



Sino Gas & Energy Holdings Limited

ACN 124 242 422

Annual Financial Report for the
financial year ended 30 June 2009



Directors	Samuel Snyder – Non Executive Chairman Stephen Lyons – Managing Director John Chandler – Non Executive Director Gavin Harper – Non Executive Director Bernard Ridgeway – Non Executive Director
Company Secretary	Paul Mason
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Letter from the Chairman & Managing Director

Dear Shareholders

I am pleased to attach the 2009 Annual Report of Sino Gas & Energy Holdings Limited for your review. In this letter and the accompanying Report we have set out matters relevant to the operations and performance of the Company for the financial year ended 30 June 2009.

Sino Gas & Energy Holdings Limited successfully listed on the ASX in September 2009 with strong support from new and existing Shareholders

After a successful operating history in China over the past 4 years, it was very pleasing to see Sino Gas & Energy Holdings Limited (the "Company" or "SGEH") take the next step and successfully list on the Australian Securities Exchange (ASX) in September 2009.

SGEH is an emerging clean energy company based in Beijing, and intends to capitalise on the demand for clean and affordable energy from the large and growing central Chinese domestic gas markets which are in close proximity to the Company's projects.

The successful Initial Public Offer (IPO) and Rights Issue raised \$7.9 million in total and resulted in the issue of 31.6 million shares (together with one free attaching 2010 Option and one free attached 2011 Option for each new share issued).

On behalf of the Board, we thank all of those that have made the achievement of this significant milestone possible.

As the first oil and gas company to list on the ASX since January 2008, we are very pleased to have successfully completed the IPO which positions the company well to follow through on its business strategy.

SGEH has Substantial Gas Assets Onshore China

SGEH's current projects are located in the Ordos Basin, which is China's second largest onshore oil and gas producing basin, situated in the province of Shanxi in North West China. Major international operators including Shell and TOTAL also operate in the Basin. Hundreds of gas wells have been drilled in the Ordos Basin since the late 1990s with a number of tight gas fields on production or under development.

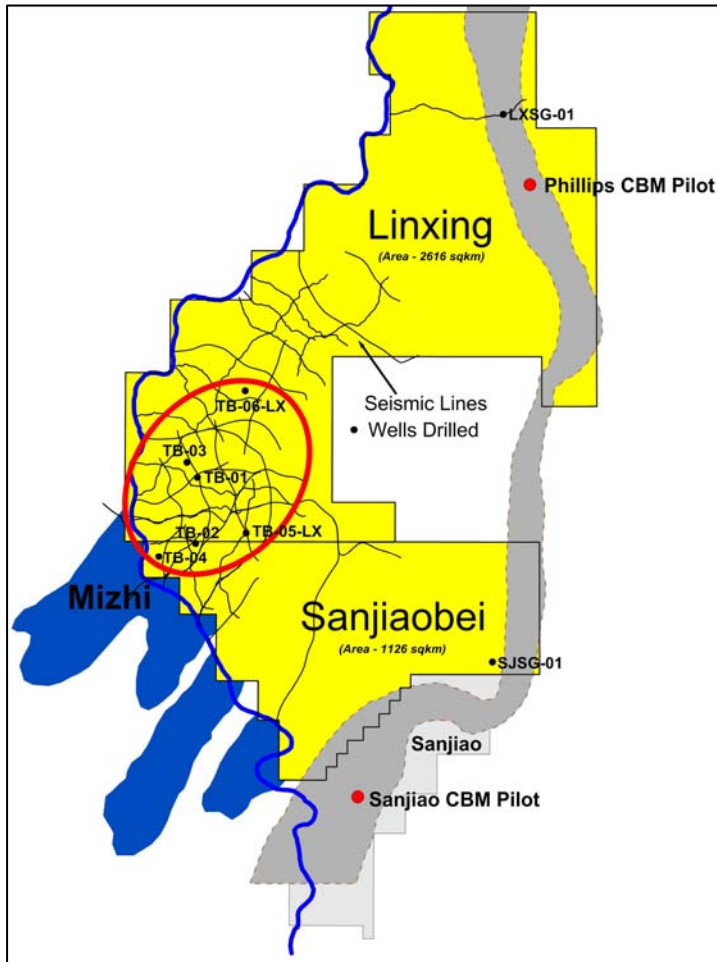
SGEH has interests in two production sharing contracts (PSC's) in the Basin, Linxing and Sanjiaobei, alongside Chinese State Owned Entities. The two PSC's cover over 3,700km² and are prospective for methane gas from both its tight gas sands and coal bed methane assets.

Gas resources have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems standards by internationally recognised oil and gas consultants RISC Pty Ltd.

SGEH has drilled 6 wells (5 gas discovery wells) on the tight gas sands 'Tuban Prospect' and will commence a further appraisal program expected to consist of the drilling of two tight gas sands wells as well as fracturing and well testing of new and existing exploration wells.

Letter from the Chairman & Managing Director

SGEH has a robust strategy to move to development on its Gas Assets



commitment they have shown during what has been a challenging, but ultimately rewarding past 12 months. It is with their support and dedication we look forward to the exciting work ahead.

Samuel G Snyder
Non Executive Chairman

SGEH has conducted substantial work on its PSC's since 2006 with its principal focus on appraising the Tight Gas Sands (TGS) assets in the vicinity of its Tuban Prospect.

The Company's strategy is to move to development on these assets, initially through the further Stage 1 appraisal program involving the drilling of a number of new wells and further well tests. Planning for this work is well advanced and is expected to commence in the 1st half of October 2009.

Formal Approval of Linxing PSC Modification Agreement

We are also very pleased to announce that the Chinese Ministry of Commerce has formally approved the assignment of Chevron's 50% gross working interest in the Linxing PSC to SGE (bringing SGE's gross working interest in this PSC to 100%), as well as an extension of the exploration period to 31 August 2011.

This approval, which is a testament to our relationship with its Chinese Partner has driven a substantial increase in the Company's independently verified recoverable resources on the Linxing PSC.

Our Employees, Directors and Contractors

We thank all of our employees, the Directors and our contractors for the hard work and steadfast

Stephen J Lyons
Managing Director

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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 30 June 2009.

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
S G Snyder	Non Executive Chairman	<p><i>Bsc, Msc in Petroleum and Natural Gas Engineering</i></p> <p>Sam was appointed to the SGEH Board on its incorporation on 5 March 2007 and was appointed to the SGE Board on 7 August 2006. Sam was Managing Director of SGEH and SGE until 30 April 2008 and was appointed as the Non Executive Chairman on 1 May 2008.</p> <p>Sam is the former Managing Director of Chevron China and prior to that of Texaco China (October 1997 to July 2006).</p>
S J Lyons	Managing Director	<p><i>B.Bus (Accounting), ACA</i></p> <p>Stephen was appointed Managing Director with effect from 20 May 2008. He has been SGE's Chief Financial Officer from September 2006. He was Company Secretary from SGE's formation in July 2005 to 28 August 2008.</p> <p>Stephen holds a Bachelor of Accounting degree from Curtin University of Western Australia, is a qualified Chartered Accountant and Member of the Australian Institute of Chartered Accountants.</p>
J Chandler	Non Executive Director	<p><i>LL.B. (Hons) , Diploma in Business Administration, Solicitor of the Supreme Court of England and Wales, Barrister and Solicitor Western Australia, FAICD.</i></p> <p>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, and is now a sole practitioner with a focus on the oil and gas industry and corporate governance.</p>
G Harper	Non Executive Director	<p><i>BA from University of Kent at Canterbury and Diploma in Business Administration from Strathclyde University</i></p> <p>Gavin has been involved with SGE 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.</p>

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. He was appointed to the SGE Board on 15 July 2005. Bernie is currently the Managing Director of Imdex Limited, a major shareholder of SGEH.
G T Clifford	Non Executive Director and Company Secretary	FCPA, FCIS Resigned as a director 12 August 2008 Resigned as Company Secretary 28 August 2008
P Mason	Company Secretary	<i>BE, ACA, FFin</i> Paul was appointed Company Secretary of SGEH and SGE on 25 August 2008. He assists a number of companies listed on the ASX with their reporting and company secretarial matters.

(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 period are as follows:

Name	Company	Period of directorship
S G Snyder	Nil	
S J Lyons	Nil	
J Chandler	Nil	
G Harper	NuEnergy Capital Limited	Appointed 23 April 2007
B W Ridgeway	Imdex Limited	Appointed 23 May 2000

Directors' Report

(c) Directors' Shareholdings

The following tables set 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.
S G Snyder	319,410	459,704
S J Lyons	1,290,000	1,030,000
J Chandler	40,000	80,000
G Harper	40,000	80,000
B W Ridgeway	10,680,000	360,000

(d) Share Options Granted to Directors and Senior Management

No options were issued to directors or senior management during the current financial year as part of their remuneration (2008: 1,760,000 options were issued).

(e) Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings by way of circular resolution of Directors) 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 14 Board meetings were held.

	Meetings of Directors		Meetings of Audit Committee	
	Held	Attended	Held	Attended
S G Snyder	14	13	-	-
S J Lyons	14	14	-	-
J Chandler	14	13	2	2
G Harper	14	12	2	2
B W Ridgeway	14	13	2	2
G T Clifford (Resigned 12 August 2008)	1	-	-	-

A Remuneration Committee and a Planning Committee were established on 7 July 2009. Prior to this date the role of the Remuneration and Planning Committees were performed by the Board as a whole. Members of each committee as at the date of this report are noted in the table below.

Audit Committee	Planning Committee	Remuneration Committee
J Chandler (chair)	S G Snyder (chair)	G Harper (chair)
G Harper	S J Lyons	J Chandler
B W Ridgeway	G Harper	B W Ridgeway

(f) Principal Activities

The Company's principal activities during the course of the financial year were appraising unconventional Tight Gas Sands and Coalbed Methane energy projects onshore China.

Directors' Report

(g) Review of Operations

A review of operations for the year and the strategy for the business is included in the Letter from the Chairman and the Managing Director at the front of the Annual Report.

Financial Result and Financial Position

The company made a loss for the year of \$7,969,410 (2008: loss of \$4,361,936).

As at year end the group cash position was \$1.9 million (2008: \$3.9 million) and had net assets of \$8.0 million (2008: \$9.6 million). The cash position has increased to \$8.0 million at the date of this report following a capital raising in September 2009 (refer to the subsequent events noted below).

(h) Dividends

No dividends were paid or declared by the Company during the financial year. The Directors do not recommend the payment of a dividend in respect of the financial year ended 30 June 2009.

(i) Changes in State Of Affairs

During the financial year:

- the Group relinquished its interest in the Shenfu Production Sharing Contract (PSC) effective 1 May 2009 to focus on the Linxing and Sanjiaobei PSC's. The relevant agreement relating to the termination of the Shenfu PSC has been approved by all parties;
- Chevron Texaco China Energy Company ("Chevron") made the decision to assign its 50% gross working interest in the Linxing and Sanjiaobei PSC's to SGE. SGE, Chevron and CUCBM executed a Modification Agreement (MA) to formalise the transfer of this interest on the Linxing PSC to SGE and following the approval by the Ministry of Finance and Commerce (MOFCOM) in China on 25 August 2009 this assignment is now effective. SGE is in discussion with PetroChina CBM (PCBM) regarding the Modification Agreement to formalise the assignment of Chevron's 50% gross working interest in the Sanjiaobei PSC. Following execution of such Modification Agreement between SGE, PCBM and Chevron it will be lodged with MOFCOM for approval. The agreement will be effective following MOFCOM approval.

There were no other significant changes in the state of affairs of the Group during the current financial year.

(j) Subsequent Events

Subsequent to the year end the consolidated entity:

- (i) Completion of Fund Raising and Admission to the official list of the Australian Securities Exchange

Sino Gas & Energy Holdings Limited (SGEH) lodged a Prospectus with the Australian Securities and Investments Commission on 29 July 2009 for a Rights Issue and Public Offer and to list on the Australian Securities Exchange (ASX). The Rights Issue was underwritten to \$7 million by Patersons Securities Limited.

The offer closed on 9 September 2009 with the Company listing on the ASX on 15 September 2009.

As a result of the offer the Company raised \$7.9 million in gross funds and issued the following new shares and options:

- (i) 31.6 million ordinary shares;
- (ii) 31.6 million, options @\$0.25 each expiring on 30 June 2010;
- (iii) 31.6 million, options @\$0.50 each expiring on 31 December 2011;
- (iv) 4.4 million, underwriter options @\$0.50 expiring on 15 September 2011; and
- (v) 17.5 million, sub-underwriter options @\$0.25 expiring on 15 September 2011.

- (ii) Variation of the Imdex Limited Loan

In connection with, and subject to, its listing on the ASX, SGEH and Imdex Limited, on 20 August 2009, varied the terms of its Convertible Loan. The main terms that were varied were to:

- (i) Extend the term to 30 September 2009;
- (ii) Provide that the interest rate be reduced from 13.5% to 10% from the date of listing on the ASX, and to provide that the payment of interest shall be satisfied by the issue of shares in SGEH at a strike price

Directors' Report

equal to the greater of \$0.20 or the price equal to a 20% discount to the volume weighted average ASX price in the 30 days prior to conversion (Strike Price);

- (iii) Provide that the difference between the principal sum outstanding on the loan and the amount that could be raised assuming the options expiring on 30 June 2010 were "in the money" be converted to ordinary shares at the Strike Price. This conversion is subject to complying with the 19.9% threshold limitation imposed by the Corporations Law.

Further details concerning the Convertible Loan are set out in note 11.

(iii) Linxing PSC Modification Agreement

SGE, Chevron and CUCBM executed a Modification Agreement to formalise the transfer of Chevron's 50% gross working interest to SGE and to extend the exploration period through to 31 August 2011. This Modification Agreement was approved by the Chinese Ministry of Commerce (MOFCOM) on 25 August 2009.

(iv) CPS Control Systems Pty Ltd (CPS) short term loan agreement

On 6 July 2009, SGE and CPS entered into an unsecured short term loan agreement. The principal terms of the short term loan are as follows:

- (i) The provision of a loan facility of \$2.1 million at a 17% per annum interest rate with various facility and roll-over fees;
- (ii) Loan funds to be used for the Company's work program and otherwise subject to agreed controls and limitations as to its use;
- (iii) Loan repayable within 3 days of the completion of the Company's Rights Issue;
- (iv) In the event of termination of the loan, that it be convertible to shares in SGEH at a strike price of \$0.25.

Following the close of SGEH's Rights Issue and Public Offering, the short term loan was repaid in full on 7 September 2009.

No other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Company and its subsidiary, the results of those operations or the state of affairs of the Company and its subsidiary in subsequent years that is not otherwise disclosed in the consolidated financial statements.

Directors' Report

(k) 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.

(l) 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 5 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 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

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

(m) Auditor's Independence Declaration

The auditor's independence declaration is included on page 15 of the Financial Report.

(n) Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the 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. During the financial year the Company 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. Signed in accordance with a resolution of the Directors made pursuant to S.298(2) of the Corporations Act 2001.

(o) 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 of its operating activities.

(p) Share Options

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

Number on issue	Exercise price	Expiry Date
31,644,345	\$0.25	30 June 2010
17,500,000	\$0.25	15 September 2011
4,400,000	\$0.50	15 September 2011
31,644,345	\$0.50	31 December 2011
1,310,000	\$0.50	13 March 2013

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

With the exception of the 13 March 2013 options, all of the options listed above were issued in September 2009 as part of a capital raising.

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

Directors' Report

(q) 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 30 June 2009. 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

Director and senior management details

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

Sam Snyder	(Non-Executive Chairman)
Stephen Lyons	(Managing Director)
John Chandler	(Non-Executive Director)
Gavin Harper	(Non-Executive Director)
Bernie Ridgeway	(Non-Executive Director)

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. Paul Mason is the only member of senior management 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:

Jeffrey Brown	(Chief Operating Officer)
Simon Marsden	(Technical Manager)
Paul Mason	(Company Secretary) – appointed 28 August 2008

Remuneration Policy

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 may also be issued as an added inducement to executives to maximise their efforts in achieving the highest possible return for shareholders. Details regarding the issue of share options 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 total fees payable to non-executive directors is capped at a maximum of \$500,000 per annum.

Senior Management Salary and Fees

The remuneration of senior management is generally reviewed annually with the review 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

No component of director or senior management salary is dependent on company performance. The Company did not pay any cash incentives or bonuses to its directors or senior management during the financial year ended 30 June 2009.

In the prior financial year, 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, not in relation to company performance.

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 and executives of the Company and/or the Group during the period:

Year ended 30 June 2009

Note	Primary			Post Employment			Equity options	Other benefits	Total	% relating to options
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Directors										
S Snyder, Non Executive Chairman	(i)	40,000	-	-	-	-	-	-	40,000	-
S Lyons, Managing Director	(ii)	349,347	-	154,842	-	-	58,383	-	562,573	10%
J Chandler, Non Executive Director		40,000	-	-	3,600	-	-	-	43,600	-
G Harper, Non Executive Director		40,000	-	-	3,600	-	-	-	43,600	-
B Ridgeway, Non Executive Director		15,000	-	-	28,600	-	-	-	43,600	-
G Clifford, Non Executive Chairman to 12 August 2008		2,505	-	-	259	-	-	-	2,764	-
K Dundo, Non Executive Director to 27 August 2008		-	-	-	-	-	-	-	-	-
I Burston, Alternate Director to Mr Dundo to 27 August 2008		-	-	-	-	-	-	-	-	-
Executives										
J Brown, Chief Operating Officer	(iii)	329,169	-	120,849	-	-	43,084	-	493,101	9%
S Marsden, Technical Manager	(iv)	343,606	-	44,745	-	-	43,084	-	431,435	10%
P Mason, Company Secretary from 28 August 2008		27,500	-	-	-	-	-	-	27,500	-
		1,187,127	-	320,436	36,059	-	144,551	-	1,688,173	

Year ended 30 June 2008

		Primary			Post Employment			Equity options	Other benefits	Total	% relating to options
		Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other				
		\$	\$	\$	\$	\$	\$	\$	\$		
Directors											
S Snyder, Non Executive Chairman	(i)	230,858	-	-	-	-	-	-	230,858	-	
S Lyons, Managing Director	(ii)	233,964	33,635	153,476	-	-	79,416	-	500,491	16%	
J Chandler, Non Executive Director		4,565	-	-	411	-	-	-	4,976	-	
G Harper, Non Executive Director		7,292	-	-	656	-	-	-	7,948	-	
B Ridgeway, Non Executive Director		25,000	-	-	2,250	-	-	-	27,250	-	
G Clifford, Non Executive Chairman to 12 August 2008		25,000	-	-	2,250	-	-	-	27,250	-	
S Tan, Non Executive Director to 10 March 2008		17,663	-	-	1,590	-	-	-	19,253	-	
K Dundo, Non Executive Director to 27 August 2008		4,167	-	-	4,542	-	-	-	8,709	-	
I Burston, Alternate Director to Mr Dundo to 27 August 2008		-	-	-	-	-	-	-	-	-	
Executives											
J Brown, Chief Operating Officer	(iii)	204,860	-	66,777	-	-	28,918	-	300,555	10%	
S Marsden, Technical Manager	(iv)	225,654	20,904	33,265	-	-	28,918	-	308,741	9%	
R Grigg, Chief Operations Officer to 1 September 2007	(v)	123,328	-	33,226	-	-	-	-	156,554	-	
I Wang, Exploration Manager to 12 February 2008	(vi)	172,356	-	66,409	-	-	-	-	238,765	-	
K Garner, Business Development Manager to 1 May 2007		16,234	-	-	-	-	-	-	16,234	-	
		1,290,941	54,539	353,153	11,699	-	137,252	-	1,847,584		

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

- (i) Mr Snyder has been a Director of SGE since 7 August 2006 and was Managing Director from 1 May 2007 to 30 April 2008 when he transitioned to the role of Non Executive Chairman. In the prior financial year, the directors fees include Mr Snyder's fees for acting as Managing Director and Non Executive Chairman. In the current financial year, Mr Snyder only received directors fees for acting as Non Executive Chairman;

Directors' Report

- (ii) Mr Lyons has been the Company Secretary of SGE since its incorporation on 15 July 2005 to 28 August 2008. In addition to this role, he was appointed to the role of Chief Financial Officer on 1 September 2006 and has been permanently based in Beijing since 30 December 2006. On 1 May 2008, Mr Lyons was appointed Acting Managing Director. On 29 July 2008, Mr Lyons was appointed Managing Director of SGEH. 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 50% of the employees annual salary which increases to 100% after 20 May 2010, being the two year anniversary of the contract.

Due to the challenging market and financial conditions brought about by the global financial crisis no bonuses were paid to the employee during the current financial year, nor were there any adjustments to the employees salary package. The apparent increase in the amounts disclosed for salaries and fees in the current financial year compared to the previous financial year relates to the foreign currency effect of the translation of amounts received in Renminbi into Australian dollars.

- (iii) Mr Brown has been the Chief Operating Office of SGE since 17 September 2007. He is party to a contract of employment effective for a 3 year period from that date. 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 and other benefits normal in arrangements for an expatriate employee based in Beijing. The contract stipulates a 3 month termination and notice period from both the employee and the Company. Due to the challenging market and financial conditions brought about by the global financial crisis no bonuses were paid to the employee during the current financial year, nor were there any adjustments to the employees salary package;
- (iv) Mr Marsden has been the Technical Manager of SGE since 1 September 2007. He is party to a contract of employment effective for a 3 year period from that date. 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 and other benefits normal in arrangements for an expatriate employee based in Beijing. The contract stipulates a 3 month termination and notice period from both the employee and the Company. Due to the challenging market and financial conditions brought about by the global financial crisis no bonuses were paid to the employee during the current financial year, nor were there any adjustments to the employees salary package;
- (v) In the prior financial year, Mr Grigg was the Chief Operating Officer of SGE through to his resignation on 1 September 2007;
- (vi) In the prior financial year, Mr Wang was the Exploration Manager of SGE through to his resignation on 12 February 2008.

Directors' Report

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

Employee share option plan

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

No options were issued under the employee share option plan during the current financial year.

The following share-based payment arrangements were issued in the prior financial year:

Option series	Grant date	Expiry Date	Weighted average fair value at grant date \$	Number of Options
Mar 08	14 March 2008	13 March 2013	0.30	1,760,000

Options vest in equal amounts over a three year period from the date of issue. Executives must be employed with the Group at vesting date for the options to vest.

Further details of the employee share option plan are contained in note 22 to the financial statements.

No options were issued to directors during the year.

On behalf of the Directors



Mr Stephen J Lyons

Managing Director

PERTH, Western Australia, 30 September 2009



Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SINO GAS & ENERGY HOLDINGS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Sino Gas & Energy Holdings Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Sino Gas & Energy Holdings Limited and its controlled entity (the consolidated entity). The consolidated entity comprises the entity and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 entity's preparation and fair presentation of the financial report 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 entity'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.

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Independence

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

Auditor's 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 entity's and consolidated entity's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Sino Gas & Energy Holdings Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Acts 2001*.



PKF
Chartered Accountants



Neil Smith
Partner

Dated at Perth, Western Australia this 30th day of September 2009.

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 8 to 11, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2009 and of their 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 30 June 2009.

Signed in accordance with a resolution of the directors.



Mr Stephen J Lyons

Managing Director

PERTH, Western Australia, 30 September 2009

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Sino Gas and Energy Holdings Limited for the year ended 30 June 2009, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



PKF
Chartered Accountants



Neil Smith
Partner

Dated at Perth, Western Australia this 30th day of September 2009.

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Income Statement

for the financial year ended 30 June 2009

	Notes	Consolidated		Parent	
		Year ended 30 June 2009	Year ended 30 June 2008	Year ended 30 June 2009	Year ended 30 June 2008
		\$	\$	\$	\$
Other revenue - interest	3	32,246	309,419	-	-
Total revenue		32,246	309,419	-	-
Operating expenses		74,626	(404,459)	-	-
Financing costs	3	(1,915,229)	(2,230,195)	-	-
Fund raising expenses		(573,237)	(408,211)	-	-
Depreciation and amortisation expense	3	(100,543)	(91,153)	-	-
Share-based payment	3	(138,576)	(187,828)	-	-
Foreign exchange gain / (loss)		1,523,020	(354,619)	(421,499)	-
Impairment of exploration assets	8	(6,235,665)	-	-	-
Other expenses		-	(585,232)	-	-
General and administration expenses		(636,052)	(409,658)	(88,133)	-
Profit/(loss) before income tax expense		(7,969,410)	(4,361,936)	(509,632)	-
Income tax expense		-	-	-	-
Profit/(loss) for the period		(7,969,410)	(4,361,936)	(509,632)	-
Profit/(loss) attributable to members of Sino Gas & Energy Holdings Limited		(7,969,410)	(4,361,936)	(509,632)	-
Earnings per share:					
Basic earnings per share (cents)	15	(7.07)	(4.16)		
Diluted earnings per share (cents)	15	(7.07)	(4.16)		

The Income Statements should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2009

	Notes	Consolidated		Parent	
		30 June 2009	30 June 2008	30 June 2009	30 June 2008
		\$	\$	\$	\$
ASSETS					
Current assets					
Cash and cash equivalents	17	1,932,797	3,926,075	1	1
Other receivables	6	499,476	706,364	-	-
Prepayments		98,535	-	75,146	-
Total current assets		2,530,808	4,632,439	75,147	1
Non-current assets					
Other financial assets		-	-	21,337,048	21,198,472
Other receivables		-	-	4,599,023	-
Plant and equipment	7	83,819	143,624	-	-
Deferred exploration and evaluation expenditure	8	21,586,106	19,595,524	-	-
Total non-current assets		21,669,925	19,739,148	25,936,071	21,198,472
Total assets		24,200,733	24,371,587	26,011,218	21,198,473
LIABILITIES					
Current liabilities					
Trade and other payables	9	1,851,788	1,426,735	143,070	-
Provisions	10	46,118	35,482	-	-
Interest bearing loans and borrowings	11	14,273,865	13,278,755	1,804,061	-
Total current liabilities		16,171,771	14,740,972	1,947,131	-
Total liabilities		16,171,771	14,740,972	1,947,131	-
Net assets		8,028,962	9,630,615	24,064,087	21,198,473
EQUITY					
Issued capital	12	24,640,645	21,010,645	24,640,645	21,010,645
Reserves	13	593,713	(2,144,044)	(66,926)	187,828
Accumulated losses	14	(17,205,396)	(9,235,986)	(509,632)	-
Total equity		8,028,962	9,630,615	24,064,087	21,198,473

The Balance Sheets should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the financial year ended 30 June 2009

	Notes	Consolidated		Parent	
		Year ended 30 June 2009	Year ended 30 June 2008	Year ended 30 June 2009	Year ended 30 June 2008
		\$	\$	\$	\$
Cash Flows From Operating Activities					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(1,329,309)	(1,673,576)	-	-
Interest received		32,245	309,419	-	-
Interest and financing costs paid		-	-	-	-
Income tax paid		52,926	(134,391)	-	-
Net cash used in Operating Activities	17	(1,244,138)	(1,498,548)	-	-
Cash Flows From Investing Activities					
Payment for plant and equipment		(6,112)	(58,612)	-	-
Payment for exploration expenditure		(3,873,021)	(11,334,730)	-	-
Net cash used in Investing Activities		(3,879,133)	(11,393,342)	-	-
Cash Flows From Financing Activities					
Proceeds from issue of equity securities		-	6,460,400	-	1
Proceeds from borrowings		2,000,000	-	-	-
Payment for capital raising costs		(80,848)	-	-	-
Net cash provided by Financing Activities		1,919,152	6,460,400	-	1
Net (decrease)/increase in Cash Held		(3,204,119)	(6,431,490)	-	1
Cash at the beginning of the Financial Period		3,926,075	11,385,704	1	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,210,841	(1,028,139)	-	-
Cash at the end of the Financial Period	17	1,932,797	3,926,075	1	1

The Cash Flow Statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the financial year ended 30 June 2009

CONSOLIDATED		Ordinary Shares	Convertible Preference Shares	Equity Settled Employee Benefits Reserve	Foreign Currency Translation Reserve	Equity Component Reserve	Accumulated Losses	Total Attributable to Equity Holders of the Company
	Notes	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2007		14,477,600	72,646	-	(466,519)	-	(4,874,050)	9,209,677
Exchange differences arising on translation of foreign operations	13	-	-	-	(1,865,353)	-	-	(1,865,353)
Net income recognised directly in equity		-	-	-	(1,865,353)	-	-	(1,865,353)
Loss for the period	14	-	-	-	-	-	(4,361,936)	(4,361,936)
Total recognised income and expense		-	-	-	(1,865,353)	-	(4,361,936)	(6,227,289)
Issue of shares net of costs	12	6,460,399	-	-	-	-	-	6,460,399
Conversion of preference shares		72,646	(72,646)	-	-	-	-	-
Share based payments	13	-	-	187,828	-	-	-	187,828
Balance at 30 June 2008		21,010,645	-	187,828	(2,331,872)	-	(9,235,986)	9,630,615
Exchange differences arising on translation of foreign operations	13	-	-	-	2,403,242	-	-	2,403,242
Net income recognised directly in equity		-	-	-	2,403,242	-	-	2,403,242
Loss for the period	14	-	-	-	-	-	(7,969,410)	(7,969,410)
Total recognised income and expense		-	-	-	2,403,242	-	(7,969,410)	(5,566,168)
Recognition of convertible notes equity component		-	-	-	-	195,939	-	195,939
Issue of shares		3,630,000	-	-	-	-	-	3,630,000
Share based payments	13	-	-	138,576	-	-	-	138,576
Balance at 30 June 2009		24,640,645	-	326,404	71,370	195,939	(17,205,396)	8,028,962
PARENT								
		Ordinary Shares	Convertible Preference Shares	Equity Settled Employee Benefits Reserve	Foreign Currency Translation Reserve	Equity Component Reserve	Accumulated Losses	Total Attributable to Equity Holders of the Company
	Notes	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2007		1	-	-	-	-	-	1
Loss for the period	14	-	-	-	-	-	-	-
Total recognised income and expense		-	-	-	-	-	-	-
Issue of shares net of costs	12	21,010,644	-	-	-	-	-	21,010,644
Share based payments	13	-	-	187,828	-	-	-	187,828
Balance at 30 June 2008		21,010,645	-	187,828	-	-	-	21,198,473
Exchange differences arising on translation of foreign operations	14	-	-	-	(589,269)	-	-	(589,269)
Loss for the period		-	-	-	-	-	(509,632)	(509,632)
Total recognised income and expense		-	-	-	(589,269)	-	(509,632)	(1,098,901)
Recognition of convertible notes equity component		-	-	-	-	195,939	-	195,939
Issue of shares		3,630,000	-	-	-	-	-	3,630,000
Share based payments	13	-	-	138,576	-	-	-	138,576
Balance at 30 June 2009		24,640,645	-	326,404	(589,269)	195,939	(509,632)	24,064,087

The Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Financial Report

for the financial year ended 30 June 2009

1 Summary of Significant Accounting Policies

The financial report of Sino Gas & Energy Holdings Limited for the year ended 30 June 2009 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 entity, Sino Gas and Energy Limited.

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 report includes the separate financial statements of the company and the consolidated financial statements of the Group.

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

(a) Basis of preparation

The financial statements have been prepared on the basis of historical cost. 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.

During the financial year ended 30 June 2008, the Company completed a re-organisation process (Bid) whereby shares of SGE were acquired on a one to one basis by SGEH. This process was completed in April 2008 when SGE became a 100% subsidiary of SGEH.

This transaction has been accounted for as a combination of entities under common control and as such is outside the scope of AASB 3 'Business Combinations'. Australian Accounting Standards currently do not provide guidance in relation to common control transactions therefore in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' other international pronouncements have been applied to account for the business combination. The transaction has been accounted for using merger accounting where two or more companies are combined to form one group on terms such that the equity shareholders in each company become the equity shareholders in the combined entity. The accounts therefore represent a continuation of the financial statements of Sino Gas & Energy Limited, the legal subsidiary acquired. Refer to note 2 for further details.

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.

Adoption of new and revised accounting standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of these new standards and interpretations is set out below:

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 123	Borrowing Costs and	The amendments to AASB	1 January	The Group has not yet determined	1 July

Notes to the Financial Report

for the financial year ended 30 June 2009

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Group*
(Revised) and AASB 2007-6	consequential amendments to other Australian Accounting Standards	123 require that all borrowing costs associated with a qualifying asset be capitalised.	2009	the extent of the impact of the amendments, if any.	2009
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the	1 July 2009

Notes to the Financial Report

for the financial year ended 30 June 2009

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Group*
		control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.		Group's income statement.	
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Refer to AASB 2008-5 above.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2008-7	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based</p>	1 January 2009	<p>Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.</p> <p>In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.</p>	1 July 2009

Notes to the Financial Report

for the financial year ended 30 June 2009

Reference	Title	Summary	Application date of standard	Impact on Company's financial report	Application date for Group*
		on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.			
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: - quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2009-7	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB Int. 17 and AASB 2008-13	Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 110	The Interpretation outlines how an entity should measure distributions of assets, other than cash, as a dividend to its owners acting in their capacity as owners. This applies to transactions commonly referred to as spin-offs, split offs or demergers and in-specie distributions.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

There were no new standards requiring mandatory adoption for the annual period ended 30 June 2009.

Notes to the Financial Report

for the financial year ended 30 June 2009

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

(b) 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.

(c) Going Concern Basis of Accounting

The Financial Report has been prepared on the basis of a going concern which assumes that the Consolidated Entity will be able to pay its debts as and when they fall due and continue its operation in the ordinary course of business without any intention or necessity to liquidate or otherwise wind up its operations.

The Consolidated Entity at 30 June 2009 shows an excess of total current liabilities to total current assets of \$13,640,963 and has incurred an operating loss for the year of \$7,969,410. However the convertible loan with Imdex Limited which is recorded as a current liability at 30 June 2009 was varied after year end to extend its term to 30 September 2010. If this variation had taken place prior to 30 June 2009 the Consolidated Entity would have shown an excess of total current assets over current liabilities of \$632,902. The Consolidated Entity has budgeted minimum exploration expenditure on the Linxing PSC for the 12 months to 30 June 2010 totalling \$5,120,204, as disclosed in Note 16. The Consolidated Entity's cash position at 30 June 2009 totals \$1,932,798. During September 2009 the Consolidated Entity raised gross funds of \$7.9 million through an IPO and associated rights issue. As further detailed in note 11, a mechanism exists to repay part of the Imdex Limited convertible loan through the options expiring on 30 June 2010, with the balance being converted to ordinary shares.

The Company has prepared cash budgets for the relevant period, being 12 months from the date of this report, which indicate that the Company will be able to meet its debts as and when they fall due.

At the date of the Financial Report, based on the above, the directors believe that the going concern basis is appropriate for both the consolidated entity and the parent entity. Should the consolidated entity and the parent entity be unable to continue as going concerns, they will be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report.

(d) 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.

(e) 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.

(f) 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.

Notes to the Financial Report

for the financial year ended 30 June 2009

(g) 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%.

(h) Foreign currency

The presentation currency of the Company is Australian 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 balance sheet date and recognised in the income statement.

As at the reporting date the assets and liabilities are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statement 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 profit and loss, as they do not form a net investment in a foreign operation.

(i) 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 or loss or 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 profit or loss.

(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.

(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 profit or loss.

(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 profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to the Financial Report

for the financial year ended 30 June 2009

(j) 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.

(k) 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 comprehensive balance sheet 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 income statement, 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.

(l) Revenue

(i) Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

(ii) Dividend and interest revenue

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.

Notes to the Financial Report

for the financial year ended 30 June 2009

(m) 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.

(n) Share Based Payments

(i) Convertible preference shares

In prior years, equity-settled share-based payments in the form of convertible preference shares (CPS) were measured at fair value at the date of grant. Fair value is measured by the use of a model which estimates the probability of achieving the various conditions for the conversion of the CPS's. The fair value has also been adjusted, based on management's best estimate, for the effects of non-transferability. The fair value of the CPS's determined at the grant date has been expensed during prior years.

(ii) 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 22. 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 corresponding adjustment to the equity settled employee benefits reserve.

(o) 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.

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 flows 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.

Notes to the Financial Report

for the financial year ended 30 June 2009

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.

(p) Exploration and Evaluation Expenditure

Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows, 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, other than that acquired from the purchaser of another mining or exploration company, 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 exploration, evaluation, 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.

(q) 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.

(r) 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.

(s) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and rewards that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the Financial Report

for the financial year ended 30 June 2009

(t) 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.

2 Merger Accounting

During the previous financial year, the Company completed a re-organisation process (Bid) whereby shares of SGE were acquired on a on to one basis by SGEH. This process was completed in April 2008 when SGE became a 100% subsidiary of SGEH. As detailed in note 1, this transaction is outside the scope of AASB 3 "Business Combinations".

Australian Accounting Standards do not provide guidance in relation to common control transactions therefore in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' other international pronouncements have been applied to account for the business combination. The directors have elected to use merger accounting for this transaction under the Institute of Certified Public Accountants of Singapore (ICPAS) Recommended Accounting Practice 12 'Merger Accounting for Common Control Combinations for financial statements'.

The concept underlying the use of merger accounting is that no acquisition has occurred and there has been a continuation of the risks and benefits to the controlling party (or parties) that existed prior to the business combination. Use of merger accounting recognises this by accounting for the combining entities or businesses as though the separate entities or businesses were continuing as before.

In applying merger accounting, financial statements of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are recognised at their carrying values, with no adjustment required to fair value. Hence there is no recognition of any additional goodwill on consolidation.

The consolidated financial report represents a continuation of the financial statements of Sino Gas & Energy Limited, the legal subsidiary acquired, with Sino Gas & Energy Holdings Limited as always being the legal parent entity.

Notes to the Financial Report

for the financial year ended 30 June 2009

3 Revenue and Expenses

	Notes	Consolidated		Parent	
		Year ended 30 June 2009 \$	Year ended 30 June 2008 \$	Year ended 30 June 2009 \$	Year ended 30 June 2008 \$
Revenue					
Revenue consisted of the following:					
Finance revenue		32,246	309,419	-	-
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		100,543	91,153	-	-
Equity Settled Share Based Payments					
Employee benefit expense	21	138,576	187,828	-	-
Finance costs					
Interest expense		1,915,229	1,727,198	-	-
Variation fee expense	11	-	502,997	-	-
		1,915,229	2,230,195	-	-

Notes to the Financial Report

for the financial year ended 30 June 2009

4 Income Taxes

	Consolidated		Parent	
	Year ended 30 June 2009	Year ended 30 June 2008	Year ended 30 June 2009	Year ended 30 June 2008
	\$	\$	\$	\$
(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				
Net Loss	(7,969,410)	(4,361,936)	(509,632)	-
Income tax expense calculated at 30%	(2,390,823)	(1,308,581)	(152,890)	-
Tax losses not brought at account	2,390,823	1,308,581	26,427	-
Timing differences not brought to account	-	-	126,463	-
Non-deductible expenses	-	-	-	-
	-	-	-	-
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 period:				
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	5,128,346	2,737,523	26,427	-
Tax losses - capitalised expenditure	6,475,832	5,878,657	-	-
Tax losses - capital	-	-	-	-
Timing differences	-	-	-	-
	11,604,178	8,616,180	26,427	-
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 Peoples Republic of China.				
The following deferred tax balances have not been brought to account as a liability:				
Capitalised expenditure deductible for tax purposes	6,475,832	5,878,657	-	-
	6,475,832	5,878,657	-	-

Notes to the Financial Report

for the financial year ended 30 June 2009

5 Remuneration of Auditors

	Note	Consolidated		Parent	
		Year ended 30 June 2009 \$	Year ended 30 June 2008 \$	Year ended 30 June 2009 \$	Year ended 30 June 2008 \$
Auditor of the entity - PKF					
Audit or review of the financial report		62,678	97,726	-	-
Taxation services		14,863	40,464	-	-
Other non-audit services: Other consulting services	(i)	37,119	67,813	-	-
		<u>114,660</u>	<u>206,003</u>	-	-
Other Services - KPMG					
Other non-audit services: Other consulting services	(ii)	-	118,209	-	-
Other Services - PriceWaterhouseCoopers (Beijing)					
Audit or review of the financial report		27,982	-	-	-
Taxation services		-	33,942	-	-
Other non-audit services: Other consulting services	(iii)	-	4,711	-	-
		<u>27,982</u>	<u>156,862</u>	-	-

(i) PKF - Other non-audit services comprise accounting assistance, advice in relation to the proposed Merger with Avonlea Minerals (that did not proceed) and in the prior year an Independent Experts Report for the bid by SGEH for SGE;

(ii) KPMG - Other non-audit services comprise in the prior year of an Independent Experts Report for the proposed Merger with Avonlea Minerals and valuation advice concerning the bid by SGEH for SGE;

(iii) PriceWaterhouseCoopers (Beijing) - Other non-audit services comprise advice concerning the bid by SGEH for SGE in the prior financial year.

6 Other Receivables

	Consolidated		Parent	
	30 June 2009 \$	30 June 2008 \$	30 June 2009 \$	30 June 2008 \$
Current				
Rental and utility deposits	63,534	81,065	-	-
Goods and services tax	3,268	102,481	-	-
Recoverable income tax	176,259	188,709	-	-
Employee travel advances	28,027	25,529	-	-
Due from Chevron Texaco relating to work program expenses (i)	228,388	308,580	-	-
	<u>499,476</u>	<u>706,364</u>	-	-

(i) Until the date of the decision by Chevron to transfer its 50% gross working interests in the PSC's to SGE, SGE was entitled to a reimbursement of 50% of the majority of costs related to its exploration program. The amounts due from Chevron were payable within 30 days of a billing or a cash call statement being presented. Amounts outstanding do not bear interest.

Notes to the Financial Report

for the financial year ended 30 June 2009

7 Property, Plant and Equipment

	Consolidated		Parent	
	30 June 2009 \$	30 June 2008 \$	30 June 2009 \$	30 June 2008 \$
Plant and equipment				
Carrying amount at the end of the financial period - at cost	83,819	143,624	-	-
Reconciliation of the carrying amount of plant and equipment at the beginning and end of the financial period				
Cost of plant and equipment				
Carrying amount at the beginning of the financial period	325,694	288,023	-	-
Additions	6,112	58,612	-	-
Impact of foreign exchange	34,626	(20,941)	-	-
Carrying amount at the end of the financial period	366,432	325,694	-	-
Accumulated depreciation plant and equipment				
Carrying amount at the beginning of the financial period	182,070	90,917	-	-
Depreciation expense	100,543	91,153	-	-
Carrying amount at the end of the financial period	282,613	182,070	-	-

8 Deferred Exploration and Evaluation Expenditure

	Consolidated		Parent	
	30 June 2009 \$	30 June 2008 \$	30 June 2009 \$	30 June 2008 \$
Exploration				
At cost	21,586,106	19,595,524	-	-
Provision for impairment	-	-	-	-
Written down value	21,586,106	19,595,524	-	-

Reconciliation of the carrying amount of exploration expenditure at the beginning and end of the financial period

Exploration				
Carrying amount at the beginning of the financial period	19,595,524	16,054,733	-	-
Additions	4,404,451	3,540,791	-	-
Impairment (i)	(6,235,665)	-	-	-
Impact of foreign exchange	3,821,796	-	-	-
Carrying amount at the end of the financial period	21,586,106	19,595,524	-	-

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 SGE's interests in the Linxing and Sanjiaobei PSC's.

Notes to the Financial Report

for the financial year ended 30 June 2009

In respect to the Linxing PSC, SGE, Chevron and CUCBM executed a Modification Agreement to formalise the transfer of Chevron's 50% gross working interest to SGE and to extend the exploration period through to 31 August 2011. This Modification Agreement was approved by the Chinese Ministry of Commerce (MOFCOM) on 25 August 2009.

The exploration period in respect to the Sanjiaobei PSC expired on 31 August 2008. The Chinese CBM industry is being restructured such that certain assets held by CUCBM will now be held by both CUCBM and Petrochina CBM (PCBM). The Sanjiaobei PSC is one such asset that is being transferred from CUCBM to Petrochina CBM. This restructure however has caused delays in what would normally be a straight forward approval of the extension of the exploration period. SGE and PCBM have agreed, in principle, subject to formal documentation, to an extension of the Sanjiaobei PSC to approximately 31 August 2010. Following the execution of a Modification Agreement between SGE, Chevron and PCBM to effect this extension and also deal with the transfer of Chevron's 50% gross working interest to SGE it will be lodged with MOFCOM for approval. The agreement will be effective following MOFCOM approval.

(i) SGE relinquished its interest in the Shenfu PSC effective 1 May 2009 to focus on the Linxing and Sanjiaobei PSC's. The Shenfu termination agreement effecting this relinquishment has been approved by all parties. As a result management have impaired all exploration costs associated with the Shenfu PSC as at 30 June 2009, totalling \$6,235,665.

9 Trade and Other Payables

	Consolidated		Parent	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Trade payables	197,070	759,786	143,070	-
Other creditors and accruals	1,654,718	666,949	-	-
	1,851,788	1,426,735	143,070	-

10 Provisions

	Consolidated		Parent	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Current provisions				
Employee entitlements	46,118	35,482	-	-

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

Current provisions				
Carrying amount at the beginning of the financial period	35,482	47,842		
Provision addition/(utilised)	10,636	(12,360)		
Carrying amount at the end of the financial period	46,118	35,482	-	-

Notes to the Financial Report

for the financial year ended 30 June 2009

11 Interest Bearing Loans and Borrowings

		Consolidated		Parent	
		30 June 2009	30 June 2008	30 June 2009	30 June 2008
		\$	\$	\$	\$
Convertible loan from related party	(i)	12,469,804	13,278,755	-	-
Convertible note issued to a shareholder	(ii)	1,804,061	-	1,804,061	-
		<u>14,273,865</u>	<u>13,278,755</u>	<u>1,804,061</u>	<u>-</u>

(i) In its formative stages, Imdex Limited (Imdex), an ASX listed company, 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. These funds enabled SGE to meet its 2006 farm-in obligations.

The terms of this loan have been varied several times since its inception and were last varied on 20 August 2009. The main terms of this loan as they applied during the financial year, and since year end are that the loan:

- has an expiry date of 30 September 2010;
- Imdex has a fixed and floating charge over all the assets of the company's wholly owned subsidiary, Sino Gas & Energy Limited (other than funds received on issue of the convertible note). In the event of default under the charge, Imdex has the right to appoint a receiver or receiver and manager to the assets of Sino Gas & Energy Limited;
- interest rate be reduced from 13.5% to 10% from the date of listing on the ASX, and to provide that the payment of interest shall be satisfied by the issue of shares in SGEH at a strike price equal to the greater of \$0.20 or the price equal to a 20% discount to the volume weighted average ASX price in the 30 days prior to conversion (Strike Price);
- Provide that the difference between the principal sum outstanding on the loan and the amount that could be raised assuming the options expiring on 30 June 2010 were "in the money" be converted to ordinary shares at the Strike Price. This conversion is subject to complying with the 19.9% threshold limitation imposed by the Corporations Law. Imdex have agreed, subject to the execution of a formal agreement containing standard terms and conditions, to underwrite the exercise of all of the 30 June 2010 options;
- is subject to a variation fee (essentially a hedge fee) payable to Imdex with respect to the USD\$5million portion of the facility should movements in the USD:AUD exchange rate between 31 December 2007 and the date of repayment (or conversion) of the USD\$5 million portion of the Convertible Loan result in a loss to Imdex; At 30 June 2009, the variation fee payable is nil (2008: \$502,997);
- Imdex may make a demand for the repayment of part of whole of the loan at any time with 60 days notice, however Imdex has agreed not to demand repayment before 30 September 2010;
- is convertible at any time by Imdex at the Strike Price, subject to not breaching the 19.9% shareholding limitation in SGEH under the Corporations Law.

(ii) The company issued a convertible note to a shareholder, China Opportunity SA SICAR., on 19 December 2008.

	Consolidated		Parent	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Liability component portion	1,804,061	-	1,804,061	-
Equity component portion	195,939	-	195,939	-
	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>

The convertible notes are presented in the balance sheet as follows:

The fair value of the liability component of the convertible note is estimated using an equivalent interest rate for an instrument (i.e. Loan) with similar terms but without the conversion option.

Notes to the Financial Report

for the financial year ended 30 June 2009

The main terms of this loan as they applied during the financial year, and since year end are that the loan:

- has an expiry date of 30 June 2010;
- is interest bearing at a rate of 10% per annum from 1 July 2009;
- is convertible at any time by China Opportunity at \$0.50 per share;
- if the company conducts a capital raising during the term of the convertible note at less than \$0.75 per share China Opportunity will be entitled to bonus shares if it converts the convertible note. The number of bonus shares is determined by a formula set out in the terms of the convertible note. As the Company has now completed a fund raising at \$0.25 per share, assuming conversion, China Opportunity are entitled to be issued 4,571,429 bonus shares.

Notes to the Financial Report

for the financial year ended 30 June 2009

12 Issued Capital

		Consolidated		Parent	
		30 June 2009 \$	30 June 2008 \$	30 June 2009 \$	30 June 2008 \$
Issued and Paid Up Capital					
Fully paid ordinary shares	(i)	24,640,645	21,010,645	24,640,645	21,010,645
		24,640,645	21,010,645	24,640,645	21,010,645

Consolidated		30 June 2009		30 June 2008	
		Number of shares	\$	Number of shares	\$
	Balance at the beginning of the financial period	110,260,813	21,010,645	72,410,000	14,477,600
	Issue of equity securities	(ii) -	-	6,015,000	72,646
	SGEH bid for SGE	(iv) -	-	1	1
	Funds received in respect of pre-IPO fund raising	(iii) -	-	31,835,812	6,871,123
	Share issue costs (net of tax)	-	-	-	(410,725)
	Conversion of portion of convertible loan note	(v) 7,260,000	3,630,000	-	-
	Closing balance at end of the financial year	117,520,813	24,640,645	110,260,813	21,010,645

Movement in Convertible Preference Shares					
Consolidated					
		Number of shares	\$	Number of shares	\$
	Balance at the beginning of the financial period	-	-	6,015,000	72,646
	Converted to ordinary shares	(ii) -	-	(6,015,000)	(72,646)
	Closing balance at end of the financial year	-	-	-	-

Movement in ordinary share capital					
Parent					
		Number of shares	\$	Number of shares	\$
	Balance at the beginning of the financial period	110,260,813	21,010,645	1	1
	SGEH bid for SGE	(iv) -	-	110,260,812	21,010,644
	Conversion of portion of convertible loan note	(v) 7,260,000	3,630,000	-	-
	Closing balance at end of the financial year	117,520,813	24,640,645	110,260,813	21,010,645

- (i) Fully paid ordinary shares carry one vote per share and the right to dividends.
- (ii) At its 2007 Annual General Meeting, shareholders approved the conversion of all convertible preference shares into ordinary shares.
- (iii) In July 2007, the Company undertook fundraising efforts in Asia, primarily in Hong Kong and Australia. This private placement effort successfully attracted new investment at \$0.50 per share with gross funds of \$15,037,381 being raised through the issue of 31,835,812 ordinary shares, a portion of these funds were received in the prior financial year.
- (iv) In April 2008, the company completed their reorganisation process and SGEH issued shares to SGE shareholders to become the parent entry of the group.
- (v) In February 2009, \$3.63 million of the loan from Imdex Limited was converted to 7,260,000 ordinary shares of SGEH at \$0.50 per share.

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for the financial year ended 30 June 2009

13 Reserves

	Notes	Consolidated		Parent	
		30 June 2009	30 June 2008	30 June 2009	30 June 2008
		\$	\$	\$	\$
Foreign Currency Translation Reserve	(i)	71,370	(2,331,872)	(589,269)	-
Equity Settled Employee Benefits Reserve	(ii)	326,404	187,828	326,404	187,828
Equity Component Reserve	(iii)	195,939	-	195,939	-
		593,713	(2,144,044)	(66,926)	187,828

(i) Movements in Foreign Currency Translation Reserve:

Balance at the beginning of the financial period	(2,331,872)	(466,519)	-	-
Translation of foreign operations	2,403,242	(1,865,353)	-	-
Balance at the end of the financial year	71,370	(2,331,872)	-	-

(ii) Movements in Equity Settled Benefits Reserve

Balance at the beginning of the financial period		187,828	-	187,828	-
Share based payments	22	138,576	187,828	138,576	187,828
Balance at the end of the financial year		326,404	187,828	326,404	187,828

(iii) Movements in Equity Component Reserve

Balance at the beginning of the financial period		-	-	-	-
Equity component on initial recognition of convertible loan note		195,939	-	195,939	-
Balance at the end of the financial year		195,939	-	195,939	-

(i) Exchange differences relating to the translation from United States Dollars, being the functional currency of the Company's foreign operations 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;

(ii) The equity settled benefits reserve arises on the grant of share options to senior executives under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Refer to Note 1 for further information.

(iii) As set out in note 11, during the 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.

14 Accumulated Losses

	Consolidated		Parent	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Accumulated Losses	(17,205,396)	(9,235,986)	(509,632)	-

Movements:

Balance at the beginning of the financial period	(9,235,986)	(4,874,050)	-	-
Net loss attributable to members of the entity	(7,969,410)	(4,361,936)	(509,632)	-
Balance at the end of the financial period	(17,205,396)	(9,235,986)	(509,632)	-

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15 Earnings / (Loss) per Share

	Notes	30 June 2009 Cents per share	30 June 2008 Cents per share
Basic earnings per share			
Total basic earnings per share	(a)	(7.07)	(4.16)

Diluted earnings per share			
Total diluted earnings per share	(b)	(7.07)	(4.16)

(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:

	30 June 2009 \$	30 June 2008 \$
Earnings (i)	(7,969,410)	(4,361,936)
	Shares	Shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	112,753,945	104,925,060

(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 period	(7,969,410)	(4,361,936)
Earnings used in the calculation of basic EPS	(7,969,410)	(4,361,936)

(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:

	30 June 2009 \$	30 June 2008 \$
Earnings (ii)	(7,969,410)	(4,361,936)
	Shares	Shares
Weighted average number of ordinary shares for the purposes of diluted earnings per share (iii)	112,753,945	104,925,060

(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 period	(7,969,410)	(4,361,936)
Earnings used in the calculation of diluted EPS	(7,969,410)	(4,361,936)

(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:

	Shares	Shares
Weighted average number of ordinary shares used in the calculation of diluted EPS	112,753,945	104,925,060

Notes to the Financial Report

for the financial year ended 30 June 2009

The convertible notes 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 for either of the financial periods presented. 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.

16 Commitments for Expenditure and Contingencies

(a) Commitments for expenditure

SGE intends to continue the evaluation of its Linxing and Sanjiaobei PSC's with a focus on the Tuban TGS (Tight Gas Sands) project. 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).

100% of Minimum Expenditure Obligations for the remainder of the Linxing PSC Exploration Period (excluding general and administration costs)

	Minimum Spend Basis
	\$
Period	
1 July 2009 to 30 June 2010	5,120,204
1 July 2010 to 30 June 2011	5,120,204
1 July 2011 to 31 August 2011	853,367
Total	11,093,775

The amounts set out here 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 following the approval of the transfer of Chevron's interest to SGE. As set out in note 8, SGE is in the process of formalising the extension of the exploration period on the Sanjiaobei PSC which will be effective following MOFCOM approval. During this process SGE, will determine with Petrochina CBM the relevant minimum spend obligations on this PSC. Such minimum spend obligations will be independent and in addition to those set out for the Linxing PSC above.

(b) Lease commitments

Operating Leases

Operating leasing arrangements

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		Parent	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	\$	\$	\$	\$
Non-cancellable operating lease commitments				
Not longer than 1 year	237,166	182,979	-	-
Longer than 1 year and not longer than 5 years	38,075	-	-	-
Longer than 5 years	-	-	-	-
	275,241	182,979	-	-

Notes to the Financial Report

for the financial year ended 30 June 2009

(c) Contingencies

(i) The exploration period on the Sanjiaobei PSC expired on 31 August 2008. As set out in more detail in note 8, the Company is working with PCBM to formalise the extension of the exploration period;

(ii) The Company has a convertible loan from a related party, Imdex Limited which is secured via a fixed and floating charge over the assets of Sino Gas & Energy Limited. Refer details concerning the loan and the charge are set out in note 11.

Notes to the Financial Report

for the financial year ended 30 June 2009

17 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		Parent			
	30 June	2009	30 June	2009	30 June	2009
			2008		2008	
	\$		\$	\$	\$	
Cash and cash equivalents		1,932,797	3,926,075	-	-	-

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

(b) Non cash financing and investing activities

In February 2009 a portion of the convertible loan note was converted to 7,260,000 shares reducing the convertible loan note liability by \$3.63 million (refer to note 11). There were no other non cash financing and investing activities during the current financial year.

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

	Consolidated		Parent	
	Year ended	Year ended 30	Year ended	Year ended 30
	30 June	June	30 June	June
		2008		2008
	\$	\$	\$	\$
Profit/(loss) for the period	(7,969,410)	(4,361,936)	-	-
<i>Adjustments for</i>				
Depreciation and amortisation of non-current assets	100,543	91,153	-	-
Employee equity settled benefits	138,576	187,828	-	-
Write off exploration expenditure	6,235,666	-	-	-
Unrealised foreign exchange	-	-	-	-
<i>Changes in assets and liabilities during the financial period</i>				
(Increase) / decrease in assets:				
Trade and other receivables	66,268	(115,401)	-	-
Increase / (decrease) in liabilities:				
Current payables	(37,174)	206,308	-	-
Provision for employee entitlements	4,011	(7,234)	-	-
Interest bearing loans and borrowings	217,382	2,500,734	-	-
Net Cash Provided by Operating Activities	(1,244,138)	(1,498,548)	-	-

(d) Financing facilities

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

Notes to the Financial Report

for the financial year ended 30 June 2009

18 Segment Information

The company operates in one business segment being the gas and energy sector and one geographical sector being the Peoples Republic of China.

19 Related Party Disclosures

(a) Equity interests in related parties

Sino Gas & Energy Holdings Limited (SGEH) has a 100% interest in Sino Gas & Energy Limited, a company incorporated in Australia.

(b) Key Management Personnel Equity Holdings

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

2009	Balance at 1 July 2008	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 30 June 2009	Balance held nominally
	No.	No.	No.	No.	No.	No.
Directors						
S G Snyder	89,558	-	-	-	89,558	-
S J Lyons	1,300,000	-	-	-	1,300,000	250,000
G Harper	-	-	-	-	-	-
J Chandler	-	-	-	-	-	-
B W Ridgeway	10,500,000	-	-	-	10,500,000	-
G T Clifford	-	-	-	-	-	-
Executives						
J Brown	-	-	-	-	-	-
S Marsden	-	-	-	-	-	-
P Mason	-	-	-	-	-	-
	11,889,558	-	-	-	11,889,558	250,000

Notes to the Financial Report

for the financial year ended 30 June 2009

19 Related Party Disclosures (continued)

2008	Balance at 1 July 2007	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 30 June 2008	Balance held nominally
	No.	No.	No.	No.	No.	No.
Directors						
S G Snyder	-	-	-	89,558	89,558	-
S J Lyons	1,300,000	-	-	-	1,300,000	250,000
G Harper	-	-	-	-	-	-
J Chandler	-	-	-	-	-	-
B W Ridgeway	6,787,500	-	-	3,712,500	10,500,000	-
S H Tan	1,575,000	-	(2,400,000)	825,000	-	-
G T Clifford	-	-	-	-	-	-
Executives						
J Brown	-	-	-	-	-	-
S Marsden	-	-	-	-	-	-
R Grigg	3,648,750	-	(3,825,000)	176,250	-	-
I Wang	3,573,750	-	(3,750,000)	176,250	-	-
	<u>16,885,000</u>	<u>-</u>	<u>(9,975,000)</u>	<u>4,979,558</u>	<u>11,889,558</u>	<u>250,000</u>

(ii) Convertible preference shares issued by Sino Gas & Energy Limited.

There were no convertible preference shares on issue during the year ended 30 June 2009.

The Convertible Preference Shares (CPS) were issued to Directors and to Senior Executives soon after the Company was formed as an incentive for them to achieve the Company's long term plans. The CPS's were issued for \$0.0001 per share and their conversion to ordinary shares was subject to the achievement of performance hurdles referred to at Note 12. During the 2007 financial year, as a result of the first performance hurdle being met, 25% of the CPS's, amounting to 2,005,000 CPS's were converted into ordinary shares. At the Annual General Meeting on 13 December 2007, shareholders approved the conversion of the remaining 75% of CPS's held by each of the CPS holders into fully paid ordinary shares. As a result of this conversion there are no longer any CPS's on issue.

2008	Balance at 1 July 2007	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 30 June 2008	Balance held nominally
	No.	No.	No.	No.	No.	No.
Directors						
S G Snyder	-	-	-	-	-	-
S J Lyons	-	-	-	-	-	-
G Harper	-	-	-	-	-	-
J Chandler	-	-	-	-	-	-
B A Ridgeway	3,712,500	-	-	(3,712,500)	-	-
S H Tan	825,000	-	-	(825,000)	-	-
G T Clifford	-	-	-	-	-	-
Executives						
J Brown	-	-	-	-	-	-
S Marsden	-	-	-	-	-	-
R Grigg	176,250	-	-	(176,250)	-	-
I Wang	176,250	-	-	(176,250)	-	-
	<u>4,890,000</u>	<u>-</u>	<u>-</u>	<u>(4,890,000)</u>	<u>-</u>	<u>-</u>

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for the financial year ended 30 June 2009

19 Related Party Disclosures (continued)

(iii) Employee share options on issue

2009 and 2008	Number of options	Exercise price \$/option	Earliest exercise date	Latest exercise date
Notes	No.			
S J Lyons	390,000	\$ 0.50	14 Mar 2008	13 Mar 2013
S J Lyons	160,000	\$ 0.50	01 Sep 2008	13 Mar 2013
S Marsden	330,000	\$ 0.50	01 Sep 2008	13 Mar 2013
J Brown	330,000	\$ 0.50	01 Sep 2008	13 Mar 2013
	1,210,000			

All of the Employee Options were issued under the terms of the Employee Share Option Plan (ESOP). Under the terms of the ESOP, the above options are exercisable only in 1/3 lots each year from the date of their issue.

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

	Note	Year ended 30 June 2009	Year ended 30 June 2008
		\$	\$
Profit from ordinary activities before income tax includes the following items of expenses relating to transactions, other than remuneration, with Directors and key management or their personally-related entities:			
Legal services - Q Legal	(a)	-	18,371
Interest and fees on loan funds - Imdex Limited	(b)	1,915,229	2,230,195
		2009	2008
		\$	\$
Total liabilities arising from transactions, other than remuneration, with Directors and key management or their personally-related entities:			
Current Liabilities - Imdex Limited	(b)	27,873	27,873
Current Liabilities - Loan Funds Imdex Limited	(b)	12,469,804	13,278,755

(a) In the prior financial year, Mr Dundo was a Director of SGE from 1 July 2007 to 24 May 2007, and a Director of SGEH through to 27 August 2007. Mr Dundo is a partner of Q Legal, a firm that provides legal services to SGE and SGEH. Those services are provided under Terms of Engagement by a partner other than Mr Dundo and were provided on normal commercial terms and conditions. The legal fees for the period of the financial year ending 30 June 2008 that Mr Dundo was a Director are as stated above.

(b) Mr Ridgeway and Mr Dundo are Directors of Imdex Limited (Imdex). Mr Ridgeway is a Director of SGEH, Mr Dundo was a Director of SGE during the period from 1 July 2006 to 24 May 2007 and of SGEH through to 27 August 2007. 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 details of which are set out in Note 11. The loan, interest and other fees associated with the Imdex loan were on normal commercial terms and conditions.

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20 Financial Instruments

(a) Capital risk management

The Group and Company manage their capital to ensure the Group and the Company will be able to continue as a going concern while maximising the return to stakeholders. The Group's and the Company's overall strategy remains unchanged from the previous financial year.

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

The Group operates through a registered foreign business licence and representative office of SGE in China. The Group's subsidiary is not subject to externally imposed capital requirements.

The Group is in the exploration phase on its PSC's with equity funding and debt being used to fund the operations of the Group.

(b) Categories of financial instruments

The categories of financial instruments are as per those disclosed in the Balance Sheet.

(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 interest bearing loans and borrowings.

The Board of the Company and the CFO, 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 Remnibi (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 foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

In AUD \$ 2009	In AUD	In USD	In CNY	TOTAL
Assets				
Cash and cash equivalents	1,810,301	106,556	15,939	1,932,796
Trade and other receivables	176,259	228,388	114,950	519,597
Liabilities				
Trade and other payables	57,196	956,165	748,598	1,761,959
Provisions	-	-	46,118	46,118
Interest bearing liabilities	5,694,574	6,775,230	-	12,469,804
In AUD \$ 2008	In AUD	In USD	In CYN	TOTAL
Assets				
Cash and cash equivalents	49,975	3,641,196	234,903	3,926,074
Trade and other receivables	291,190	323,418	91,756	706,364
Liabilities				
Trade and other payables	232,774	381,638	812,323	1,426,735
Provisions	-	-	35,482	35,482
Interest bearing liabilities	6,560,917	6,717,838	-	13,278,755

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for the financial year ended 30 June 2009

The following significant exchange rates applied during the year:

	Average rate		Reporting date - spot	
	2009	2008	2009	2008
	\$	\$	\$	\$
1 AUD equates to USD	0.748	0.896	0.805	0.962
1 AUD equates to CNY	0.147	0.154	0.147	0.152

Foreign currency sensitivity

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
US Dollar				
Impact on loss for the year	(481,993)	(355,159)	(8,497)	-
Impact on equity	(116,195)	(440,899)	(14,119)	-

(e) Interest rate risk management

The Group and the Company are exposed to interest rate risk as entities in the Group deposit funds at floating rates of interest. The Group has an interest bearing loan but the interest is fixed so there is no exposure to interest rate risk. The Group and the Company'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 (2008: not material) on the carrying value of the Group or the Company's financial instruments as at the current or prior year end.

(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
	\$	\$	\$	\$	\$
2009 Parent					
Financial Liabilities					
Trade and other payables	143,070	-	-	-	143,070
Interest bearing loans and borrowings	-	1,804,061	-	-	1,804,061
	<u>143,070</u>	<u>1,804,061</u>	<u>-</u>	<u>-</u>	<u>1,947,131</u>
2009 Group					
Financial Liabilities					
Trade and other payables	1,851,788	-	-	-	1,851,788
Interest bearing loans and borrowings	-	1,804,061	12,469,804	-	14,273,865
	<u>1,851,788</u>	<u>1,804,061</u>	<u>12,469,804</u>	<u>-</u>	<u>16,125,653</u>

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Liquidity and interest risk tables

Consolidated	Notes	Weighted average interest rate %	Fixed Interest Maturing in:					Non-interest bearing \$	Total \$
			Floating interest rate \$	Less than 1 year \$	1 to 5 years \$	More than 5 years \$			
2009									
Financial Assets									
Cash and cash equivalents	17	-	1,932,797	-	-	-	-	1,932,797	
Trade and other receivables		-	-	-	-	-	499,476	499,476	
			<u>1,932,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,476</u>	<u>2,432,273</u>	
Financial Liabilities									
Trade and other payables		-	-	-	-	-	1,851,788	1,851,788	
Interest bearing loans and borrowings	11	10.0%	-	-	14,273,865	-	-	14,273,865	
			<u>-</u>	<u>-</u>	<u>14,273,865</u>	<u>-</u>	<u>1,851,788</u>	<u>16,125,653</u>	

Consolidated	Notes	Weighted average interest rate %	Fixed Interest Maturing in:					Non-interest bearing \$	Total \$
			Floating interest rate \$	Less than 1 year \$	1 to 5 years \$	More than 5 years \$			
2008									
Financial Assets									
Cash and cash equivalents	17	4.0%	3,926,075	-	-	-	-	3,926,075	
Trade and other receivables	6	-	-	-	-	-	706,364	706,364	
			<u>3,926,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>706,364</u>	<u>4,632,439</u>	
Financial Liabilities									
Trade and other payables	9	-	-	-	-	-	1,426,735	1,426,735	
Interest bearing loans and borrowings	11	13.5%	-	13,278,755	-	-	-	13,278,755	
			<u>-</u>	<u>13,278,755</u>	<u>-</u>	<u>-</u>	<u>1,426,735</u>	<u>14,705,490</u>	

(g) Credit risk management

The Group maximum exposures 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 balance sheet. 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.

Notes to the Financial Report

for the financial year ended 30 June 2009

21 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:

Sam Snyder	(Non-Executive Chairman)
Stephen Lyons	(Managing Director)
John Chandler	(Non-Executive Director)
Gavin Harper	(Non-Executive Director)
Bernie Ridgeway	(Non-Executive Director)
Jeffrey Brown	(Chief Operating Officer)
Simon Marsden	(Technical Manager)
Paul Mason	(Company Secretary) – appointed 28 August 2008

(b) Key management personnel compensation

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short-term employee benefits	1,507,563	1,698,633	-	-
Post-employment benefits	36,059	11,699	-	-
Share-based payments	144,551	137,252	-	-
	1,688,173	1,847,584	-	-

Details of the compensation made to 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.

The shareholdings of Directors and Executives are set out in Note 18.

(c) 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 Note 19 and 22.

Notes to the Financial Report

for the financial year ended 30 June 2009

22 Share-based Payments

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;
- 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.

On 14 March 2008, 1,760,000 options with the fair values noted in the table below were granted over ordinary shares with an exercise price of \$0.50 each. The options issued are generally exercisable in 1/3 lots from the date of their issue and have a 5 year life as further detailed below.

	Number of options	Exercise price per option	Earliest exercise date	Latest exercise date	Fair value at grant date
Employee options	690,000	\$ 0.50	14 Mar 2008	13 Mar 2013	\$ 0.28
Employee options	1,070,000	\$ 0.50	01 Sep 2008	13 Mar 2013	\$ 0.30
Total options	1,760,000				

The fair value of the options are estimated at the date of grant using the Black-Scholes model. No options were issued in the year ended 30 June 2009. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

	Notes	2008 \$
Dividend yield (%)		Nil
Expected volatility (%)		70%
Risk-free interest rate (%)		6.85%
Expected life of option (years)		3 years
Option exercise price (\$)		\$ 0.50
Share price at grant date (\$)		\$ 0.50

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.

Notes to the Financial Report

for the financial year ended 30 June 2009

The following table illustrates the number (No.) and weighted average exercise prices of share options issued under the ESOP during the financial year:

	2009 No	2009 Weighted average exercise price	2008 No	2008 Weighted average exercise price
Outstanding at the beginning of the year	1,760,000	\$ 0.50	-	-
Granted during the year	-	-	1,760,000	\$ 0.50
Forfeited during the year	(450,000)	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1,310,000		1,760,000	
Exercisable at the end of the year	566,667	\$ 0.50	230,000	\$ 0.50

The outstanding balance at 30 June 2009 is 1,310,000 options as set out in the table above. The employee share option expense to key management personnel is set out in Note 21.

23 Subsequent Events

Subsequent to the year end the consolidated entity:

- (a) Completion of Fund Raising and Admission to the official list of the Australian Securities Exchange

Sino Gas & Energy Holdings Limited (SGEH) lodged a Prospectus with the Australian Securities and Investments Commission on 29 July 2009 for a Rights Issue and Public Offer and to list on the Australian Securities Exchange (ASX). The Rights Issue was underwritten to \$7 million by Patersons Securities Limited.

The offer closed on 9 September 2009 with the Company listing on the ASX on 15 September 2009.

As a result of the offer the Company raised \$7.9 million in gross funds and issued the following new shares and options:

- (i) 31.6 million ordinary shares;
- (ii) 31.6 million, options @\$0.25 each expiring on 30 June 2010;
- (iii) 31.6 million, options @\$0.50 each expiring on 31 December 2011;
- (iv) 4.4 million, underwriter options @\$0.50 expiring on 15 September 2011; and
- (v) 17.5 million, sub-underwriter options @\$0.25 expiring on 15 September 2011.

- (b) Variation of the Imdex Limited Loan

In connection with, and subject to, its listing on the ASX, SGEH and Imdex Limited, on 20 August 2009, varied the terms of its Convertible Loan. The main terms that were varied were to:

- (i) Extend the term to 30 September 2009;
- (ii) Provide that the interest rate be reduced from 13.5% to 10% from the date of listing on the ASX, and to provide that the payment of interest shall be satisfied by the issue of shares in SGEH at a strike price equal to the greater of \$0.20 or the price equal to a 20% discount to the volume weighted average ASX price in the 30 days prior to conversion (Strike Price);
- (iii) Provide that the difference between the principal sum outstanding on the loan and the amount that could be raised assuming the options expiring on 30 June 2010 were "in the money" be converted to ordinary shares at the Strike Price. This conversion is subject to complying with the 19.9% threshold limitation imposed by the Corporations Law.

Further details concerning the Convertible Loan are set out in note 11.

Notes to the Financial Report

for the financial year ended 30 June 2009

(c) Linxing PSC Modification Agreement

SGE, Chevron and CUCBM executed a Modification Agreement to formalise the transfer of Chevron's 50% gross working interest to SGE and to extend the exploration period through to 31 August 2011. This Modification Agreement was approved by the Chinese Ministry of Commerce (MOFCOM) on 25 August 2009.

(d) CPS Control Systems Pty Ltd (CPS) short term loan agreement

On 6 July 2009, SGE entered into an unsecured short term loan agreement. The principal terms of the short term loan are as follows:

- (i) The provision of a loan facility of \$2.1 million at a 17% per annum interest rate with various facility and roll-over fees;
- (ii) Loan funds to be used for the Company's work program and otherwise subject to agreed controls and limitations as to its use;
- (iii) Loan repayable within 3 days of the completion of the Company's Rights Issue;
- (iv) In the event of termination of the loan, that it be convertible to shares in SGEH at a strike price of \$0.25.

Following the close of SGEH's Rights Issue and Public Offering, the short term loan was repaid in full on 7 September 2009.

No other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Company and its subsidiary, the results of those operations or the state of affairs of the Company and its subsidiary in subsequent years that is not otherwise disclosed in the consolidated financial statements.

Corporate Governance Statement

The Company has adopted a comprehensive framework of rules, relationships, systems and processes regulating the exercise of authority within the Company. On 7 July 2009, the Board resolved to adopt the following corporate governance policies and charters, copies of which are available on the Company's website (www.sino-gas-energy.cn):

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

To the extent that they are applicable, 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, its major activities being the appraisal of coal bed methane and unconventional gas and energy 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 of the Company is responsible for:

- (i) the overall operation and stewardship of the Company and its subsidiary;
- (ii) charting the direction, strategies and financial objectives for the Company; and
- (iii) 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.

The Board recognises the importance of ensuring that the performance of the Board is reviewed regularly against appropriate measures. The Board had previously established an informal procedure for review of the Board and individual Directors. However as the Company has grown the Board considered that it would be appropriate to adopt a formal Performance Evaluation Procedure. A copy of the Performance Evaluation Procedure, adopted on 7 July 2009, is available on the Company's website.

Corporate Governance Statement

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

Due to the size of the Board and of the Company, the Board did not think, prior to the adoption of the Board Charter on 7 July 2009, that it was necessary to formally document the roles of the Board and management as it believed that these roles were being carried out in practice and were clearly understood by all members of the Board and management. However as the Company has grown the Board considered that it would be appropriate to formalise these procedures.

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

Audit and Compliance Committee

SGE established an Audit and Compliance Committee on 23 November 2006. Following the Company's acquisition of SGE in March 2008, the members of the SGE Audit and Compliance Committee formed the SGEH Audit and Compliance Committee reporting to the Company's Board. The Committee has been responsible for assisting the Board of the Company in ensuring financial integrity and credibility of financial reporting for both SGEH and SGE. On 7 July 2009, the Board further 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:

- (i) assist the Board to discharge their responsibility for externally reported financial information and, ensuring financial integrity and credibility of that reporting;
- (ii) ensure that management has in place a process to identify and manage financial reporting risks;
- (iii) seek to improve the quality of financial reporting, control systems and corporate governance of the Group;
- (iv) oversee external audit functions; and
- (v) 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 all are non-executive directors and a majority are independent directors. Mr John Chandler, Mr Gavin Harper and Mr Bernard Ridgeway were appointed as the initial committee members with Mr John Chandler appointed as chairman of the Committee.

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

Remuneration Committee

The Board previously considered that no efficiencies or other benefits would be gained by establishing a separate remuneration committee, in particular in view of the size of the Company's Board. However, as the Company has grown the Board recognised the need for a separate committee and on 7 July 2009 the Remuneration Committee was established to assist the Board in establishing remuneration policies and practices which:

- (i) enable the Company to attract and retain executives and directors who will create sustainable value for members and other stakeholders;
- (ii) 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
- (iii) comply with all relevant legislation and regulations including the ASX Listing Rules (as applicable) and the Corporations Act.

The Committee consists of a minimum of three members of whom all are non-executive directors and a majority are independent directors. Mr John Chandler, Mr Gavin Harper and Mr Bernard Ridgeway were appointed as the initial committee members with Mr Gavin Harper appointed as chairman of the Committee.

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

Corporate Governance Statement

Planning Committee

The Board established the Planning Committee on 7 July 2009 to assist the Board by:

- (i) formulating, monitoring and reviewing the Company's strategic plan;
- (ii) identifying and reviewing any business development opportunities including acquisitions and divestments of the Company's assets;
- (iii) determining major operational and technical decisions;
- (iv) reviewing the Company's technical and operational competency;
- (v) identifying, monitoring and reviewing key relationships between the Company and industry, government and community groups; and
- (vi) 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. Mr Sam Snyder, Mr Stephen Lyons and Mr Gavin Harper were appointed as the initial committee members with Mr Sam Snyder appointed as chairman of the Committee.

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.

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, adopted 7 July 2009, 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 the 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.

In addition, the Board requires the Managing Director to state in writing that:

- (i) the Company's risk management and internal control system to manage the Company's material risks are being managed effectively; and
- (ii) 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 for the year ended 30 June 2009.

Corporate Governance Statement

Code of Conduct

The Company adopted a formal Code of Conduct on 7 July 2009 to address matters relevant to the Company's legal and other obligations to its stakeholders. The Board considered that, prior to the Code of Conduct being formalised and adopted, its business practices, as led by the Board were the equivalent of a code of conduct and that, although there was no written policy, the Directors and employees of the Company understood what conduct was appropriate.

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, adopted on 7 July 2009 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. The Board considers that, before the Share Trading Policy was formalised and adopted the Directors and employees of the Company understood the restrictions on trading imposed by law and when it was appropriate for trading in securities to occur, however the Board considered that it would be appropriate to formalise these procedures. 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 were adopted on 7 July 2009 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.

The Company previously had in place informal procedures which it believed was sufficient for ensuring compliance with disclosure requirements and accountability for compliance. However as the Company has grown and recently listed on ASX, the Board considered that it would be appropriate to formalise these procedures.

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

While the Company only recently adopted a formal Shareholder Communications Policy on 7 July 2009, the Company had previously ensured that shareholders were informed of all major developments affecting the Company's state of affairs and has maintained a Company website to complement the release of information to shareholders.

A copy of the Shareholder Communication Policy 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 year ended 30 June 2009, together with the reasons why they have not been adopted.

Principle 2 – Recommendation 2.1

Notification of Departure

The Board does 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:

Corporate Governance Statement

Director	Nature of Interest
Mr Samuel Snyder is not considered to be independent	Mr Snyder was Managing Director of the Company until 30 April 2008 and there has not been a period of at least 3 years since ceasing that employment
Mr Bernie Ridgeway is not considered to be independent	Mr Ridgeway is an officer 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 John Chandler is considered to be independent	Not applicable
Mr Gavin Harper is considered to be independent	Not applicable

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 relevant 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 recent history. 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.

Principle 2 – Recommendation 2.2 and 2.3

The Chairman does not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations. For the reasons set out above, Mr Sam Snyder is not an independent Director. Further, although the positions of Chairman of the Board and Managing Director are separate and not exercised by the same person, Mr Snyder was previously Managing Director and has since become Chairman of the Board.

Explanation for Departure

While the Board recognises the importance of independence in decision making, it believes that Mr Snyder is the most appropriate person for the position as Chairman.

Principle 2 – Recommendation 2.4

Notification of departure

The Company has not established a separate nomination committee. The full Board is responsible for the examination of the selection and appointment practices of the Company.

Explanation for departure:

The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee, in particular in view of the size of the Company's Board. However, 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.

Additional Securities Exchange Information as at 29 September 2009

Number of holders of equity securities

Ordinary share capital

The Company has a total of 149,165,158 fully paid ordinary shares on issue. There are no restricted shares on issue.

Options

The Company has a total of 63,288,690 listed options and 23,210,000 unlisted options.

Voting Rights

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.

Distribution of holders of equity securities (ordinary shares)

Size of Holding	Fully Paid Shares	\$0.25 options	\$0.50 options
1 - 1,000	1,052	-	-
1,001 - 5,000	433,533	-	-
5,001 - 10,000	1,363,580	886,112	882,252
10,001 - 100,000	12,122,428	7,106,894	6,285,146
100,001 and over	135,244,565	23,651,339	24,476,947
Total Number of Holders	149,165,158	31,644,345	31,644,345

Holdings of less than a Marketable Parcel

Fully paid shares - 36

\$0.25 options - 117

\$0.50 options - nil

Substantial shareholders

Substantial Shareholders Notices have been provided by:

Name	No. of Shares	% of Issued Share Capital
Index Limited	22,260,000	14.92%
Wear Services Pty Ltd	10,680,000	7.15%

Distribution of holders of equity securities

Size of Holding	Fully Paid Shares	\$0.25 options	\$0.50 options
1 - 1,000	3	-	-
1,001 - 5,000	132	-	-
5,001 - 10,000	163	106	105
10,001 - 100,000	310	164	152
100,001 and over	149	60	62
Total Number of Holders	757	330	319

Additional Securities Exchange Information as at 29 September 2009

20 largest holders of quoted equity securities (ordinary shares)

	Number of Shares	Percentage of Total
Imdex Ltd	22,260,000	14.92
China Opportunity SA SICAR	13,157,895	8.82
Wear Services Pty Ltd	10,680,000	7.15
WB Nominees Ltd	6,141,664	4.12
Pacific Asia Petroleum Inc	3,825,000	2.56
Standard Bank Nominees (Offshore) Ltd	3,700,000	2.48
Yi Wang	3,465,000	2.32
Jingie Investments Pty Ltd	3,322,823	2.23
Citicorp Nominees Pty Ltd	2,836,030	1.90
Mr Kevin Robert Garner	2,750,000	1.84
Chung Yuen Choi	2,500,000	1.68
Sukhon Suharitdumrong	2,500,000	1.68
Austock Nominees Pty Ltd	2,125,560	1.42
Azure Sea Ltd	2,000,000	1.34
UBS Nominees Pty Ltd	1,806,864	1.21
Passio Pty Ltd	1,650,000	1.11
Mr Ian Fred Burston	1,625,000	1.09
Forty Traders Ltd	1,520,846	1.02
Leopold Joseph Nominees Ltd	1,400,000	0.94
West East Holdings Pty Ltd	1,341,666	0.90
	<u>90,608,348</u>	<u>60.73</u>

20 largest holders of quoted equity securities (\$0.25 options)

	Number of Options	Percentage of Total
Jingie Investments Pty Ltd	3,362,538	10.63%
Forty Traders Ltd	1,520,846	4.81%
Somerley Group Ltd	1,200,000	3.79%
China Opportunity SICA SA	1,120,846	3.54%
Mr Ian Lindsay Campbell	1,120,800	3.54%
Leon Fink Holdings Pty Ltd	850,000	2.69%
Ross Edward Gustafson	800,000	2.53%
Standard Bank Nominees (Offshore) Ltd	700,000	2.21%
WB Nominees Ltd	629,164	1.99%
R G and PM Austin	537,984	1.70%
Angora Lane Pty Ltd	514,986	1.63%
Azure Sea Ltd	500,000	1.58%
North Redlands Pty Ltd	460,000	1.45%
Leopold Joseph Nominees Ltd	400,000	1.26%
Passio Pty Ltd	400,000	1.26%
Citicorp Nominees Pty Ltd	385,000	1.22%
L and M Fellowes	384,000	1.21%
West East Holdings Pty Ltd	366,666	1.17%
Peter John Box	333,333	1.05%
Sixth Erra Pty Ltd	333,333	1.05%
	<u>15,919,496</u>	<u>50.31%</u>

Additional Securities Exchange Information as at 29 September 2009

20 largest holders of quoted equity securities (\$0.50 options)

	Number of Options	Percentage of Total
Jingie Investments Pty Ltd	3,362,538	10.63%
UBS Nominees Pty Ltd	2,210,000	6.98%
Forty Traders Ltd	1,520,846	4.81%
Somerley Group Ltd	1,200,000	3.79%
China Opportunity SICA SA	1,120,846	3.54%
Mr Ian Lindsay Campbell	1,120,800	3.54%
Standard Bank Nominees (Offshore) Ltd	700,000	2.21%
WB Nominees Ltd	629,164	1.99%
R G and PM Austin	537,984	1.70%
Angora Lane Pty Ltd	514,986	1.63%
Azure Sea Ltd	500,000	1.58%
Merrill Lynch (Australia) Nominees Pty Ltd	448,338	1.42%
Leopold Joseph Nominees Ltd	400,000	1.26%
Passio Pty Ltd	400,000	1.26%
Citicorp Nominees Pty Ltd	385,000	1.22%
West East Holdings Pty Ltd	366,666	1.17%
Peter John Box	333,333	1.05%
Sixth Erra Pty Ltd	333,333	1.05%
Song Huat Tan	333,333	1.05%
Mr Garry Thomas	333,332	1.05%
	16,750,499	52.93%

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.

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	2,616.42
China	SJB	Sanjiaobei PSC	Sino Gas & Energy Limited	100% in the exploration phase, reducing to 49% in the development and production phase	1,125.70