

Sino Gas & Energy Holdings Limited ACN 124 242 422

Interim Financial Report

30 June 2014

Contents

Page

Directors' Report	2
Auditors independence declaration.....	4
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated balance sheet.....	6
Consolidated statement of changes in equity.....	7
Consolidated statement of cash flows	8
Notes to the consolidated financial statements.....	9
Directors' declaration.....	17
Independent Auditor's Report	18

This interim financial report does not include all the notes of the type normally included in an annual financial report.

Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Your directors present their report on the consolidated entity ("the Group") consisting of Sino Gas & Energy Holdings Limited (the "Company" or "Sino Gas") and the entities it controlled at the end of, or during, the half-year ended 30 June 2014. At 30 June 2014, Sino Gas & Energy Limited (SGE), which holds interests in the Linxing (64.75%) and Sanjiaobei (49%) Production Sharing Contracts (PSCs) was a jointly controlled entity of Sino Gas.

Directors

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

P Bainbridge - appointed Non-Executive Director on 14 April 2014 and as Chairman effective 29 August 2014

G Harper - transitioned to Non-Executive Director effective 29 August 2014

BW Ridgeway

C Heseltine

R Bearden - resigned as Managing Director & CEO on 23 June 2014

Review of operations

Following the completion of the 2013 work program which marked the Company's busiest year to date, field operations in the first half of 2014 have yielded significant progress towards each of the Company's key priorities of securing project approvals, improving single well productivity and commencing pilot pipeline production.

The successful year of drilling and seismic operations in 2013, enabled RISC to attribute over 1 trillion cubic feet (tcf) of mid-case 2P (Proven and Probable) Reserves to the project, with Sino Gas' share at 291 billion cubic feet (bcf) (announced 4 March 2014)¹. The continuing upgrading and expansion of the reserves and resources base resulted in a 45% increase in RISC's independent economic valuation of the Company's share of the project's Expected Monetary Value (EMV) from US\$1.6 to US\$2.3 billion².

Approval of the Chinese Reserve Report (CRR) submitted on Linxing (East) was received from the Ministry of Land & Resources (MOLAR). This is the first major approval in the two-step regulatory process to develop gas assets into producing fields under Production Sharing Contracts (PSCs) in China. Drilling of the thirteen exploration wells required for the first round of CRR submissions on Linxing (West) and Sanjiaobei has been completed, along with deep exploration well LXDG-02 in the western portion of Linxing (East). In addition, 285km of seismic acquisition was conducted on Linxing (West) and interpretation by third-party contractors was also completed.

After careful analysis and optimisation of stimulations treatments, significant flow rates were recorded from the first horizontal well on Linxing (West). In addition, a further significant flow rate was recorded from an unfracted lower zone of TB-26 in the prospective area on the same PSC. To date, RISC's economic evaluation has been modelled based on a development case employing 100% vertical wells, and this result provides confirmation that the use of horizontal well technology can potentially have a positive impact on project economics. A total of 18 wells were fraced, and encouraging production rates recorded, including a number of wells which flowed at multiple times the minimum commercial rate from single zone tests. In addition, long term flow testing of two wells over two months in the discovered area of Sanjiaobei produced parameters for CRR compilation in line with expectations.

Significant progress was made on preparations for the pilot production program, with delivery of equipment to the Sanjiaobei central gathering station at Qiaojishan and construction of the third party pipeline completed. Design for the infield gathering lines was completed and construction commenced, while a selection process for additional well locations was underway. Site preparations were completed on the Linxing Central Gathering Station and major components were being to be transferred to site early in the second half. Furthermore, construction commenced on infield gathering pipelines and five additional wells completed as part of the pad drilling campaign in the southern portion of Linxing (West), to increase the number of wells available for tie-in into the pilot pipeline production program.

The Company maintained its solid focus on operational safety in 2014, with approximately 480,000 OH&S incident free man-hours recorded executing the seismic, drilling and testing programs during the first half (2013 total: 2,000,000).

Glenn Corrie was appointed as Chief Executive Officer in July and commenced with the Company mid-August. Mr Corrie's technical and commercial capabilities as well as his senior management experience are an ideal fit with Sino Gas' requirements as it moves through the development phase and into production on its Ordos Basin assets.

¹ Figures are 100% project mid-case for Linxing West & Sanjiaobei determined by Society of Petroleum Engineers Petroleum Resource Management Systems (SPE PRMS). ² Project NPV10 is based on a mid-case wellhead gas price of \$US8.79/Mscf and lifting costs (opex+capex) of ~ US\$1.5/Mscf for mid-case Reserves, Contingent & Prospective Resources.

Philip Bainbridge joined the board in April and was appointed to the role of Chairman effective 29 August 2014, at which point Gavin Harper transitioned to a Non-Executive Director role. Mr Bainbridge brings a wealth of experience to the Sino Gas board, having spent 23 years with BP Group in a range of roles in the UK, Australia and USA, as well as six years with Oil Search Limited as Chief Operating Officer and Executive General Manager LNG.

In addition, Frank Fu commenced as Chief Operating Officer (COO) in June, bringing extensive unconventional natural gas operational experience in Shanxi Province, including operating experience on Sino Gas's acreage.

Financial Result and Financial Position

The consolidated entity made a net profit from continuing operations for the six months ended 30 June 2014 of US\$8,206,512 (half-year ended 30 June 2013: loss of US\$2,294,735).

Sino Gas' cash position at 30 June 2014 was US\$57,146,329 (31 December 2013: US\$57,269,668). As at 30 June 2014, MIE had completed a US\$90 million dollar commitment in relation to qualifying PSC expenditure to secure a 51% interest in SGE. In the six months ended 30 June 2014, SGEH contributed US\$553,000 to non-qualifying PSC expenditure to the head office general and administration costs of SGE.

In June, the Company announced that it had entered into a binding term sheet with Macquarie Bank Limited (Macquarie) for up to US\$50,000,000 under a structured term debt facility. Under the terms of the facility, Tranche A of US\$10,000,000 is committed and available to be drawn down on execution of the facility documentation and satisfaction of customary conditions precedent (including finalising due diligence). Tranche B of US\$40,000,000 is subject to satisfaction of further conditions precedent including Macquarie obtaining internal credit approvals. In August, the Company subsequently announced that it had executed the facility documentation with Macquarie. Refer to ASX Announcement on 29 August 2014 for details on the key terms of the facility.

Auditor's independence declaration

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

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



Philip Bainbridge
Chairman

Perth
1 September 2014



Auditor's Independence Declaration

As lead auditor for the review of Sino Gas & Energy Holdings Limited for the half-year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink, appearing to read 'Nick Henry', is written over a light blue horizontal line.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
1 September 2014

Sino Gas & Energy Holdings Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2014

		Half-year	
	Notes	2014 \$	Restated 2013* \$
Revenue from continuing operations			
Other revenue		595,439	225,964
Other Income			
Net gain on dilution of equity interest in jointly controlled entity	7	7,601,445	2,098,740
Foreign exchange gain/(loss)		2,449,771	(1,719,903)
Expenses			
Fundraising costs expensed	5	(166,227)	(107,946)
Depreciation and amortisation expense		(10,551)	(4,817)
Share-based payment expense	5	(107,386)	(553,269)
Share of net loss of associates accounted for using the equity method	7	(273,678)	(517,474)
General and administration expenses		(1,882,301)	(1,716,030)
Profit/(loss) before income tax expense		8,206,512	(2,294,735)
Income tax expense		-	-
Profit/(loss) for the period attributable to the ordinary equity holders of the Company		8,206,512	(2,294,735)
Total comprehensive income/(loss) for the period attributable to the ordinary equity holders of the Company		8,206,512	(2,294,735)
		Cents	Cents
Earnings/(loss) per share for earnings attributable to the ordinary equity holders of the Company:			
Basic earnings per share		0.54	(0.19)
Diluted earnings per share		0.52	(0.19)

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

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

Sino Gas & Energy Holdings Limited
Consolidated balance sheet
As at 30 June 2014

	Notes	30 June 2014 \$	Restated 31 December 2013* \$	Restated 31 December 2012* \$
ASSETS				
Current assets				
Cash and cash equivalents		57,146,329	57,269,668	8,046,686
Trade and other receivables		953,867	221,242	180,791
Total current assets		<u>58,100,196</u>	<u>57,490,910</u>	<u>8,227,477</u>
Non-current assets				
Plant and equipment		69,393	73,434	10,266
Interest in jointly controlled entity accounted for using equity method	7	47,070,992	39,743,224	33,053,389
Loan receivable from jointly controlled entity		2,745,947	2,224,070	2,193,393
Total non-current assets		<u>49,886,332</u>	<u>42,040,728</u>	<u>35,257,048</u>
Total assets		<u>107,986,528</u>	<u>99,531,638</u>	<u>43,484,525</u>
LIABILITIES				
Current liabilities				
Trade and other payables		407,884	90,128	1,219,610
Provisions		24,540	367,092	177,132
Total current liabilities		<u>432,424</u>	<u>457,220</u>	<u>1,396,742</u>
Non-current liabilities				
Other payables		-	-	1,000,000
Total non-current liabilities		<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total liabilities		<u>432,424</u>	<u>457,220</u>	<u>2,396,742</u>
Net assets		<u>107,554,104</u>	<u>99,074,418</u>	<u>41,087,783</u>
EQUITY				
Contributed equity	4	111,613,442	111,613,881	53,891,211
Reserves	5	7,206,348	6,932,735	5,649,865
Accumulated losses		(11,265,686)	(19,472,198)	(18,453,293)
Total equity		<u>107,554,104</u>	<u>99,074,418</u>	<u>41,087,783</u>

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

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

Sino Gas & Energy Holdings Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2014

	Notes	Contributed equity	Equity settled benefit reserves	Foreign currency translation reserve	Accumulated losses	Total attributable to equity holders of the Company
		\$	\$	\$	\$	\$
Balance at 1 January 2013 (restated)*		53,891,211	5,649,865	-	(18,453,293)	41,087,783
Loss for the half-year (restated)*		-	-	-	(2,294,735)	(2,294,735)
Total comprehensive loss for the half-year (restated)*		-	-	-	(2,294,735)	(2,294,735)
Transactions with owners in their capacity as owners:						
Issue of shares (restated)*		12,181,277	-	-	-	12,181,277
Performance rights expense (restated)*		-	553,269	-	-	553,269
Options expense (restated)*		-	107,946	-	-	107,946
Share Issue costs (restated)*		(422,875)	-	-	-	(422,875)
		11,758,402	661,215	-	-	12,419,617
Balance at 30 June 2013 (restated)*		65,649,613	6,311,080	-	(20,748,028)	51,212,665
Balance at 1 January 2014 (restated)*		111,613,881	6,932,735	(2,478,014)	(16,994,184)	99,074,418
Correction of error	2	-	-	2,478,014	(2,478,014)	-
Restated balance at 1 January 2014		111,613,881	6,932,735	-	(19,472,198)	99,074,418
Profit for the half-year		-	-	-	8,206,512	8,206,512
Total comprehensive income for the half-year		-	-	-	8,206,512	8,206,512
Transactions with owners in their capacity as owners:						
Performance rights expense	5	-	107,386	-	-	107,386
Options expense	5	-	166,227	-	-	166,227
Share issue costs	4	(439)	-	-	-	(439)
		(439)	273,613	-	-	273,174
Balance at 30 June 2014		111,613,442	7,206,348	-	(11,265,686)	107,554,104

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

*All amounts presented in respect of prior periods have been restated as outlined in Note 2.

Sino Gas & Energy Holdings Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2014

	Notes	Half-year	
		2014	Restated 2013*
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(2,160,582)	(1,805,592)
Interest received		595,439	225,964
Net cash used in operating activities		<u>(1,565,143)</u>	<u>(1,579,628)</u>
Cash flows from investing activities			
Payment of costs associated with sale of assets held for sale		-	(2,000,000)
Payments for plant and equipment		(6,510)	(60,045)
Loans from/(to) jointly controlled entities		(612,056)	-
Net cash used in investing activities		<u>(618,566)</u>	<u>(2,060,045)</u>
Cash flows from financing activities			
Proceeds from issue of shares and options (net of share issue costs)		(439)	11,758,402
Transaction costs associated with structured term debt facility	8	(389,385)	-
Repayment of borrowings		-	(93,011)
Net cash (used in)/provided by financing activities		<u>(389,824)</u>	<u>11,665,391</u>
Net increase/(decrease) in cash and cash equivalents		(2,573,533)	8,025,718
Cash and cash equivalents at the beginning of the half-year		57,269,668	8,046,685
Effects of exchange rate changes on cash and cash equivalents		2,450,194	(1,728,460)
Total cash and cash equivalents at end of the half-year		<u>57,146,329</u>	<u>14,343,943</u>

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

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

1 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2014 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Sino Gas & Energy Holdings Limited is a for profit entity for the purpose of preparing the financial statements.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2013 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

New and amended standards adopted by the group

The group applied the following standards and amendments for first time in their annual reporting period commencing 1 January 2014:

- *AASB 1053 Application of Tiers of Australian Accounting Standards* introduces a revised two-tier differential reporting regime. There is no change for Tier 1 entities. Tier 2 entities have to comply with the recognition and measurement requirements of Australian Accounting Standards but have the option to provide reduced disclosures.
- Amendments to AASB 2011-4 and revised Corporations Regulations 2M.3.03 move the individual key management personnel (KMP) disclosures about equity holdings, loans and other transactions with KMP from the notes to the remuneration report and require aggregate disclosures in the related parties note.
- Changes to Australian Conceptual Framework and Materiality (AASB CF 2013-1, AASB 1031, AASB 2013-9) incorporates the guidance from the IASB's Framework on the objective and qualitative characteristics of financial reporting and removes Australian specific guidance on materiality from AASB 1031.
- Accounting for Levies (Interpretation 21) confirms what the obligating event is and when a liability is recognised.
- Offsetting Financial Assets and Financial Liabilities (AASB 2012-3) clarifies the offsetting rules in AASB 132 and explains when offsetting can be applied.
- Limited amendment of impairment disclosures (AASB 2013-3) amends the disclosures required by AASB 136 Impairment of Assets.
- Novation of derivatives and hedge accounting (AASB 2013-4) allows for the continuation of hedge accounting when a derivative is novated, provided specific conditions are met.
- Defined benefit plans – employee contributions (amendments to IAS 19) clarifies the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits.

The adoption of these Standards and Interpretations has not had a significant impact on the Group's accounting policies.

Impacts of standards issued but not yet applied by the entity

The following standards are available for early adoption but have not been applied by the Group:

- AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. It is not anticipated to have an impact on the Group's accounting policies in regards to its financial assets and liabilities.
- Annual improvements project – 2011-2013 cycle containing amendments to clarify minor points in various accounting standards, including IFRS 1, IFRS 3, IFRS 13 and IAS 40, which are largely effective for annual periods beginning on or after 1 July 2014. These amendments are not expected to have an impact on the Group's accounting policies.
- The ASX has revised its *Corporate Governance Principles and Recommendations*, with important changes to guidance on risk management, governance reporting, independence of long-serving directors and gender diversity. The updated Principles and Recommendations will apply to listed entities from 1 July 2014.

2 Foreign Currency translation adjustments for Change in Presentation Currency and Correction of Error in Prior Year

(a) Change in accounting policies: Presentation Currency changed to US\$

The Group changed its presentation currency from Australian dollars (A\$) to United States dollars (US\$) on 1 January 2014. The functional currency of the Company and its subsidiaries continues to be United States dollars. As a result of the change in presentation currency to US\$ there is now better alignment between functional and presentation currency which are both now US\$.

The change in presentation currency is accounted for as a change in accounting policy. Except for the correction of error noted in (b) below, there has been no impact on the comparative income statement other than reversing the previous translation of United States dollars to Australian dollars at average rates. Changes in equity settled benefits reserves and contributed equity were translated to US\$ at historical rates. All assets and liabilities at the comparative year were translated at closing rates at the appropriate balance date. Earnings per share were recalculated to US\$ at average rates.

The result of changing the presentation currency for the comparative period was de-recognition of the foreign currency translation reserve which previously represented the difference between translating the US functional currency financial statements into Australian dollar presentation currency. Comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US\$.

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

(b) Correction of error: Foreign Currency translation

During the retranslation of presentation currency as outlined in (a) above, it was noted during the period that the prior year financial statements had incorrectly taken foreign currency translation adjustments of certain cash balances to foreign currency translation reserve instead of to the profit and loss. This error resulted in revaluation of AUD denominated bank balances for the year ended 31 December 2013 of US\$2,478,014 (\$1,730,381 for the half-year ended 30 June 2013) being incorrectly presented as part of "Exchange differences on translation to presentation currency" line in Other Comprehensive Income rather than as a foreign exchange loss in the Profit or Loss. The error did not have any impact on the opening balance sheet as at 31 December 2012.

This prior year error has been corrected by restating each of the affected financial statements line items for the prior periods as follows:

(b) Correction of Errors: Foreign Currency translation (continued)

For the year ended 31 December 2013	Prior Year as Previously Reported in A\$ 31 December 2013 A\$	Prior Year restated to US\$ before Correction of Error 31 December 2013 US\$	Correction of Error Increase/(decrease) US\$	Prior Year Restated for Change in Presentation Currency and Correction of Error 31 December 2013 US\$
<i>Consolidated statement of financial position (extract)</i>				
Reserves	6,566,925	4,454,721	2,478,014	6,932,735
Accumulated losses	(20,571,774)	(16,994,184)	(2,478,014)	(19,472,198)
Total equity	110,724,529	99,074,418	-	99,074,418
<i>Consolidated statement of profit or loss and other comprehensive income (extract)</i>				
Foreign exchange gain/(loss)	4,781	4,628	(2,478,014)	(2,473,386)
Profit/(loss) before income tax	1,401,593	1,459,109	(2,478,014)	(1,018,905)
Profit/(loss) from continuing operations	1,401,593	1,459,109	(2,478,014)	(1,018,905)
Profit/(loss) for the year attributable to shareholders	1,401,593	1,459,109	(2,478,014)	(1,018,905)
Exchange differences on translation to presentation currency	6,448,855	(2,478,014)	2,478,014	-
Total comprehensive income/(expense) for the year attributable to shareholders	7,850,448	(1,018,905)	-	(1,018,905)
Earnings/(loss) per share from continuing operations attributable to the ordinary equity holders of the Company:				
Basic	0.11	0.11	(0.19)	(0.08)
Diluted	0.11	0.11	(0.19)	(0.08)
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:				
Basic	0.11	0.11	(0.19)	(0.08)
Diluted	0.11	0.11	(0.19)	(0.08)

(b) Correction of errors: Foreign Currency translation (continued)

For the half-year ended 30 June 2013	Prior Year as Previously Reported in A\$ 30 June 2013 A\$	Prior Year restated to US\$ before Correction of Error 30 June 2013 US\$	Correction of Error Increase/ (decrease) US\$	Prior Year Restated for Change in Presentation Currency and Correction of Error 30 June 2013 US\$
<i>Consolidated statement of financial position (extract)</i>				
Reserves	3,752,761	4,580,699	1,730,381	6,311,080
Accumulated losses	(22,529,263)	(19,017,6547)	(1,730,381)	(20,748,028)
Total equity	55,215,799	51,212,665	-	51,212,665
<i>Consolidated statement of profit or loss and other comprehensive income (extract)</i>				
Foreign exchange gain/(loss)	10,319	10,478	(1,730,381)	(1,719,903)
Profit/(loss) before income tax	(555,896)	(564,354)	(1,730,381)	(2,294,735)
Profit/(loss) from continuing operations	(555,896)	(564,354)	(1,730,381)	(2,294,735)
Profit/(loss) for the year attributable to shareholders	(555,896)	(564,354)	(1,730,381)	(2,294,735)
Exchange differences on translation to presentation currency	4,308,579	(1,730,381)	1,730,381	-
Total comprehensive income/(expense) for the year attributable to shareholders	3,752,683	(2,294,735)	-	(2,294,735)
Earnings/(loss) per share from continuing operations attributable to the ordinary equity holders of the Company:				
Basic	(0.05)	(0.05)	(0.14)	(0.19)
Diluted	(0.05)	(0.05)	(0.14)	(0.19)
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:				
Basic	(0.05)	(0.05)	(0.14)	(0.19)
Diluted	(0.05)	(0.05)	(0.14)	(0.19)

3 Segment information

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

4 Contributed Capital

	30 June 2014	Restated 31 December 2013*
	\$	\$
Issued and paid up capital	111,613,442	111,613,881
Number of shares	1,530,457,040	1,453,304,154

*All amounts presented in respect of prior periods have been restated as outlined in Note 2.

Movement in ordinary share capital

		Number of shares	Restated* \$
Balance at 1 January 2014		1,453,304,154	111,613,881
Issue of shares through conversion of performance rights	(i)	1,714,286	-
Issue of shares pursuant to placement	(iii)	75,438,600	-
Share issue costs		-	(439)
Closing balance at 30 June 2014		<u>1,530,457,040</u>	<u>111,613,442</u>
Balance at 1 January 2013		1,128,933,816	53,891,211
Issue of shares through conversion of performance rights	(i)	150,704	-
Issue of shares through conversion of options	(ii)	29,265,345	1,609,405
Issue of shares pursuant to placement	(iii)	82,448,979	10,571,872
Share issue costs		-	(422,875)
Closing balance at 30 June 2013		<u>1,240,798,844</u>	<u>65,649,613</u>

*All amounts presented in respect of prior periods have been restated as outlined in Note 2.

(i) Issue of shares through conversion of performance rights

On 10 February 2014, the Company issued 1,714,286 ordinary shares from the conversion of performance rights. On 30 May 2013, the Company issued 150,704 ordinary shares from the conversion of performance rights.

(ii) Issue of shares through conversion of options

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

(iii) Issue of shares pursuant to placement

On 2 January 2014, 75,438,600 shares ordinary shares were allocated relating to the second tranche of the placement completed on 31 December 2013. On 3 January 2013, the Company completed the placement of 82,448,979 new fully paid ordinary shares to two leading institutional investors at \$0.1225 per share.

5 Reserves

	Notes	30 June 2014 \$	Restated 31 December 2013* \$
Equity settled share-based payment reserve	(i)	7,206,348	6,932,735
		<u>7,206,348</u>	<u>6,932,735</u>
		Half-year	
		2014	Restated 2013*
		\$	\$
Movements in options during the period			
Balance at the beginning of the financial period		4,249,302	4,117,137
Issue of options expense	(ii)	166,227	107,946
Closing balance at end of financial period		<u>4,415,529</u>	<u>4,225,083</u>
Movements in performance rights during the period			
Balance at the beginning of the financial period		2,683,433	1,532,728
Performance rights expense movement	(iii)	107,386	553,269
Closing balance at end of financial period		<u>2,790,819</u>	<u>2,085,997</u>
Total closing balance at end of financial period		<u>7,206,348</u>	<u>6,311,080</u>

*All amounts presented in respect of prior periods have been restated as outlined in Note 2.

(i) Equity settled share-based payment reserve

This share-based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to suppliers as payments for services. The equity settled benefits reserve arises on the granting of share options to senior executives under the Employee Share Option Plan, the granting of performance rights to senior executives under the Performance Rights Plan and option based payments to suppliers.

(ii) Options

30,000,000 unlisted options with an exercise price of \$0.075 were issued on 15 February 2012 in relation to the appointment of Argonaut as the Company's corporate advisor. These options were valued using the Black-Scholes model (20,000,000 options) and the Barrier Option (10,000,000 options) pricing model. An amount of \$166,227 has been expensed as fundraising costs in the period ended 30 June 2014 (2013: \$107,946).

(iii) Performance Rights

Each performance right is exercisable for one ordinary share at nil consideration. During the period, 1,714,286 performance rights were exercised and 15,028,729 were forfeited by employees and directors.

6 Commitments for expenditure and contingencies**(a) Operating lease commitments**

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

	30 June 2014	Restated 31 December 2013*
	\$	\$
Non-cancellable operating lease commitments		
Not longer than 1 year	288,104	330,153
Longer than 1 year and not longer than 5 years	130,591	108,373
	<u>418,695</u>	<u>438,526</u>

*All amounts presented in respect of prior periods have been restated as outlined in Note 2.

7 Interests in joint ventures**(a) Jointly controlled entity**

On 6 July 2012, the Company entered into agreements with MIE Holdings Corporation (MIE) which established joint control between Sino Gas and MIE over SGE as a jointly controlled entity. MIE acquired 39 million ordinary shares (14.29% interest of existing shares) in SGE from Sino Gas for a consideration of \$9.7 million (US\$10 million). In addition, MIE has invested a further US\$90 million into SGE as described below to secure an interest of 51% in the issued share capital of SGE.

The US\$90 million investment made by MIE is comprised US\$66.3 million of converting redeemable preference shares (CRPS) in SGE (which were held in escrow pending completion of its funding obligations and then released proportionally from escrow and converted into ordinary shares in SGE on a 6 monthly basis) and in part in the form of US\$23.7 million in loan note repayable by SGE from recovered qualifying expenditure on the PSC blocks once commercial production commences (such loan mechanism to ensure that Sino Gas and MIE recover agreed portions – US\$63 million and US\$90 million respectively).

The interest in SGE is accounted for in the consolidated financial statements using the equity method of accounting. Sino Gas' economic interest in SGE as at 30 June 2014 was 49% (31 December 2013: 61.92%). SGE had no contingent liabilities recorded at 30 June 2014 (2013: nil).

Information regarding the joint venture is set out below:

	30 June 2014 \$	Restated 31 December 2013* \$
Share of joint venture assets and liabilities		
Current assets	13,001,316	7,356,960
Non-current assets	77,352,570	83,110,322
Total assets	<u>90,353,886</u>	<u>90,467,282</u>
Current liabilities	31,690,615	43,211,054
Non-current liabilities	11,592,279	7,513,004
Total liabilities	<u>43,282,894</u>	<u>50,724,058</u>
Net Assets	<u>47,070,992</u>	<u>39,743,224</u>
Share of joint venture's capital commitments	<u>2,366,314</u>	<u>3,063,223</u>

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

	Half-year 2014 \$	Restated 2013* \$
Share of joint venture revenue, expenses and results		
Revenue	29,255	879
Expenses	(302,933)	(518,353)
Loss before income tax	<u>(273,678)</u>	<u>(517,474)</u>

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

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

In the 6 months to 30 June 2014, \$43.85 million was cash called relating to qualifying PSC expenditure, representing \$11.53 million in loan notes and \$32.32 million towards cumulative redeemable preference shared (CRPS) to be converted into ordinary shares.

	Half-year 2014 \$	Restated 2013* \$
Net gain on dilution of equity interest in jointly controlled entity		
Share of equity contributed into jointly controlled entity	20,015,613	3,860,873
Dilution of interest in net assets	(12,414,167)	(1,762,133)
	<u>7,601,446</u>	<u>2,098,740</u>

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

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

	Half-year 2014 \$	Restated 2013* \$
Balance at the beginning of the financial period	39,743,224	33,053,389
Share of equity contributed into jointly controlled entity	20,015,613	3,860,873
Dilution of interest in net assets	(12,414,167)	(1,762,133)
Share of net loss of associates accounted for using the equity method	(273,678)	(517,474)
Balance at the end of the financial period	<u>47,070,992</u>	<u>34,634,655</u>

**All amounts presented in respect of prior periods have been restated as outlined in Note 2.*

8 Events occurring after the reporting period

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

- On 2 July 2014, the Company announced that it had received official notification that the CRR submitted on Linxing (East) for the coalbed methane resource has been approved by the Ministry of Land & Resources (MOLAR).
- On 15 July 2014, the Company announced a gas flow rate of approximately five million standard cubic feet (MMscf) per day has been achieved on the first horizontal well of the Linxing Production Sharing Contract (PSC).
- On 16 July 2014, the Company appointed Mr Glenn Corrie as Chief Executive Officer.
- On 16 July 2014, the Company issued 10,965,318 ordinary shares from the conversion of performance rights.
- On 29 August 2014, the Company announced that it had completed the structured term facility as discussed on page 3 of the Director's Report. Out of the \$696,300 transaction costs capitalised, \$389,385 had been paid by 30 June 2014.
- On 29 August 2014, Non-Executive Director Philip Bainbridge was appointed to the role of Chairman and former Chairman, Gavin Harper, transitioned to a Non-Executive Director role, as announced on 16 July 2014.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 16 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Sino Gas & Energy Holdings Limited will be able to pay its debts as and when they become due and payable.

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



Philip Bainbridge
Chairman

Perth
1 September 2014



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sino Gas & Energy Holdings Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Sino Gas & Energy Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sino Gas & Energy Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au



Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'Nick Henry'.

Nick Henry
Partner

Perth
1 September 2014

CORPORATE DIRECTORY



BOARD OF DIRECTORS

Philip Bainbridge
CHAIRMAN

Gavin Harper
NON-EXECUTIVE DIRECTOR

Bernard Ridgeway
NON-EXECUTIVE DIRECTOR

Colin Heseltine
NON-EXECUTIVE DIRECTOR

CHIEF EXECUTIVE OFFICER

Glenn Corrie

COMPANY SECRETARY

Harry Spindler

REGISTERED OFFICE

311-313 Hay Street
Subiaco, Western Australia 6008

Tel: +61 8 9388 8618
Fax: +61 8 9388 3701

BEIJING REPRESENTATIVE OFFICE

Suite 2311, Level 23, Tower B, Eagle Plaza
26 Xiaoyun Road
Chaoyang District
Beijing 100004
People's Republic of China

Tel: +86 10 8458 3001
1300 746 642
(LOCAL CALL WITHIN AUSTRALIA)
Fax: +86 10 8458 3101

www.sinogasenergy.com
admin@sinogasenergy.com

ASX CODE

SEH (ordinary shares)

AUDITORS

PricewaterhouseCoopers
Level 15, Brookfield Place
125 St Georges Terrace
Perth, Western Australia 6000

LEGAL ADVISORS - AUSTRALIA

HopgoodGanim
Level 27, Allendale Square
77 St Georges Terrace
Perth, Western Australia 6000

Allen & Overy
Level 27, Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

LEGAL ADVISORS - CHINA

Jun He Law Offices
Level 20, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005
People's Republic of China

Allen & Overy
Suite 522, China World Tower 2
1 Jianguomenwai Avenue
Beijing 100004
People's Republic of China

SHARE REGISTRY

Link Market Services
178 St Georges Terrace
Perth, Western Australia 6000
Ph: +61 1300 554 474
registers@linkmarketservices.com.au