

Sino Gas & Energy Holdings Limited ACN 124 242 422

Interim Financial Report

30 June 2013

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2012 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.



Directors' report

Your directors present their report on the consolidated entity consisting of Sino Gas & Energy Holdings Limited (the "Company" or the "Group" or "Sino Gas") and the entities it controlled at the end of, or during, the half-year ended 30 June 2013. At 30 June 2013, Sino Gas & Energy Limited (SGE), which holds interests in the Linxing (64.75%) and Sanjiaobei (49%) Production Sharing Contracts (PSCs) was a jointly controlled entity of Sino Gas.

Directors

The following persons were Directors of Sino Gas and Energy Holdings Limited during the half-year and up to the date of this report, unless otherwise indicated:

G Harper – retired as Executive Chairman and was appointed as Non-Executive Director on 1 July 2013
BW Ridgeway
C Heseltine
R Bearden
P Mills – resigned as Non-Executive Director on 17 May 2013

Review of operations

Following a year of transformational change for Sino Gas in 2012, which culminated in the Q1 2013 release of an updated third-party reserves and resources assessment from Resource Investment Strategy Consultants (RISC), the focus in the second quarter moved to delivering the extensive seismic, drilling and testing work programs planned for 2013. During the first half of 2013 nine of the ten rigs commenced drilling in the field, completing 14 of the 32 wells; testing commenced on 10 of the 24 wells; and data acquisition was completed for 1,235km of seismic lines across Sanjiaobei & Linxing (West). In addition to the work programs steadily progressing, a major milestone was achieved in June 2013 with the signing of the first Gas Sales Agreement (GSA) with Linxing PSC partner, China United Coal Bed Methane (CUCBM).

The independent assessment by RISC was a significant de-risking event for Sino Gas, in that it allowed the Company to book 327 billion cubic feet (bcf)¹ of the project's contingent resources to 2P reserves (94 bcf attributable to Sino Gas). We are very pleased that RISC recognised the work undertaken in 2012 in regards to forward planning and our commitment to developing the PSCs, that allowed us to subsequently commence booking substantial reserves. In addition, the project's contingent and prospective resource base was expanded by 48% to 5.4 trillion cubic feet (tcf)¹. Sino Gas' share of project NPV in developing the 2P Reserves and mid-case Contingent & Prospective resources increased 66% to US\$1.86 billion².

The Linxing PSC GSA is a significant achievement in Sino Gas' drive towards production on its Ordos Basin projects. The agreement establishes the commerciality of the Linxing PSC and provides a path to market through existing pipeline infrastructure. The initial gas sales will provide a revenue stream and production data that will be essential inputs into full field development planning and design.

Gas supplied under the agreement will be sold to the industrial gas market in Shanxi Province for an initial price of approximately US\$7 per thousand standard cubic feet (Mscf) during the first year. Initially, seven wells are planned to be connected to a central gathering station located on the western portion of Linxing. Six of these wells have already been drilled, and a seventh horizontal well, is scheduled to commence drilling during Q3 2013 within close proximity to the station. With the GSA in place, the Operations team further progressed work on the pilot program design and commenced sourcing equipment to build the gathering systems and compressor stations in preparation for first gas sales.

We have maintained our solid focus on operational safety and execution with over 720,000 incident free man hours being recorded up to the end of the half, already surpassing the total of 578,000 man hours recorded in 2012. Interpretation of the 1,235km of seismic lines acquired across Sanjiaobei & Linxing (West) is nearing completion, ready for use in future resource assessments and well planning. At the completion of the 2013 seismic program, approximately 2,000 of the 3,000 square kilometre acreage is now covered by either fine or coarse seismic grids.

Since the first wells of the program were spud on 1 March 2013, nine drilling rigs have drilled over 33,000 metres, already completing 14 of the 32 wells planned for 2013. On Sanjiaobei, a total of nine wells have now completed drilling, with initial mud and wireline logging identifying total pay within the range of existing gas discovery wells. Furthermore, exploration well, SJB21, identified coal seams in the far eastern portion of the block.

¹ Figures are 100% project mid-case for Linxing West & Sanjiaobei determined by Society of Petroleum Engineers Petroleum Resource Management Systems (SPE PRMS). ² Project NPV10 is based on a mid-case gas price of US\$8.54/Mscf, lifting costs (opex+capex) ~ US\$1.3/Mscf mid-case for P50 Discovered and Prospective.

Following the completion of the Linxing East drilling program in 2012, which confirmed major coal seams in the area, the dewatering program has been expanded to six wells and it is pleasing to report we have gas to surface on the first five wells of the program. Two additional wells were drilled in 2013 to gain further data for Chinese Reserve Reporting purposes and by the end of the half year the contractor was in the final stages of completing the report. The first of the four step-out exploration wells to be drilled on Linxing, LXDG-01, completed drilling and identified further resource potential within multiple gas payzones on the western portion of Linxing (East).

Testing teams have arrived at Sanjiaobei and Linxing (West) during the first half of 2013 and have fraced the first six wells of the testing program and perforated an additional four. Multiple zones in each well are planned to be tested to determine overall well productivity for Chinese Reserve Reporting (CRR) and reservoirs information purposes.

Financial Result and Financial Position

The consolidated entity made a net loss from continuing operations for the six months ended 30 June 2013 of \$555,896 (half-year ended 30 June 2012: loss of \$2,583,028).

Sino Gas' cash position at 30 June 2013 was approximately \$15.5 million (31 December 2012: \$7.7 million). Capital raising activities completed early in the first half of 2013 strengthened the Company's balance sheet via:

- The placement of 82,448,979 fully paid ordinary shares to two leading institutional investors at \$0.1225 per share to raise approximately A\$10.1 million, before costs, and
- The final conversion of 27,265,345 listed options (ASX: SEHOC) at \$0.125 per share. The remaining 303,751,716 options expired.

On 6 July 2012, the Sino Gas completed a strategic partnership agreement with MIE Holdings Corporate (MIE). MIE committed to progressively invest US\$90 million into Sino Gas & Energy Limited (SGE) to secure an interest of 51% in the issued capital of SGE. As at 30 June 2013, SGE had cash called MIE for US\$23.45 million of the US\$90 million for qualifying PSC expenditure. On a commitments basis, US\$54 million has been incurred since the signing of the strategic partnership in July 2012 (unaudited). The net asset position for the consolidated entity was \$55.2 million (31 December 2011: \$39.6 million), including a 71.71% equity interest in SGE carried at \$37.3 million (31 December 2011: \$31.8 million).

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.



Robert Bearden
Managing Director & CEO

Perth
11 September 2013





Auditor's Independence Declaration

As lead auditor for the review of Sino Gas & Energy Holdings Limited for the half year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sino Gas & Energy Holdings Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
11 September 2013

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Sino Gas & Energy Holdings Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2013

	Notes	Half-year 2013 \$	2012 \$
Revenue from continuing operations			
Other revenue		222,576	32,092
Other Income			
Net gain on dilution of equity interest in jointly controlled entity	7	2,067,275	-
Foreign exchange gain		10,319	104,158
Expenses			
Fundraising costs expensed	5	(106,328)	(1,037,492)
Depreciation and amortisation expense		(4,745)	-
Operating expenses		-	(111,617)
Share-based payment expense	5	(544,974)	(245,014)
Share of net loss of associates accounted for using the equity method	7	(509,716)	-
General and administration expenses		(1,690,303)	(1,325,155)
Loss before income tax expense		<u>(555,896)</u>	<u>(2,583,028)</u>
Income tax expense		-	-
Loss from continuing operations		<u>(555,896)</u>	<u>(2,583,028)</u>
Loss from discontinued operations	3	-	(423,044)
Loss for the half-year		<u>(555,896)</u>	<u>(3,006,072)</u>
Other comprehensive income			
Items that may be classified to profit or loss			
Exchange differences on translation to presentation currency	4	4,308,579	16,111
Total comprehensive income/(loss) for the period attributable to the ordinary equity holders of the Company		<u>3,752,683</u>	<u>(2,989,961)</u>
		Cents	Cents
Earnings/(loss) per share for earnings from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share		(0.05)	(0.23)
Diluted earnings per share		(0.05)	(0.23)
Earnings/(loss) per share for earnings attributable to the ordinary equity holders of the Company:			
Basic earnings per share		(0.05)	(0.27)
Diluted earnings per share		(0.05)	(0.27)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited
Consolidated balance sheet
As at 30 June 2013

	Notes	30 June 2013 \$	31 December 2012 \$
ASSETS			
Current assets			
Cash and cash equivalents		15,465,155	7,749,124
Trade and other receivables		222,832	174,105
Total current assets		15,687,987	7,923,229
Non-current assets			
Plant and equipment		69,589	9,886
Interest in jointly controlled entity accounted for using equity method	7	37,341,947	31,831,076
Loan receivable from jointly controlled entity		2,364,844	2,112,281
Total non-current assets		39,776,380	33,953,243
Total assets		55,464,367	41,876,472
LIABILITIES			
Current liabilities			
Trade and other payables		107,952	1,174,509
Provisions		140,616	170,582
Total current liabilities		248,568	1,345,091
Non-current liabilities			
Other payables		-	963,020
Total non-current liabilities		-	963,020
Total liabilities		248,568	2,308,111
Net assets		55,215,799	39,568,361
EQUITY			
Contributed equity	4	73,992,301	62,748,848
Reserves	5	3,752,761	(1,207,120)
Accumulated losses		(22,529,263)	(21,973,367)
Total equity		55,215,799	39,568,361

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2013

Notes	Contributed equity	Equity settled benefits reserves	Foreign currency translation reserves	Accumulated losses	Total attributable to equity holders of the Company
	\$	\$	\$	\$	\$
Balance at 1 January 2012	60,321,166	4,004,266	(6,354,343)	(22,436,573)	35,534,516
Loss for the half-year	-	-	-	(3,006,072)	(3,006,072)
Other comprehensive income	-	-	16,111	-	16,111
Total comprehensive loss for the half-year	-	-	16,111	(3,006,072)	(2,989,961)
Transactions with owners in their capacity as owners:					
Issue of performance rights	-	245,014	-	-	245,014
Issue of options	-	832,989	-	-	832,989
	-	1,078,003	-	-	1,078,003
Balance at 30 June 2012	60,321,166	5,082,269	(6,338,232)	(25,442,645)	33,622,558
Balance at 1 January 2013	62,748,848	5,864,302	(7,071,422)	(21,973,367)	39,568,361
Loss for the half-year	-	-	-	(555,896)	(555,896)
Other comprehensive income	4	-	4,308,579	-	4,308,579
Total comprehensive income for the half-year	-	-	4,308,579	(555,896)	3,752,683
Transactions with owners in their capacity as owners:					
Issue of shares	4	11,647,453	-	-	11,647,453
Issue of performance rights	5	-	544,974	-	544,974
Issue of options	5	-	106,328	-	106,328
Share issue costs	4	(404,000)	-	-	(404,000)
		11,243,453	651,302	-	11,894,755
Balance at 30 June 2013	73,992,301	6,515,604	(2,762,843)	(22,529,263)	55,215,799

The above consolidated statement of changes in equity sheet should be read in conjunction with the accompanying notes.

Sino Gas & Energy Holdings Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2013

	Notes	Half-year 2013 \$	2012 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,778,523)	(2,133,505)
Interest received		222,576	32,450
Net cash used in operating activities		<u>(1,555,947)</u>	<u>(2,101,055)</u>
Cash flows from investing activities			
Payment of costs associated with sale of assets held for sale		(1,970,016)	-
Payments for plant and equipment		(59,145)	(9,339)
Payments for exploration expenditure		-	(1,785,098)
Net cash used in investing activities		<u>(2,029,161)</u>	<u>(1,794,437)</u>
Cash flows from financing activities			
Proceeds from issue of shares and options (net)		11,243,453	3,000
Repayment of borrowings		(91,617)	-
Net cash provided by financing activities		<u>11,151,836</u>	<u>3,000</u>
Net increase/(decrease) in cash and cash equivalents		7,566,728	(3,892,492)
Cash and cash equivalents at the beginning of the half-year		7,749,124	4,317,338
Effects of exchange rate changes on cash and cash equivalents		149,303	14,546
Total cash and cash equivalents at end of the half-year		<u>15,465,155</u>	<u>439,392</u>
Reclassified to held for sale		-	(263,258)
Cash and cash equivalents from continuing operations at end of the half-year		<u>15,465,155</u>	<u>176,134</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Sino Gas & Energy Holdings Limited is a for profit entity for the purpose of preparing the financial statements.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2012 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The presentation currency of the Company is Australian dollars. The functional currency of the Company is United States dollars.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New and amended standards adopted by the group

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127 Consolidated and Separate Financial Statements*, and *Interpretation 12 Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The group has assessed the impact on the new standards and has concluded that it will not impact on the structure of its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The group's investment in the jointly controlled entity will be classified as a joint venture under the new rules. As the group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 13 *Fair Value Measurement* and *AASB 2011-8 Amendments to Australian Accounting Standards* arising from AASB 13 (effective 1 January 2013) was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. As the group does not value any of its investments using fair value measurement, the new standards will not affect any of the amounts recognised in the financial statements.

Impacts of standards issued but not yet applied by the entity

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

2 Segment information

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.

3 Assets and liabilities classified as held for sale and discontinued operation

(i) Description

As a result of the strategic partnership with MIE Holdings Corporation (MIE), the operating results of SGE for the period to 6 July 2012 have been treated as a discontinued operation and the assets and liabilities of SGE held for sale at the lower of their carrying amount and fair value less costs to sell. Upon establishment of the jointly controlled entity in SGE, Sino Gas and Energy Holdings Limited contributed the existing assets and liabilities of SGE to the joint venture at cost. Unrealised gains or losses on non-monetary assets contributed to SGE are eliminated against the investment under the equity method.

The comparable financial information relating to the discontinued operation for the period up to the date of the transaction and the assets and liabilities held for resale is set out below.

(ii) Financial performance and cash flow information

The comparable financial performance and cash flow information of the discontinued operation for the six months ended 30 June 2013 and 30 June 2012 are set out below:

	Half-year	
	2013	2012
	\$	\$
Other revenue	-	358
Other income	-	223
Financing costs	-	(1,923)
Depreciation and amortisation expense	-	(25,227)
Foreign exchange loss	-	(33,534)
General and administration expenses	-	(362,941)
Loss before tax for the period from discontinued operations	-	(423,044)
Income tax expense	-	-
Loss after tax for the period from discontinued operations	-	(423,044)

	Half-year	
	2013	2012
	\$	\$
Net cash outflow from operating activities	-	(1,028,763)
Net cash outflow from investing activities	-	(1,794,437)
Net cash provided by financing activities	-	2,930,999
Net increase in cash generated by the discontinued operation	-	107,799

4 Contributed Capital

	30 June 2013 \$	31 December 2012 \$
Issued and paid up capital	73,992,301	62,748,848
Number of shares	1,240,798,844	1,128,933,816
Movement in ordinary share capital		
	Number of shares	\$
Balance at 1 January 2013	1,128,933,816	62,748,848
Issue of shares through conversion of performance rights (i)	150,704	-
Issue of shares through conversion of options (ii)	29,265,345	1,547,453
Issue of shares pursuant to placement (iii)	82,448,979	10,100,000
Share issue costs	-	(404,000)
Closing balance at 30 June 2013	1,240,798,844	73,992,301
Balance at 1 January 2012	1,120,417,120	60,321,166
Closing balance at 30 June 2012	1,120,417,120	60,321,166

(i) Issue of shares through conversion of performance rights

On 30 May 2013, the Company issued 150,704 ordinary shares from the conversion of performance rights.

(ii) Issue of shares through conversion of options

On 8 January 2013, the Company completed the final conversion of its listed options (ASX: SEHOC) expiring on 31 December 2012, with this issue of 27,265,345 new fully paid ordinary shares at \$0.125 per share. The remaining 303,751,716 listed options expired unexercised. On 31 May 2013, the Company issued 2,000,000 fully paid ordinary shares following exercise of unlisted options at \$0.0793 per share.

(iii) Issue of shares pursuant to placement

On 3 January 2013, the Company completed the placement of 82,448,979 new fully paid ordinary shares to two leading institutional investors at \$0.1225 per share.

5 Reserves

	Notes	30 June 2013 \$	31 December 2012 \$
Foreign currency translation reserve	(i)	(2,762,843)	(7,071,422)
Equity settled share-based payment reserve	(ii)	6,515,604	5,864,302
		3,752,761	(1,207,120)
(i) Movements in foreign currency translation reserve		Half-year 2013	2012
Balance at the beginning of the financial period		(7,071,422)	(6,354,343)
Translation from functional to presentation currency		4,308,579	16,111
Closing balance at end of the financial period		(2,762,843)	(6,338,232)

		Half-year	
		2013	2012
		\$	\$
(ii) Movements in equity settled benefits reserve			
Movements in options during the period			
Balance at the beginning of the financial period		4,378,750	3,431,188
Issue of options expense	(iii)	106,328	832,989
Closing balance at 30 June 2013		<u>4,485,078</u>	<u>4,264,177</u>
Movements in performance rights during the period			
Balance at the beginning of the financial period		1,485,552	573,078
Performance rights expense movement	(iv)	544,974	245,014
Closing balance at 30 June 2013		<u>2,030,526</u>	<u>818,092</u>
Total closing balance at 30 June 2013		<u>6,515,604</u>	<u>5,082,269</u>

(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 representative office in China and its corporate office, into Australian dollars and are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1 to the annual report for the year ended 31 December 2012.

(ii) Equity settled share-based payment reserve

This share-based payment 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 granting of share options to senior executives under the Employee Share Option Plan, the granting of performance rights to senior executives under the Performance Rights Plan and option based payments to suppliers.

(iii) Options

30,000,000 unlisted options with an exercise price of \$0.075 were issued on 15 February 2012 in relation to the appointment of Argonaut as the Company's corporate advisor. These options were valued using the Black-Scholes model (20,000,000 options) and the Barrier Option (10,000,000 options) pricing model. An amount of \$106,328 has been expensed as fundraising costs in the period ended 30 June 2013.

(iv) Performance Rights

Each performance right is exercisable for one ordinary share at nil consideration. Shareholders approved the issue of 15,524,999 Performance Rights at the Company's AGM on May 23 2013 to a director. In addition 150,704 performance rights were exercised by a director and 7,351,017 were forfeited by employees and directors during the period.

6 Commitments for expenditure and contingencies

(a) Operating lease commitments

Operating leases relate to premises and vehicles used by the Group 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.

	30 June 2013	31 December 2012
	\$	\$
Non-cancellable operating lease commitments		
Not longer than 1 year	380,713	222,144
Longer than 1 year and not longer than 5 years	75,004	171,378
	<u>455,717</u>	<u>393,522</u>

7 Interests in joint ventures

(a) Jointly controlled entity

On 6 July 2012, the Company entered into agreements with MIE Holdings Corporation (MIE) which established joint control between Sino Gas and MIE over SGE as a jointly controlled entity. MIE acquired 39 million ordinary shares (14.29% interest of existing shares) in SGE from Sino Gas for a consideration of \$9.7 million (US\$10 million). In addition, MIE will progressively invest a further US\$90 million into SGE as described below to secure an interest of 51% in the issued share capital of SGE. The US\$90 million investment to be made by Asia Power and Energy Corporation (Asia Power, a wholly owned MIE subsidiary) is comprised of converting redeemable preference shares (CRPS) in SGE (to be held in escrow pending completion of Asia Power's funding obligations and then released proportionally from escrow and converted into ordinary shares in SGE on a 6 monthly basis, or alternatively, redeemed by SGE if Asia Power defaults on its funding obligations) and in part in the form of a loan note repayable by SGE from recovered qualifying expenditure on the PSC blocks once commercial production commences (such loan mechanism to ensure that Sino Gas and Asia Power recover agreed portions – US\$63 million and US\$90 million respectively, as may be adjusted under the terms of the Purchase and Subscription Agreement – via the cost recovery model under the PSCs). The CRPS issued to Asia Power, when combined with the purchase of existing ordinary shares from the Company, results in Asia Power holding 51% of the issued share capital of SGE from closing (with Sino Gas holding the remaining 49%).

The interest in SGE is accounted for in the consolidated financial statements using the equity method of accounting. Sino Gas' economic interest in SGE as at 30 June 2013 was 71.71%. SGE had no contingent liabilities recorded at 30 June 2013 (2012: nil). Information regarding the joint venture is set out below:

	30 June 2013 \$	31 December 2012 \$
Share of joint venture assets and liabilities		
Current assets	5,475,978	5,328,216
Non-current assets	68,952,889	41,283,443
Total assets	74,428,867	46,611,659
Current liabilities	29,626,828	9,721,191
Non-current liabilities	7,460,092	5,059,392
Total liabilities	37,086,920	14,780,583
Net Assets	37,341,947	31,831,076
Share of joint venture's capital commitments	3,771,598	3,454,371
	Half-year	
	2013	2012
	\$	\$
Share of joint venture revenue, expenses and results		
Revenue	866	-
Expenses	(510,582)	-
Loss before income tax	(509,716)	-

(b) Net gain on dilution of equity interest in jointly controlled entity

As at 30 June 2013, \$25.3 million (US\$23.5 million) dollars had been cash called relating to qualifying PSC expenditure, representing \$6.6 million (US\$6.2 million) in loan notes and \$18.6 million (US\$17.3 million) towards cumulative redeemable preference shares (CRPS) to be converted into ordinary shares.

	Half-year	
	2013	2012
	\$	\$
Net gain on dilution of equity interest in jointly controlled entity		
Share of equity contributed into jointly controlled entity	3,802,990	-
Dilution of interest in net assets	(1,735,715)	-
	2,067,275	-

(c) Movements in interest in jointly controlled entity accounted for using equity method

	Half-year 2013	2012
	\$	\$
Balance at the beginning of the financial period	31,831,076	-
Net gain on dilution of equity interest in jointly controlled entity	2,067,275	-
Share of net loss of associates accounted for using the equity method	(509,716)	-
Impact of foreign exchange	3,953,312	-
Balance at the end of the financial period	<u>37,341,947</u>	<u>-</u>

8 Events occurring after the reporting period

Subsequent to period end there have been a number of key events including:

- On 1 July 2013, the Company issued 12,002,244 ordinary shares from the conversion of performance rights. At the same time 421,035 performance rights lapsed.
- On 2 September 2013, the Company announced the submission of its first Chinese Reserve Report (CRR) on the Linxing Production Sharing Contract (PSC). The PSC operator, Sino Gas & Energy Limited (SGE), also agreed a three year extension to the exploration period on the Linxing PSC with its partner, China United Coalbed Methane (CUCBM).

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Sino Gas & Energy Holdings Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Robert Bearden
Managing Director & CEO

Perth
11 September 2013



Independent auditor's review report to the members of Sino Gas & Energy Holdings Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sino Gas & Energy Holdings Limited, which comprises the statement of financial position as at 30 June 2013, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Sino Gas & Energy Holdings Limited Group (the consolidated entity). The consolidated entity comprises both Sino Gas & Energy Holdings Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sino Gas & Energy Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Independent auditor's review report to the members of Sino Gas & Energy Holdings Limited (cont'd)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sino Gas & Energy Holdings Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Nick Henry'.

Nick Henry
Partner

Perth
11 September 2013

BOARD OF DIRECTORS

Gavin Harper
CHAIRMAN

Robert Bearden
MANAGING DIRECTOR & CEO

Bernard Ridgeway
NON-EXECUTIVE DIRECTOR

Colin Heseltine
NON-EXECUTIVE DIRECTOR

COMPANY SECRETARY

Harry Spindler

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