

INTERIM REPORT 2009



Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

Stock code : 260

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's unaudited consolidated revenue for the six months ended 30 June 2009 amounted to HK\$243.2 million, compared with HK\$134.5 million reported in the previous corresponding period, there was an increase in gas sales revenue of approximately HK\$108.7 million for the current period, a jump in 80.8%. The increase in gas sales revenue was mainly contributed from the newly constructed compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") refueling stations in the People's Republic of China (the "PRC").

The Group recorded a gross profit from gas sales activities of HK\$66.2 million for the six months ended 30 June 2009, which represented an improvement on the gas sales gross profit of HK\$16.3 million reported in the previous corresponding period. The overall gross profit margin improved from 12.1% in first half of 2008 to 27.2% in first half of 2009.

Comparing with the previous corresponding period, there was a significant improvement on gas sales revenue and margins in the first half of 2009. The continuous improvement in results was mainly contributed by the return generated from the new gas refueling stations. The Group has recorded improving operating sales and margins during the period, albeit the increase in new business development cost and the initial running under-utilizations of the launch of new gas refueling stations during the period. The Group's unaudited consolidated loss attributable to equity holders for the six months ended 30 June 2009 reduced to HK\$5.9 million, compared with the loss amounted to HK\$22.1 million for the previous corresponding period.

The improved performance in first half of 2009 signified the return from the Group's investment and effort. The Group has focused on the CNG and LPG vehicles refueling stations business in the last few years and its business achievement up-to-date is respectable. The board of directors (the "Board") is confident of its business outlook and is in well position to achieve further growth in the medium to long term.

OPERATIONAL REVIEW

During the period, the new CNG refueling stations in Henan, Shandong and Jiangsu provinces have boosted the Group's earnings. The Group is committed to build more stations to penetrate this vast vehicles market.

The Group has successfully established presence and increased its retail penetrations in various major cities in the PRC. The operating result for the first half of 2009 has shown significant improvements, the Board is confident that these projects will boost further revenue and profit growth in the near future. In addition to expand presence in existing cities, the Group is expanding into other key major cities in Jiangxi and Shanxi provinces. Going forward, the Group continues to focus on the vehicles gas consumption market and targets to complete more CNG mother and daughter stations. The next few years will be a great leap period for the Group and the Board is confident that the Group is well positioned to capture this growing market in the PRC.

BUSINESS OUTLOOK

The Group will continue to focus its activities of gas related business and expand its natural gas business in the PRC. The use of CNG in the PRC is becoming more popular, partly due to government policies in the PRC in promoting natural gas as a more environmental friendly energy source and partly due to the fact that natural gas is more cost-efficient than other energy sources such as petroleum. In addition to the use of CNG in households and for industrial purposes, CNG has also become increasingly popular energy sources for motor vehicles because it is a cheaper and cleaner substitute of petroleum. The Group will continue to construct more CNG refueling stations in the PRC. Leveraging on its experience and management expertise, the Group will further consolidate its leading marketplace in the PRC.

FINANCIAL RESOURCES

At 30 June 2009, the Group's borrowings (including interest-bearing bank and other borrowings, finance lease payables and loans from a shareholder) amounted to approximately HK\$177.3 million (31 December 2008: HK\$92.4 million), of which HK\$117.0 million (31 December 2008: HK\$49.4 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 equity holders of the parent of HK\$464.8 million (31 December 2008: HK\$455.2 million) was 38.1% (31 December 2008: 20.3%). Cash and bank balances were HK\$126.1 million (31 December 2008: HK\$75.3 million).

During the six months ended 30 June 2009, 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 2009 (2008: Nil).

STAFF BENEFIT

At 30 June 2009, the Group had a total of 1,070 employees. The total employees' remuneration for the six months ended 30 June 2009 amounted to approximately HK\$20.5 million (2008: HK\$20.9 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.

CHARGES ON GROUP ASSETS

At 30 June 2009, the Group had pledged equity interests of certain subsidiaries of the Company and the office premises in Hong Kong for the loans granted from a local financial institution.

By order of the Board

LO CHI HO WILLIAM

Chief Executive Officer

Hong Kong, 18 September 2009

As of the date of this interim report, the Board comprised seven directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Lo Chi Ho William (Chief Executive Officer), Mr. Sun Wenhao and Mr. Ji Hui 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 2009, 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 position in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Lo Chi Ho, William	Beneficial owner	28,710,000	1.59%

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Ji Guirong	14,900,000
Lo Chi Ho, William	24,900,000
Ji Hui	2,000,000
	41,800,000

Save as disclosed above, as at 30 June 2009, 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.

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

At 30 June 2009, 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
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
AVIC International Holding (HK) Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Billirich Investment Limited	(a)	Long	Beneficial owner	444,480,000	24.59%	137,500,000
CATIC (H.K.) Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Tacko International Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Bonus World Limited		Long	Beneficial owner	120,000,000	6.64%	-
Deephaven Relative Value Equity Trading Ltd.	(b)	Long	Beneficial owner	107,560,000	5.95%	-
Deephaven Capital Management LLC	(b)	Long	Interest of a controlled corporation and investment manager	107,560,000	5.95%	-
Deephaven Capital Management Holdings LLC	(b)	Long	Interest of a controlled corporation	107,560,000	5.95%	-
Deephaven Managing Partners, LLC	(b)	Long	Interest of a controlled corporation	107,560,000	5.95%	-
Knight Capital Group Inc.	(b)	Long	Interest of a controlled corporation	107,560,000	5.95%	-
Colin Smith	(b)	Long	Interest of a controlled corporation	107,560,000	5.95%	-
Sun Shining Investment Corp.	(c)	Long	Beneficial owner and interest of a controlled corporation	89,050,000	4.93%	156,000,000
Tai Yuen Textile Company Limited	(c)	Long	Interest of a controlled corporation	89,050,000	4.93%	156,000,000
Power Global Investments Limited	(d)	Long	Beneficial owner	-	-	150,000,000

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 International Holding (HK) Limited ("AVIC International Holding") (formerly known as CATIC International Holding Limited). Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 39.87% of the issued capital of AVIC International Holding. Tacko International Limited is a wholly-owned subsidiary of CATIC (H.K.) Limited, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation ("AVIC International") (formerly known as China National Aero-Technology Import & Export Corporation). AVIC International is a 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) Deephaven Relative Value Equity Trading Ltd. ("Deephaven") is a wholly-owned subsidiary of Deephaven Global Multi-Strategy Master Fund LP ("DGMSMF") (formerly known as Deephaven Market Neutral Master Fund LP). Deephaven Capital Management LLC, which holds an equity interest of approximately 0.10% in DGMSMF, is a wholly-owned subsidiary of Deephaven Capital Management Holdings LLC ("DCMH"). DCMH is owned as to 49% by Deephaven Managing Partners, LLC ("DMP") and 51% by KEP Holdings I LLC, which in turn is a wholly-owned subsidiary of Knight Capital Group Inc. Mr. Colin Smith beneficially owns 65% equity interest in DMP. Accordingly, all the aforesaid parties are deemed to be interested in the shares held by Deephaven.
- (c) The 89,050,000 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.
- (d) Pursuant to the termination agreement dated 31 August 2009 (the "Termination Agreement") entered into between the Company and Power Global Investments Limited ("Power Global"), the convertible bond agreement dated 24 February 2009 entered into between the aforesaid parties was terminated with effect from the date of the Termination Agreement. Therefore, Power Global ceased to be interested in 150,000,000 convertible shares of the Company on 31 August 2009.

Save as disclosed above, as at 30 June 2009, 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

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to 13.51B(1) of the Listing Rules, set out below is the change in director's information:

Mr. Lo Chi Ho William, an executive director of the Company, retired as an independent non-executive director of Bright Prosperous Holdings Limited (formerly known as Magnesium Resources Corporation of China Limited), a company listed on the main board of the Stock Exchange, at its annual general meeting held on 21 August 2009.

AUDIT COMMITTEE

The Audit Committee, comprises the three independent non-executive directors of the Company, 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 and approved 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 and two independent non-executive directors 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 2009 have been reviewed by the Audit Committee, and have been reviewed by 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 2009 set out on pages 10 to 32, which comprises the interim condensed consolidated statement of financial position as at 30 June 2009 and the related interim condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow 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
18 September 2009

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
REVENUE		243,178	134,480
Cost of sales		(176,937)	(118,196)
Gross profit		66,241	16,284
Other income and gain	5	740	13,945
Selling and distribution costs		(18,828)	(9,177)
Administrative expenses		(34,114)	(36,576)
Finance costs	6	(5,387)	(5,572)
Share of profits and losses of jointly-controlled entities		856	(210)
PROFIT/(LOSS) BEFORE TAX	7	9,508	(21,306)
Tax	8	(5,458)	(540)
PROFIT/(LOSS) FOR THE PERIOD		4,050	(21,846)
Attributable to:			
Equity holders of the parent		(5,884)	(22,115)
Minority interests		9,934	269
		4,050	(21,846)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		(0.33 cents)	(1.24 cents)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) for the period	4,050	(21,846)
Other comprehensive income:		
Exchange differences on translation of foreign operations	3,033	27,020
Other comprehensive income for the period, net of tax	3,033	27,020
Total comprehensive income for the period	7,083	5,174
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Equity holders of the parent	(3,223)	3,222
Minority interests	10,306	1,952
	7,083	5,174

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	397,069	368,982
Prepaid land lease payments		21,503	18,100
Goodwill		128,478	128,269
Interests in jointly-controlled entities		13,261	12,286
Available-for-sale investments	12	3,326	1,356
Deposits		59,400	54,744
Loan to a minority shareholder	22(b)(ii)	-	9,500
Total non-current assets		623,037	593,237
CURRENT ASSETS			
Inventories		12,393	11,624
Trade receivables	13	12,642	20,644
Prepayments, deposits and other receivables	14	33,480	26,159
Due from minority shareholders	22(b)(i)	10,609	7,295
Loan to a minority shareholder	22(b)(ii)	9,500	-
Cash and bank balances		126,092	75,349
Total current assets		204,716	141,071
CURRENT LIABILITIES			
Trade payables	15	16,061	13,686
Other payables and accruals		40,595	34,598
Due to an associate	22(b)(i)	109	537
Due to a jointly-controlled entity	22(b)(i)	654	1,042
Due to minority shareholders	22(b)(i)	4,195	1,096
Loans from a shareholder	22(b)(iii)	30,974	8,974
Tax payable		16,850	13,136
Interest-bearing bank and other borrowings	16	95,287	54,100
Convertible bonds	17	-	85,767
Finance lease payables		-	88
Total current liabilities		204,725	213,024
NET CURRENT LIABILITIES		(9)	(71,953)
TOTAL ASSETS LESS CURRENT LIABILITIES		623,028	521,284

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

		30 June 2009 (Unaudited)	31 December 2008 (Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	51,011	29,284
Convertible bonds	17	47,553	–
Total non-current liabilities		98,564	29,284
Net assets		524,464	492,000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	18	361,471	361,471
Equity component of convertible bonds	17	12,872	10,164
Reserves		90,504	83,563
		464,847	455,198
Minority interests		59,617	36,802
Total equity		524,464	492,000

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent											
	Issued capital HK\$'000	Share premium 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	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	350,371	766,939	15,501	10,164	828,646	26,254	1,865	3,865	(1,573,132)	430,473	40,390	470,863
Loss for the period	-	-	-	-	-	-	-	-	(22,115)	(22,115)	269	(21,846)
Other comprehensive income	-	-	-	-	-	25,337	-	-	-	25,337	1,683	27,020
Total comprehensive income for the period	-	-	-	-	-	25,337	-	-	(22,115)	3,222	1,952	5,174
Issue of shares upon exercise of warrants	11,100	-	-	-	-	-	-	-	-	11,100	-	11,100
Equity-settled share option arrangements	-	-	3,938	-	-	-	-	-	-	3,938	-	3,938
Transfer of reserve upon forfeiture of options	-	294	(294)	-	-	-	-	-	-	-	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(434)	(434)
At 30 June 2008 (unaudited)	361,471	767,233	19,145	10,164	828,646	51,591	1,865	3,865	(1,595,247)	448,733	41,908	490,641
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
Loss for the period	-	-	-	-	-	-	-	-	(5,884)	(5,884)	9,934	4,050
Other comprehensive income	-	-	-	-	-	2,661	-	-	-	2,661	372	3,033
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 minority shareholders	-	-	-	-	-	-	-	-	-	-	(2,085)	(2,085)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,931)	(3,931)
Capital contributions from minority 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

* These reserve accounts comprise the consolidated reserves of HK\$90,504,000 (31 December 2008: HK\$83,563,000) in the condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**For the six months ended
30 June**

	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	35,770	19,622
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(55,710)	(43,526)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	69,948	(30,437)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	50,008	(54,341)
Cash and cash equivalents at beginning of period	75,349	135,232
Effect of foreign exchange rate changes, net	735	5,094
CASH AND CASH EQUIVALENTS AT END OF PERIOD	126,092	85,985
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	126,092	85,985

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.

The principal activities of the Group are described in note 4.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 June 2009 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 2008.

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 2008, 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. IMPACT OF NEW AND REVISED HKFRSs

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>

3. IMPACT OF NEW AND REVISED HKFRSs (Continued)

HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording for annual periods beginning on or after 1 January 2009.

- * Improvements to HKFRSs contains amendments to HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) **HKAS 1 (Revised)** *“Presentation of Financial Statements”*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group adopted HKAS 1 (Revised) from 1 January 2009. The adoption of the revised standard has no effect on the financial position or results of operations of the Group. It does, however, result in certain presentational changes in the presentation and disclosures of financial statements.

3. IMPACT OF NEW AND REVISED HKFRSs (Continued)**(b) HKFRS 8 "Operating Segments"**

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 "Segment Reporting", and disclosure about each of these segments are shown in note 4.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into operating segments based on their products and has two reportable segments as follows:

- (a) Operation of gas stations engages in the operation of petroleum, CNG and LPG refueling stations; and
- (b) Trading of gas related products engages in the trading of motor vehicles conversion parts and gas station equipment.

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the condensed consolidated financial statements. Group financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

4. SEGMENT INFORMATION (Continued)

The following table presents revenue and profit/(loss) for the Group's primary segments for the six months ended 30 June 2009 and 2008.

	Operation of gas stations		Trading of gas-related products		Consolidated	
	2009	2008	2009	2008	2009	2008
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	241,434	127,562	1,744	6,918	243,178	134,480
Other revenue	-	6,858	-	967	-	7,825
Total	241,434	134,420	1,744	7,885	243,178	142,305
Segment results	31,670	(2,107)	(9,944)	(5,166)	21,726	(7,273)
Interest and rental income and unallocated gains	-	-	-	-	740	1,686
Unallocated expenses	-	-	-	-	(8,427)	(14,371)
Finance costs	-	-	-	-	(5,387)	(5,572)
Gain on disposal of an available-for-sale investment	-	-	-	-	-	4,434
Share of profits and losses of jointly-controlled entities	856	(210)	-	-	856	(210)
Profit/(loss) before tax					9,508	(21,306)
Tax					(5,458)	(540)
Profit/(loss) for the period					4,050	(21,846)

5. OTHER INCOME AND GAIN

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<u>Other income</u>		
Interest income	121	818
Income from installation of infrastructure for CNG supply	-	967
Government grants received	-	6,858
Rental income	569	751
Others	50	117
	740	9,511
<u>Gain</u>		
Gain on disposal of an available-for-sale investment	-	4,434
	740	13,945

6. FINANCE COSTS

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	1,902	1,931
Interest on bank loans wholly repayable after five years	300	221
Interest on other loans wholly repayable within five years	543	-
Interest on convertible bonds wholly repayable within five years	2,641	3,414
Interest on a finance lease	1	6
	5,387	5,572

7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2009 (Unaudited)	2008 (Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	167,957	118,196
Depreciation	15,457	10,191
Recognition of prepaid land lease payments	1,206	907
Equity-settled share option expense	–	3,938
Loss on disposal of items of property, plant and equipment	–	1,238
Impairment of trade receivables	2,439	–
Impairment for inventories	1,953	–

8. 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 (2008: 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	
	2009 (Unaudited)	2008 (Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Mainland China	5,458	540
Total tax charge for the period	5,458	540

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$5,884,000 (2008: HK\$22,115,000), and the weighted average number of 1,807,355,026 (2008: 1,783,264,367) ordinary shares in issue during the period.

Diluted loss per share amounts for the six months ended 30 June 2009 and 2008 are the same as the basic loss per share amounts, as the share options and convertible bonds outstanding during the periods had an anti-dilutive effect on the basic loss per share for the periods.

10. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2009 (2008: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately with a cost of HK\$26 million (2008: HK\$13 million) in the development of construction in progress and HK\$15 million (2008: HK\$37 million) in purchasing other items of property, plant and equipment.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Overseas unlisted equity investments, at cost	148,992	147,022
Impairment	(145,666)	(145,666)
	3,326	1,356

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 2009, the Group's unlisted equity investments with carrying amounts of HK\$3,326,000 (31 December 2008: HK\$1,356,000) 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.

12. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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 2008: 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 which was not able to enforce the judgement up to the date of this report. 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 2008: HK\$7,808,000) as at 30 June 2009 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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Trade receivables	20,314	25,855
Impairment	(7,672)	(5,211)
	12,642	20,644

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.

An aged analysis of the trade receivables as at the date of statement of financial position, based on the invoice date, is as follows:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
0 – 90 days	9,445	16,660
91 – 120 days	–	1,494
Over 120 days	10,869	7,701
	20,314	25,855

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Prepayments	23,029	20,021
Deposits and other receivables	139,568	135,255
Impairment	(129,117)	(129,117)
	33,480	26,159

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 date of statement of financial position, based on the invoice date, is as follows:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
0 – 90 days	7,019	13,199
91 – 120 days	492	–
Over 120 days	8,550	487
	16,061	13,686

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 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Current				
Other loans – unsecured	–	On demand	2,150	2,150
Current portion of other loans				
– unsecured	6.9 to 7.71	2010	17,960	3,037
Bank loans – unsecured	5.35 to 8.22	2010	69,540	39,550
Current portion of long term				
bank loans – secured	Prime – 2.8 to HIBOR + 2.25	2010	5,637	9,363
			95,287	54,100
Non-current				
Other loans – unsecured	6.9 to 7.71	2010 – 2012	29,472	6,795
Bank loans – secured	Prime – 2.8 to HIBOR + 2.25	2010 – 2021	21,539	22,489
			51,011	29,284
			146,298	83,384

At 30 June 2009, certain of the bank loans are secured by:

- (i) pledges of equity interests in certain subsidiaries of the Company;
- (ii) pledge of the Group's building in Hong Kong with a carrying value of HK\$21,973,000 (31 December 2008: HK\$22,222,000); and
- (iii) corporate guarantees totalling HK\$71,910,000 (31 December 2008: HK\$65,860,000) executed by the Company.

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

Except for the unsecured bank loans of HK\$69,540,000 (31 December 2008: HK\$39,550,000) and other loans of HK\$47,432,000 (31 December 2008: HK\$9,832,000) which are denominated in Renminbi ("RMB"), all other borrowings are in Hong Kong dollars.

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

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\$0.2 per share anytime after issue of the convertible bonds. Any convertible bonds not converted will be redeemed at par in two years after the date of issuance. The bonds carry interest at a rate of 2% per annum, which is 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.

The convertible bonds issued with an aggregate nominal value of HK\$85,800,000 in 2007 were fully redeemed upon maturity in the current period.

17. CONVERTIBLE BONDS (Continued)

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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
<u>Nominal value</u>		
At 1 January	85,800	85,800
Issuance of convertible bonds	58,700	–
Redemption during the period	(85,800)	–
At period/year end	58,700	85,800
<u>Liability component</u>		
At 1 January	85,767	75,636
Issuance of convertible bonds	45,828	–
Redemption during the period	(85,800)	–
Interest expense	2,641	12,705
Interest paid	(883)	(2,574)
At period/year end	47,553	85,767
<u>Equity component</u>		
At 1 January	10,164	10,164
Issuance of convertible bonds	12,872	–
Redemption during the period	(10,164)	–
At period/year end	12,872	10,164

18. SHARE CAPITAL

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Authorised: 10,000,000,000 (31 December 2008: 10,000,000,000) ordinary shares of HK\$0.2 each	2,000,000	2,000,000
Issued and fully paid: 1,807,355,000 (31 December 2008: 1,807,355,000) ordinary shares of HK\$0.2 each	361,471	361,471

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 as at 30 June 2009.

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 2009, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited)	31 December 2008 (Audited)
	HK\$'000	HK\$'000
Within one year	2,400	4,365
In the second to fifth years, inclusive	5,614	5,531
After five years	15,581	16,156
	23,595	26,052

(b) As lessee

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

At 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited)	31 December 2008 (Audited)
	HK\$'000	HK\$'000
Within one year	6,484	9,709
In the second to fifth years, inclusive	23,382	38,857
After five years	65,910	63,767
	95,776	112,333

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\$60,132,000 (31 December 2008: HK\$80,460,000) contracted but not provided for in the interim condensed consolidated financial statements as at 30 June 2009.

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:

	Notes	For the six months ended	
		30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Sales of products to minority shareholders	(i)	35,391	11,258
Purchases of products from a jointly-controlled entity	(ii)	–	1,141
Interest income from a minority shareholder	(iii)	–	40
Rental income from an associate	(iv)	408	595
Interest expenses to a shareholder	(v)	543	–

Notes:

- (i) The sales of gas to minority shareholders were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases of gas from a jointly-controlled entity were made according to the published prices and conditions offered by the jointly-controlled entity to its major customers.
- (iii) The interest income received from a minority shareholder was charged at an interest rate of 3% per annum.
- (iv) The rental income received from an associate was mutually agreed between the Group and the associate with reference to market rent.
- (v) The interest expenses paid to a shareholder were charged at an interest rate of 3.65% per annum.

22. RELATED PARTY TRANSACTIONS (Continued)**(b) Outstanding balances with related parties:**

- (i) Except for a loan to a minority shareholder for the period ended 30 June 2008 which was interest-bearing at 3% per annum, all balances with a jointly-controlled entity, an associate and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.
- (ii) The loan to a minority shareholder is unsecured, non-interest bearing and repayable within one year.
- (iii) The loans from a shareholder are unsecured, bear interest at 3.65% per annum and are repayable within 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	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	2,224	4,074
Post-employment benefits	12	12
Equity-settled share option expense	-	788
Total compensation paid to key management personnel	2,236	4,874

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

23. POST BALANCE SHEET EVENTS

On 30 July 2009, the Group and SKGAS Co. Korea ("SKGAS"), an independent company incorporated in South Korea, entered into an agreement pursuant to which the Group shall purchase and SKGAS shall sell the entire registered and paid up capital of Jilin SK-SH Gas Co. Ltd., a company established in the PRC, at a total cash consideration of RMB11,924,000 (equivalent to approximately HK\$13,593,000).

On 31 August 2009, the Company entered into a termination agreement with a subscriber in which both parties agreed to terminate the convertible bond agreement entered on 24 February 2009. No convertible bond was issued to the subscriber during the period.

24. APPROVAL OF THE INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 18 September 2009.