



Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

Stock code : 260

2011

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 2011 was HK\$454,409,000 (2010: HK\$375,882,000*), an increase of 20.9% compared to the corresponding period of last year.

The Group's gross profit for the six-month period ended 30 June 2011 was HK\$90,573,000 (2010: HK\$66,731,000*), an increase of 35.7% over the same period of last year with an improvement on profit margin from 17.8%* in 2010 to 19.9% in 2011.

The Group achieved a profit attributable to owners of the parent of HK\$4,723,000 during the period under review (2010: loss of HK\$4,405,000), which is the first time the Group attained profitability since its engagement in the natural gas business in 2004. The profitable results were mainly due to lower overhead expenses as a percentage of revenue, improved gross profit margins, and lower finance costs following the conversion of the outstanding convertible bonds into common shares.

Operational Review

(1) Gas Business

Sales volume of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") amounted to 71,110,000 m³ and 24,517 tons respectively during the period under review, representing a slight decrease of 0.5% and an increase of 3.0%*, respectively, over the same period of last year. The decrease in the sales volume of CNG mainly resulted from relocation of a CNG refueling station in Zhengzhou and intensified competition.

Major development of the gas business is summarized below:

South-western China District: The Group has formed a joint venture with an entity under the Chengdu municipal government. This region's business is expected to be the fastest growing one within the Group.

Inland China District: A CNG refueling station in Zhengzhou was relocated due to government re-zoning plan which led to lower sales of this region during the period under review.

* The comparative figures in 2010 have been reclassified to conform with the current period's presentation and accounting treatment.

In Shanxi Taiyuan, the Group is applying to the local government for operating licenses for two newly built CNG refueling stations.

Central China District: A new refueling station in Anhui commenced business and further growth can be expected in Anhui in the second half of 2011. The business in Xuzhou has been maintained at a stable level.

Southern China District: The Group's business in Guangzhou is growing steadily and the Group is in the process of identifying suitable sites to build new stations.

Shandong District: Competition in this region is keen. The Group is adopting new measures to maintain its market share.

North-eastern China District: Business in this region is stable. The Group is in discussion with a privately owned enterprise to build a LPG storage tank so as to enable the Group to maintain a more stable supply and pricing of LPG in this region. It is in the process of identifying a suitable site to build the new LPG storage tank.

(2) *Vehicle Conversion Kits*

In view of the fierce competition in this sector, the Group is of the view that there is little room to create significant value in this sector. Accordingly, the Group has decided to terminate its vehicle conversion kits business.

Business Outlook

The measures taken by the Group to reduce overhead (including downsizing its operational headquarters in China and relocating it from Beijing to Shenzhen) and improve operating efficiency are starting to produce encouraging results. Despite the difficult operating environment against a backdrop of escalating inflationary pressure on operating costs and keen competition, barring unforeseen circumstances, further improvement in the Group's operating results can be expected in the second half of 2011.

The Group will continue to look for ways for more effective deployment of its resources and identify suitable investment opportunities to broaden its earnings base and enhance its shareholder value.

Financial Resources

At 30 June 2011, the Group's borrowings (including interest-bearing bank and other borrowings and loans from a shareholder) amounted to approximately HK\$128.4 million (31 December 2010: HK\$140.3 million), of which HK\$95.3 million (31 December 2010: HK\$107.2 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\$676.7 million (31 December 2010: HK\$602.8 million) was 19.0% (31 December 2010: 23.3%). Cash and bank balances were HK\$147.0 million (31 December 2010: HK\$146.8 million).

During the six months ended 30 June 2011, the Group was not materially exposed to foreign currency risk.

Pledge of Assets

At 30 June 2011, the Group had pledged certain equipment and motor vehicles for bank borrowings granted.

Interim Dividend

The board of directors of the Company (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (2010: Nil).

Staff Benefit

At 30 June 2011, the Group had a total of 1,278 employees (2010: 1,362). The staff costs for the six months ended 30 June 2011 amounted to approximately HK\$36.8 million (2010: HK\$28.8 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.

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

25 August 2011

As of the date of this interim report, the Board comprises six directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Ji Hui (Chief Executive Officer) and Mr. Zang Zheng 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 2011, 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:

Name of director	Number of options directly beneficially owned
Ji Guirong	34,900,000
Ji Hui	22,000,000
	56,900,000

Save as disclosed above, as at 30 June 2011, 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 30 May 2011 (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 243,585,502 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 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK\$ per share**
	At 1 January 2011	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Directors									
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
	20,000,000	-	-	-	-	20,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	34,900,000	-	-	-	-	34,900,000			
Ji Hui	2,000,000	-	-	-	-	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	20,000,000	-	-	-	-	20,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	22,000,000	-	-	-	-	22,000,000			
	56,900,000	-	-	-	-	56,900,000			
Consultants									
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
	85,000,000	-	-	-	-	85,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	199,300,000	-	-	-	-	199,300,000			
Other employees									
In aggregate	10,000,000	-	-	-	-	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	75,000,000	-	-	-	-	75,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	85,000,000	-	-	-	-	85,000,000			
	341,200,000	-	-	-	-	341,200,000			

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 2011, the following interests and short positions of 5% or more of the issued share capital 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
Billirich Investment Limited ("Billirich")	(a)	Long	Beneficial owner	687,730,000	28.23%
AVIC International Holding (HK) Limited ("AVIC Int'l")	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
Tacko International Limited	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
AVIC International (HK) Group Limited	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
Grand Win Overseas Ltd. ("Grand Win")	(b)	Long	Beneficial owner	181,310,000	7.44%
Sun Shining Investment Corp.	(b)	Long	Interest of a controlled corporation	181,310,000	7.44%
Tai Yuen Textile Company Ltd.	(b)	Long	Interest of a controlled corporation	181,310,000	7.44%

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

Notes:

- (a) Billirich is a wholly-owned subsidiary of AVIC Int'l. Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 39.87% of the issued capital of AVIC Int'l. 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 Holding Corporation is a non-wholly-owned subsidiary of Aviation Industry Corporation of China. Accordingly, all these corporations are deemed to be interested in the shares held by Billirich.
- (b) Grand Win is a wholly-owned subsidiary of Sun Shining Investment Corp. Tai Yuen Textile Company Ltd. beneficially owns 82.85% equity interest in Sun Shining Investment Corp. and therefore, these corporations are deemed to be interested in the shares held by Grand Win.

Save as disclosed above, as at 30 June 2011, 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 applicable provisions of the Code on Corporate Governance Practices (the "CG 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 CG 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 2011 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 shareholders of Sino Gas Group Limited
(Incorporated in Hong Kong with limited liabilities)

Introduction

We have reviewed the interim financial information of Sino Gas Group Limited and its subsidiaries ("the Group") as at 30 June 2011 set out on pages 12 to 34, which comprises the interim condensed consolidated statement of financial position as at 30 June 2011 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 information. 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 information 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

Hong Kong
25 August 2011

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)
REVENUE	5	454,409	375,882
Cost of sales		(363,836)	(309,151)
Gross profit		90,573	66,731
Other income and gains, net	5	10,232	16,893
Selling and distribution costs		(39,532)	(31,136)
Administrative expenses		(44,401)	(46,747)
Write-off of other receivables		(1,558)	–
Finance costs	6	(5,480)	(7,419)
Share of profits and losses of jointly-controlled entities		(721)	(1,069)
Share of profits and losses of associates		151	–
PROFIT/(LOSS) BEFORE TAX	7	9,264	(2,747)
Income tax expense	8	(5,125)	(4,101)
PROFIT/(LOSS) FOR THE PERIOD		4,139	(6,848)
Attributable to:			
Owners of the parent		4,723	(4,405)
Non-controlling interests		(584)	(2,443)
		4,139	(6,848)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		HK0.21 cent	(HK0.23 cent)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	4,139	(6,848)
OTHER COMPREHENSIVE INCOME:		
Share of other comprehensive income of jointly-controlled entities	560	–
Share of other comprehensive income of associates	665	–
Exchange differences on translation of foreign operations	10,172	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	11,397	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	15,536	(6,848)
Attributable to:		
Owners of the parent	15,205	(4,405)
Non-controlling interests	331	(2,443)
	15,536	(6,848)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	408,530	423,051
Investment property		5,784	5,834
Prepaid land lease payments		28,037	40,603
Goodwill		128,462	128,462
Investments in jointly-controlled entities		38,459	14,625
Investments in associates		32,259	33,634
Prepayments and deposits	14	12,312	12,950
Due from a non-controlling shareholder	23(b)(i)	18,000	17,700
Total non-current assets		671,843	676,859
CURRENT ASSETS			
Inventories		4,298	5,695
Trade and bills receivables	13	34,003	15,077
Prepayments, deposits and other receivables	14	43,438	38,609
Due from non-controlling shareholders	23(b)(i)	14,742	16,883
Due from jointly-controlled entities	23(b)(ii)	23,596	2,214
Available-for-sale investments	12	-	23,600
Cash and bank balances		146,951	146,807
Total current assets		267,028	248,885
CURRENT LIABILITIES			
Trade payables	15	12,476	9,242
Other payables and accruals		44,535	39,171
Due to non-controlling shareholders	23(b)(i)	1,228	1,444
Due to associates	23(b)(ii)	2,791	113
Due to a jointly-controlled entity	23(b)(ii)	444	461
Loans from a shareholder	23(b)(iii)	30,974	-
Tax payable		15,768	17,055
Interest-bearing bank and other borrowings	16	97,400	109,300
Convertible bonds	17	-	57,237
Total current liabilities		205,616	234,023
NET CURRENT ASSETS		61,412	14,862
TOTAL ASSETS LESS CURRENT LIABILITIES		733,255	691,721

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Other payables and accruals		-	1,123
Loans from a shareholder	23(b)(iii)	-	30,974
Total non-current liabilities		-	32,097
Net assets		733,255	659,624
EQUITY			
Equity attributable to owners of the parent			
Issued capital	18	487,171	428,471
Equity component of convertible bonds	17	-	12,872
Reserves		189,491	161,414
		676,662	602,757
Non-controlling interests		56,593	56,867
Total equity		733,255	659,624

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent											
	Issued capital	Share premium account	Share option reserve	Equity component of convertible bonds	Special capital reserve	Exchange fluctuation reserve	Reserve fund	Capital redemption reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
Loss and 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
At 1 January 2011	428,471	829,393	36,514	12,872	828,646	67,692	1,865	3,865	(1,606,561)	602,757	56,867	659,624
Profit/(loss) for the period	-	-	-	-	-	-	-	-	4,723	4,723	(584)	4,139
Other comprehensive income for the period:												
Share of other comprehensive income of jointly-controlled entities	-	-	-	-	-	560	-	-	-	560	-	560
Share of other comprehensive income of associates	-	-	-	-	-	621	44	-	-	665	-	665
Exchange differences on translation of foreign operations	-	-	-	-	-	9,257	-	-	-	9,257	915	10,172
Total comprehensive income for the period	-	-	-	-	-	10,438	44	-	4,723	15,205	331	15,536
Issue of shares upon conversion of convertible bonds	58,700	-	-	-	-	-	-	-	-	58,700	-	58,700
Transfer of reserve upon conversion of convertible bonds	-	-	-	(12,872)	-	-	-	-	12,872	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(623)	(623)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	18	18
At 30 June 2011 (unaudited)	487,171	829,393*	36,514*	-	828,646*	78,130*	1,909*	3,865*	(1,588,966)*	676,662	56,593	733,255

* These reserve accounts comprise the consolidated reserves of HK\$189,491,000 (31 December 2010: HK\$161,414,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	17,424	(21,755)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	(3,097)	19,606
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(17,227)	70,604
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,900)	68,455
Cash and cash equivalents at beginning of period	146,807	118,944
Effect of foreign exchange rate changes, net	3,044	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	146,951	187,399
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	146,951	187,399

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 2011 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 2010.

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 2010, 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 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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, 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, net is as follows:

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)*
Revenue		
Operation of gas stations	454,409	375,882
Other income		
Interest income	484	186
Rental income	1,161	2,315
Trading of petroleum and gas-related products	786	505
Others	1,263	719
	3,694	3,725
Gains, net		
Gain on disposal of subsidiaries	6,784	1,667
Gain on disposal of an associate	375	–
Gain on disposal of an available-for-sale investment	252	2,166
Gain/(loss) on disposal of items of property, plant and equipment	(873)	9,335
	6,538	13,168
	10,232	16,893

* Certain comparative amounts have been reclassified to conform with the current period's presentation and accounting treatment.

6. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	2,868	3,081
Other loans	1,620	2,257
Convertible bonds	2,050	3,766
Total interest expense on financial liabilities	6,538	9,104
Less: interest capitalised	(1,058)	(1,685)
	5,480	7,419

7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000 (Restated)*
Cost of inventories sold	348,235	299,211
Depreciation on property, plant and equipment	21,590	19,572
Depreciation on investment property	149	–
Recognition of prepaid land lease payments	3,916	1,599
Loss/(gain) on disposal of items of property, plant and equipment	873	(9,335)
Write-off of other receivables	1,558	–

* Certain comparative amounts have been reclassified to conform with the current period's presentation and accounting treatment.

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 (2010: 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.

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Mainland China	5,125	4,101

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent of HK\$4,723,000 (2010: loss of HK\$4,405,000), and the weighted average number of ordinary shares of 2,288,761,103 (2010: 1,918,073,258) in issue during the period.

The calculation of the diluted earnings per share for the period ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the parent, as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The diluted loss per share for the period ended 30 June 2010 has not been presented as the conversion of the outstanding share options and convertible bonds would have an anti-dilutive effect on the basic loss per share for that period.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	4,723	(4,405)

	Number of shares For the six months ended 30 June	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	2,288,761,103	1,918,073,258
Effect of dilution – weighted average number of ordinary shares:		
Share options	3,518,196	–
	2,292,279,299	1,918,073,258

10. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2011 (2010: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$5 million (2010: HK\$12 million) in the development of construction in progress and HK\$18 million (2010: HK\$22 million) in purchasing other items of property, plant and equipment.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Overseas unlisted equity investments, at cost	145,666	145,666
Unlisted debt investment, at fair value	-	23,600
Impairment	(145,666)	(145,666)
	-	23,600

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

At 30 June 2011, 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 2010: HK\$137,858,000) acquired from China Media International Group Limited ("CMI") in 2003 which had been fully provided for in 2005. Under the sales and purchase agreement for this investment, 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 of HK\$137,858,000 was fully impaired as at 31 December 2005.

The remaining impairment losses of HK\$7,808,000 (31 December 2010: HK\$7,808,000) as at 30 June 2011 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 AND BILLS RECEIVABLES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Trade and bills receivables	35,608	16,682
Impairment	(1,605)	(1,605)
	34,003	15,077

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 and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

13. TRADE AND BILLS RECEIVABLES (Continued)

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
0 to 90 days	34,003	15,006
91 to 120 days	-	71
Over 120 days	1,605	1,605
	35,608	16,682

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Prepayments	23,916	33,634
Deposits and other receivables	161,912	148,003
Impairment	(130,078)	(130,078)
	55,750	51,559
Non-current portion included in prepayments, deposits and other receivables	(12,312)	(12,950)
	43,438	38,609

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:

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
	HK\$'000	HK\$'000
0 to 90 days	9,190	5,563
91 to 120 days	–	14
Over 120 days	3,286	3,665
	12,476	9,242

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 2011 (Unaudited)	31 December 2010 (Audited)
			HK\$'000	HK\$'000
Other loans – unsecured	–	On demand	2,150	2,150
Other loans – unsecured	7.10 to 7.71	2011 to 2012	13,650	17,470
Bank loans – unsecured	5.31 to 6.94	2011 to 2012	75,600	89,680
Bank loans – secured	8.83	2012	6,000	–
			97,400	109,300

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

Notes:

- (a) Certain of the bank loans are secured by pledge of the Group's gas station equipment and motor vehicles with total carrying value of HK\$29,999,000 (31 December 2010: Nil).

In addition, the Company has guaranteed certain of the Group's bank loans up to HK\$18,000,000 (31 December 2010: HK\$41,300,000) as at the end of the reporting period.

- (b) Except for the bank loans of HK\$81,600,000 (31 December 2010: HK\$89,680,000) and other loans of HK\$13,650,000 (31 December 2010: HK\$17,470,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

- (c) Except for the other loans of HK\$13,650,000 (31 December 2010: HK\$17,470,000) which are interest-bearing at the range from 7.10% to 7.71% (31 December 2010: 6.90% to 7.71%) per annum and repayable by 12 quarterly instalments commencing from 1 March 2009, all other loans are unsecured, interest-free and repayable on demand.

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 convertible bonds were fully converted upon maturity in the current period.

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:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Nominal value		
At 1 January	58,700	58,700
Conversion during the period/year	(58,700)	–
At period/year end	–	58,700
Liability component		
At 1 January	57,237	50,570
Conversion during the period/year	(58,700)	–
Interest expense	2,050	7,841
Interest paid	(587)	(1,174)
At period/year end	–	57,237
Equity component		
At 1 January	12,872	12,872
Conversion during the period/year	(12,872)	–
At period/year end	–	12,872

18. SHARE CAPITAL

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Authorised:		
10,000,000,000 (31 December 2010: 10,000,000,000) ordinary shares of HK\$0.20 each	2,000,000	2,000,000
Issued and fully paid:		
2,435,855,026 (31 December 2010: 2,142,355,026) ordinary shares of HK\$0.20 each	487,171	428,471

During the current period, 293,500,000 ordinary shares of HK\$0.20 each were issued upon conversion of the convertible bonds at a conversion price of HK\$0.20 per share.

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

19. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES

During the period ended 30 June 2011, the Group disposed of 99.3% interest in Qingdao Sinogas Company Limited ("Qingdao Sinogas"), 100% interest in Jilin Dongkun Gas Company Limited ("Jilin Dongkun") and 16.67% interest in Sinogas Chengdu Company Limited ("Sinogas Chengdu") at a consideration of HK\$2,400, HK\$16,800,000 and nil, respectively. Qingdao Sinogas is principally engaged in trading of conversion parts and gas station equipment and Jilin Dongkun and Sinogas Chengdu are principally involved in operation of gas stations. Immediately after the disposal, the Group's interest in Sinogas Chengdu reduced to 83.33% and Sinogas Chengdu became a jointly-controlled entity of the Group as the dominate control on financial and operating policies of Sinogas Chengdu was lost with the amendments on the articles of association of Sinogas Chengdu during the current period.

	HK\$'000
Net assets disposed of	33,994
Non-controlling interest	18
Gain on disposal	6,784
	40,796
Satisfied by:	
Investment in a jointly-controlled entity	23,994
Cash consideration	16,802
	40,796

20. 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.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases one of its gas stations and the investment property under non-cancellable operating lease arrangements with terms ranging from two to fifteen years.

At 30 June 2011, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	2,188	2,246
In the second to fifth years, inclusive	6,626	5,282
After five years	13,229	15,322
	22,043	22,850

21. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within one year	14,859	14,568
In the second to fifth years, inclusive	42,098	38,268
After five years	47,525	52,730
	104,482	105,566

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK\$52,068,000 (31 December 2010: HK\$57,388,000) contracted but not provided for in the interim condensed consolidated financial statements as at the end of the reporting period.

23. 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:

	Notes	For the six months ended 30 June	
		2011	2010
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Sales of products to non-controlling shareholders	(i)	59,776	67,516
Sales of products to a jointly-controlled entity	(i)	1,607	–
Purchases of products from a jointly-controlled entity	(ii)	16,868	–
Provision of transportation service to a jointly-controlled entity	(iii)	2,418	–
Interest expenses to a shareholder	(iv)	561	572

Notes:

- (i) The sales of gas to non-controlling shareholders and a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.
- (ii) The purchases of gas from a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.
- (iii) The provision of transportation service to a jointly-controlled entity was made at prices mutually agreed between the parties, which approximated market rates.
- (iv) The interest expenses paid to a shareholder were charged at an interest rate of 3.65% per annum.

23. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

- (i) The balances with non-controlling shareholders are unsecured, non-interest-bearing and except for a balance of HK\$18,000,000 (31 December 2010: HK\$17,700,000) which is not expected to be repaid within 12 months from the end of the reporting period, have no fixed terms of repayment.
- (ii) All balances with jointly-controlled entities and associates are unsecured, non-interest-bearing and have no fixed terms of repayment.
- (iii) The loans from a shareholder are unsecured, bear interest at 3.65% (31 December 2010: 3.65%) per annum and are repayable within one year (31 December 2010: two years).

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	
	2011 (Unaudited)	2010 (Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	1,308	1,188
Post-employment benefits	6	6
Total compensation paid to key management personnel	1,314	1,194

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

24. APPROVAL OF THE INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 25 August 2011.