



# Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

Stock code : 260



# 2010

*Interim REPORT*

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's unaudited revenue for the six-month period ended 30 June 2010 was HK\$477,784,000 (2009: HK\$241,434,000), an increase of 97.9% compared to the corresponding period of last year.

The Group's gross profit for the six-month period ended 30 June 2010 was HK\$67,003,000 (2009: HK\$68,299,000), a decrease of 1.9% from the corresponding period of last year.

Despite the hefty increase in revenue, the operating result was below expectation due to a substantial decline of gross profit margin from 28.3% in the corresponding period of last year to 14% principally resulted from overall lower profit margin of the liquefied petroleum gas ("LPG") and compressed natural gas ("CNG") business compared to the corresponding period of last year and intensified competition. In addition, the drop in gross profit margin was also caused by the hike of natural gas standard supply price of 23-25% sanctioned by National Development and Reform Commission of China in June 2010. The increase in the natural gas standard supply price was almost immediate and there was a time lag of 1 to 2 months before local government approval is obtained to increase the sale prices to consumers.

Loss attributable to owners of the parent amounted to HK\$4,405,000 (2009: HK\$5,884,000), a decrease of 25.1% over the corresponding period of last year.

### Issue of New Shares

Pursuant to the announcements dated 13 April 2010 and 26 April 2010 and approval by independent shareholders at an extraordinary general meeting held on 1 June 2010, a top up placing and placing of new shares totaling 255 million shares were made to independent third parties and 80 million new shares were issued to AVIC International Holding (HK) Limited ("AVIC HK") respectively raising a total of new capital of approximately HK\$125,300,000 (net of expenses). Following the above-mentioned fund raising exercises, the capital base and liquidity of the Group has been strengthened.

### Operational Review

#### (1) Gas Business

The overall business has achieved significant growth: sales of CNG and LPG reached 71,450,000 m<sup>3</sup> and 27,522 tons respectively for the period ended 30 June 2010, representing an increase of 48% and 68% respectively over the corresponding period of last year.

Major business development of the gas business is summarised below:

**South – western China District:** The Group's Chengdu subsidiaries own 2 of the 3 mother stations approved by the Chengdu government. As government approval for new mother stations has been suspended, the Group is well-positioned to enhance its market share from its current level of 10%. One of the Group's Chengdu subsidiaries is in advanced discussion with an entity under the Chengdu municipal government to form a joint venture for operation of CNG refueling stations. If this joint venture materialises, it is planned that 5-10 new CNG stations will be built under the proposed joint venture.

**Inland China District:** The Group's Zhengzhou subsidiaries commenced to make direct sale to the public transportation group in Zhengzhou in the period under review instead of providing processing services in the previous year. The Group has expanded its business to provide CNG to taxis and private cars. The market share in Zhengzhou is estimated to be above 50%.

In Shanxi Taiyuan, a new CNG station has been built and operation will commence upon completion of licensing procedures.

**Central China District:** Significant improvement in the Group's operation in Anhui Hefei has been made and one new CNG station was built in the first half of 2010. The Group's Anhui subsidiary is in discussion with a gas supplier to form a joint venture to build mother and daughter stations to enhance its market share.

The Xuzhou operation achieved substantial growth with a market share of over 50%.

**Southern China District:** The Group's Guangzhou and Ganzhou subsidiaries registered significant growth and has become one of the top three market leaders in the area the Group operates in.

**Shandong District:** In addition to the provision of CNG for vehicle use, the Group is exploring business opportunities in the CNG industrial sector.

**North – eastern China District:** The Group maintains a strong number one market position in Changchun and is looking for expansion opportunities in the vicinity of Changchun.

## (2) *Vehicle Conversion Kits*

In the period under review, a new generation of “multiple-injection” vehicle conversion kits developed by the Group has passed the testing standards of the Chinese government. It is estimated that it is approximately 50% cheaper than that of the imported ones. The Group believes that the newly developed vehicle conversion kits have the potential to become a source of growth of the Group’s sales in future.

## **Business Outlook**

National Development and Reform Commission of China announced a new pricing policy for natural gas on 1 June 2010 whereby the price ratio between CNG for vehicle use and petrol is not to be less than 0.75:1 within 2 years. Following the announcement of the new natural gas pricing policy, CNG prices have gone up by up to 30% in many areas. As a result of implementation of this new pricing policy, it is expected that the Group’s revenue will increase significantly in the coming two years. Barring unforeseen circumstances, the gross profit margin of the Group in the second half of 2010 is expected to improve from that of the first half as approvals from local government to increase the sale price of CNG to consumers are gradually in place.

The current Chinese government policies facilitate the development of CNG business as an alternative fuel source to petrol and a lot of resources have been deployed to accelerate the construction of natural gas pipeline network. The Group will continue to look for business opportunities to develop new markets in China for expansion of its operations of CNG refueling stations.

On the other hand, the Group will continue to study business potential in other clean energy sectors and is continuing its discussion with AVIC International Investment Limited to explore the possibility to jointly invest in a Zinc-air battery project.

Looking forward, the clean energy market in China will have a bright prospect with the support of the government policies and increasing demand driven by social development. The board of directors of the Company (the “Board”) is optimistic about the future development of the Group and will continue to seek business opportunities in the clean energy industry in order to broaden its earning base and enhance its shareholder value.

### Financial Resources

During the six months ended 30 June 2010, the financial position of the Group was strengthened by the net proceeds of approximately HK\$125.3 million received from the issuance of totaling 335,000,000 Company's ordinary shares in April, May and June 2010, respectively. The proceeds are used for the Group's general working capital.

At 30 June 2010, the Group's borrowings (including interest-bearing bank and other borrowings and loans from a shareholder) amounted to approximately HK\$148.9 million (31 December 2009: HK\$198.2 million), of which HK\$115.2 million (31 December 2009: HK\$142.6 million) were related to bank and other borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of Group's borrowings to equity attributable to owners of the parent of HK\$587.2 million (31 December 2009: HK\$466.3 million) was 25.4% (31 December 2009: 42.5%). Cash and bank balances were HK\$187.4 million (31 December 2009: HK\$118.9 million).

During the six months ended 30 June 2010, the Group was not materially exposed to foreign currency risk.

### Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: Nil).

### Staff Benefit

At 30 June 2010, the Group had a total of 1,362 employees (2009: 1,070). The staff costs for the six months ended 30 June 2010 amounted to approximately HK\$28.8 million (2009: HK\$20.5 million). The Group continues to provide remuneration package to employees according to market practices, their experience and performance. Other benefits include contribution of statutory mandatory provident fund for the employees and medical scheme. There was no major change on staff remuneration policies during the period.

## Human Resources

The Group firmly believes that talent is the most important corporate asset, therefore, it places a lot of emphasis in recruiting and cultivation of talent.

In 2009, the Group signed an agreement with a vocational school in Chongqing for training of technical personnel in the natural gas sector. With this program, a continuous supply of technical professionals to join the Group is guaranteed enhancing the skill level and professionalism of the Group.

The Group treasures its existing staff. Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group provides internal training for existing staff and makes further study part of the welfare or incentive system for staff. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan for their career development, which lays a solid foundation for sound and sustainable development of the Group.

By order of the Board

### **JI HUI**

*Chief Executive Officer*

Hong Kong, 26 August 2010

*As of the date of this interim report, the Board comprised six directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Ji Hui (Chief Executive Officer) and Mr. Sun Wenhao are the executive directors; Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei are the independent non-executive directors.*

## OTHER INFORMATION

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in share options of the Company:

<b>Name of director</b>	<b>Number of options directly beneficially owned</b>
Ji Guirong	14,900,000
Ji Hui	2,000,000
	16,900,000

Save as disclosed above, as at 30 June 2010, none of the directors of the Company had registered an interest or a short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

### SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 1 June 2010 (the "AGM"), the Scheme mandate limit was refreshed so that the Company was authorised to grant share options under the existing Scheme for subscription of up to a total of 206,235,502 shares, representing approximately 10% of the issued share capital of the Company as at the date of the AGM.

**SHARE OPTION SCHEME (Continued)**

The following table discloses movements in the Company's share options under the Scheme outstanding during the period.

Name or category of participant	Number of share options					At 30 June 2010	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK\$
	At 1 January 2010	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
<b>Directors</b>									
Ji Guirong	4,966,667	-	-	-	-	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	-	-	-	-	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	-	-	-	-	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	14,900,000	-	-	-	-	14,900,000			
Ji Hui	2,000,000	-	-	-	-	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	16,900,000	-	-	-	-	16,900,000			
<b>Consultants</b>									
In aggregate	38,100,000	-	-	-	-	38,100,000	23-8-07	1-10-07 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-1-08 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-7-08 to 31-1-15	0.35
	114,300,000	-	-	-	-	114,300,000			
<b>Other employees</b>									
In aggregate	10,000,000	-	-	-	-	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	966,667	-	-	-	-	966,667	23-8-07	1-10-07 to 31-1-15	0.35
	966,666	-	-	-	-	966,666	23-8-07	1-1-08 to 31-1-15	0.35
	966,667	-	-	-	-	966,667	23-8-07	1-7-08 to 31-1-15	0.35
	12,900,000	-	-	-	-	12,900,000			
	144,100,000	-	-	-	-	144,100,000			

Notes to the table of share options outstanding during the period:

\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, the following interests and short positions of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Long/short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of convertible shares (issuable under the convertible bonds) held
Billirich Investment Limited	(a)	Long	Beneficial owner	524,480,000	24.48%	137,500,000
AVIC International Holding (HK) Limited	(a)	Long	Interest of a controlled corporation	524,480,000	24.48%	137,500,000
Tacko International Limited	(a)	Long	Interest of a controlled corporation	524,480,000	24.48%	137,500,000
AVIC International (HK) Group Limited	(a)	Long	Interest of a controlled corporation	524,480,000	24.48%	137,500,000
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	524,480,000	24.48%	137,500,000
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	524,480,000	24.48%	137,500,000
Bonus World Limited		Long	Beneficial owner	120,000,000	5.60%	–
Sun Shining Investment Corp.	(b)	Long	Beneficial owner and interest of a controlled corporation	36,730,000	1.71%	156,000,000
Tai Yuen Textile Company Limited	(b)	Long	Interest of a controlled corporation	36,730,000	1.71%	156,000,000

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)**

Notes:

- (a) Billirich Investment Limited ("Billirich") is a wholly-owned subsidiary of AVIC HK. Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 39.87% of the issued capital of AVIC HK. Tacko International Limited is a wholly-owned subsidiary of AVIC International (HK) Group Limited, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation ("AVIC International"). AVIC International is a non-wholly-owned subsidiary of Aviation Industry Corporation of China. Accordingly, all these corporations are deemed to be interested in the shares and convertible shares held by Billirich.
- (b) The 36,730,000 shares and 156,000,000 convertible shares to be issued upon exercise of the convertible bonds are beneficially held by Sun Shining Investment Corp. ("Sun Shining") and Grand Win Overseas Ltd., a wholly-owned subsidiary of Sun Shining, respectively. Tai Yuen Textile Company Limited beneficially owns 82.85% equity interest in Sun Shining and is therefore deemed to be interested in the aforesaid shares and convertible shares.

Save as disclosed above, as at 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the period, save and except that the independent non-executive directors of the Company have not been appointed for a specific term, deviating from the code provision A.4.1 of the Code. However, the independent non-executive directors of the Company are subject to retirement and re-election at least once every three years in accordance with the articles of association of the Company.

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the period.

### **AUDIT COMMITTEE**

The Audit Committee, comprises the three independent non-executive directors of the Company, namely Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's unaudited interim condensed consolidated financial statements for the period have been reviewed by the Audit Committee, who is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

### **REMUNERATION COMMITTEE**

The Remuneration Committee, comprises the non-executive director, Mr. Ji Guirong, and two independent non-executive directors, namely Mr. Zhong Qiang and Mr. Xiao Wei, of the Company, is responsible for reviewing and evaluating the remuneration policies of executive directors and senior management and making recommendations to the Board from time to time.

### **REVIEW OF INTERIM FINANCIAL STATEMENTS**

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 have been reviewed by the Audit Committee, and the external auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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### To the board of directors of Sino Gas Group Limited

(Incorporated in Hong Kong with limited liabilities)

#### Introduction

We have reviewed the interim condensed consolidated financial statements of Sino Gas Group Limited and its subsidiaries ("the Group") as at 30 June 2010 set out on pages 13 to 34, which comprises the interim condensed consolidated statement of financial position as at 30 June 2010 and the related interim condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primary 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 Hong Kong Standards on Auditing 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.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

#### Ernst & Young

*Certified Public Accountants*

18/F, Two International Finance Centre

8 Finance Street, Central

Hong Kong

26 August 2010

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2010 (Unaudited)	2009 (Unaudited)
		HK\$'000	HK\$'000
REVENUE	5	<b>477,784</b>	241,434
Cost of sales		<b>(410,781)</b>	(173,135)
Gross profit		<b>67,003</b>	68,299
Other income and gains/(losses), net	5	<b>16,621</b>	(1,318)
Selling and distribution costs		<b>(31,136)</b>	(18,828)
Administrative expenses		<b>(46,747)</b>	(34,114)
Finance costs	6	<b>(7,419)</b>	(5,387)
Share of profits and losses of jointly-controlled entities		<b>(1,069)</b>	856
PROFIT/(LOSS) BEFORE TAX	7	<b>(2,747)</b>	9,508
Income tax expense	8	<b>(4,101)</b>	(5,458)
PROFIT/(LOSS) FOR THE PERIOD		<b>(6,848)</b>	4,050
Attributable to:			
Owners of the parent		<b>(4,405)</b>	(5,884)
Non-controlling interests		<b>(2,443)</b>	9,934
		<b>(6,848)</b>	4,050
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		<b>(HK0.23 cent)</b>	(HK0.33 cent)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) for the period	<b>(6,848)</b>	4,050
Other comprehensive income:		
Exchange differences on translation of foreign operations	-	3,033
Total comprehensive income/(loss) for the period	<b>(6,848)</b>	7,083
Attributable to:		
Owners of the parent	<b>(4,405)</b>	(3,223)
Non-controlling interests	<b>(2,443)</b>	10,306
	<b>(6,848)</b>	7,083

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	<b>406,226</b>	426,842
Prepaid land lease payments		<b>39,388</b>	39,760
Goodwill		<b>128,462</b>	128,462
Interests in jointly-controlled entities		<b>13,107</b>	14,176
Interests in associates		<b>1,140</b>	1,140
Available-for-sale investments	12	<b>3,915</b>	3,326
Prepayments and deposits	14	<b>25,933</b>	31,135
Loan to a non-controlling shareholder	22(b)(i)	<b>9,500</b>	–
Due from a non-controlling shareholder	22(b)(ii)	<b>17,100</b>	17,100
<b>Total non-current assets</b>		<b>644,771</b>	661,941
<b>CURRENT ASSETS</b>			
Inventories		<b>15,234</b>	8,767
Trade receivables	13	<b>12,347</b>	11,751
Prepayments, deposits and other receivables	14	<b>58,448</b>	31,003
Due from non-controlling shareholders	22(b)(ii)	<b>16,176</b>	16,660
Loan to a non-controlling shareholder	22(b)(i)	<b>–</b>	9,500
Cash and bank balances		<b>187,399</b>	118,944
<b>Total current assets</b>		<b>289,604</b>	196,625
<b>CURRENT LIABILITIES</b>			
Trade payables	15	<b>14,302</b>	11,814
Other payables and accruals		<b>43,799</b>	41,550
Due to an associate	22(b)(iii)	<b>109</b>	109
Due to a jointly-controlled entity	22(b)(iii)	<b>472</b>	503
Due to non-controlling shareholders	22(b)(ii)	<b>1,060</b>	1,060
Loans from a shareholder	22(b)(iv)	<b>–</b>	30,974
Tax payable		<b>15,550</b>	16,823
Interest-bearing bank and other borrowings	16	<b>110,373</b>	129,841
Convertible bonds	17	<b>53,749</b>	–
<b>Total current liabilities</b>		<b>239,414</b>	232,674
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>50,190</b>	(36,049)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>694,961</b>	625,892

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Loans from a shareholder	22(b)(iv)	<b>31,526</b>	–
Interest-bearing bank and other borrowings	16	<b>6,959</b>	37,388
Convertible bonds	17	–	50,570
<b>Total non-current liabilities</b>		<b>38,485</b>	87,958
<b>Net assets</b>		<b>656,476</b>	537,934
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	18	<b>428,471</b>	361,471
Equity component of convertible bonds	17	<b>12,872</b>	12,872
Reserves		<b>145,896</b>	91,964
		<b>587,239</b>	466,307
<b>Non-controlling interests</b>		<b>69,237</b>	71,627
<b>Total equity</b>		<b>656,476</b>	537,934

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent											
	Issued capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Equity component of convertible bonds HK\$'000	Special capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve fund HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2009	361,471	767,233	19,145	10,164	828,646	46,477	1,865	3,865	(1,583,668)	455,198	36,802	492,000
Total comprehensive income for the period	-	-	-	-	-	2,661	-	-	(5,884)	(3,223)	10,306	7,083
Issue of convertible bonds	-	-	-	12,872	-	-	-	-	-	12,872	-	12,872
Transfer of reserve upon maturity of convertible bonds	-	-	-	(10,164)	-	-	-	-	10,164	-	-	-
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(2,085)	(2,085)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,931)	(3,931)
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	18,525	18,525
At 30 June 2009 (unaudited)	361,471	767,233	19,145	12,872	828,646	49,138	1,865	3,865	(1,579,388)	464,847	59,617	524,464
At 1 January 2010	361,471	770,736	15,642	12,872	828,646	49,737	1,865	3,865	(1,578,527)	466,307	71,627	537,934
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(4,405)	(4,405)	(2,443)	(6,848)
Issue of shares	67,000	59,295	-	-	-	-	-	-	-	126,295	-	126,295
Share issue expenses	-	(958)	-	-	-	-	-	-	-	(958)	-	(958)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(665)	(665)
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	718	718
At 30 June 2010 (unaudited)	428,471	829,073*	15,642*	12,872	828,646*	49,737*	1,865*	3,865*	(1,582,932)*	587,239	69,237	656,476

\* These reserve accounts comprise the consolidated reserves of HK\$145,896,000 (31 December 2009: HK\$91,964,000) in the interim condensed consolidated statement of financial position.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	<b>(21,755)</b>	35,770
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	<b>19,606</b>	(55,710)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<b>70,604</b>	69,948
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>68,455</b>	50,008
Cash and cash equivalents at beginning of period	<b>118,944</b>	75,349
Effect of foreign exchange rate changes, net	-	735
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>187,399</b>	126,092
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>187,399</b>	126,092

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

Sino Gas Group Limited is a limited liability company incorporated in Hong Kong whose shares are publicly traded.

During the period, the Group was principally involved in the operation of CNG and LPG refueling stations.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements set out in Appendix 16 of the Listing Rules.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2009.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which also include HKASs and Interpretations (“Ints”), that affect the Group and are adopted for the first time for the current period’s interim condensed consolidated financial statements as disclosed in note 3 below.

### 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The following new and revised HKFRSs are adopted for the first time for the current period’s interim condensed consolidated financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>

### 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after 1 July 2009, or for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for each standard or interpretation.

The adoption of the new and revised HKFRSs had no material impact on the results and financial position for the current or prior accounting periods which have been prepared and presented.

### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the operation of gas stations and engaging in the operation of CNG and LPG refueling stations.

## 5. REVENUE, OTHER INCOME AND GAINS/(LOSSES), NET

Revenue, which is also the Group's turnover, represents gas-related sales during the period.

An analysis of the Group's revenue, other income and gains/(losses), net is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
<u>Revenue</u>		
Operation of gas stations	<b>477,784</b>	241,434
<u>Other income</u>		
Interest income	<b>186</b>	121
Rental income	<b>2,315</b>	569
Trading of gas-related products	<b>233</b>	-
Others	<b>719</b>	50
	<b>3,453</b>	740
<u>Gains/(losses), net</u>		
Gain on disposal of a subsidiary	<b>1,667</b>	-
Gain on disposal of an available-for-sale investment	<b>2,166</b>	-
Gain on disposal of items of property, plant and equipment	<b>9,335</b>	-
Loss on trading of gas-related products	-	(2,058)
	<b>13,168</b>	(2,058)
	<b>16,621</b>	(1,318)

**6. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	<b>3,081</b>	1,902
Other loans	<b>2,257</b>	543
Convertible bonds	<b>3,766</b>	2,641
Interest on bank loans wholly repayable after five years	-	300
Interest on a finance lease	-	1
<b>Total interest expense on financial liabilities</b>	<b>9,104</b>	5,387
Less: interest capitalised	<b>(1,685)</b>	-
	<b>7,419</b>	5,387

**7. PROFIT/(LOSS) BEFORE TAX**

The Group's profit/(loss) before tax is arrived after charging:

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>400,841</b>	166,108
Depreciation	<b>19,572</b>	15,457
Recognition of prepaid land lease payments	<b>1,599</b>	1,206
Gain on disposal of items of property, plant and equipment	<b>9,335</b>	-
Impairment of trade receivables	-	2,439
Impairment of inventories	-	1,953

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Mainland China	<b>4,101</b>	5,458

## 9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$4,405,000 (2009: HK\$5,884,000), and the weighted average number of ordinary shares of 1,918,073,258 (2009: 1,807,355,026) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2010 and 2009 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

## 10. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2010 (2009: Nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$12 million (2009: HK\$26 million) in the development of construction in progress and HK\$22 million (2009: HK\$15 million) in purchasing other items of property, plant and equipment.

**12. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<b>HK\$'000</b>	HK\$'000
Overseas unlisted equity investments, at cost	<b>149,581</b>	148,992
Impairment	<b>(145,666)</b>	(145,666)
	<b>3,915</b>	3,326

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

At 30 June 2010, the Group's unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Available-for-sale investments include the Company's investment in the 35% interest in the issued share capital of CMEP Limited ("CMEP") at a cost of HK\$137,858,000 (31 December 2009: HK\$137,858,000) acquired in 2003 which had been fully provided for in 2005. CMEP is a company incorporated in the British Virgin Islands and principally engages in the holding of a contractual right to receive fees from the business of trading of television commercial airtime in Mainland China.

The investment was acquired at a total consideration together with the direct expenses of HK\$137,858,000 pursuant to the sale and purchase agreement dated 2 January 2003 (the "Agreement") entered into between China Media International Group Limited ("CMI") and the Company. Under the Agreement, which CMI had made certain undertakings in favour of the Company, including profit guarantees for CMEP.

However, such undertakings and guarantees were not fulfilled. The Company instigated legal proceedings against CMI in 2004 to claim for, among others, damages for breach of the Agreement. A judgement was granted by the court in favour of the Company but was not able to be enforced up to the date of this report.

## 12. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

In the opinion of the directors, the Group is unable to enforce the judgement of the court since management of CMI is no longer contactable. Accordingly, the directors considered that the investment was fully impaired as at 31 December 2005 and an impairment loss of HK\$137,858,000 in respect of the investment in CMEP was charged to the income statement for the period ended 31 December 2005.

The remaining impairment losses of HK\$7,808,000 (31 December 2009: HK\$7,808,000) as at 30 June 2010 represent impairment losses recognised in respect of the other available-for-sale investments determined by the directors with reference to the present value of the estimated cash flows of those investments.

## 13. TRADE RECEIVABLES

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Trade receivables	<b>12,543</b>	11,947
Impairment	<b>(196)</b>	(196)
	<b>12,347</b>	11,751

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

**13. TRADE RECEIVABLES (Continued)**

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<b>HK\$'000</b>	HK\$'000
0 to 90 days	<b>10,613</b>	11,371
91 to 120 days	–	43
Over 120 days	<b>1,930</b>	533
	<b>12,543</b>	11,947

**14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<b>HK\$'000</b>	HK\$'000
Prepayments	<b>35,247</b>	54,282
Deposits and other receivables	<b>172,742</b>	131,464
Impairment	<b>(123,608)</b>	(123,608)
	<b>84,381</b>	62,138
Non-current portion included in prepayments, deposits and other receivables	<b>(25,933)</b>	(31,135)
	<b>58,448</b>	31,003

The financial assets included in the above balances which are not considered to be impaired relate to receivables for which there is no recent history of default and are neither past due nor impaired.

**15. TRADE PAYABLES**

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
0 to 90 days	<b>5,706</b>	5,866
91 to 120 days	<b>61</b>	10
Over 120 days	<b>8,535</b>	5,938
	<b>14,302</b>	11,814

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<b>Current</b>				
Other loans – unsecured	–	On demand	2,150	2,150
Current portion of other loans				
– unsecured	7.71	2011	19,303	18,619
Bank loans – unsecured	5.31 to 6.37	2011	88,920	101,460
Bank loans – secured	6.87	2010	–	5,700
Current portion of long term				
bank loans – secured	Prime – 2.80	2010	–	1,912
			<b>110,373</b>	129,841
<b>Non-current</b>				
Other loans – unsecured	7.71	2011 – 2012	6,959	16,811
Bank loans – secured	Prime – 2.80	2011 – 2021	–	20,577
			<b>6,959</b>	37,388
			<b>117,332</b>	167,229

## Notes:

- (a) Certain of the bank loans are secured by corporate guarantees aggregating HK\$39,900,000 (31 December 2009: HK\$71,910,000) executed by the Company.
- (b) As at 31 December 2009, certain of the bank loans were secured by pledges of the Group's buildings, plant and machinery and motor vehicles with carrying value of HK\$21,725,000, HK\$11,000,000 and HK\$12,657,000, respectively.
- (c) Except for the bank loans of HK\$88,920,000 (31 December 2009: HK\$107,160,000) and other loans of HK\$26,262,000 (31 December 2009: HK\$35,430,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

**16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)**

The carrying amounts of the interest-bearing bank and other borrowings approximate to their fair values.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows at the prevailing interest rates.

**17. CONVERTIBLE BONDS**

On 18 March 2009 and 15 April 2009, the Company issued convertible bonds with an aggregate nominal value of HK\$58,700,000. The bonds are convertible at the option of the bondholders into ordinary shares at the initial conversion price of HK\$0.20 per share anytime after the issuance of the convertible bonds. Any convertible bonds not converted will be redeemed at par in two years after the date of issuance or will be further extended as agreed between the bondholders and the Company. The convertible bonds are interest-bearing at 2% per annum and payable half-yearly in arrears.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in the shareholders' equity.

**17. CONVERTIBLE BONDS (Continued)**

The convertible bonds issued have been split as to the liability and equity components, as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
<u>Nominal value</u>		
At 1 January	<b>58,700</b>	85,800
Issuance of convertible bonds	-	58,700
Redemption during the period/year	-	(85,800)
At period/year end	<b>58,700</b>	58,700
<u>Liability component</u>		
At 1 January	<b>50,570</b>	85,767
Issuance of convertible bonds	-	45,828
Redemption during the period/year	-	(85,800)
Interest expense	<b>3,766</b>	6,220
Interest paid	<b>(587)</b>	(1,445)
At period/year end	<b>53,749</b>	50,570
<u>Equity component</u>		
At 1 January	<b>12,872</b>	10,164
Issuance of convertible bonds	-	12,872
Redemption during the period/year	-	(10,164)
At period/year end	<b>12,872</b>	12,872

**18. SHARE CAPITAL**

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Authorised: 10,000,000,000 (31 December 2009: 10,000,000,000) ordinary shares of HK\$0.20 each	<b>2,000,000</b>	2,000,000
Issued and fully paid: 2,142,355,026 (31 December 2009: 1,807,355,026) ordinary shares of HK\$0.20 each	<b>428,471</b>	361,471

During the current period, 335,000,000 ordinary shares of HK\$0.20 each were issued to an existing shareholder and certain independent third parties at a subscription price of HK\$0.377 per share for a total cash consideration, before expenses, of HK\$126,295,000.

All the shares issued during the period rank pari passu in all respects with the existing shares.

**19. CONTINGENT LIABILITIES AND LITIGATIONS**

In addition to the pending litigation set out in note 12 above, the Company is currently a defendant in a lawsuit brought by a third party alleging the Company for a debt amounting to HK\$2,150,000 under a loan agreement dated 12 October 2004 together with the interest thereon since 12 February 2005. The Company is in the course of defending such litigation, and the related liabilities were accrued for in the interim condensed consolidated financial statements at the end of the reporting period.

## 20. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain of its gas station equipment and motor vehicles under non-cancellable operating lease arrangements with terms ranging from one to fifteen years.

At 30 June 2010, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,368</b>	1,378
In the second to fifth years, inclusive	<b>5,695</b>	5,652
After five years	<b>14,075</b>	14,803
	<b>21,138</b>	21,833

### (b) As lessee

The Group leases certain of its office premises, land and staff quarters under non-cancellable operating lease arrangements with terms ranging from one to twenty years.

At 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2010 (Unaudited)</b>	31 December 2009 (Audited)
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>13,229</b>	11,485
In the second to fifth years, inclusive	<b>37,258</b>	33,845
After five years	<b>48,015</b>	62,986
	<b>98,502</b>	108,316

## 21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK\$50,027,000 (31 December 2009: HK\$57,907,000) contracted but not provided for in the interim condensed consolidated financial statements as at the end of the reporting period.

## 22. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

		<b>For the six months ended 30 June</b>	
		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>		<b>HK\$'000</b>	HK\$'000
Sales of products to non-controlling shareholders	(i)	<b>67,516</b>	35,391
Interest expenses to a shareholder	(ii)	<b>572</b>	543
Rental income from an associate	(iii)	-	408

*Notes:*

- (i) The sales of gas to non-controlling shareholders were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The interest expenses paid to a shareholder were charged at an interest rate of 3.65% per annum.
- (iii) The rental income received from an associate was mutually agreed between the Group and the associate with reference to market rent.

## 22. RELATED PARTY TRANSACTIONS (Continued)

### (b) Outstanding balances with related parties:

- (i) The loan to a non-controlling shareholder is unsecured, non-interest bearing and repayable within two years (31 December 2009: one year).
- (ii) The balances with non-controlling shareholders are unsecured, interest-free and have no fixed terms of repayment except for a balance of HK\$17,100,000 which is not expected to be repaid within 12 months from the end of the reporting period.
- (iii) All balances with a jointly-controlled entity and an associate are unsecured, interest-free and have no fixed terms of repayment.
- (iv) The loans from a shareholder are unsecured, bear interest at 3.65% per annum and are repayable with two years (31 December 2009: one year).

The carrying amounts of these balances approximate to their fair values.

### (c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	1,188	2,224
Post-employment benefits	6	12
<b>Total compensation paid to key management personnel</b>	<b>1,194</b>	<b>2,236</b>

The related party transactions in respect of items (a)(i) to (a)(iii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 23. APPROVAL OF THE INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 26 August 2010.