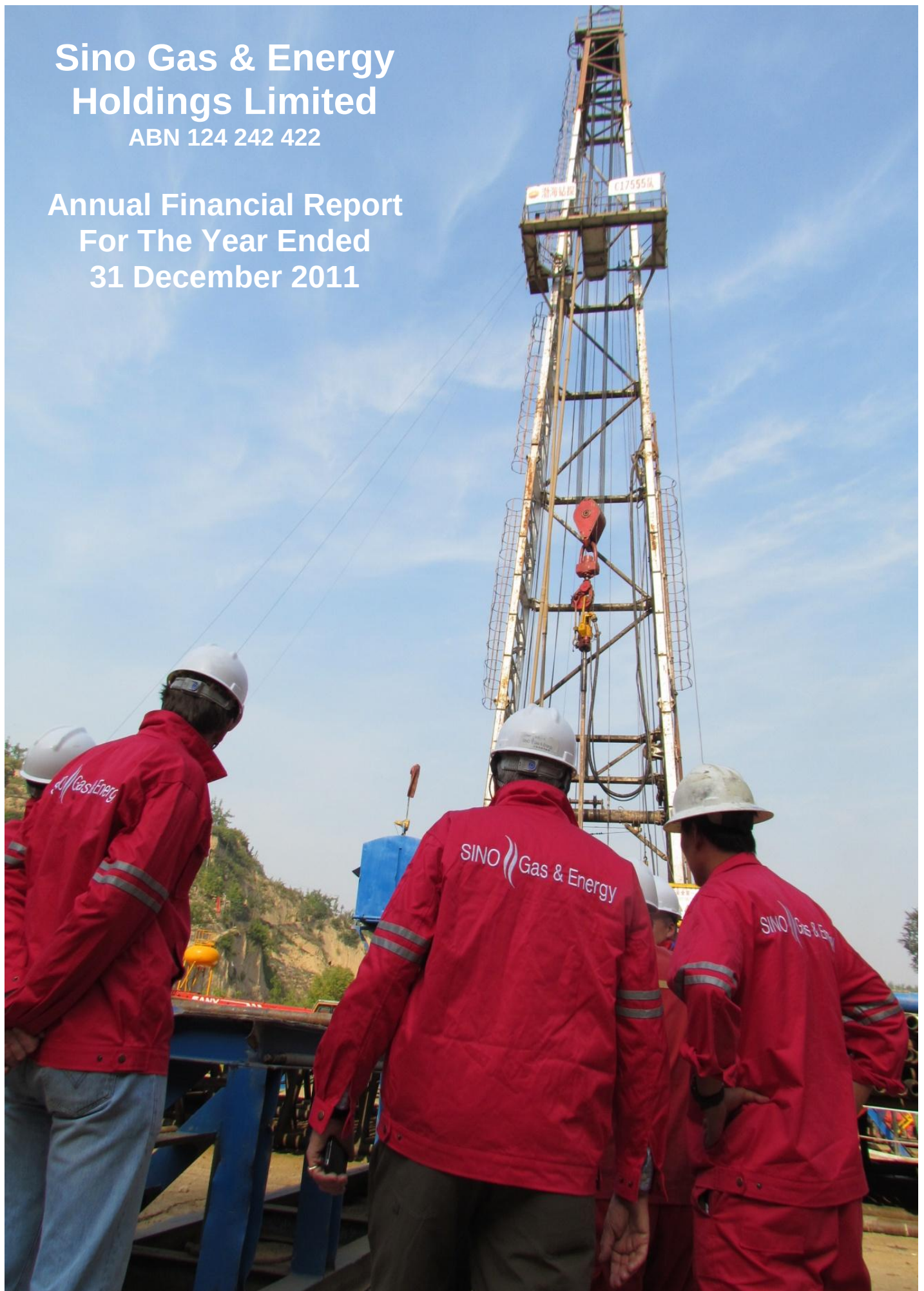


Sino Gas & Energy Holdings Limited

ABN 124 242 422

Annual Financial Report
For The Year Ended
31 December 2011



Sino Gas & Energy Holdings Limited

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Sino Gas & Energy Holdings Limited

Corporate Information

DIRECTORS

Mr G Harper
Mr S Lyons
Mr J Chandler
Mr B Ridgeway
Mr P Mills
Mr C Heseltine

COMPANY SECRETARY

Mr H Spindler

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STOCK EXCHANGE LISTING

ASX Limited
ASX Codes – SEH & SEHOC

Sino Gas & Energy Holdings Limited

Directors' Report

The Directors of Sino Gas & Energy Holdings Limited (the "Company" or "SGEH" or the "Group") present their report together with the annual Financial Report of the Company and its controlled entity for the year ended 31 December 2011.

In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

(a) Directors and Company Secretary

The names, particulars, experience and qualifications of the Directors of the Company during or since the end of the financial year are:

Name	Role	Particulars
G Harper	Executive Chairman	<i>BA from University of Kent at Canterbury and Diploma in Business Administration from Strathclyde University</i> Gavin has been involved with the Company since June 2006 in various capacities and was appointed as a director of SGEH on 14 March 2008. Gavin was previously Managing Director of Chevron's gas business development company in Korea and has a broad experience with Chevron Corporation working in both operating and non-operating roles globally. On 1 January 2011, Gavin was appointed Chairman of the Company and transitioned to full-time Executive Chairman on 1 November 2011.
S J Lyons	Managing Director	<i>B.Bus (Accounting), ACA, AICD</i> Stephen was appointed Managing Director on 20 May 2008. Stephen is a foundation shareholder in the Company and was a key part of the team that negotiated and implemented the successful farm-in from Chevron in 2006. As Managing Director he leads the Beijing based executive team, reporting to the Board and has been based in Beijing, China since mid calendar 2006.
J Chandler	Non Executive Director	<i>LL.B. (Hons), Diploma in Business Administration, Solicitor of the Supreme Court of England and Wales, Barrister and Solicitor Western Australia, FAICD.</i> John was appointed to the SGEH Board on 16 April 2008. John is a lawyer with over 30 years commercial, corporate and business experience. He has been a partner in major law firms including Freehills, KPMG Legal and Deacons. John is currently Chairman of WHL Energy Limited (ASX:WHL).

Sino Gas & Energy Holdings Limited

Directors' Report

Name	Role	Particulars
B W Ridgeway	Non Executive Director	<i>B. Bus (Accounting), ACA, AICD</i> Bernie was appointed to the SGEH Board on its incorporation on 5 March 2007 and was appointed to the Sino Gas & Energy Limited (SGE) Board on 15 July 2005. Bernie was responsible for initially recognising the potential to develop a clean energy business in China and has been instrumental in the formation and direction of SGE. Bernie is currently the Managing Director of Imdex Limited (ASX: IMD).
P Mills	Non Executive Director (Appointed on 1 November 2011)	<i>B. Eng</i> Peter has extensive experience in the upstream Oil and Gas business in technical and general management roles working in Europe, Northern Africa, Asia and Australia. Over the past 29 years Peter has worked for Woodside, BHP Petroleum, Hess and Premier Oil in areas of field development, operations management, joint venture management and commercial negotiation. Peter retains a strong technical involvement in oil and gas operations, particularly in field development, production optimisation and the application of technology to enhance production and value. His most recent work has focused on development of "unconventional" tight gas reservoirs. Peter is currently the Managing Director of Eureka Energy Limited (ASX: EKA).
C Heseltine	Non Executive Director (Appointed on 30 January 2012)	<i>B. Bus</i> Colin had a forty year career with the Australian Department of Foreign Affairs and Trade (1969-2008), which included many postings in the Asian region and senior policy advisory positions in Australia. Colin was appointed China Strategic Consultant to the Company on 22 July 2011 and both the board and China based management team have benefited from his extensive knowledge of doing business in the Asian region. Colin's expertise will be invaluable as the Company moves towards development of its Chinese gas assets. Colin was appointed to the SGEH Board on 30 January 2012.
H Spindler	Company Secretary	<i>B. Bus, CA, A Fin</i> Harry has over 10 years experience with major Corporate Recovery and Advisory Firms. Harry is a member of the Institute of Chartered Accountants in Australia and a member of the Financial Services Institute of Australia. In September 2008, Harry joined Indian Ocean Advisory Group who specialized in growth, corporate and taxation matters. During his career, Harry has worked on high profile restructuring engagements in mining and assists in advising a number of ASX listed mining companies. Appointed Company Secretary on 2 November 2010.

Sino Gas & Energy Holdings Limited

Directors' Report

(b) Directorships of Other Listed Companies

Directorships of other listed companies held by the directors in office at the date of this report in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
S J Lyons	Nil	
J Chandler	WHL Energy Limited	Appointed 17 August 2011
G Harper	NuEnergy Capital Limited	Appointed 23 April 2007; retired 30 April 2011
B W Ridgeway	Imdex Limited	Appointed 23 May 2000
P Mills	Eureka Energy Limited	Appointed 19 October 2010

(c) Directors' Shareholdings

The following table sets out each director's relevant interest (direct or indirect) in shares or options in shares of the Company as at the date of this report:

Directors	Fully paid ordinary shares No.	Share options No.	Performance Rights No.
G Harper	1,415,000	100,000	11,000,000
S J Lyons	5,249,265	1,677,692	7,000,000
J Chandler	350,000	48,000	5,250,000
B W Ridgeway	11,155,000	20,000	-
P Mills	-	-	-
C Heseltine	-	-	1,000,000

(d) Directors' Meetings

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member) for SGEH. During the financial year, 5 Board meetings were held.

	Meetings of Directors		Meetings of Audit Committee		Meetings of Nomination & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
G Harper	5	4	2	2	3	3
S J Lyons	5	5	-	-	-	-
J Chandler	5	5	2	2	3	3
B W Ridgeway	5	5	2	2	3	3
P Mills	1	1	-	-	-	-
C Heseltine	-	-	-	-	-	-

Members of the Audit and Nomination & Remuneration committees as at the date of this report are noted in the table below.

Audit Committee	Nomination and Remuneration Committee
J Chandler (chair)	B W Ridgeway (chair)
P Mills (appointed 5 December 2011)	J Chandler
B W Ridgeway	P Mills (appointed 5 December 2011)

Sino Gas & Energy Holdings Limited

Directors' Report

The Board has established a Planning Committee (PC) to assist the Board in 6 main areas: strategic planning, business development, major operational and technical decisions, technical and operational competency, key relationship management and risk management. The PC comprises Mr Gavin Harper (Chairman), Mr Stephen Lyons (Managing Director) and Mr Frank Fu (Chief Operating Officer). The Company's CFO and others join the PC by invitation as required. Mr Gavin Harper was Chairman of the PC during the financial year. The PC takes advice from other parties as required in fulfilling its objectives. The PC generally meets at least monthly and more often when intensive operations are underway.

(e) Principal Activities

The Company's principal activities during the course of the financial year were appraising unconventional gas resources onshore China.

(f) Review of Operations

The Consolidated Entity made a loss for the year ended 31 December 2011 of \$4,193,773 (31 December 2010: profit of \$1,067,377). The Consolidated Entity had cash and cash equivalents of \$4,317,338 (31 December 2010: \$8,278,256) and net assets of \$35,534,516 (31 December 2010: \$31,124,347) as at 31 December 2011.

During the year ended 31 December 2011, the Company delivered an outstanding year of operational performance that has resulted in:

- 3 new gas discovery wells;
- an extensive seismic program on the Sanjiaobei project that led to a major resource expansion;
- multiple commercial gas flows on all wells tested during 2011;
- technical confirmation of the feasibility of Compressed Natural Gas (CNG) Pilot production; and
- substantial progress towards preparation of the Chinese Reserves Report.

These activities have also generated a substantial increase in gas resources and project value. Sino Gas's share of project NPV has increased 96% to US\$2.3 billion (February 2011: US\$1.2 billion) and 2C (100%) Contingent Resources have increased by 79% to 1.8 Tcf (February 2011: 1.0 Tcf).

This result, whilst significant in its own right, also means that Sino Gas can confidently implement its strategy to move towards development of the gas from each project during 2012.

The Company has also commenced a program designed to address the significant discount at which Sino Gas trades on the ASX compared to our international peers. Some of those efforts are now being reflected in the value of the Company.

Sino Gas is implementing its strategy to move towards development and:

- is continuing to strengthen the leadership team;
- continues to investigate the gas reform initiatives and other policy measures recently announced by the Chinese Government underpinning the domestic gas industry and the profitability of the Company's projects;
- has appointed Argonaut Capital Limited ("Argonaut") as Corporate and Financial Advisor with the aim of pursuing non-dilutive funding opportunities to progress the move towards development. Initial discussions are underway through Argonaut with potential investors.

Further details of the Company's progress during 2011 and to the current date can be found at www.sinogasenergy.com

(g) Dividends

No dividends were paid or declared by the Company during the year ended 31 December 2011. The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

(h) Subsequent Events

Subsequent to the year end there has been a number of key events, including:

- Receipt of an independent certification of Reserves and Resources on its Linxing and Sanjiaobei Production Sharing Contracts and an increase in the Company's share of the project NPV to US\$2.3 billion. The Reserves and Resource certification was completed by independent resource industry consulting firm, RISC Pty Ltd under the Society of Petroleum Engineers Petroleum Resource Management System (SPE PRMS). The results are summarised below¹:

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Directors' Report

Project (100%)	Best Estimate Gas In Place (GIP) (Bcf)	1P Reserves (Bcf)	2P Reserves (Bcf)	3P Reserves (Bcf)	2C (Mid Case) Contingent Resources (Bcf)	Mid Case Prospective (Bcf)	Total Reserves / Resources (Mid Case) (Bcf)
Linxing PSC	6,951	4	12	26	1,328	849	2,189
Sanjiaobei PSC	4,980	3	10	21	471	1,012	1,493
Total Reserves / Resources	11,931	7	22	47	1,799	1,861	3,682

¹ Figures are 100% project for the Linxing and Sanjiaobei PSCs and mid case unless otherwise noted. Sino Gas's share of the Linxing PSC is 65% and 49% of the Sanjiaobei PSC following partner back-in. Deep CBM Resources evaluated in January 2012 by RISC, Shallow CBM Resources evaluated in 2008 by NSAI. Reserves/Resource classification is per the SPE PRMS.

- The Company announced the appointment of Mr. Colin Heseltine to the Board as a Non-Executive Director on 30 January 2012.
- On 27 January 2012, the Company signed a mandate appointing independent corporate advisory and stockbroking firm Argonaut Capital Limited ("Argonaut") as the Company's corporate advisor. Argonaut is a technically driven specialist based out of Perth and Hong Kong with an established track record in the natural resource sector. In connection with the appointment of Argonaut, on 16 February 2012, the Company issued to Argonaut 30 million options, each exercisable at 7.5 cents on or before 5 years from the date of issue, the options may only being exercised if performance related vesting conditions are met including achieving share price thresholds of \$0.15 and \$0.25 and achieving various funding events.
- On 27 February 2012, the Company announced that it had mutually agreed with SpringTree Special Opportunities Fund LP to terminate the SpringTree funding facility with immediate effect and at no cost.
- On 28 February 2012, the Company announced the appointment of Mr. Robert Bearden as President and Chief Executive Officer of the Company commencing during the second quarter of 2012. Mr. Bearden has over 30 years of experience in upstream petroleum industry and experience in project development and frontier markets. In recognition of the need to focus on positioning the Company financially for development, Mr. Stephen Lyons will move from his current role as Managing Director into the role of Vice President Finance & Corporate, while Mr. Frank Fu will move from his current role as COO into the role of Vice President Operations and continue to lead the Company's Beijing technical operations and project implementation.

(i) Future Developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

(j) Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 4 to the financial statements.

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services disclosed in Note 4 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- (i) All non-audit services have been reviewed to ensure they do not impact the integrity and objectivity of the auditor; and

Sino Gas & Energy Holdings Limited

Directors' Report

- (ii) None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

(k) Auditor's Independence Declaration

The auditor's independence declaration is included on page 18 of the Financial Report.

(l) Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors, Company Secretary, and all executive officers of the Company against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has entered into Deeds of Insurance, Access and Indemnity with the Directors and Company Secretary of the Company.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

(m) Environmental Regulation

The Company is required to carry out its activities in accordance with the Chinese laws and regulations in the areas in which it undertakes its exploration, development and production activities. The Company is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect to its operating activities.

(n) Share Options

Details of unissued shares under option as at the date of this report are:

Number on issue	Exercise price	Expiry Date
334,283,757	\$0.125	31 Dec 2012
1,310,000	\$0.50	13 Mar 2013
8,750,000	\$0.0793	25 Nov 2013
30,000,000	\$0.075	15 Feb 2017

No person entitled to exercise the options has any right by virtue of the options to participate in any share issue of the Company.

During the financial year:

- (i) 17,500,000 options with an exercise price of \$0.25 expired unexercised on 15 September 2011;
- (ii) 4,400,000 options with an exercise price of \$0.50 expired unexercised on 15 September 2011; and
- (iii) 31,644,345 options with an exercise price of \$0.50 expired unexercised on 31 December 2011.

No shares have been issued during or since the end of the financial year as a result of exercise of an option.

(o) Performance Rights

In November 2009, shareholders approved the implementation of a Performance Rights plan. The rights to be granted under this plan are dependent on Company performance. Each Performance Right is a personal contractual right to be satisfied through the issue or procurement of shares in the Company. A Performance Right may be exercised if it has not otherwise lapsed in accordance with the Executive, Officer and Employee Performance Rights Plan on the satisfaction of prescribed performance criteria within the performance period.

Details of performance rights on issue as at 31 December 2011

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Class	Class of shares	Exercise price	Grant date	Issue date	Expiry date	Key terms* (refer below)	No. of shares under performance rights
Performance Rights	Ordinary shares	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	2,500,000
Performance Rights	Ordinary shares	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	16,750,000
Performance Rights	Ordinary shares	Nil	16 May 2011	16 May 2011	16 May 2016	(bb)	3,500,000
Performance Rights	Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb)	4,500,000
Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb)	750,000
Performance Rights	Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb) (ii) & (iii)	2,000,000
Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb) (ii) & (iii)	1,000,000
Performance Rights	Ordinary shares	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000

* Performance rights issued with key terms of (bb)(ii) and (bb)(iii) are exercisable at 50% on respective hurdle.

Key Terms of Performance Rights:

(aa) The Performance Right are exercisable into fully paid ordinary shares of the Company when the applicable performance hurdle is met, with 1/3 being exercisable on satisfying the performance hurdle and 1/3 lots annually thereafter. The performance hurdle is the approval by the relevant Chinese authorities of an Overall Development Plan (ODP) to enable the Company to proceed to development on the PSC with such ODP to include a minimum 100 billion cubic feet of gas and to provide a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). This performance hurdle must be met within 3 years from the date of grant of the performance right.

The performance hurdle is estimated to be met approximately on 30 June 2013.

(bb) The Performance Right is to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:

- (i) Performance Hurdle 1: Start of sale of gas under a Pilot Development Program approved by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when the start of sale of gas occurs on a Pilot Development Program approved by the relevant Chinese authorities in connection with the Company's interests in the PSC.
- (ii) Performance Hurdle 2: Approval of a Reserves Report by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when a Reserves Report is approved by the relevant Chinese authorities in connection with the Company's interests in the PSC. If the Company decides not to proceed to a Pilot Development Program then those Performance Rights exercisable under Performance Hurdle 1 will be exercisable upon satisfaction of Performance Hurdle 2.
- (iii) Performance Hurdle 3: Approval of the Overall Development Plan by the relevant Chinese authorities. Approximately 3/7 of the Performance Rights will be exercisable on approval by the relevant Chinese authorities of an ODP to enable the Company to proceed to development on the PSC, with such ODP to include a minimum 100 billion cubic feet of gas and a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). If the Company does not proceed to either or both of a Pilot Development Program and approval of a Reserves Report, Performance Rights exercisable under Performance Hurdle 1 and Performance Hurdle 2 will be exercisable upon satisfaction of Performance Hurdle 3.

The performance hurdles for (i), (ii), and (iii) above are estimated to be met approximately on 30 June 2012, 31 December 2012, and 30 June 2013, respectively.

There have been no shares issued during or since the end of the financial year as a result of exercise of any performance rights.

Sino Gas & Energy Holdings Limited

Directors' Report

(p) Remuneration Report (audited)

Director and executive details

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of SGEH's directors and senior management for the financial year ended 31 December 2011. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and senior management details
- remuneration policy
- relationship between the remuneration policy and Company performance
- remuneration of directors and senior management
- key terms of employment contracts
- share based payments granted as compensation

Director and senior management details

The following persons acted as directors or senior management during or since the end of the financial year:

Gavin Harper	(Executive Chairman)
Stephen Lyons	(Managing Director)
John Chandler	(Non-Executive Director)
Bernie Ridgeway	(Non-Executive Director)
Peter Mills	(Non-Executive Director) (Appointed 1 November 2011)
Colin Heseltine	(Non-Executive Director) (Appointed 30 January 2011)

For the purposes of this report "senior management" are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives (or all executives if less than 5) in the Parent and the Group receiving the highest remuneration. Stephen Lyons is the only member of the senior management team employed by the parent company. The named persons held their current positions for the whole of the financial year and since the end of the financial year unless otherwise noted:

Frank Fu	(Chief Operating Officer)
Nicolas Bong	(Chief Financial Officer) (Appointed 7 June 2011)
Harry Spindler	(Company Secretary)

Remuneration Policy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. The remuneration policies of the Company are framed accordingly.

The remuneration committee was established on 7 July 2009. Prior to the formation of the remuneration committee matters pertaining to remuneration were dealt with by the Board. The remuneration committee is responsible for reviewing and making recommendations to the Board on compensation arrangements for the directors and the executive team of both the Group and the Company. The remuneration committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis. The overall objective is the retention of a high quality board and executive team, to maximise value of the shareholders' investment.

Share options and performance rights may also be issued as an added inducement to directors and senior management to maximise their efforts in achieving the highest possible return for shareholders. Details regarding the issue of share options and performance rights are provided below.

Non-Executive Directors' fees

Fees and payments to non-executive directors reflect the demands made on, and the responsibilities of, the directors. The cash remuneration of non-executive directors is not linked to the company's performance in order to preserve independence.

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Directors' Report

The total fees payable to non-executive directors are capped at a maximum of \$500,000 per year and non-executive directors are not provided with any retirement benefits other than superannuation. In addition, the Board seeks shareholder approval for any options or performance rights that may be issued to directors.

The amount of aggregate remuneration and the manner in which it is apportioned amongst directors is reviewed annually by the Board. Shareholder approval is sought where there is a proposed change in the total remuneration paid to non-executive directors. The Board considers the Company's particular circumstances as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Senior Management Salary and Fees

The remuneration of senior management is generally reviewed annually taking into consideration the contribution of the individual commensurate with the performance of the Group and comparable employment market conditions.

Relationship between the remuneration policy and company performance

The performance of the Company largely depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors (both executive and non-executive) and executives. The Board of the Company believes that in order to retain quality directors and executives, some incentive to maintain their future services, involvement, commitment and loyalty to the Company, is required on certain occasions over and above nominal Directors' and executive fees and salaries.

The Company paid cash incentives or bonuses to its directors or senior management of \$58,268 during the financial year ended 31 December 2011 (31 December 2010: nil), relating to the year ended 31 December 2010. Further cash incentives or bonuses of \$47,976 are still payable as at 31 December 2011. These bonuses are at the board's discretion.

In the financial period ended 31 December 2009, the Company received shareholder approval to implement a Performance Rights plan. The rights to be granted under this plan are dependent on company performance. Each performance right is conditional upon the achievement of certain performance hurdles, which are linked to the company's overall performance on its exploration and development plans. The specific performance hurdles which have been set to date (which are detailed further in the remuneration report and are linked to the Company achieving an Overall Development Plan to a certain minimum level) take account of the achievement of the Overall Development Plan on the Company's prospects of monetization its assets and the likely impact this will have on the company. Each of these performance hurdle steps is of importance in its own right as well as being on the critical path to full commercial production. Accordingly each performance hurdle has been set as a hurdle as the Company builds momentum to achieve full commercial production and in parallel an anticipated increase in shareholder value.

In prior financial years, options were granted to senior management personnel under the employee share option plan. Under this plan options generally vest over a three year period and vesting is subject to these persons remaining employed with the Group during the vesting period, unless otherwise agreed by the Board, not in relation to the Company's performance.

The table below sets out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 31 December 2011. On 23 December 2009, the Australian Securities & Investments Commission (ASIC) granted relief to change the Company's financial year end from 30 June to 31 December. The change of financial year end has resulted in a transitional financial period for the six months from 1 July 2009 to 31 December 2009.

	30 June 2008	30 June 2009	31 December 2009	31 December 2010	31 December 2011
Revenue	309,419	32,246	137,382	172,422	87,203
Net profit / (loss) before tax	(4,361,936)	(7,969,410)	(2,300,720)	1,067,377	(4,193,773)
Net profit / (loss) after tax	(4,361,936)	(7,969,410)	(2,300,720)	1,067,377	(4,193,773)
Share price at the start of the year (cents)	-	-	19*	14	7
Share price at the end of the year (cents)	-	-	14	7	3
Dividends	-	-	-	-	-
Basic earnings per share	(4.16)	(7.07)	(1.69)	0.19	(0.43)
Diluted earnings per share	(4.16)	(7.07)	(1.69)	0.19	(0.43)

* This price represents the Company's closing share price on its official listing on the ASX on 15 September 2009.

Sino Gas & Energy Holdings Limited

Directors' Report

Remuneration of directors and senior management

The directors and the Company executives and group executives received the following amounts as compensation for their services as directors, executives and senior management of the Company and/or the Group during the year:

Key management personnel compensation Year ended 31 December 2011	Note	Short term					Post Employment		Share based payments		Other benefits	Total	% relating to options & performance rights
		Salary & fees	Bonus 2010	Bonus 2011	Non-monetary	Other benefits	Super-annuation	Other	Equity options (vi)	Performance rights (vii)			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors													
G Harper, Executive Chairman (Appointed on 1 Jan 2011)	(i)	151,458				266,000	12,000			170,556	-	600,014	28%
S Lyons, Managing Director	(ii)	301,405	25,000		189,145	1,820	26,834		3,398	162,791	-	710,393	23%
J Chandler, Non Executive Director		69,450				56,500	15,000			122,093	-	263,043	46%
B Ridgeway, Non Executive Director		75,000					6,750			-	-	81,750	0%
P Mills, Non Executive Director		12,500					1,125				-	13,625	-
Executives													
Frank Fu, Chief Operating Officer	(iii)	215,709	33,268	37,481		9,696				35,566	-	331,720	11%
Nicolas Bong, Chief Financial Officer (Appointed on 7 June 2011)	(iv)	94,281		10,495		1,820					-	106,596	-
H Spindler, Company Secretary	(v)	91,500									-	91,500	-
		1,011,303	58,268	47,976	189,145	335,836	61,709	-	3,398	491,006	-	2,198,641	

Key management personnel compensation Year ended 31 December 2010	Note	Short term				Post Employment			Share based payments		Other benefits	Total	% relating to options & performance rights
		Salary & fees	Bonus	Non-monetary	Other benefits	Super-annuation	Prescribed benefits	Other	Equity options (vi)	Performance rights (vii)			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors													
S Snyder, Non Executive Chairman (Retired on 31 Dec 2010)		75,000	-	-	38,080	9,000	-	-	-	-	-	122,080	-
S Lyons, Managing Director	(ii)	259,618		166,269	-	66,829	-	-	3,681	15,858	-	512,255	4%
J Chandler, Non Executive Director		50,000	-	-	16,500	4,500	-	-	-	11,894	-	82,894	14%
G Harper, Executive Director	(i)	50,000	-	-	163,563	6,750	-	-	-	15,829	-	236,142	7%
B Ridgeway, Non Executive Director		50,000	-	-	-	4,500	-	-	-	-	-	54,500	-
Executives													
Frank Fu, Chief Operating Officer (Appointed on 1 August 2010)	(iii)	92,717		-	-	-	-	-	-	-	-	92,717	-
S Marsden, Technical Manager (Resigned on 31 Mar 2010)		69,974	-	9,936	-	-	-	-	7,593	-	-	87,503	9%
P Mason, Company Secretary (Resigned on 2 Nov 2010)		24,750	-	-	-	-	-	-	-	-	-	24,750	-
H Spindler, Company Secretary (Appointed on 2 Nov 2010)	(v)	8,500	-	-	2,500	-	-	-	-	-	-	11,000	-
		680,559	-	176,205	220,643	91,579	-	-	11,274	43,581	-	1,223,841	

Sino Gas & Energy Holdings Limited

Directors' Report

No director or member of senior management appointed during the year received a payment as part of consideration for agreeing to hold the position.

- (i) Mr Harper was appointed Executive Chairman on 1 January 2011 and transitioned to full-time Executive Chairman on 1 November 2011. He is party to a consultancy agreement effective from 1 November 2011 and, unless extended, expiring on 30 June 2013 that sets out a fixed compensation package denominated in Australian Dollars and reviewable annually. Unless there is an event of serious misconduct or default, the contract provides that Mr Harper or the Company may terminate the agreement on 6 months notice. The contract also provides that, subject to necessary shareholder approvals, Mr Harper shall be granted performance rights equating to 1% of the issued capital of the Company.
- (ii) Mr Lyons was appointed Managing Director of SGEH and SGE on 20 May 2008 and has been involved in various capacities with both companies since 15 July 2005. He has been permanently based in Beijing, China since 30 December 2006. He is party to a contract of employment effective from 20 May 2008. The contract sets out a fixed compensation package denominated in Chinese Renminbi, reviewable annually with an annual bonus based on the achievement of defined key objectives. The contract also provides for the provision of necessary housing, a vacation travel allowance, school fees allowance and other benefits normal in arrangements for an expatriate employee based in Beijing. The contract provides that the employee may terminate the agreement on 3 months' notice to the Company. Unless there is an event of serious misconduct or default, the Company may terminate the agreement on 3 months' notice to the employee. If the Company terminates the agreement in this way the Company must pay to the employee 100% of the employees' annual salary (not including superannuation or bonuses) and relocation costs associated with repatriation of Mr Lyons and his family to Perth, Western Australia. A discretionary performance bonus of A\$25,000 was paid to Mr Lyons during the year in respect to his performance during the year ended 31 December 2010.
- (iii) Mr Fu was appointed Chief Operating Officer of SGE on 1 August 2010. He is party to a contract of employment that sets out a fixed compensation package, denominated in Chinese Renminbi, reviewable annually. The contract also provides for the provision of Beijing travel, necessary social insurances, allowance's and other benefits in accordance with governing employment laws. The contract stipulates a 3 month termination and notice period from both the employee and the Company which may be reduced in certain circumstances. A discretionary performance bonus was paid to Mr Fu during the year, in respect to his performance for the year ended 31 December 2010, of A\$33,268 and a discretionary performance bonus in respect to the year ended 31 December 2011 was paid during the year of 2012 of A\$37,481.
- (iv) Mr Nicolas Bong was appointed Chief Financial Officer of SGE on 7 June 2011. He is party to a contract of employment that sets out a fixed compensation package, denominated in Chinese Renminbi, reviewable at an agreed interval. The contract also provides for the provision of Beijing travel, necessary social insurances, allowance's and other benefits in accordance with governing employment laws. The contract stipulates a 1 month termination and notice period from both the employee and the Company which may be reduced in certain circumstances. A discretionary performance bonus for the year ended 31 December 2011 was paid during the year of 2012 of A\$10,495.
- (v) Mr Spindler was appointed Company Secretary on 2 November 2010. Fees were paid to Indian Ocean Advisory Group Pty Ltd, a related entity of Mr Spindler, of which he is an employee, for Company Secretary, consulting and administrative services.
- (vi) The Equity Options amounts recorded above for the financial years ended 31 December 2011 and 31 December 2010 represents the employee options expense in relation to the share options granted in prior financial years.
- (vii) The Performance Rights amount recorded above for the financial year ended 31 December 2011 and 31 December 2010 represents the performance rights expense recognised during the vesting period in relation to the performance rights granted , as approved by shareholders.

During the year ended 31 December 2011, due to the level of activity, it has been necessary for board members to perform and devote more time and resources than what would ordinarily be required of a non-executive director. Accordingly, additional consulting fees have been paid to these non-executive directors as shown in other payments above.

Share-based payments granted as compensation in the current financial year

Performance rights plan

The Group has an ownership-based compensation scheme for executives and senior employees of the Group.

Sino Gas & Energy Holdings Limited

Directors' Report

Under the performance rights plan, each performance right converts to one ordinary share of Sino Gas & Energy Holdings Limited on exercise. No amounts are paid or payable by the recipient on receipt of the performance right or share. Performance Rights may be exercised at any time from the date the performance criteria and vesting conditions have been met to the date of expiry. Refer to "Relationship between the remuneration policy and company performance" above for details of the basis for granting performance rights and vesting criteria.

During the financial year ended 31 December 2011, the Company issued 7,500,000 Performance Rights to the following Director and senior employee:

Name	Exercise price	Grant date	Issue date	Expiry date	Key terms* (refer below)	Performance Rights at 31 Dec 2011 No.
G Harper	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000
F Fu	Nil	16 May 2011	16 May 2011	16 May 2016	(bb)	3,500,000

As at 31 December 2011, 23,250,000 Performance Rights have been issued to the following directors:

Director	Exercise price	Grant date	Issue date	Expiry date	Key terms* (refer below)	Performance Rights at 31 Dec 2011 No.
G Harper	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	750,000
S J Lyons	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	1,000,000
J Chandler	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	750,000
G Harper	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	6,250,000
S J Lyons	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	6,000,000
J Chandler	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	4,500,000
G Harper	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000
B W Ridgeway	-	-	-	-	-	-
P Mills	-	-	-	-	-	-
Total						23,250,000

* Performance rights issued with key terms of (bb)(ii) and (bb)(iii) are exercisable at 50% on respective hurdle.

Key Terms of Performance Rights:

(aa) The Performance Right are exercisable into fully paid ordinary shares of the Company when the applicable performance hurdle is met, with 1/3 being exercisable on satisfying the performance hurdle and 1/3 lots annually thereafter. The performance hurdle is the approval by the relevant Chinese authorities of an Overall Development Plan (ODP) to enable the Company to proceed to development on the PSC with such ODP to include a minimum 100 billion cubic feet of gas and to provide a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). This performance hurdle must be met within 3 years from the date of grant of the performance right.

The performance hurdle is estimated to be met approximately on 30 June 2013.

(bb) The Performance Right is to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:

- (i) Performance Hurdle 1: Start of sale of gas under a Pilot Development Program approved by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when the start of sale of gas occurs on a Pilot Development Program approved by the relevant Chinese authorities in connection with the Company's interests in the PSC.

Sino Gas & Energy Holdings Limited

Directors' Report

- (ii) Performance Hurdle 2: Approval of a Reserves Report by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when a Reserves Report is approved by the relevant Chinese authorities in connection with the Company's interests in the PSC. If the Company decides not to proceed to a Pilot Development Program then those Performance Rights exercisable under Performance Hurdle 1 will be exercisable upon satisfaction of Performance Hurdle 2.
- (iii) Performance Hurdle 3: Approval of the Overall Development Plan by the relevant Chinese authorities. Approximately 3/7 of the Performance Rights will be exercisable on approval by the relevant Chinese authorities of an ODP to enable the Company to proceed to development on the PSC, with such ODP to include a minimum 100 billion cubic feet of gas and a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). If the Company does not proceed to either or both of a Pilot Development Program and approval of a Reserves Report, Performance Rights exercisable under Performance Hurdle 1 and Performance Hurdle 2 will be exercisable upon satisfaction of Performance Hurdle 3.

The performance hurdles for (i), (ii), and (iii) above are estimated to be met approximately on 30 June 2012, 31 December 2012, and 30 June 2013, respectively.

During the financial year, the following share-based performance rights payment arrangements were in existence in relation to directors and senior employees:

Performance Right series	Grant date per accounting standards	Expiry date	Grant date fair value	Vesting date (Refer above)
2009 performance rights issued on 8 Nov 2010	8 Nov 2010	8 Nov 2015	\$0.035	(aa)
2010 performance rights issued on 22 Feb 2011	14 Dec 2010	8 Mar 2014	\$0.043	(bb)
2011 performance rights issued on 16 May 2011	16 May 2011	16 May 2016	\$0.058	(bb)
2011 performance rights issued on 5 Dec 2011	5 Dec 2011	26 Dec 2014	\$0.038	(bb) (ii) & (iii)

The following grants of share-based performance rights payment compensation to directors and senior employee relate to the current financial year:

Name	Performance rights series	During the year				% of compensation for the year consisting of performance rights
		No. Granted	No. Vested	% of grant vested	% of grant forfeited	
Mr S Lyons	2009 performance rights	-	-	-	-	22.9%
	2010 performance rights	-	-	-	-	22.9%
Mr J Chandler	2009 performance rights	-	-	-	-	46.4%
	2010 performance rights	-	-	-	-	46.4%
Mr G Harper	2009 performance rights	-	-	-	-	28.4%
	2010 performance rights	-	-	-	-	28.4%
	2011 performance rights	4,000,000	-	-	-	28.4%
Mr F Fu	2011 performance rights	3,500,000	-	-	-	12.1%

Sino Gas & Energy Holdings Limited

Directors' Report

During the year, no performance rights were exercised by directors and senior management that were granted to them as part of their compensation. Further details of the performance rights plan are disclosed in Note 21 to the financial statements.

Employee share option plan

The Group has an ownership-based compensation scheme for executives and senior employees of the Group, although the employee Share Option Plan has now been effectively replaced by the Performance Rights Plan (as detailed above).

Under the employee share option plan, each employee share option converts to one ordinary share of Sino Gas & Energy Holdings Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of expiry. Refer to "Relationship between the remuneration policy and company performance" above for details of the basis for granting options and vesting criteria.

During the financial year, the following share-based option payment arrangements were in existence:

Options series	Grant date per accounting standards	Expiry date	Grant date fair value	Vesting date
(i) Unlisted 50 cents issued 14 Mar 2008	14 Mar 2008	13 Mar 2013	\$0.28	1 Mar 2009, 1 Mar 2010 & 1 Mar 2011
(ii) Unlisted 50 cents issued 14 Mar 2008	14 Mar 2008	13 Mar 2013	\$0.30	1 Sept 2008, 1 Sept 2009 & 1 Sept 2010

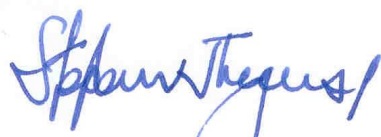
The following grants of share-based option payment compensation to directors and senior management relate to the current financial year:

Name	Option series	During the year				% of compensation for the year consisting of options
		No. Granted	No. Vested	% of grant vested	% of grant forfeited	
Mr S Lyons	(i) Unlisted 50 cents issued 14 Mar 2008	-	-	-	-	-
	(ii) Unlisted 50 cents issued 14 Mar 2008	-	-	-	-	0.5%

No options were issued under the employee share option plan during the current financial year. Further details of the employee share option plan are disclosed in Note 21 to the financial statements.

Signed in accordance with a resolution of the Directors made pursuant to S.298(2) of the Corporations Act 2001.

On behalf of the Directors



Mr Stephen J Lyons
Managing Director
PERTH, Western Australia, 6 March 2012

Independent Auditor's Report to the members of Sino Gas & Energy Holdings Limited

We have audited the accompanying financial report of Sino Gas & Energy Holdings Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 19 to 57.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sino Gas & Energy Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Sino Gas & Energy Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the Consolidated entity incurred net cash outflows from operations of \$2,542,257 (31 December 2010: \$1,239,198) and net cash outflows from investing activities of \$8,433,375 (31 December 2010: \$5,510,548) for the year ended 31 December 2011. As at 31 December 2011, the Consolidated Entity has net current liabilities of \$4,171,598 (31 December 2010: net current assets of \$2,333,346). These conditions, along with other matters set out in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Consolidated Entity's ability to continue as going concerns and therefore, whether they will realise their assets and extinguish their liabilities in the ordinary course of business, and at amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 9 to 15 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Sino Gas & Energy Holdings Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants
Perth 6 March 2012

The Board of Directors
Sino Gas & Energy Holdings Limited
311 Hay Street
SUBIACO WA 6008

6 March 2012

Dear Board Members

Sino Gas & Energy Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Sino Gas & Energy Holdings Limited and its controlled entities.

As lead audit partner for the audit of the financial statements of Sino Gas & Energy Holdings Limited for the financial year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants

Sino Gas & Energy Holdings Limited

Directors' Declaration

The directors declare that:

- (a) in the directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 9 to 15, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the managing director for the financial year ended 31 December 2011.

Signed in accordance with a resolution of the Directors.



Mr Stephen J Lyons

Managing Director

PERTH, Western Australia, 6 March 2012

Sino Gas & Energy Holdings Limited
Statement of Comprehensive Income
for the year ended 31 December 2011

		Consolidated	
		Year ended	Year ended
		31 December	31 December
		2011	2010
	Notes	\$	\$
Continuing Operations			
Other revenue	2	87,203	172,422
Other gains and losses	2	(625,067)	1,838,143
Financing costs		(264,604)	(869,868)
Depreciation and amortisation expense		(60,009)	(43,365)
Share-based payment	21	(550,602)	(67,781)
Foreign exchange gain / (loss)		(215,030)	1,555,615
Other expenses		-	-
General and administration expenses		(2,565,664)	(1,517,789)
Profit/(loss) before income tax expense		(4,193,773)	1,067,377
Income tax expense	3	-	-
Profit/(loss) for the year		(4,193,773)	1,067,377
Other comprehensive income			
Exchange differences arising from translation of foreign operations		155,717	(5,478,254)
Total comprehensive (loss) for the year		(4,038,056)	(4,410,877)
Earnings per share:			
Basic earnings per share (cents)	14	(0.43)	0.19
Diluted earnings per share (cents)	14	(0.43)	0.19

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited

Statement of Financial Position

As at 31 December 2011

		Consolidated	
		31 December	31 December
		2011	2010
	Notes	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	16	4,317,338	8,278,256
Trade and other receivables	5	193,610	135,307
Other current assets		185,055	199,854
Total current assets		4,696,003	8,613,417
Non-current assets			
Plant and equipment	6	116,155	134,952
Deferred exploration and evaluation expenditure	7	39,589,959	28,656,049
Total non-current assets		39,706,114	28,791,001
Total assets		44,402,117	37,404,418
LIABILITIES			
Current liabilities			
Trade and other payables	8	8,748,875	6,229,376
Provisions	9	118,726	50,695
Total current liabilities		8,867,601	6,280,071
Total liabilities		8,867,601	6,280,071
Net assets		35,534,516	31,124,347
EQUITY			
Issued capital	11	60,321,166	52,808,853
Reserves	12	(2,350,077)	(3,245,767)
Accumulated losses	13	(22,436,573)	(18,438,739)
Total equity		35,534,516	31,124,347

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited

Statement of Cash Flows

for the year ended 31 December 2011

		Consolidated Year ended 31 December 2011 \$	Year ended 31 December 2010 \$
	Notes		
Cash Flows From Operating Activities			
Receipts from customers		-	-
Payments to suppliers and employees		(2,629,460)	(1,411,625)
Interest received		87,199	172,324
Interest and financing costs paid		4	103
Net cash used in Operating Activities	16	(2,542,257)	(1,239,198)
Cash Flows From Investing Activities			
Payment for plant and equipment		(41,378)	(144,861)
Payment for exploration expenditure		(8,391,997)	(5,365,687)
Net cash used in Investing Activities		(8,433,375)	(5,510,548)
Cash Flows From Financing Activities			
Proceeds from issue of equity securities		7,512,750	25,622,126
Share issue costs		(504,794)	(2,003,580)
Proceeds from borrowings		600,000	-
Repayment of borrowings		(600,000)	(13,599,583)
Loan to subsidiary		-	-
Net cash provided by Financing Activities		7,007,956	10,018,963
Net increase/(decrease) in Cash Held		(3,967,676)	3,269,217
Cash at the beginning of the financial year		8,278,256	5,829,527
Effects of exchange rate changes on the balance of cash held in foreign currencies		6,758	(820,488)
Cash at the end of the financial year	16	4,317,338	8,278,256

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited

Statement of Changes in Equity

for the year ended 31 December 2011

CONSOLIDATED		Issued Capital	Equity Settled Benefits Reserve	Foreign Currency Translation Reserve	Equity Component Reserve	Accumulated Losses	Total Attributable to Equity Holders of the Company
	Notes	\$	\$	\$	\$	\$	\$
Balance at 1 January 2010		30,435,715	1,310,861	(1,031,806)	195,939	(19,506,116)	11,404,593
Profit for the year	13	-	-	-	-	1,067,377	1,067,377
Exchange differences arising on translation of foreign operations	12	-	-	(5,478,254)	-	-	(5,478,254)
Total comprehensive income for the year		-	-	(5,478,254)	-	1,067,377	(4,410,877)
<i>Transactions with owners in their capacity as owners</i>							
Issue of shares	11	25,906,655	-	-	-	-	25,906,655
Issue of Performance Rights	12	-	43,581	-	-	-	43,581
Share issue costs	11	(3,533,517)	-	-	-	-	(3,533,517)
Share based payments	12	-	1,713,912	-	-	-	1,713,912
Balance at 31 December 2010		52,808,853	3,068,354	(6,510,060)	195,939	(18,438,739)	31,124,347
Balance at 1 January 2011		52,808,853	3,068,354	(6,510,060)	195,939	(18,438,739)	31,124,347
Loss for the year	13	-	-	-	-	(4,193,773)	(4,193,773)
Exchange differences arising on translation of foreign operations	12	-	-	155,717	-	-	155,717
Total comprehensive income for the year		-	-	155,717	-	(4,193,773)	(4,038,056)
<i>Transactions with owners in their capacity as owners</i>							
Transfer to retained earnings		-	-	-	(195,939)	195,939	-
Issue of shares	11	8,017,107	-	-	-	-	8,017,107
Share issue costs	11	(504,794)	-	-	-	-	(504,794)
Issue of Performance Rights	12	-	529,497	-	-	-	529,497
Share based payments	12	-	406,415	-	-	-	406,415
Balance at 31 December 2011		60,321,166	4,004,266	(6,354,343)	-	(22,436,573)	35,534,516

Sino Gas & Energy Holdings Limited

Notes to the Financial Report

for the year ended 31 December 2011

1 Summary of Significant Accounting Policies

The financial report of Sino Gas & Energy Holdings Limited for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of directors on the date of approval of the Directors' Report.

Sino & Gas Energy Holdings Limited is a company limited by shares incorporated and domiciled in Australia. The financial report covers Sino Gas & Energy Holdings Limited and its controlled entities, Sino Gas and Energy Limited and Sino Gas and Energy Nominees Pty Ltd.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (including Australian Accounting Interpretations), and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. The financial report was authorised for issue on 21 February 2012.

The financial report complies with Australian Accounting Standards ("AASB") and International Financial Reporting Standards (IFRS).

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost except for the valuation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

(c) Going Concern Basis of Accounting

The Consolidated Entity incurred net cash outflows from operations of \$2,542,257 (31 December 2010: \$1,239,198) and net cash outflows from investing activities of \$8,433,375 (31 December 2010: \$5,510,548) for the year ended 31 December 2011. As at 31 December 2011, the Consolidated Entity has net current liabilities of \$4,171,598 (31 December 2010: net current assets of \$2,333,346).

The ability of the Company and the Consolidated Entity to continue as going concerns is principally dependent upon their ability to raise additional equity or debt funding to provide funds to meet working capital requirements and for proposed exploration programs and other operations, and assumes the following:

- (a) the raising of approximately \$25 million during early quarter two of 2012 to fund working capital requirements and to implement work programs as planned. The Company has engaged independent corporate advisory and stockbroking firm Argonaut Capital Limited ('Argonaut') as the Company's corporate and financial adviser to assist in developing short and longer term funding opportunities to progress the projects towards development. Initial discussions are underway through Argonaut with potential investors; and
- (b) continued active management of payments to the Consolidated Entity's suppliers and management of commitments for new work during 2012.

The Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are confident in the ability of the Company and Consolidated Entity to be successful in securing additional funds as and when needed.

The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Should the Company and the Consolidated Entity be unable to raise the funding referred to above, there is a material uncertainty whether the Company and the Consolidated Entity will be able to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities other than in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company and the Consolidated Entity be unable to continue as going concerns.

Sino Gas & Energy Holdings Limited

Notes to the Financial Report

for the year ended 31 December 2011

(d) Critical accounting judgements and key sources of estimation uncertainty

In the application of AASBs management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(e) New accounting standards and interpretations

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting year beginning 1 January 2011.

New and revised standards and interpretations effective for the current financial reporting year that are relevant to the consolidated entity are:

- AASB 124 Related Party Disclosures (2009) and AASB 2009-12 Amendments to Australian Accounting Standards
- AASB 2010-3 Amendments to Australian Accounting Standards arising from Annual Improvements Project
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from Annual Improvements Project
- AASB 2010-5 Amendments to Australian Accounting Standards
- AASB 2010-6 Amendments to Australian Accounting Standards arising from Disclosures on Transfers of Financial Assets.

The adoption of these Standards and Interpretations have not had an impact on the Consolidated Entity.

(f) Accounting Standards and Interpretations issued but not yet effective

The following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 31 December 2011.

Standard / Interpretation	Effective for annual reporting periods beginning/ending on or after	Expected to be applied by consolidated entity
AASB 9: Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2013	31 December 2013
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013	31 December 2013
AASB 10 Consolidated Financial Statements	1 January 2013	31 December 2013
AASB 11 Joint Arrangements	1 January 2013	31 December 2013
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	31 December 2013

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Standard / Interpretation	Effective for annual reporting periods beginning/ending on or after	Expected to be applied by consolidated entity
AASB 127 'Separate Financial Statements' (2011), AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	31 December 2013
AASB 2011-9 Amendment to Australian Accounting Standards -Presentation of items of other comprehensive Income	1 January 2013	31 December 2013
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	31 December 2013
AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	31 December 2013

The impact of these recently issued or amended Standards and Interpretation have not been determined as yet by the entity.

The following significant accounting policies have been adopted in the preparation and presentation of the Financial Report:

(g) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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for the year ended 31 December 2011

(j) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(k) Plant and equipment

Plant and equipment, are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting year.

The depreciation rate applicable to plant and equipment is generally 33%.

(l) Foreign currency

The presentation currency of the Company is Australian dollars. The functional currency of the Company is United States dollars. The functional currency of the Chinese representative office, the Chinese PSC Operations and the corporate office is United States dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date and recognised in the statement of comprehensive income.

As at the reporting date the assets and liabilities of foreign operations are translated into the presentation currency of the Company at the rate of exchange ruling at the statement of financial position date and the statement of comprehensive income is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. However, exchange differences relating to intra-group monetary assets (or liability) have been recognised in the statement of comprehensive income, as they do not form a net investment in a foreign operation.

(m) Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Financial Assets at fair value through profit or loss

Financial assets at fair value through profit / loss including financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

(ii) Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter year.

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(iii) Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value, loans and receivables or held-to-maturity investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the statement of comprehensive income.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(n) Financial Instruments Issued by the Company

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(o) Taxation

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Report and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) that affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

(iii) Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Sino Gas & Energy Holdings Limited

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for the year ended 31 December 2011

(p) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Employee Benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(r) Share Based Payments

(i) Employee Share Options

Equity-settled share-based payments in the form of employee share options are measured at fair value at grant date. Fair value is measured by the use of the Black-Scholes option pricing model. The various assumptions used in the model have been adjusted based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. Further details can be found at Note 21 to the financial statements. The fair value at grant date is expensed on a straight line basis over the vesting period, based on management's estimate of the employee share options that will eventually vest. At each reporting date, the Company revises its estimates of the number of employee share options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity settled employee benefits reserve.

(ii) Performance Rights

Equity-settled share-based payments in the form of performance rights are measured at fair value at the date of grant. Fair value is measured by the use of the Black-Scholes option pricing model. The fair value is expensed on a straight line basis over the vesting period and the probability of achieving the various conditions for the meeting the performance conditions and the conversion of the performance rights. The fair value has also been adjusted, based on management's best estimate, for the effects of non-transferability.

(iii) Share based payments to consultants

Equity-settled share-based payments to consultants are measured at the fair value at grant date. The fair value is measured by the use of the Black-Scholes option pricing model or the securities quoted price. Further details can be found at Note 21 to the financial statements.

(s) Impairment of Assets

The Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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Notes to the Financial Report

for the year ended 31 December 2011

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash inflows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(t) Exploration and Evaluation Expenditure

Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash inflows, which usually is represented by an individual gas field. For the Company this is determined at the level of each Production Sharing Contract (PSC).

Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- (i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

Capitalised development and construction costs are amortised over the life of the area of interest to which they relate. Amortisation charges are determined on a production output basis. Economically recoverable reserves are reassessed annually to establish any adjustments required to amortisation patterns.

(u) Provisions

Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(v) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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Notes to the Financial Report

for the year ended 31 December 2011

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(x) Financial liabilities and borrowings

Financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

Where financial liabilities are extinguished by the Company issuing its own equity instruments, it recognises a gain or loss in statement of comprehensive income which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(ii) Diluted earnings per share

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses and other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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Notes to the Financial Report
for the year ended 31 December 2011

2 Revenue and Expenses

		Consolidated	
		Year ended 31 December 2011	Year ended 31 December 2010
	Notes	\$	\$
Other revenue			
Other revenue consisted of the following:			
Other income		-	-
Finance revenue		87,203	172,422
Other gains and losses			
Other gains and losses consisted of the following:			
Net (loss) on settlements of financial liabilities	(ii)	(239,757)	-
Net (loss) on initial recognition of financial liabilities	(i)	(385,310)	-
Net gain arising on derivative liabilities		-	287,002
Net gain on settlement of financial liabilities		-	1,551,141
		(625,067)	1,838,143

(i) Net loss on initial recognition of financial liabilities represented option expense for 8,750,000 options issued to SpringTree, exercisable at \$0.0793 per share and expiring on 25 November 2013, using a volatility of 111%.

(ii) Net loss on settlements of financial liabilities represented the difference of \$(239,757) between the fair value of the ordinary shares issued and the financial liabilities which was due to the Company issued 11,834,320 and 12,170,385 shares for settlement of two \$600,000 monthly tranches of capital received from Spring Tree on 25 May 2011 and 27 June 2011.

Expenses

Profit/(loss) before income tax has been arrived at after crediting/(charging) the following gains and losses:

Depreciation and amortisation of Non Current Assets

Depreciation of property, plant and equipment	60,009	43,365
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Employee benefit expense

Directors fees	630,908	443,143
Superannuation	61,709	91,579
Wages and salaries	2,148,544	978,462
Less portion capitalised to Deferred exploration and evaluation expenditure	(2,110,040)	(924,042)
Equity Settled Share Based Payments expense	21	550,602
Total employee benefits expense	1,281,723	656,923

Finance costs

Interest expense	-	869,868
Commencement fee	(iii)	264,604

(iii) Commencement fee of finance costs represented the commencement fee of \$264,600 which was for issuing of 4,140,846 and 7,500,000 shares on 27 April 2011.

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Notes to the Financial Report

for the year ended 31 December 2011

3 Income Taxes

	Consolidated	
	Year ended 31 December 2011	Year ended 31 December 2010
	\$	\$
(a) Income tax recognised in the income statement		
Tax expense / (income) comprises:		
Current tax expense / (income)	-	-
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	-	-
Total tax expense / (income)	-	-
The prima facie income tax expense on pre-tax accounting profit /(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net Loss (Profit)	4,193,773	(1,067,377)
Income tax expense calculated at 30%	1,258,132	(320,213)
Tax losses not brought at account	(1,258,132)	-
Temporary differences not brought to account	-	-
Income not assessable	-	320,213
	-	-
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian law.		
(b) Income tax recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the year:		
Current tax	-	-
Deferred tax	-	-
	-	-
(c) Current tax assets and liabilities		
Current tax liabilities	-	-
(d) Deferred tax balances		
Unrecognised deferred tax balances		
The following deferred tax balances have not been brought to account as assets:		
Tax losses - revenue	7,076,694	5,818,562
Tax losses - capitalised expenditure	11,876,988	8,596,815
Tax losses - capital	-	-
Timing differences	-	-
	18,953,682	14,415,377
Deferred tax balances relating to tax losses and timing differences have not been brought to account as it is not probable that they will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make estimates related to expectations of future taxable income and taxation laws, including the extent to which such laws are expected to change in the future, in Australia and the People's Republic of China.		
The following deferred tax balances have not been brought to account as a liability:		
Capitalised expenditure deductible for tax purposes	11,876,988	8,596,815
	11,876,988	8,596,815

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for the year ended 31 December 2011

4 Remuneration of Auditors

		Consolidated Year ended 31 December 2011	Year ended 31 December 2010
	Note	\$	\$
Auditor of the entity - Deloitte Touche Tohmatsu			
Audit or review of the financial report		103,621	41,842
Taxation services		-	-
Other non-audit services: Other consulting services		-	-
		103,621	41,842
Previous auditor of the entity - PKF/BDO			
Audit or review of the financial report		-	46,254
Taxation services		51,725	25,330
Other non-audit services: Other consulting services	(i)	-	27,177
		51,725	98,761
Other Services - PriceWaterhouseCoopers (Beijing)			
Audit or review of the financial report		19,720	36,781
Taxation services		16,322	-
Other non-audit services: Other consulting services		-	-
		36,042	36,781

(i) Other non-audit service to PKF relates to the Right Issue conducted in June 2010.

5 Other Receivables

	Consolidated Year ended 31 December 2011	Year ended 31 December 2010
	\$	\$
Current		
Rental and utility deposits	79,995	62,142
Goods and services tax	99,327	15,942
Withholding tax	-	13,134
Employee travel advances	14,288	44,089
	193,610	135,307

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for the year ended 31 December 2011

6 Plant and Equipment

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Plant and equipment		
Carrying amount at the end of the financial period - at cost	116,155	134,952
Reconciliation of the carrying amount of plant and equipment at the beginning and end of the financial year		
Cost of plant and equipment		
Carrying amount at the beginning of the financial year	488,942	359,980
Additions	41,313	144,861
Impact of foreign exchange	(101)	(15,899)
Carrying amount at the end of the financial year	530,154	488,942
Accumulated depreciation plant and equipment		
Carrying amount at the beginning of the financial year	353,990	310,625
Depreciation expense	60,009	43,365
Carrying amount at the end of the financial year	413,999	353,990

7 Deferred Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Exploration		
At cost	39,589,959	28,656,049
Provision for impairment	-	-
Written down value	39,589,959	28,656,049
Reconciliation of the carrying amount of exploration expenditure at the beginning and end of the financial year	Year ended 31 December 2011	Year ended 31 December 2010
Exploration		
Carrying amount at the beginning of the financial year	28,656,049	22,139,076
Additions	10,740,422	10,231,475
Impairment	-	-
Impact of foreign exchange	193,488	(3,714,502)
Carrying amount at the end of the financial year	39,589,959	28,656,049

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration, development and commercial exploitation or sale of the Production Sharing Contracts (PSC's). Amortisation of the costs carried forward for the production phase is not being recognised pending commencement of production.

The carrying amounts above represent the costs that SGE has incurred on both its Linxing and Sanjiaobei PSC's. The PSC contracts regulate the cooperation between SGE and the Chinese partners to the contracts. The PSC's are 30-35 year contracts divided into three periods: exploration, development and production. SGE is currently in the exploration period on both PSC's.

On the Linxing PSC, SGE received formal approval from the Ministry of Commerce (MOFCOM) for a two year extension of the exploration period to 31 August 2013.

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for the year ended 31 December 2011

The exploration period on the Sanjiaobei PSC expired on 31 August 2008 and is in the process of being extended. As part of the restructure of the Chinese CBM industry, the Sanjiaobei PSC was transferred from CUCBM to CNPC however completion of this process has been delayed. In September 2011, the Sanjiaobei PSC was formally transferred to CNPC. Sino Gas is working with CNPC to conclude the extension of the exploration period.

8 Trade and Other Payables

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Trade payables	2,306,287	1,493,592
Other creditors and accruals	6,442,588	4,735,784
	<u>8,748,875</u>	<u>6,229,376</u>

9 Provisions

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Current provisions		
Employee entitlements	118,726	50,695

Reconciliation of provisions at the beginning and end of the financial year

Current provisions		
Carrying amount at the beginning of the financial year	50,695	52,078
Provision addition/(utilised)	68,031	(1,383)
Carrying amount at the end of the financial year	<u>118,726</u>	<u>50,695</u>

10 Financial Liabilities and Borrowings

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Convertible loan from related party (i)	-	-
Convertible note issued to related party (ii)	-	-
Derivative liability (iii)	-	-
	<u>-</u>	<u>-</u>

- (i) The convertible loan issued to Imdex Limited was settled during the prior year, as a result of a cash repayment of \$11,391,087 and the issue of 9,178,350 ordinary shares at an issue price of \$0.20 per share for the remaining balance of \$1,835,670. The ordinary shares have been recorded at fair value on the date of the issue resulting in a gain recognised in the Statement of Comprehensive Income of \$1,551,141.

The convertible loan was secured via a fixed and floating charge over the assets of Sino Gas & Energy Limited. This fixed and floating charge was discharged following repayment of the convertible loan.

- (ii) The convertible note issued to China Opportunity SA SICAR was settled during the prior year via a cash repayment for the outstanding balance of \$2,208,496.

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- (iii) The derivative liability arose from the conversion option given to Imdex Limited. As the convertible loan has been extinguished during the prior year, the conversion option was fair valued prior to repayment and the movement of the fair value of \$287,537 has been recognised in the Statement of Comprehensive Income.

11 Issued Capital

		Consolidated	
		31 December 2011	31 December 2010
		\$	\$
Issued and Paid Up Capital			
Fully paid ordinary shares		60,321,166	52,808,853
		60,321,166	52,808,853
Movement in ordinary share capital			
		Number of shares	\$
Balance at 1 January 2010		149,165,158	30,435,715
Issue of shares pursuant to prospectus	(i)	776,428,061	25,622,126
Issue of shares from the conversion of portion of convertible loan	(ii)	9,178,350	284,529
Share issue costs		-	(3,533,517)
Closing balance at 31 December 2010		934,771,569	52,808,853
Balance at 1 January 2011		934,771,569	52,808,853
Issue of shares pursuant to the SpringTree Agreement	(iii)	35,645,551	2,017,107
Issue of shares pursuant to placement	(iv)	150,000,000	6,000,000
Share issue costs		-	(504,794)
Closing balance at 31 December 2011		1,120,417,120	60,321,166

- (i) On 25 June 2010, the Company completed a Rights Issue. As a result of which 776,428,061 ordinary shares were issued at \$0.033 per share.
- (ii) On 25 June 2010, Imdex Limited converted \$1,835,670 of their convertible loan to 9,178,350 ordinary shares in SGEH. The share price of the ordinary shares at conversion date was \$0.031, which resulted in a fair value of the ordinary shares issued of \$284,529. The difference of \$1,551,141 between the fair value of the ordinary shares issued and the financial liability has been recognised in the Statement of Comprehensive Income.
- (iii) On 27 April 2011, the Company issued 4,140,846 and 7,500,000 shares for the payment of the commencement fee of \$264,600 and as collateral security, respectively for the SpringTree Special Opportunities Fund, LP (SpringTree) funding facility. On 25 May 2011 and 27 June 2011, the Company issued 11,834,320 and 12,170,385 shares for settlement of two \$600,000 monthly tranches of capital received from SpringTree. The difference of \$239,757 between the fair value of the ordinary shares issued and the financial liabilities has been recognised in the Condensed Consolidated Statement of Comprehensive Income.
- On 26 October 2011, SpringTree purchased all the collateral shares for \$312,750.
- (iv) On 26 October 2011 and 6 December 2011, the company issued 90,000,000 and 60,000,000 ordinary shares raising gross funds of \$3.6 million and \$2.4 million, respectively.

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for the year ended 31 December 2011

12 Reserves

		Consolidated	
		31 December 2011	31 December 2010
	Notes	\$	\$
Foreign Currency Translation Reserve	(i)	(6,354,343)	(6,510,060)
Equity Component Reserve	(ii)	-	195,939
Equity Settled Benefits Reserve	(iii)	4,004,266	3,068,354
		(2,350,077)	(3,245,767)

(i) Movements in Foreign Currency Translation Reserve:

Balance at the beginning of the financial year	(6,510,060)	(1,031,806)
Translation of foreign operations	155,717	(5,478,254)
Balance at the end of the financial year	(6,354,343)	(6,510,060)

(ii) Movements in Equity Component Reserve

Balance at the beginning of the financial year	195,939	195,939
Transfer to retained earnings	(195,939)	-
Balance at the end of the financial year	-	195,939

	31 December 2011		31 December 2010	
	Number	\$	Number	\$
(iii) Movements in Equity Settled Benefits Reserve				
Movements in options during the year				
Balance at the beginning of the financial year	389,138,102	3,024,773	86,498,690	1,310,861
Issue of options to underwriters & sub-underwriters	-	-	178,998,190	1,689,712
Issue of options	8,750,000	385,310	155,285,567	-
Less options expired unexercised	(53,544,345)	-	(31,644,345)	-
Employee option expense	-	21,105	-	24,200
Closing balance at end of the financial year	344,343,757	3,431,188	389,138,102	3,024,773
Movements in performance rights during the year				
Balance at the beginning of the financial year	19,250,000	43,581	-	-
Issue of performance rights to directors and management	15,750,000	529,497	19,250,000	43,581
Closing balance at end of the financial year	35,000,000	573,078	19,250,000	43,581
Total closing balance at end of the financial year		4,004,266		3,068,354

Nature and purpose of reserves

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences relating to the translation from United States Dollars, being the functional currency of the Company's foreign operations in China and its corporate office, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1 to the financial statements.

(ii) Equity component reserve

During the previous financial year the Company issued a convertible note to a shareholder that had both a liability and equity component. The equity component is shown above in reserves.

(iii) Equity settled benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to suppliers as payments for services. The equity settled benefits reserve arises on the grant of share options to senior executives under the Employee Share Option Plan, performance rights to senior executives under the Performance Rights Plan and share based payments associated with the Rights Issue. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Refer to Note 21 to the financial statements for further information.

Sino Gas & Energy Holdings Limited

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for the year ended 31 December 2011

The terms of the options noted above, and their listed/unlisted status, is as follows:

Listed / Unlisted	Number on issue	Exercise price	Expiry Date
Listed	334,283,757	\$0.125	31 December 2012
Unlisted	1,310,000	\$0.50	13 March 2013
Unlisted	8,750,000	\$0.0793	25 November 2013

During the financial year:

- (i) 17,500,000 unlisted options with an exercise price of \$0.25 expired unexercised on 15 September 2011;
- (ii) 4,400,000 unlisted options with an exercise price of \$0.50 expired unexercised on 15 September 2011; and
- (iii) 31,644,345 listed options with an exercise price of \$0.50 expired unexercised on 31 December 2011.

The terms of the performance rights noted above is as follows

Class	Class of shares	Exercise price	Grant date	Issue date	Expiry date	Key Terms*	No. of shares under performance rights
2009 Performance Rights	Ordinary shares	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	2,500,000
2010 Performance Rights	Ordinary shares	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	16,750,000
2011 Performance Rights	Ordinary shares	Nil	16 May 2011	16 May 2011	16 May 2016	(bb)	3,500,000
2011 Performance Rights	Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb)	4,500,000
2011 Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb)	750,000
2011 Performance Rights	Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb) (ii) & (iii)	2,000,000
2011 Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb) (ii) & (iii)	1,000,000
2011 Performance Rights	Ordinary shares	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000

* Performance rights issued with key terms of (bb)(ii) and (bb)(iii) are exercisable at 50% on respective hurdle.

(aa) The Performance Right is to be satisfied by the issue or procurement of fully paid ordinary shares in the Company when the applicable performance hurdle is met. The Performance Rights are exercisable into fully paid ordinary shares of the Company with 1/3 being exercisable on satisfying the performance hurdle and 1/3 lots annually thereafter. The performance hurdle is the approval by the relevant Chinese authorities of an Overall Development Plan (ODP) to enable the Company to proceed to development on the PSC with such ODP to include a minimum 100 billion cubic feet of gas and to provide a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). This performance hurdle must be met within 3 years from the date of grant of the performance right.

The performance hurdle is estimated to be met approximately on 30 June 2013.

(bb) The Performance Right is to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:

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- (i) Performance Hurdle 1: Start of sale of gas under a Pilot Development Program approved by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when the start of sale of gas occurs on a Pilot Development Program approved by the relevant Chinese authorities in connection with the Company's interests in the PSC.
- (ii) Performance Hurdle 2: Approval of a Reserves Report by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when a Reserves Report is approved by the relevant Chinese authorities in connection with the Company's interests in the PSC. If the Company decides not to proceed to a Pilot Development Program then those Performance Rights exercisable under Performance Hurdle 1 will be exercisable upon satisfaction of Performance Hurdle 2.
- (iii) Performance Hurdle 3: Approval of Overall Development Plan by the relevant Chinese authorities. Approximately 3/7 of the Performance Rights will be exercisable on approval by the relevant Chinese authorities of an ODP to enable the Company to proceed to development on the PSC, with such ODP to include a minimum 100 billion cubic feet of gas and a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). If the Company does not proceed to either or both of a Pilot Development Program and approval of a Reserves Report, Performance Rights exercisable under Performance Hurdle 1 and Performance Hurdle 2 will be exercisable upon satisfaction of Performance Hurdle 3.

The performance hurdles for (i), (ii), and (iii) above are estimated to be met approximately on 30 June 2012, 31 December 2012, and 30 June 2013, respectively.

13 Accumulated Losses

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Accumulated Losses	(22,436,573)	(18,438,739)
Movements:		
Balance at the beginning of the financial year	(18,438,739)	(19,506,116)
Net profit / (loss) attributable to members of the entity	(4,193,773)	1,067,377
Transfer to retained earnings from equity component reserve	195,939	-
Balance at the end of the financial year	(22,436,573)	(18,438,739)

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for the year ended 31 December 2011

14 Earnings / (Loss) per Share

		Year ended 31 December 2011	Year ended 31 December 2010
	Notes	Cents per share	Cents per share
Basic earnings per share			
Total basic earnings per share	(a)	(0.43)	0.19
Diluted earnings per share			
Total diluted earnings per share	(b)	(0.43)	0.19

(a) Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Earnings (i)	\$ (4,193,773)	\$ 1,067,377
Weighted average number of ordinary shares for the purposes of basic earnings per share	Shares 976,432,780	Shares 555,958,614

(i) Earnings used in the calculation of total basic earnings per share and basic earnings per share from continuing operations reconciles to net profit in the income statement as follows:

Net profit/(loss) for the financial year	\$ (4,193,773)	\$ 1,067,377
Earnings used in the calculation of basic EPS	(4,193,773)	1,067,377

(b) Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Earnings (ii)	\$ (4,193,773)	\$ 1,067,377
Weighted average number of ordinary shares for the purposes of diluted earnings per share (iii)	Shares 976,432,780	Shares 555,958,614

(ii) Earnings used in the calculation of total diluted earnings per share and diluted earnings per share from continuing operations reconciles to net profit in the income statement as follows:

Net profit/(loss) for the financial year	\$ (4,193,773)	\$ 1,067,377
Earnings used in the calculation of diluted EPS	(4,193,773)	1,067,377

(iii) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of diluted EPS	Shares 976,432,780	Shares 555,958,614
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The performance rights and options have been excluded for diluted earnings per share as they are anti-dilutive as at 31 December 2010. The performance rights and options over ordinary shares could potentially dilute basic earnings per share in the future however they have been excluded from the calculation of diluted earnings per share because they are anti-dilutive as at 31 December 2011. There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Sino Gas & Energy Holdings Limited

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for the year ended 31 December 2011

15 Commitments for Expenditure and Contingencies

(a) Commitments for expenditure

SGE intends to continue the appraisal of its Linxing and Sanjiaobei PSC's and move both projects towards development. Under the terms of the PSC's, SGE has minimum spend obligations on the Linxing and Sanjiaobei PSC's and the requirements of the Ministry of Land & Resources (MOLAR), as set out below.

100% of Minimum Expenditure Obligation for 2012 Calendar Year (excluding general and administration costs)

	Annual Minimum Spend Per Calendar year \$
PSC	
Linxing	2,888,766
Sanjiaobei	1,735,725
Total	4,624,491

The amounts set out in the table above do not include general and administrative expenses. The minimum spend noted above is determined in Chinese Renminbi and have been converted to Australian Dollars at the rate prevailing at balance day. The minimum spend amounts reflect SGE's 100% gross working interest in the PSC's during the exploration period.

(b) Lease commitments

Operating leases relate to premises used by the Company in its operations, generally with terms between 1 and 2 years. Some of the operating leases contain options to extend for further periods and an adjustment to bring the lease payments into line with market rates prevailing at that time. The leases do not contain an option to purchase the leased property.

	Consolidated 31 December 2011 \$	31 December 2010 \$
Non-cancellable operating lease commitments		
Not longer than 1 year	191,602	160,313
Longer than 1 year and not longer than 5 years	30,060	128,887
Longer than 5 years	-	-
	221,662	289,200

(c) Contingencies

The exploration period on the Sanjiaobei PSC expired on 31 August 2008 and is in the process of being extended. As part of the restructure of the Chinese CBM industry the Sanjiaobei PSC was transferred from CUCBM to CNPC however completion of this process has been delayed. In September 2011, the Sanjiaobei PSC was formally transferred to CNPC. Sino Gas is working with CNPC to extend the Exploration Period.

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16 Notes to the Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investment in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Cash and cash equivalents	4,317,338	8,278,256

Cash on short term deposit earns interest at floating rates based on daily bank deposit rates.

(b) Non cash financing and investing activities

In June 2010 the convertible loan note was settled which resulted in the issue of 9,178,350 shares at an issue price of \$0.20 per share (refer to note 10). There were no non cash financing and investing activities during the financial period.

(c) Reconciliation from the profit/(loss) for the period to net cash provided by operating activities

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Profit/(loss) for the year	(4,193,773)	1,067,377

Adjustments for

Depreciation and amortisation of non-current assets	60,009	43,365
Employee equity settled benefits	550,602	67,781
Write off exploration expenditure	-	-
Unrealised foreign exchange	(2,351)	(1,396,622)
Interest expense	264,600	869,764
Derivative expense	-	(288,840)
Net loss on recognition and settlement of financial liabilities	625,067	-
Fair value gain on settlement of liabilities	-	(1,551,141)

Changes in assets and liabilities during the financial year

(Increase) / decrease in assets:

Trade and other receivables	(58,177)	(11,884)
Other assets	14,981	(186,739)

Increase / (decrease) in liabilities:

Current payables	128,801	142,178
Provision for employee entitlements	67,984	5,563
Interest bearing loans and borrowings	-	-

Net Cash Provided by Operating Activities	(2,542,257)	(1,239,198)
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(d) Financing facilities

The Company did not during the financial period or at year end have any undrawn financing facilities in place.

Sino Gas & Energy Holdings Limited

Notes to the Financial Report

for the year ended 31 December 2011

17 Segment Information

Operating segments have been identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Board of Directors. On a regular basis, the board receives financial information on a consolidated basis similar to the financial statements presented in the financial report, to manage and allocated their resources. The Company operates in China.

18 Related Party Disclosures

(a) Equity interests in related parties

Sino Gas & Energy Holdings Limited (SGEH) has a 100% interest in Sino Gas & Energy Limited and Sino Gas & Energy Nominees Pty Ltd, companies incorporated in Australia.

(b) Key Management Personnel Equity Holdings

Details of Key Management Personnel are detailed in Note 20 (a).

(i) Fully paid ordinary shares issued by Sino Gas & Energy Holdings Limited

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
S J Lyons	3,898,158	-	-	1,351,107	5,249,265
G Harper	540,000	-	-	875,000	1,415,000
J Chandler	280,000	-	-	70,000	350,000
B A Ridgeway	10,780,000	-	-	375,000	11,155,000
Executives					
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
N Bong	-	-	-	-	-
	15,498,158	-	-	2,671,107	18,169,265

Year ended 31 December 2010	Balance at 1 January 2010	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2010
	No.	No.	No.	No.	No.
Directors					
S G Snyder	319,410	-	-	-	319,410
S J Lyons	1,290,000	-	-	2,608,158	3,898,158
G Harper	40,000	-	-	500,000	540,000
J Chandler	40,000	-	-	240,000	280,000
B A Ridgeway	10,680,000	-	-	100,000	10,780,000
Executives					
S Marsden	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
P Mason	20,000	-	(170,000)	150,000	-
	12,389,410	-	(170,000)	3,598,158	15,817,568

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(ii) Option holdings of Key Management Personnel

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
S J Lyons	1,917,692	-	-	(240,000)	1,677,692
G Harper	140,000	-	-	(40,000)	100,000
J Chandler	88,000	-	-	(40,000)	48,000
B A Ridgeway	200,000	-	-	(180,000)	20,000
Executives					
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
N Bong	-	-	-	-	-
	2,345,692	-	-	(500,000)	1,845,692

Year ended 31 December 2010	Balance at 1 January 2010	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2010
	No.	No.	No.	No.	No.
Directors					
S G Snyder	459,704	-	-	(229,852)	229,852
S J Lyons	1,030,000	-	-	887,692	1,917,692
G Harper	80,000	-	-	60,000	140,000
J Chandler	80,000	-	-	8,000	88,000
B A Ridgeway	360,000	-	-	(160,000)	200,000
Executives					
S Marsden	330,000	-	(330,000)	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
P Mason	40,000	-	(50,000)	10,000	-
	2,379,704	-	(380,000)	575,840	2,575,544

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(iii) Performance Rights holdings of Key Management Personnel

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
S J Lyons	1,000,000	6,000,000	-	-	7,000,000
G Harper	750,000	10,250,000	-	-	11,000,000
J Chandler	750,000	4,500,000	-	-	5,250,000
B A Ridgeway	-	-	-	-	-
Executives					
F Fu	-	3,500,000	-	-	3,500,000
H Spindler	-	-	-	-	-
N Bong	-	-	-	-	-
	2,500,000	24,250,000	-	-	26,750,000

Year ended 31 December 2010	Balance at 1 January 2010	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2010
	No.	No.	No.	No.	No.
Directors					
S G Snyder	-	-	-	-	-
S J Lyons	-	1,000,000	-	-	1,000,000
G Harper	-	750,000	-	-	750,000
J Chandler	-	750,000	-	-	750,000
B A Ridgeway	-	-	-	-	-
Executives					
S Marsden	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
P Mason	-	-	-	-	-
	-	2,500,000	-	-	2,500,000

The above table (for the year ended 31 December 2010) does not include performance rights of 16,750,000 issued to directors on 22 February 2011, as approved by shareholders on 14 December 2010. These were included in the table for the year ended 31 December 2011.

(c) Other transactions with Directors and Key Management Personnel (and their related parties)

Mr Ridgeway is a Director of Imdex Limited (Imdex) and a Director of SGEH. In its formative stages, Imdex funded the Company's activities relating to pursuing its business in China by providing initial loan funding. Imdex advanced to SGE \$AUD 5 million in October 2006 and November 2006 and \$USD 5 million in April 2007 under a loan facility. The loan, interest and other fees associated with the Imdex loan were on normal commercial terms and conditions.

This convertible loan was settled in 2010, as a result of a cash repayment of \$11,391,087 and the issue of 9,178,350 ordinary shares at an issue price of \$0.20 per share for the remaining balance of \$1,835,670. The ordinary shares have been recorded at fair value on the date of the issue resulting in a gain recognised in the Statement of Comprehensive Income of \$1,551,141. As the convertible loan was repaid during 2010, during the year ended 31 December 2011, the company did not pay any interest (2010: \$571,430).

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for the year ended 31 December 2011

On 18 May 2010 the Company issued a Prospectus in relation to the Rights Issues which closed on 17 June 2010. Mr Lyons (the Managing Director) agreed with the Underwriter to act as a sub-underwriter to the Rights Issue on the same terms and conditions as other sub-underwriters. In consideration for sub-underwriting a portion of the Underwriters commitment, Mr Lyons received 606,061 Underwriter Commitment Options valued at \$9,092 at their date of issue. The allotment of these options to Mr Lyons was approved by shareholders on 14 December 2010.

19 Financial Instruments

(a) Capital risk management

The Group manages their capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. In that respect, the Group's overall strategy remains unchanged from the previous financial year.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group operates as a registered foreign business and also has a representative office in China. The Group's subsidiary is not subject to externally imposed capital requirements.

As set out in Note 7, the Group is in the exploration phase on its PSC's with equity funding and debt being having been used to fund the operations of the Group to date.

(b) Categories of financial instruments

The categories of financial instruments are as per those disclosed in the statement of financial position.

(c) Financial risk management objectives

The Group is exposed to financial risks through the normal course of its business operations. The key risks impacting the Group's financial instruments are considered to be foreign currency risk and interest rate risk. The Group's financial instruments exposed to these risks are cash and short term deposits, receivables and payables.

The Board of the Company and the Managing Director monitor the Group's risks on an ongoing basis and report to the Board. The Group does not use derivative financial instruments as part of their risk management process.

(d) Foreign currency risk management

The Group has significant operations operated from Beijing, Peoples Republic of China. The functional currency of the subsidiaries in China is US dollars. The financial instruments of the Group are therefore exposed to movements in the US dollar, the Chinese Renminbi (CNY) against the Australia dollar resulting from the translation of financial statements of subsidiaries into the Group's presentation currency of Australian dollars. The Company does not currently undertake any hedging activities to manage foreign currency risk.

The carrying amount of the Group's currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

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for the year ended 31 December 2011

In AUD \$ December 2011	In AUD	In USD	In CNY	Total
Assets				
Cash and cash equivalents	4,177,392	69,991	69,955	4,317,338
Trade and other receivables	108,915	11,194	73,501	193,610
Liabilities				
Trade and other payables	215,199	576,899	7,956,777	8,748,875
Interest bearing liabilities	-	-	-	-
In AUD \$ December 2010	In AUD	In USD	In CNY	Total
Assets				
Cash and cash equivalents	860,680	7,146,307	271,269	8,278,256
Trade and other receivables	29,076	13,326	92,905	135,307
Liabilities				
Trade and other payables	332,359	656,899	5,240,118	6,229,376
Interest bearing liabilities	-	-	-	-

The following significant exchange rates applied during the year:

	Average rate		Reporting date	
	Dec-11	Dec-10	Dec-11	Dec-10
1 AUD equates to USD	1.033	0.920	1.017	1.018
1 AUD equates to CYN	6.670	6.215	6.463	6.712

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% increase in the Australian dollar against the US dollar:

US Dollar	Consolidated	
	Dec-11	Dec-10
Impact on loss for the year	(504,118)	(12,427)
Impact on equity	(3,784,917)	(3,340,705)

(e) Interest rate risk management

The Group are exposed to interest rate risk as entities in the Group deposit funds at floating rates of interest.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

Interest rate sensitivity

A change in interest rates would have no material impact (2009: nil) on the carrying value of the Group's financial instruments as at the current or prior year end.

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(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of the Company, who oversee a liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring there are appropriate plans in place to finance these future cash flows.

The following table sets out a maturity analysis of the Groups Financial Liabilities:

	< 6 months \$	6-12 months \$	1-5 years \$	> 5 years \$	Total \$
December 2011 Consolidated					
Financial Liabilities					
Trade and other payables	8,308,828	440,047	-	-	8,748,875
Interest bearing loans and borrowings	-	-	-	-	-
	<u>8,308,828</u>	<u>440,047</u>	<u>-</u>	<u>-</u>	<u>8,748,875</u>
December 2010 Consolidated					
Financial Liabilities					
Trade and other payables	5,875,489	353,887	-	-	6,229,376
Interest bearing loans and borrowings	-	-	-	-	-
	<u>5,875,489</u>	<u>353,887</u>	<u>-</u>	<u>-</u>	<u>6,229,376</u>

Liquidity and interest rate tables:

	Notes	Weighted average interest rate %	Fixed Interest Maruring in:					Total \$
			Floating interest rate \$	Less than 1 year \$	1 to 5 years \$	More than 5 years \$	Non-interest bearing \$	
December 2011 Consolidated								
Financial Assets								
Cash and cash equivalents	16	4%	4,317,338	-	-	-	-	4,317,338
Trade and other receivables	5		-	-	-	-	193,610	193,610
			<u>4,317,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,610</u>	<u>4,510,948</u>
Financial Liabilities								
Trade and other payables	8		-	-	-	-	8,748,875	8,748,875
Interest bearing loans and borrowings	10		-	-	-	-	-	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,748,875</u>	<u>8,748,875</u>
December 2010 Consolidated		%						
Financial Assets								
Cash and cash equivalents	16	4%	8,278,256	-	-	-	-	8,278,256
Trade and other receivables	5		-	-	-	-	135,307	135,307
			<u>8,278,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,307</u>	<u>8,413,563</u>
Financial Liabilities								
Trade and other payables	8		-	-	-	-	6,229,376	6,229,376
Interest bearing loans and borrowings	10		-	-	-	-	-	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,229,376</u>	<u>6,229,376</u>

(g) Credit risk management

The Group's maximum exposure to credit risk without taking account of the value of any collateral obtained at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. Credit risk on unrecognised financial instruments refers to the potential financial loss to the Group or the Company that may result from counter parties failing to meet their contractual obligations. The Group and the Company manage their counterparty credit risk by limiting their transactions to counterparties of sound credit worthiness and by ensuring a diversified number of counterparties, avoiding undue exposure to any single counterparty. Neither the Group nor the Company faced any significant credit exposures at balance date.

(h) Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities other than investments in subsidiaries recorded in the financial statements represent or approximate their respective fair values.

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for the year ended 31 December 2011

20 Key Management Personnel

(a) Details of Key Management Personnel

The directors and other members of key management personnel of the Group during the year were:

Gavin Harper	(Executive Chairman)	
Stephen Lyons	(Managing Director)	
John Chandler	(Non-Executive Director)	
Bernie Ridgeway	(Non-Executive Director)	
Peter Mills	(Non-Executive Director)	from 1 November 2011
Frank Fu	(Chief Operating Officer)	
Nicolas Bong	(Chief Financial Officer)	from 7 June 2011
Harry Spindler	(Company Secretary)	

(b) Key management personnel compensation

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	Consolidated	
	31 December 2011	31 December 2010
	\$	\$
Short-term employee benefits	1,642,528	1,077,407
Post-employment benefits	61,709	91,579
Share-based payments	494,404	54,855
	2,198,641	1,223,841

Details of the compensation of each of the key management personnel of the Company and the Group is set out in the Remuneration Report included as part of the Directors Report.

(c) Shareholdings / Option Holding / Performance Rights Holding

The shareholdings, performance rights and option holdings of Directors and Executives are set out in Note 18 to the financial statements.

(d) Remuneration options: granted and vested during the year

No options were granted as equity compensation benefits under the employee share option plan (ESOP) during the year. Further details of the options are set out in Notes 18 and 21 to the financial statements.

(e) Performance rights: granted and vested during the year

The Performance Rights Plan was approved by shareholders at the Company's 2009 Annual General Meeting. During the financial year ended 31 December 2011, the Company issued 7,500,000 Performance Rights to the following Directors and Executive:

2011	Date Issued	Exercise price per right	Expiry Date	Key Terms	Number
G Harper	05-Dec-11	-	05-Dec-14	(bb)	4,000,000
Frank Fu	16-May-11	-	16-May-16	(bb)	3,500,000
Total performance rights issued for the year ended 31 December 2011					7,500,000
2010	Date Issued	Exercise price per right	Expiry Date	Key Terms	Number
S Snyder	-	-	-	-	-
S Lyons	22-Feb-11	-	08-Mar-14	(bb)	6,000,000
J Chandler	22-Feb-11	-	08-Mar-14	(bb)	4,500,000
G Harper	22-Feb-11	-	08-Mar-14	(bb)	6,250,000
B Ridgeway	-	-	-	-	-
Total performance rights issued for the year ended 31 December 2010					16,750,000

Please refer to Note 12(iii) to the financial statements for further details on the terms and conditions of the performance rights issued.

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for the year ended 31 December 2011

21 Share-based Payments

(a) Share based payment expenses

The expense recognised for share based payments during the financial year ended 31 December 2011, is as follows:

	Consolidated	
	Year ended 31 December 2011	Year ended 31 December 2010
	\$	\$
Options expense	21,105	24,200
Performance rights expense	529,497	43,581
Total share based payments	550,602	67,781

(b) Share based payment plans

Employee performance rights plan

The Company has an employee Performance Rights plan (PRP) for the granting of Performance Rights to Director's, Officer's and Employee's of the Company.

Under the PRP, the Directors are responsible for determining those eligible to receive performance rights, the conditions attaching to the performance rights and, generally, other matters associated with the performance rights that the Directors consider appropriate to take into account.

The other main terms that apply in the PRP include that:

- Performance Rights shall not be issued (when added to other securities or rights issued under an employee equity scheme) which would exceed more than 5% of the total number of shares in the Company at the time of issue;
- The Performance Rights are not transferable without the approval of the Board, except to a legal personal representative of the Performance Right holder;
- The Performance Right may be exercisable if the performance criteria relating to the Performance Right has been met with the performance period and any vesting conditions set out in the offer have been met;
- The board will set performance criteria to be met before the Performance Right may be exercised;
- Performance Rights expire when a person leaves the employment of the Company and for reasons other than the following;
 - (a) the death, Total and Permanent Disability, Retirement or redundancy of the Participant as determined by the Board in its absolute discretion;
 - (b) the Participant ceasing to be employed by a company within the Group as a result of a company ceasing to be a member of the Group, or a company in the Group selling a business it conducts to someone other than to another company in the Group;
 - (c) the Participant ceasing to hold office in a company within the Group as a result of retirement by rotation and not being re-elected as a Director or in the event of removal by the shareholders of the Participant as a Director of the Company;
 - (d) any other reason as determined by the Board in its absolute discretion (Qualifying reasons).

If the cessation of the Participant's employment or office is due to a Qualifying Reason and provided that the cessation date is in excess of 6 months after the date of grant, that number of Performance Rights which is proportional to the number of days the Participant was employed or in office as compared to the applicable performance period for the Performance Right will become immediately exercisable (provided that such number of Performance Rights are exercised within 3 months of the date of cessation), save that in circumstances where the

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cessation is due to a Qualifying Reason and such cessation occurs after all Performance Criteria have been satisfied, other than any criteria that is solely attributable to the Participant's tenure with the Company in employment or office (e.g. vesting conditions which require the passage of time after all other Performance Criteria have already been satisfied), all Performance Rights held by such Participant will become immediately exercisable.

- Performance Rights expire should the holder act fraudulently, dishonestly or acts in breach of the holders obligations to the company; and
- The exercise period for each Performance Right shall be determined by the Board in its absolute discretion. Notwithstanding this, the Board, in their discretion, may declare all Performance Rights to be free of any restrictions on exercise if the Board are of the opinion that a specified Event has occurred. An Event occurs when:
 - (a) a takeover bid is made to the holders of Shares;
 - (b) a statement is lodged with the ASX to the effect that a person has become entitled to not less than 50% of the Shares;
 - (c) pursuant to an application made to the court, the court orders a meeting to be held in relation to a proposed compromise or arrangement for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other companies;
 - (d) the Company passes a resolution for voluntary winding up; or
 - (e) an order is made for the compulsory winding up of the Company.
- Performance Rights may not be offered to a director or his or her associates without prior shareholder approval.
- A Performance Right does not entitle a participant to participate in new issues of securities to holders of Shares, unless the Performance Right has been exercised and a Share has been issued or transferred to the Participant in respect of that Performance Right, before the record date for determining entitlements to securities under the new issue.
- If the Company makes a bonus issue, the number of Shares over which a Performance Right is exercisable will be increased by the number of Shares which the holder of the Performance Right would have received if the Performance Right had been exercised before the record date for the bonus issue. The exercise price will not change.
- If the Company makes a rights issue, the number of Shares over which a Performance Right is exercisable will not be increased by the number of Shares which the holder of the Performance Right would have received if the Performance Right had been exercised before the record date for the rights issue. The exercise price will also not change.
- Shares provided to a Participant on the exercise of Performance Rights will be held on trust for that Participant by the Trustee for the duration of the restriction period (as determined by the Board) in accordance with the terms of the PRP and the trust deed to be established for the purposes of the PRP.

Please refer to Note 12(iii) to the financial statements for further details on the terms and conditions of the performance rights issued.

Employee share option plan

The Company has an employee share option plan (ESOP) for the granting of non-transferable options to Director's, Officer's and Employee's of the Company.

Under the ESOP, the Directors are responsible for determining those eligible to receive options, the conditions attaching to the options and, generally, other matters associated with the options that the Directors consider appropriate to take into account.

The other main terms that apply in the ESOP include that:

- Options shall not be issued which would exceed more than 5% of the total number of shares in the Company at the time of issue;

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for the year ended 31 December 2011

- The options will have a maximum 5 year life;
- The options are not transferable without the approval of the Board, except to the spouse of the option holder or to a company the majority of shares in which are owned (or taken to be owned) by the option holder;
- Options expire when a person leaves the employ of the Company, unless the Directors decide otherwise; and
- On a change of control event, the Directors will declare that the options to be free of any conditions of exercise.

During the year ended 31 December 2011, there have been no employee share options issued. The Performance Rights Plan has now effectively superseded the ESOP.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(c) Summary of options granted

The following table illustrates the number (No.) and weighted average exercise prices of share options issued as share based payments to employees and suppliers which are outstanding at 31 December 2011.

	Number of options	Exercise price per option	Earliest exercise date	Latest exercise date	Fair value at grant date
Employee options	390,000	\$ 0.50	14 Mar 2008	13 Mar 2013	\$ 0.28
Employee options	920,000	\$ 0.50	01 Sep 2008	13 Mar 2013	\$ 0.30
\$0.125 Options expiring 31 Dec 2012 *	140,000,000	\$ 0.125	25 Jun 2010	31 Dec 2012	\$ 0.008
\$0.125 Options expiring 31 Dec 2012 *	38,998,190	\$ 0.125	23 Dec 2010	31 Dec 2012	\$ 0.015
\$0.0793 Options expiring 25 Nov 2013 **	8,750,000	\$ 0.079	16 May 2011	25 Nov 2013	\$ 0.056
Total options	189,058,190				

* These options have been issued to underwriters and sub-underwriters of the Company's past capital raisings.

** These options were issued to SpringTree, as part of the financing facility entered into by the Company in April 2011.

The movements in options during the financial year ended 31 December 2011 is as follows:

	31-Dec-11 No	31-Dec-11 Weighted average exercise price	31-Dec-10 No	31-Dec-10 Weighted average exercise price
Outstanding at the beginning of the year	202,208,190	\$ 0.14	23,210,000	\$ 0.31
Granted during the year	8,750,000	\$ 0.08	178,998,190	\$ 0.13
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(21,900,000)	0.30	-	-
Outstanding at the end of the year	189,058,190	\$ 0.12	202,208,190	\$ 0.14
Exercisable at the end of the year	189,058,190	\$ 0.12	202,174,857	\$ 0.14

During the financial year:

- 17,500,000 unlisted options with an exercise price of \$0.25 expired unexercised on 15 September 2011; and
- 4,400,000 unlisted options with an exercise price of \$0.50 expired unexercised on 15 September 2011.

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Options expiring 31 December 2012 and 25 November 2013

As part of the Rights Issue completed in June 2010, the Company issued 178,998,190, \$0.125 options to the underwriters and sub-underwriters for their role as underwriters and lead manager to the fund raising. These options are exercisable on or before 31 December 2012 and are quoted options.

The abovementioned options were issued in two tranches, the first tranche being for 140,000,000 options on 25 June 2010 with the remaining balance of 38,998,190 options being issued on 23 December 2010.

As part of the financing facility entered into between the Company and SpringTree, the Company issued 8,750,000, \$0.0793 options to SpringTree, which are exercisable on or before 25 November 2013 and are unquoted options.

The fair value of these options at grant date is set out in the table above with the following table setting out the key inputs into the option valuation model with respect to the first tranche of options. The second tranche of options has been valued based on the options closing price on the date of issue.

	\$0.125 options, 31 Dec 2012	\$0.0793 options, 25 Nov 2013
Notes		
Inputs into the option valuation model		
Dividend yield (%)	Nil	Nil
Expected volatility (%)	80%	111%
Risk-free interest rate (%)	4.60%	5.09%
Expected life of option (years)	2.5 years	2.5 years
Option exercise price (\$)	\$ 0.130	\$ 0.08
Share price at grant date (\$)	\$ 0.038	\$ 0.069

As the issue of both options to underwriters and sub-underwriters related to an expense associated with the raising of equity for the Company, that expense is recorded against equity as set out in Note 11 to the financial statements. The options relating to SpringTree are recorded as net loss on initial recognition of financial liabilities as set out in Note 2.

(d) Summary of Performance Rights granted

The following table illustrates the number (No.) and weighted average exercise prices of Performance Rights granted as share based payments and outstanding at 31 December 2011.

	Number of options	Exercise price per option	Grant date	Earliest exercise date	Latest exercise date	Fair value at grant date
2009 Performance rights	2,500,000	Nil	08 Nov 2010	31 Dec 2012	08 Nov 2015	\$ 0.035
2010 Performance rights	16,750,000	Nil	14 Dec 2010	30 Jun 2012	08 Mar 2014	\$ 0.043
2011 Performance rights-a	3,500,000	Nil	16 May 2011	30 Jun 2013	16 May 2016	\$ 0.042
2011 Performance rights-b	4,500,000	Nil	30 Aug 2011	30 Jun 2013	30 Aug 2016	\$ 0.035
2011 Performance rights-c	2,000,000	Nil	30 Aug 2011	31 Dec 2013	30 Aug 2016	\$ 0.034
2011 Performance rights-d	1,000,000	Nil	17 Nov 2011	31 Dec 2013	17 Nov 2016	\$ 0.025
2011 Performance rights-e	750,000	Nil	17 Nov 2011	30 Jun 2013	17 Nov 2016	\$ 0.025
2011 Performance rights-f	4,000,000	Nil	05 Dec 2011	31 Dec 2012	26 Dec 2014	\$ 0.023
Total performance rights	35,000,000					

Notes:

(i) All of the Performance Rights were issued under the terms of the Company's Performance Rights Plan. Under the terms of the Performance Rights Plan, the above performance rights are only exercisable once the respective performance hurdles has been met.

(ii) Although the 16,750,000 2010 performance rights were issued by the Company on 22 February 2010, for accounting purposes, pursuant to AASB 2, for accounting purposes these performance rights are deemed to have been granted at the date of shareholder approval on 14 December 2010.

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The movements in Performance Rights during the financial year ended 31 December 2011 is as follows:

	31-Dec-11 No	31-Dec-11 Weighted average exercise price	31-Dec-10 No	31-Dec-10 Weighted average exercise price
Outstanding at the beginning of the year	19,250,000	-	-	-
Granted during the year	15,750,000	-	19,250,000	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	35,000,000	\$ -	19,250,000	\$ -
Exercisable at the end of the year	-	-	-	-

2009 Performance Rights

Please refer to Note 12(iii) to the financial statements for further details on the terms and conditions of the Performance Rights issued.

2010 Performance Rights

Please refer to Note 12(iii) to the financial statements for further details on the terms and conditions of the Performance Rights issued.

2011 Performance Rights

Please refer to Note 12(iii) to the financial statements for further details on the terms and conditions of the Performance Rights issued.

The fair value of these Performance Rights at grant date is set out in the table above with the following table settling out the key inputs into the Performance Right valuation model:

Inputs into the performance rights valuation model	2009 Performance Rights	2010 Performance Rights	2011 Performance Rights-a	2011 Performance Rights-b	2011 Performance Rights-c	2011 Performance Rights-d	2011 Performance Rights-e	2011 Performance Rights-f
Dividend yield (%)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility (%)	90%	90%	90%	111%	111%	111%	111%	111%
Risk-free interest rate (%)	5.12%	5.25%	5.16%	3.99%	3.99%	3.55%	3.65%	3.24%
Expected life of option (years)	5 years	3 years	5 years	5 years	5 years	5 years	5 years	3 years
Exercise price (\$)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Share price at grant date (\$)	\$ 0.07	\$ 0.07	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.04	\$ 0.04	\$ 0.04
Valuation date	08 Nov 2010	14 Dec 2010	16 May 2011	30 Aug 2011	30 Aug 2011	17 Nov 2011	17 Nov 2011	05 Dec 2011

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22 Controlled Entities

The Consolidated Entity incorporates the assets, liabilities and results of the following companies:

	Country of Incorporation	Class of Shares	Percentage Interest	
			2011 %	2010 %
Sino Gas & Energy Holdings Limited (Parent Entity)	Australia	Ordinary	-	-
Sino Gas & Energy Limited	Australia	Ordinary	100	100
Sino Gas & Energy Nominees Pty Ltd	Australia	Ordinary	100	100

Sino Gas & Energy Nominees Pty Ltd was incorporated on 7 July 2010 and is the trustee company in respect to the Performance Rights plan.

23 Subsequent Events

Subsequent to the year end there has been a number of key events, including:

- Receipt of an independent certification of Reserves and Resources on its Linxing and Sanjiaobei Production Sharing Contracts and an increase in the Company's share of the project risked value to US\$2.3 billion. The Reserves and Resource certification was completed by independent resource industry consulting firm, RISC Pty Ltd under the Society of Petroleum Engineers Petroleum Resource Management System (SPE PRMS). The results are summarised below¹:

Project (100%)	Best Estimate Gas In Place (GIP) (Bcf)	1P Reserve s (Bcf)	2P Reserve s (Bcf)	3P Reserve s (Bcf)	2C (Mid Case) Contingent Resources (Bcf)	Mid Case Prospectiv e (Bcf)	Total Reserves / Resources (Mid Case) (Bcf)
Linxing PSC	6,951	4	12	26	1,328	849	2,189
Sanjiaobei PSC	4,980	3	10	21	471	1,012	1,493
Total Reserves / Resources	11,931	7	22	47	1,799	1,861	3,682

¹ Figures are 100% project for the Linxing and Sanjiaobei PSCs and mid case unless otherwise noted. Sino Gas's share of the Linxing PSC is 65% and 49% of the Sanjiaobei PSC following partner back-in. Deep CBM Resources evaluated in January 2012 by RISC, Shallow CBM Resources evaluated in 2008 by NSAI. Reserves/Resource classification is per the SPE PRMS.

- The Company announced that the appointment of Mr. Colin Heseltine to the Board as a Non-Executive Director on 30 January 2012.
- On 27 January 2012, the Company signed a mandate appointing independent corporate advisory and stockbroking firm Argonaut as the Company's corporate advisor. Argonaut is a technically driven specialist based out of Perth and Hong Kong with an established track record in the natural resource sector. In connection with the appointment of Argonaut, on 16 February 2012, the Company issued to Argonaut 30 million options, each exercisable at 7.5 cents on or before 5 years from the date of issue, the options may only being exercised if performance related vesting conditions are met including achieving share price thresholds of \$0.15 and \$0.25 and achieving various funding events.
- On 24 February 2012, the Company announced that it had mutually agreed with SpringTree Special Opportunities Fund LP to terminate the SpringTree funding facility with immediate effect and at no cost.

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- On 28 February 2012, the Company announced the appointment of Mr. Robert Bearden as President and Chief Executive Officer of the Company commencing during the second quarter of 2012. Mr. Bearden has over 30 years of experience in upstream petroleum industry and experience in project development and frontier markets. In recognition of the need to focus on positioning the Company financially for development, Mr. Stephen Lyons will move from his current role as Managing Director into the role of Vice President Finance & Corporate, while Mr. Frank Fu will move from his current role as COO into the role of Vice President Operations and continue to lead the Company's Beijing technical operations and project implementation.

24 Parent Entity Disclosures

Financial position

	Parent	
	31 December 2011	31 December 2010
	\$	\$
ASSETS		
Total current assets	4,245,398	848,011
Total non-current assets	51,895,341	49,807,862
Total assets	56,140,739	50,655,873
LIABILITIES		
Total current liabilities	166,258	187,192
Total liabilities	166,258	187,192
Net assets	55,974,481	50,468,681
EQUITY		
Issued capital	60,321,166	52,808,854
Reserves	(2,189,112)	(3,099,401)
Accumulated losses	(2,157,573)	759,228
Total equity	55,974,481	50,468,681

Financial performance

	Parent	
	Year ended 31 December 2011	Year ended 31 December 2010
	\$	\$
Profit (Loss) for the year	(3,112,740)	1,654,628
Other comprehensive income	170,316	(5,277,060)
Total comprehensive loss	(2,942,424)	(3,622,432)

Contingent liabilities

The company is not aware of any contingencies relating specifically to the parent entity. Please refer to Note 15 to the financial statements for comments on contingencies in relation to the Group.

Sino Gas & Energy Holdings Limited

Corporate Governance Statement

The Company has adopted a comprehensive framework of rules, relationships, systems and processes regulating the exercise of authority within the Company. The Board has adopted the following corporate governance policies and charters, copies of which are available on the Company's website (www.sinogasenergy.com):

- (i) Board Charter;
- (i) Audit and Compliance Committee Charter;
- (ii) Nomination & Remuneration Committee Charter;
- (iii) Planning Committee Charter;
- (iv) Procedure for the selection and appointment of new directors;
- (v) Share Trading Policy;
- (vi) Information on Procedures for the selection and appointment of the External Auditor and Audit Partner Rotation;
- (vii) Procedures for complying with the Disclosure Requirements and ensuring Senior Management accountability;
- (viii) Shareholder Communications Policy;
- (ix) Description of Risk Management Policy;
- (x) Description of the Performance Evaluation Procedure for the Board and Individual Directors;
- (xi) Code of Conduct; and
- (xii) Diversity Policy.

To the extent that they are applicable, and practicable, the Company has adopted the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (*ASX Corporate Governance Recommendations*).

Commensurate with the spirit of the ASX Corporate Governance Recommendations, the Company has followed each ASX Corporate Governance Recommendation where the Board has considered it to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, the resources available and the activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Corporate Governance Recommendations, the Board has set out at the end of the Corporate Governance Statement its "if not, why not" report.

Corporate governance policies and practice of the Company are reflective of the Company's current status and its major activities being the appraisal of unconventional gas projects in China. As the Company's activities develop in size, nature and scope, the Board will reconsider and review the Company's corporate governance structures.

Role of the Board

The Board operates pursuant to a formal Board Charter, which sets out the responsibilities, structure and conduct of the Board, a copy of which is available on the Company's website.

The Board of the Company is responsible for:

- the overall operation and stewardship of the Company and its subsidiaries;
- charting the direction, strategies and financial objectives for the Company; and
- monitoring the implementation of those policies, strategies and financial objectives,

and is committed to protecting and enhancing shareholder values and conducting the Company's business ethically and in accordance with the highest standards of corporate governance.

The objective of the Board is to provide an acceptable rate of return to the Company's shareholders that takes into account the interests of its employees, customers, suppliers, lenders and the wider community.

Each of the Directors, when representing the Company, must act in the best interest of the shareholders of the Company and in the best interests of the Company as a whole.

Each Director has the right to seek independent professional advice on matters relating to his position as a director of the Company at the Company's expense, subject to the prior approval of the Chairman, which shall not be unreasonably withheld.

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Corporate Governance Statement

The Board recognises the importance of ensuring that the performance of the Board is reviewed regularly against appropriate measures. The Board have adopted a formal Performance Evaluation Procedure. A copy of the Performance Evaluation Procedure is available on the Company's website. A performance evaluation of the Board, individual directors, senior executives and various Board committees, did take place for the financial year ended 31 December 2011.

The skills, experience and expertise relevant to the position of each director in office at the date of this report and their term of office is set out in the Directors' Report.

The Board is assisted by the Audit and Compliance Committee, the Nomination & Remuneration Committee and the Planning Committee.

Audit and Compliance Committee

The Company has established an Audit and Compliance Committee.

The Committee is responsible for assisting the Board of the Company in ensuring financial integrity and credibility of financial reporting for both SGEH and SGE. The Board formalised this arrangement and adopted a formal Audit and Compliance Committee Charter to govern the responsibilities, structure and conduct of the Audit and Compliance Committee.

The roles of the Audit and Compliance Committee are to:

- assist the Board to discharge their responsibility for externally reported financial information and, ensuring financial integrity and credibility of that reporting;
- ensure that management has in place a process to identify and manage financial reporting risks;
- seek to improve the quality of financial reporting, control systems and corporate governance of the Group;
- oversee external audit functions; and
- monitor and ensure that the Group conforms with financial requirements of the Corporations Act, the ASX Listing Rules (as applicable) and any other relevant legislation or regulatory authority.

The Committee consists of a minimum of three members of whom the majority are non-executive directors. At the date of this report, the Committee members are Mr John Chandler (Committee Chairman), Mr Bernie Ridgeway and Mr Peter Mills (appointed 5 December 2011). During the financial year, Mr Gavin Harper stepped down from the Committee following his transition to Executive Chairman.

A copy of the Audit and Compliance Committee Charter is available on the Company's website.

Details of directors' attendance at meetings are detailed in the Directors' Report.

Nomination & Remuneration Committee

As a result of a review of the Company's Corporate Governance policies, during the financial year the company broadened the terms of its Remuneration Committee to become a Nomination & Remuneration Committee.

The Nomination & Remuneration Committee was established to assist the Board in establishing policies and practices which:

- enable the Company to attract and retain executives and directors who will create sustainable value for members and other stakeholders;
- assist the Board to maintain a Board that has an appropriate mix of skills and experience which can contribute to the successful management of the Company and create sustainable value for shareholders;
- fairly and responsibly reward executives and directors having regard to the performance of the Company, the performance of the executive and the external compensation environment; and
- comply with all relevant legislation and regulations including the ASX Listing Rules (as applicable) and the Corporations Act.

Sino Gas & Energy Holdings Limited

Corporate Governance Statement

The Committee consists of a minimum of three members of whom a majority are non-executive directors. At the date of this report, the Committee members are Mr Bernie Ridgeway (Committee Chairman), Mr John Chandler and Mr Peter Mills (appointed 5 December 2011). During the financial year, Mr Gavin Harper stepped down from the Committee following his transition to executive Chairman. Further information as to the responsibilities, structure and conduct of the Nomination & Remuneration Committee is contained in the Committee's Charter, a copy of which is available on the Company's website.

Details of directors' attendance at meetings are detailed in the Directors' Report.

Planning Committee

The Board has established a Planning Committee to assist the Board by:

- formulating, monitoring and reviewing the Company's strategic plan;
- identifying and reviewing any business development opportunities including acquisitions and divestments of the Company's assets;
- determining major operational and technical decisions;
- reviewing the Company's technical and operational competency;
- identifying, monitoring and reviewing key relationships between the Company and industry, government and community groups; and
- analysing the Company's risk and risk management.

The Committee consists of a minimum of three members, each of whom will be appointed or removed by the Board in consultation with the chairman of the Committee. The chairman of the Committee will be elected by the Board. At the date of this report, the Committee members are Mr Gavin Harper (Committee Chairman), Mr Stephen Lyons and Mr Frank Fu. The Company's CFO and others join the PC by invitation as required.

Further information as to the responsibilities, structure and conduct of the Planning Committee is contained in the Committee's Charter, a copy of which is available on the Company's website.

Details of directors' attendance at meetings are detailed in the Directors' Report.

Risk Management Policy

The Company is focused on ensuring that there are adequate structures and procedures in place to identify, assess monitor and manage risk and is taking steps to address the practical implementation of risk management policies. A summary of the Company's Risk Management Policy is available on the Company's website.

Although the Company has considered the establishment of a separate risk management committee, the Company believes that it is crucial for all Board members to be part of the risk management process, and that the Board, the Audit and Compliance Committee, the Planning Committee and the external auditors provide adequate oversight of the Company's risk management and internal controls.

In accordance with the Company's Risk Management Policy, the Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan. To assist the Board to conduct the annual review, management and key executives are required to report to the Board on any material risks identified, how those risks are being managed, the implementation of any risk management or internal control system, and whether any breaches of the risk management policies have occurred during the preceding 12 months.

In particular the Planning Committee and Audit and Compliance Committee provide assistance to the Board in monitoring compliance with the Risk Management Policy. The Planning Committee is responsible for identifying or ensuring that management has in place a process to identify the principal risks of the Company's business, examining the Company's risk profile and monitoring and ensuring an appropriate assessment process has been established and undertaken for monitoring corporate risk and the internal controls (including information systems) instituted. The Audit and Compliance Committee is responsible for monitoring and ensuring an appropriate assessment process has been established and undertaken for monitoring financial reporting risk and internal controls instituted and annually reviewing internal and external audit programs/reports to ensure that, where deficiencies in controls or procedures have been identified, appropriate remedial action is taken by management.

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In managing the Company's risks, a review of the Company's risk tolerance profile and risk register was carried out during the financial year.

In addition, the Board requires the Managing Director and the Chief Financial Officer to state in writing that:

- the Company's risk management and internal control system to manage the Company's material risks are being managed effectively; and
- the Company's financial reports are founded on a sound system of risk management and internal control and that system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received a statement to this effect from the Managing Director and the Chief Financial Officer for the year ended 31 December 2011.

Code of Conduct

The Company has adopted a formal Code of Conduct to address matters relevant to the Company's legal and other obligations to its stakeholders.

The Code of Conduct applies equally to all employees, directors and officers of SGEH, each of whom must discharge their duties at the highest level of honesty and integrity, in good faith and having regard to the position and the organisations goals and objectives of the Company. A copy of the Code of Conduct is available on the Company's website.

Share Trading Policy

The Share Trading Policy regulates dealings by Directors, officers and employees in securities issued by the Company.

The Share Trading Policy imposes basic trading restrictions on all employees of the Company who possess inside information and additional trading restrictions on all Directors and any of their associates. A copy of the Share Trading Policy is available on the Company's website.

Procedures for compliance with disclosure requirements

The procedures for complying with disclosure requirements and ensuring senior management accountability have been adopted to ensure that SGEH complies with its disclosure requirements and to ensure that ASX is properly informed of matters which may have a material impact on the price at which SGEH securities are traded.

A copy of the Company's policy is available on the Company's website.

Shareholder Communication Policy

The Board aims to ensure that shareholders are informed of all major developments affecting SGEH's state of affairs. In particular, the Board believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely and convenient manner.

The Company's website includes a section on the Company's corporate governance policies and practices, and a news section, containing copies of ASX announcements made by the Company

A copy of the Shareholder Communication Policy adopted by the company is available on the Company's website.

Diversity Policy

The Company has adopted a diversity policy to guide the Company's employees and board of directors in developing and achieving its diversity objectives. The Company values diversity among our workforce. The Company seeks to employ, retain and develop employees for the long term, assisting in their development and the development of the culture and values of the Company. This is done by promoting the value of different perspectives, ideas and benefits brought by engaging widely with all employees.

Sino Gas & Energy Holdings Limited

Corporate Governance Statement

The Company recognizes that a talented and diverse workforce is a key competitive advantage and that success is a reflection of the quality and skills of its people. Diversity assists the business in achieving its objectives and delivering for its stakeholders by enabling it to attract and retain the most qualified and experienced individuals to the workforce. The Company seeks to develop a culture of diversity within the Company whereby a mix of skills and diverse backgrounds are employed by the Company at all levels. The Company values the benefits brought to the Company by employees from a variety of backgrounds including gender, age, cultural and religious background, education, geographical location, ethnicity, experience and flexibility.

The Company strives to develop and maintain a diverse and skilled workforce through transparent recruitment processes; promotion of an inclusive workplace culture that values and utilises the contribution of all employees backgrounds, experiences and perspective though improved awareness of the benefits of workforce diversity; facilitation of diversity in the workplace by developing programs that promote growth for all employees, so each may reach their full potential, and providing maximum benefit for the Company; reviewing the demographic profile at all levels of the Company (considering any patterns or gaps that are apparent); and setting measureable objectives to encourage diversity within the Company.

The Board will develop objectives that work towards ensuring that the Company benefits from a diverse workplace. In respect to the Company's China operations these objectives will be developed in a manner appropriate to that context.

The following have been identified as being relevant objectives for the company at this time, to assist in achieving gender diversity:

- (a) review of the number of women employed by the Company at each wage level (Board, Senior Management, Whole of Organisation, each wage Level), noting whether they are employed on a full time or part time basis;
- (b) review of employment packages and employment flexibility. This review will be carried out in accordance with Chinese labour laws which already provide for flexibility in such employment arrangements;
- (c) ensuring that the Company continues to monitor key values and criteria for recruitment at all levels of the Company in order to promote an inclusive workplace culture; and
- (d) seeking input from employees on a voluntary basis on the levels of diversity and perceived culture of diversity within the company.

The Company's workforce gender profile:

	2011		2010	
	Male (%)	Female (%)	Male (%)	Female (%)
Board Representation	100	-	100	-
Key Senior management representation	100	-	100	-
Group representation	52	48	42	58

A copy of the Diversity Policy adopted by the company in December 2011 is available on the Company's website.

Explanations for departures from ASX Corporate Governance Recommendations

The Board sets out below, on an "if not, why not" basis, disclosure of any ASX Corporate Governance Recommendations that have not been adopted by the Company during the financial year ended 31 December 2011, together with the reasons why they have not been adopted.

Principle 2 – Recommendation 2.1

Notification of Departure

During the year ended 31 December 2011, the Board did not have a majority of independent Directors. The ASX Corporate Governance Recommendations provide for a test of independence as set out in Box 2.1 of the ASX Corporate Governance Recommendations (*Independence Test*). In accordance with the Independence Test, and as a result of information obtained from Directors' Independence Questionnaires:

Sino Gas & Energy Holdings Limited

Corporate Governance Statement

Director	Nature of Interest
Mr Gavin Harper is not considered to be independent	Mr Harper is the Executive Chairman.
Mr Bernie Ridgeway is not considered to be independent	Mr Ridgeway is the Managing Director of Imdex Limited, a substantial shareholder of the Company
Mr Stephen Lyons is not considered to be independent	Mr Lyons is the Managing Director
Mr Peter Mills is considered to be independent	Not applicable
Mr John Chandler is considered to be independent	Not applicable

Materiality thresholds were not applicable in determining the independence of directors.

Explanation for Departure

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

The Board considers that its structure and size is, and will continue to be, appropriate in the context of the Company's strategic plans. The Company considers that the non-independent Directors possess the skills and experience suitable for building the Company. The Board intends to reconsider its composition as the Company's operations evolve, and intends to appoint additional independent Directors as it deems appropriate.

All directors are aware that they are required to bring an independent judgment to bear on Board decisions. Where a potential conflict of interest may arise, involved Directors must, unless the remaining Directors resolve otherwise, withdraw from deliberations concerning the matter. Further each Director has the right to seek independent professional advice at the expense of the Company.

On 30 January 2012, Mr Colin Heseltine was appointed as a non-executive director of the Company. Mr Heseltine is considered to be independent and as such, since the date of Mr Heseltine's appointment, 50% of the board is considered to be independent directors at the date of this report.

Principle 2 – Recommendation 2.2 and 2.3

Notification of departure

During the year ending 31 December 2011, Mr Gavin Harper acted as Chairman of the Company. During the year the Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Gavin Harper is not an independent Director.

Explanation for Departure

While the Board recognises the importance of independence in decision making, it believes that Mr Harper was the most appropriate person to hold the position of Chairman during the financial year.

Principle 2 – Recommendation 2.4

Notification of departure

During the year ending 31 December 2011, the Company broadened the terms of its Remuneration Committee to become a Nomination and Remuneration Committee, although it did not have a separate nomination committee for the entire year. The Committee is chaired by Mr Bernie Ridgeway. During the year the Committee Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Bernie Ridgeway is not an independent Director.

Sino Gas & Energy Holdings Limited

Corporate Governance Statement

Explanation for departure:

During the year, the Board reassessed the efficiencies or other benefits which would be gained by establishing a separate nomination committee, in particular in view of the size of the Company's Board, and as result broadened the terms of the Remuneration Committee to become a Nomination and Remuneration Committee. The Company recognises that a formal and transparent procedure for the selection and appointment of new Directors helps promote understanding and confidence in that process and the Board has adopted formal procedures and policies for the selection and appointment of new Directors. A copy of the policy is available on the Company's website. While the Board recognises the importance of independence in decision making, it believes that Mr Ridgeway was the most appropriate person for the position of Committee Chairman during the financial year.

Principle 3 – Recommendation 3.2

Notification of departure

In December 2011, the Company adopted a diversity policy to guide the Company's employees and board of directors in developing and achieving its diversity objectives. A summary of this policy is detailed above. As this is the first year of the company's adoption of this policy, the policy was not in existence for the entire financial year ended 31 December 2011.

Explanation for departure

The Company has always valued diversity among its workforce. The Company seeks to employ, retain and develop employees for the long term, assisting in their development and the development of the culture and values of the Company. As this is the first year of adoption of this policy, it has not been in existence for the entire financial year ended 31 December 2011.

Principle 4 – Recommendation 4.2

Notification of departure

The Company has established an audit committee of which its current members are Mr John Chandler (Chairman), Mr Bernie Ridgeway and Mr Peter Mills (appointed 1 November 2011). During the financial year, Mr Gavin Harper stepped down from the Committee. In accordance with corporate governance principals, during the financial year, Mr Harper is not considered to be an independent director as he has acted in an executive capacity in the last three years. Accordingly, up until Mr Harper's resignation from the Committee, the Company's audit committee did not consist of only non-executive directors and did not consist of a majority of independent directors. However, since 1 November 2011, the Committee has consisted of only non-executive directors and has consisted of a majority of independent directors.

Explanation for departure:

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

While the Board recognises the importance of independence in decision making and committee membership, it believes that during the period of non compliance with the abovementioned recommendation, the committee operated efficiently and its members were the most appropriate persons for those positions at that time. All directors are aware that they are required to bring an independent judgment to bear on committee recommendations and Board decisions. Where a potential conflict of interest may arise, involved members must, unless the remaining members resolve otherwise, withdraw from deliberations concerning the matter. The Committee and Board intend to monitor the composition as the Company's operations evolve.

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Corporate Governance Statement

Principle 8 – Recommendation 8.2

Notification of departure

The Company has established a nomination and remuneration committee of which its current members are Mr Bernie Ridgeway (Chairman), Mr John Chandler and Mr Peter Mills (appointed 1 November 2011). During the financial year, Mr Gavin Harper stepped down from the Committee. In accordance with corporate governance principals, during the financial year, Mr Harper is not considered to be an independent director as he has acted in an executive capacity in the last three years. Accordingly, up until Mr Harper's resignation from the Committee and Mr Mills appointment, the Company's remuneration committee did not consist of a majority of independent directors. However, since 1 November 2011, the Committee has consisted of a majority of independent directors. The Committee is chaired by Mr Bernie Ridgeway. During the year the Committee Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Bernie Ridgeway is not an independent Director.

Explanation for departure:

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

While the Board recognises the importance of independence in decision making and committee membership, it believes that during the period of non compliance with the abovementioned recommendation, the committee operated efficiently and its members were the most appropriate persons for the position at that time. All directors are aware that they are required to bring an independent judgment to bear on committee recommendations and Board decisions. While the Board recognises the importance of independence in decision making, it believes that Mr Ridgeway was the most appropriate person for the position as the Committee Chairman during the financial year. Where a potential conflict of interest may arise, involved members must, unless the remaining members resolve otherwise, withdraw from deliberations concerning the matter. The Committee and Board intend to monitor the composition as the Company's operations evolve.

Sino Gas & Energy Holdings Limited

Additional Securities Exchange Information

as at 5 March 2012

1. Number of holders of equity securities

(a) Ordinary share capital

(i) Distribution of ordinary shares

The Company has a total of 1,120,417,120 fully paid ordinary shares on issue. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(ii) The number of securities, by size of holding,

Size of Holding	No. of holders	Fully Paid Shares
1 - 1,000	44	2,565
1,001 - 5,000	86	297,094
5,001 - 10,000	131	1,106,834
10,001 - 100,000	661	31,279,807
100,001 - over	607	1,087,730,820
Total Number of Holders	1,529	1,120,417,120
Holding less than a marketable parcel	133	316,259

(iii) Twenty largest holders of ordinary shares

Rank	Share holders	No. of Shares	% of Total
1.	IMDEX INTERNATIONAL PTY LIMITED	244,648,446	21.84
2.	SHL PTY LTD <SH LEE FAMILY ACCOUNT>	92,205,139	8.23
3.	CITICORP NOMINEES PTY LTD	62,781,547	5.60
4.	CHINA OPPORTUNITY SA SICAR	46,999,310	4.19
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	35,355,114	3.16
6.	EQUITY TRUSTEES LIMITED <SGH PI SMALLER CO'S FUND>	33,302,347	2.97
7.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	25,691,137	2.29
8.	NATIONAL NOMINEES LIMITED	23,553,054	2.10
9.	MR IAN INGRAM	20,000,000	1.79
10.	COLBERN FIDUCIARY NOMINEES PTY LTD	15,015,000	1.34
11.	AZURE SEA LTD	14,000,000	1.25
12.	MR ROSS EDWARD GUSTAFSON <VESTY SUPER FUND A/C>	11,085,235	0.99
13.	FORTY TRADERS LIMITED	10,645,922	0.95
14.	KEEBLE NOMINEES PTY LTD <RIDGEWAY SM SUPER A/C>	10,000,000	0.89
15.	MR PETER JOHN BOX	9,708,331	0.87
16.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,683,884	0.78
17.	IMDEX LIMITED	7,260,000	0.65
18.	T T NICHOLLS PTY LTD <SUPERANNUATION ACCOUNT>	6,903,938	0.62
19.	WB NOMINEES LIMITED	6,683,320	0.60
20.	PETRA COTES PTY LTD <MACONDO A/C>	6,550,000	0.58
Totals: Top 20 holders of ORDINARY FULLY PAID		691,071,724	61.68

Sino Gas & Energy Holdings Limited

Additional Securities Exchange Information

as at 5 March 2012

(b) Options

(i) Distribution of options

The Company has a total of 334,283,757 listed options (SEHOC) and 40,060,000 unlisted options. The options are summarised below:

Details	Number on issue	Exercise Price	Expiry date
Listed	334,283,757	\$0.125	31 Dec 2012
Unlisted	1,310,000	\$0.50	13 Mar 2013
Unlisted	8,750,000	\$0.0793	25 Nov 2013
Unlisted	30,000,000	\$0.075	15 Feb 2017

(ii) The number of securities, by size of holding,

▪ Listed Options

Size of Holding	12.5 cent options	
	No of holders	Options
1 - 1,000	2	17
1,001 - 5,000	33	117,161
5,001 - 10,000	32	242,890
10,001 - 100,000	120	5,620,103
100,001 and over	164	328,303,586
Total Number of Holders	351	334,283,757

▪ Unlisted Options

Size of Holding	50 cent options		7.93 cent options		7.5 cent options	
	No of holders	Options	No of holders	Options	No of holders	Options
1 - 1,000	-	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-	-
10,001 - 100,000	1	100,000	-	-	-	-
100,001 and over	3	1,210,000	1	8,750,000	1	30,000,000
Total Number of Holders	4	1,310,000	1	8,750,000	1	30,000,000

Sino Gas & Energy Holdings Limited

Additional Securities Exchange Information

as at 5 March 2012

(iii) Twenty largest holders of quoted options

- Listed options (SEHOC) - \$0.125, expire 31 December 2012

Shareholder	No of Options	% of Total
IMDEX INTERNATIONAL PTY LIMITED	96,263,092	28.80
COLBERN FIDUCIARY NOMINEES PTY LTD	46,103,190	13.79
PETRA COTES PTY LTD <MACONDO A/C>	11,315,458	3.38
CHINA OPPORTUNITY SICA SA	10,212,121	3.05
MR ANTHONY JOSEPH O'ROURKE + MS LYNDALL DULCIE O'ROURKE <O'ROURKE SUPER FUND A/C>	9,472,901	2.83
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,258,056	2.77
SIXTH ERRA PTY LTD <THE I COLLIE FAMILY A/C>	9,154,272	2.74
KABILA INVESTMENTS PTY LTD	8,320,068	2.49
CHINA OPPORTUNITY SA SICAR	7,768,283	2.32
CHEETAH HOLDINGS PTY LTD	7,150,000	2.14
SHL PTY LTD <SH LEE FAMILY ACCOUNT>	6,000,000	1.79
CYPRESS SECURITIES PTY LTD <CYPRESS SUPER FUND A/C>	5,850,000	1.75
EQUITY TRUSTEES LIMITED <SGH PI SMALLER CO'S FUND>	4,306,226	1.29
MR IAN INGRAM	4,000,000	1.20
MR AMIT TREHAN	3,000,000	0.90
MR MATTHEW CHARLES NEWHAM	2,923,056	0.87
MR PETER SETON-STEWART	2,500,000	0.75
AZURE SEA LTD	2,400,000	0.72
GOLDSHORE INVESTMENTS PTY LTD	2,134,172	0.64
MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	2,134,172	0.64
Totals: Top 20 holders of LISTED OPTIONS EXPIRING 31/12/12 @ \$0.125	250,265,067	74.87

(iv) Largest holders of unquoted options holding more than 20%

- Unlisted options - \$0.0793, expire 25 November 2013

Shareholder	No. of options	% of total
SpringTree Special Opportunities Fund, LP	8,750,000	100.00
Total	8,750,000	100.00

- Unlisted options - \$0.075, expire 15 February 2017

Shareholder	No. of options	% of total
Argonaut Capital Limited	30,000,000	100.00
Total	30,000,000	100.00

Sino Gas & Energy Holdings Limited

Additional Securities Exchange Information

as at 5 March 2012

(c) Performance Rights

(i) Distribution of performance rights

The Company has a total of 35,000,000 performance rights on issue held by 12 holders. All of these performance rights have been issued pursuant to the Company's Performance Rights Plan.

(ii) The number of performance rights, by size of holding,

Size of Holding	No of holders	Number
1 - 1,000	-	-
1,001 - 5,000	-	-
5,001 - 10,000	-	-
10,001 - 100,000	-	-
100,001 and over	12	35,000,000
Total Number of Holders	12	35,000,000

2. Substantial Shareholders

The company has received the following substantial shareholder notices:

Name	No. of Shares	% of Issued Share Capital	No. Of options	Option terms
Imdex Limited	251,908,446	22.49%	96,263,092	Listed - 12.5 cent expire 31 Dec 2012
SHL Pty Ltd	92,205,139	8.23%	6,000,000	Listed - 12.5 cent expire 31 Dec 2012
China Opportunity SA Sicar	46,999,310	4.19%	17,980,404	Listed - 12.5 cent expire 31 Dec 2012

3. Cash Usage

Since the date of listing on the ASX, the entity has used its cash, and assets in a form readily converted to cash, that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

4. Schedule of tenements

Country	Code	Name	Holder	Beneficial interest (%)	Area (km ²)
China	LXC	Linxing PSC	Sino Gas & Energy Limited	100% in the exploration phase, reducing to approximately 65% in the development and production phase	1,874.30
China	SJB	Sanjiaobei PSC	Sino Gas & Energy Limited	100% in the exploration phase, reducing to 49% in the development and production phase ⁽¹⁾	1,125.70

⁽¹⁾ The exploration period on the Sanjiaobei PSC expired on 31 August 2008 and is in the process of being extended. As part of the restructure of the Chinese CBM industry the Sanjiaobei PSC was transferred from CUCBM to CNPC however completion of this process has been delayed. In September 2011, the Sanjiaobei PSC was formally transferred to CNPC. Sino Gas is working with CNPC to conclude the extension of the Exploration Period.