中國油氣控股有限公司
SINO OIL AND GAS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 702)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") of Sino Oil and Gas Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in Hong Kong Dollars)

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
Turnover	4	29,224	15,155
Direct costs		(26,021)	(20,241)
Gross profit/(loss)		3,203	(5,086)
Other revenue	5	5,558	2,283
Other gains and (losses), net	6	73,066	1,049
Administrative expenses		(69,522)	(23,897)
Profit/(loss) from operations		12,305	(25,651)
Finance costs	7(a)	(1,453)	(1,767)
Share of loss of a jointly controlled entity		(2,658)	(5,522)
Profit/(loss) before income tax expenses	7	8,194	(32,940)
Income tax expenses	8	(3,510)	–
Profit/(loss) for the year from continuing operations		4,684	(32,940)
Discontinued operations			
Profit for the year from discontinued operations		-	14,015
Profit/(loss) for the year		4,684	(18,925)

Consolidated Statement of Comprehensive Income

(Continued)

For the year ended 31 December 2010
(Expressed in Hong Kong Dollars)

	Notes	2010 HK$'000	2009 HK$'000
Other comprehensive income, after tax			
Exchange differences on translating foreign operation		7,407	364
Less: Reclassification of exchange reserve to profit or loss upon disposal of foreign subsidiaries		(335)	(16,456)
Other comprehensive income for the year		7,072	(16,092)
Total comprehensive income for the year		11,756	(35,017)
Profit/(loss) attributable to:			
Owners of the Company		6,108	(18,784)
Non-controlling interests		(1,424)	(141)
		4,684	(18,925)
Total comprehensive income attributable to:			
Owners of the Company		13,180	(34,876)
Non-controlling interests		(1,424)	(141)
		11,756	(35,017)
Earnings/(loss) per share - Basic	9		
– From continuing and discontinued operations		0.101 HK cents	(0.431) HK cents
– From continuing operations		0.101 HK cents	(0.752) HK cents
– From discontinued operations		N/A	0.321 HK cents
Earnings/(loss) per share - Diluted	9		
– From continuing and discontinued operations		0.098 HK cents	(0.431) HK cents
– From continuing operations		0.098 HK cents	(0.752) HK cents
– From discontinued operations		N/A	0.321 HK cents

Consolidated Statement of Financial Position

At 31 December 2010
(Expressed in Hong Kong Dollars)

		2010		2009	
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets					
Property, plant and equipment			89,199		115,805
Gas exploration and evaluation assets	12		2,598,644		-
Intangible assets			49,219		95,434
Goodwill			4,230		4,230
Interest in a jointly controlled entity			6,948		9,606
Pledged deposits			-		1,130
Deposits paid			2,355		2,276
Total non-current assets			2,750,595		228,481
Current assets					
Inventories		-		446	
Trade and other receivables, deposits and prepayments	13	72,738		6,740	
Notes receivable	14	135,000		-	
Other assets	15	222,458		-	
Cash and cash equivalents		242,529		10,535	
Total current assets		672,725		17,721	
Total assets			3,423,320		246,202
Current liabilities					
Other payables and accruals	16	(878,952)		(21,767)	
Provision		-		(338)	
Taxation		(895)		-	
Total current liabilities		(879,847)		(22,105)	
Net current liabilities			(207,122)		(4,384)
Total assets less current liabilities			2,543,473		224,097
Non-current liabilities					
Convertible note		-		(16,824)	
Deferred tax liabilities		(15,098)		(12,461)	
Amount due to a controlling owner		-		(46,521)	
Total non-current liabilities			(15,098)		(75,806)
NET ASSETS			2,528,375		148,291
Capital and reserves attributable to owners of the Company					
Share capital			91,414		43,861
Reserves			2,436,961		104,289
Equity attributable to owners of the Company			2,528,375		148,150
Non-controlling interests			-		141
TOTAL EQUITY			2,528,375		148,291

Notes to the Financial Statements

1. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention as modified by the inclusion of certain financial instruments at fair value.

The Group had operating cash outflows of HK$109,333,000 for the year ended 31 December 2010. As at that date, the Group's current liabilities exceeded current assets by HK$207,122,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group's ability to do so will depend on management's continuing efforts to improve the Group's profitability and operating cash flow and extending the payment period of payable.

Subsequent to the end of reporting period, the Group has successfully negotiated with the vendor of Power Great Group and obtained their confirmation that the Group can settle the remaining consideration of HK$300,000,000 included in "other payables and accruals" and set out in note 16(i) due to them until early 2012. In addition, Orion Energy International Inc. ("OEI"), a subsidiary of the Group, has obtained a letter of financial support from a contractor of OEI, a shareholder of which is also a non-controlling shareholder of the Company, to confirm that the contractor will not request for payment of exploration costs payable of approximately HK$256,000,000 included in "other payables and accruals" as set out in note 16(ii), until OEI has the necessary working capital to do so. Three major shareholders of the Company have provided letters of financial support respectively to the Group undertaking to provide continuous financial support to the Group in the next twelve months.

As a result of the financial support the Group has obtained and after taking into account the Group's cash flow projection for the coming year, the directors are confident that the Group will have sufficient working capital to meet its liabilities when they fall due in the next twelve months from the end of the reporting period. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. These consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. ADOPTION OF NEW AND REVISED HKFRSs

Adoption of new / revised HKFRSs - effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following:

HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised standard applies prospectively for annual periods beginning on or after 1 July 2009, requires the effects of all transactions with non-controlling interests (previously minority interests) to be recognised within equity if there is no loss in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. As the Group had already adopted such approach in the past, the revised standard has no impact on the Group's financial statements for the current year.

HKFRS 3 (revised) - Business Combinations

The revised standard introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combination achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that at an acquisition occurs and future reported results. The Group applied HKFRS 3 (revised) prospectively to the business combinations from 1 January 2010 and the adoption of the revised standard has no impact on the Group's financial position and performance as there has been no business combination transaction for the current year.

3. ADOPTION OF NEW AND REVISED HKFRSs *(CONTINUED)*

Adoption of new / revised HKFRSs - effective 1 January 2010 *(continued)*

HKAS 17 (Amendment) - Leases

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group has reassessed the classification of land elements of unexpired leases at the date it adopts the amendments on the basis of information existing at the inception of the lease and concluded that the classification of such land leases as operating leases continues to be appropriate.

4. TURNOVER

The principal activities of the Group are operation of (i) exploitation and sale of crude oil and natural gas and (ii) exploration, development and production of coalbed methane. Since the operation of coalbed methane has yet to commence commercial production, no turnover was generated during the year 2010.

The amount of each significant category of revenue recognised in turnover during the year was as follows:

	2010 HK$'000	2009 HK$'000
Continuing operations		
Sale of crude oil	23,899	15,155
Sale of natural gas	5,325	-
	29,224	15,155
Discontinued operations		
Sale of natural gas and LPG at refilling stations	-	19,279
	29,224	34,434

5. OTHER REVENUE

	2010 HK$'000	2009 HK$'000
Continuing operations		
Interest income on bank deposits	103	193
Imputed interest income on notes receivable	1,444	-
Rental income	115	583
Compensation (note)	2,962	1,481
Others	934	26
	5,558	2,283
Discontinued operations		
Interest income on bank deposits	-	5
	5,558	2,288

Note: During the year 2009, the Group received compensation of HK$4,443,000 from an operating consultant for causing a technical fault in the production of crude oil which resulted in less crude oil being produced from the Liuluoyu oil field since it was acquired by the Group. The fault was only temporary and production had resumed to most the normal level by the beginning of year 2010. The Group originally expected it would take up to 36 months to make up the loss in production caused by the fault. Accordingly, the directors decided to recognise the compensation received as other income over a period of three years from February 2009. During the year 2010, the Group continued to make progress and the rate of crude oil production in the Liuluoyu oil field exceeded expectation of the management. Management considered it would be appropriate to recognise the balance of compensation of HK$2,962,000 in year 2010.

6. OTHER GAINS AND (LOSSES), NET

	2010 HK$'000	2009 HK$'000
Continuing operations		
Impairment loss on goodwill	-	(4,000)
Other receivables written off	(465)	-
Fair value loss on notes receivable	-	(1,000)
Loss on disposal of property, plant and equipment	(3)	-
Exchange gains, net	1,439	408
Excess of the Group's share of the fair value of net assets of an oil field acquired over the cost of acquisition	-	4,585
Gain on disposal of available-for-sale investments	-	1,056
Gain on disposal of subsidiaries (note 17)	72,798	-
Loss on redemption of convertible note	(703)	-
	73,066	1,049

7. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSES

Profit/(loss) before income tax expenses is arrived at after charging/ (crediting):

	2010	2009
	HK$'000	HK$'000
a) Finance costs		
Continuing operations		
Imputed interest on convertible note	1,452	1,555
Interest on borrowing repayable within one year	-	212
Interest on loan from non-controlling shareholders repayable within one year	196	-
Less: capitalised to gas exploration and evaluation assets (note 12)	(196)	-
Others	1	-
	1,453	1,767
b) Other items		
Continuing operations		
Cost of inventories	446	-
Depreciation of property, plant and equipment	10,351	7,741
Amortisation of intangible assets #	323	122
Discontinued operations		
Cost of inventories	-	9,717
Depreciation of property, plant and equipment	-	1,624
Amortisation of prepaid lease payments	-	155

Included in "direct costs" as disclosed in the consolidated statement of comprehensive income.

8. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the group companies comprising the continuing operations did not have estimated assessable profits subject to Hong Kong profits tax during the years ended 31 December 2010 and 2009. During the year 2010, the subsidiaries in the Peoples' Republic of China (the "PRC") are subject to statutory tax rate of 25%. The PRC subsidiaries did not have any assessable income subject to the PRC income tax during the year ended 31 December 2009. The former subsidiaries in the United States, which are subject to a tax rate of 34%, incurred losses for tax purpose during the years ended 31 December 2010 and 2009.

The amount of income tax expenses charged to the consolidated statement of comprehensive income represents:

	2010 HK$'000	2009 HK$'000
Current income tax		
- PRC enterprises income tax	873	-
Deferred tax expenses for the year	2,637	-
Income tax expense	3,510	-

9. EARNINGS / (LOSS) PER SHARE

a) Basic earnings/ (loss) per share

The calculation of basic earnings/ (loss) per share is based on the profit/(loss) attributable to owners of the Company of HK$6,108,000 (2009: loss of HK$18,784,000) and the weighted average number of 6,064,116,000 ordinary shares (2009: 4,360,388,000 ordinary shares) in issue during the year.

(i) Profit/ (loss) attributable to owners of the Company

	2010 HK$'000	2009 HK$'000
Continuing operations	6,108	(32,799)
Discontinued operations	-	14,015
	6,108	(18,784)

(ii) Number of ordinary shares

	2010 '000	2009 '000
Weighted average number of ordinary shares in issue during the year	6,064,116	4,360,388

9. EARNINGS/ (LOSS) PER SHARE *(CONTINUED)*

b) Diluted earnings/ (loss) per share

Diluted earnings/(loss) per share is calculated based on the profit/(loss) attributable to owners of the Company and the weighted average number of shares in issue during the year after adjusting for the number of dilutive potential ordinary shares on share options granted and warrant subscribed.

(ii) Number of ordinary shares

	2010	2009
	’000	’000
Weighted average number of ordinary shares in issue during the year	6,064,116	4,360,388
Effect of dilutive potential ordinary shares:		
- Share options	109,077	-
- Warrants	77,044	-
Weighted average number of ordinary shares for purposes of diluted earnings/(loss) per share	6,250,237	4,360,388

Diluted loss per share for the year 2009 is not presented as the Company's outstanding share options and convertible notes where applicable, during the year had an anti-dilutive effect on the basic loss per share.

10. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two (2009: two) reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Continuing operations

Oil and gas exploitation:	Exploitation and sale of crude oil and natural gas
Coalbed methane:	Exploration, development and production of coalbed methane

Discontinued operations

Natural gas and LPG:	Operation of gas refilling stations supplying natural gas and LPG for vehicles use and sale of LPG in cylinders

There are no sales or trading transactions between the business segments. Corporate revenue and expenses are not allocated to the operating segments as they are not included in the measurement of the segments' result used by the chief operating decision-maker in the assessment of segment performance.

10. SEGMENT REPORTING *(CONTINUED)*

a) Business segments

Segment information about these businesses is set out as follows:

For the year ended 31 December 2010

	Continuing operations				Discontinued operations	
	Oil and gas exploitation	Coalbed methane	Unallocated	Total	Natural gas and LPG	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results						
Revenue from external customers	29,224	-	-	29,224	-	29,224
Segment results [1]	(2,794)	(626)	(57,073)	(60,493)	-	(60,493)
Finance costs	-	-	(1,453)	(1,453)	-	(1,453)
Gain on disposal of subsidiaries	72,798	-	-	72,798	-	72,798
Share of loss of a jointly controlled entity	(2,658)	-	-	(2,658)	-	(2,658)
Profit/(loss) before income tax expenses	67,346	(626)	(58,526)	8,194	-	8,194
Income tax expenses	(3,510)	-	-	(3,510)	-	(3,510)
Profit/(loss) for the year	63,836	(626)	(58,526)	4,684	-	4,684
Assets and liabilities						
Reportable segment assets [2]	377,772	2,646,885	398,663	3,423,320	-	3,423,320
Reportable segment liabilities	53,156	837,034	4,755	894,945	-	894,945
Other segment information						
Depreciation and amortisation	10,116	27	531	10,674	-	10,674
Capital expenditure incurred during the year	108,474	2,595,157	2,577	2,706,208	-	2,706,208

10. SEGMENT REPORTING *(CONTINUED)*

a) Business segments *(Continued)*

For the year ended 31 December 2009

	Continuing operations				Discontinued operations	
	Oil and gas exploitation	Coalbed methane	Unallocated	Total	Natural gas and LPG	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results						
Revenue from external customers	15,155	-	-	15,155	19,279	34,434
Segment results [1]	(13,319)	-	(12,332)	(25,651)	3,073	(22,578)
Finance costs	-	-	(1,767)	(1,767)	-	(1,767)
Gain on disposal of subsidiaries	-	-	-	-	11,593	11,593
Share of loss of a jointly controlled entity	(5,522)	-	-	(5,522)	-	(5,522)
(Loss)/profit before income tax expenses	(18,841)	-	(14,099)	(32,940)	14,666	(18,274)
Income tax expenses	-	-	-	-	(651)	(651)
(Loss)/profit for the year	(18,841)	-	(14,099)	(32,940)	14,015	(18,925)
Asset and liabilities						
Reportable segment assets [2]	226,302	-	19,900	246,202	-	246,202
Reportable segment liabilities	54,362	-	43,549	97,911	-	97,911
Other segment information						
Depreciation and amortisation	7,377	-	486	7,863	1,779	9,642
Capital expenditure incurred during the year	134,553	-	132	134,685	-	134,685

Notes:
1. Unallocated segment results mainly include expenses for Hong Kong head office and equity-settled share-based payment expenses.
2. Unallocated segment assets mainly include cash and cash equivalents and notes receivable.

10. SEGMENT REPORTING *(CONTINUED)*

b) Geographical information and major customers

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	3,126	1,122
The PRC	28,490	33,345	2,738,166	133,807
The United States	734	1,089	-	80,540
	29,224	34,434	2,738,166	214,347
	29,224	34,434	2,741,292	215,469

During the year, revenues from the Group's largest and second largest customers were HK$23,253,000 (2009:HK$14,066,000) and HK$5,237,000 (2009: Nil), being 80% (2009: 93%) and 18% (2009: 0%) of the Group's total revenue from the oil and gas exploitation segment, respectively.

For 2009, the revenues from the Group's largest customer of the natural gas and LPG segment amounted to less than 10% of the Group's total revenue.

11. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2010 (2009: Nil).

12. GAS EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2009 and 2010	-
Additions through acquisition (note 18)	2,570,586
Additions	22,906
Interest capitalised (note 7(a))	196
Exchange adjustments	4,956
At 31 December 2010	2,598,644

Gas exploration and evaluation assets arose from the acquisition of Power Great Limited and its subsidiary ("Power Great Group") set out in note 18. The operations of Power Great Group are governed by and based on a production sharing contract ("PSC").

No amortisation is provided for during the year, as the project is in its exploration stage.

As at 31 December 2010, the major components of gas exploration and evaluation assets were exploratory drilling and trenching costs. The directors have assessed the gas exploration and evaluation assets for impairment in accordance with the criteria under HKFRS 6 and by reference to the progress in the implementation of the PSC during the year, and the valuation report prepared by the American Appraisal China Limited. The directors concluded that there are no facts or circumstances which may indicate that the carrying amount of gas exploration and evaluation assets has exceeded the recoverable amount as at the end of reporting period.

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	6,945	3,117
Bills receivable	5,317	1,707
Other receivables (note i)	16,718	937
Amount due from a non-controlling interest of a subsidiary	166	160
	29,146	5,921
Utility and other deposits	1,034	599
Prepayments (note ii)	42,558	220
	43,592	819
	72,738	6,740

Note

(i) Balances include consideration receivable of HK$15,000,000 on the disposal of the subsidiaries in US as set out in note 17.

(ii) Prepayments include prepaid exploration costs of HK$42,231,000 on the Group's gas evaluation and exploration assets. The amounts are expected to be recognised as assets within one year.

The ageing analysis of trade receivables based on invoice date at the end of reporting period is as follows:

	2010 HK$'000	2009 HK$'000
< 30 days	3,210	2,606
30 - 60 days	3,569	511
61 - 90 days	166	-
	6,945	3,117

The average credit period granted to customers is 0-30 days from the invoice date.

All trade receivables are less than 90 days past due, not impaired and related to one customer which has a good track record with the Company. Based on the past experience, management estimated that the carrying amount will be fully recovered.

14. NOTES RECEIVABLE

	2010	2009
	HK$'000	HK$'000
Notes receivable	135,000	-

Notes receivable as at 31 December 2010 represented the consideration receivables on disposal of the US subsidiaries as set out in note 17. These notes receivable are interest free, repayable within one year and secured by the shares of these subsidiaries.

15. OTHER ASSETS

The other assets arose from the Group's interest in the Jinzhuang Oil Field in the PRC as described below and include (i) a refundable deposit of HK$60,000,000; (ii) advance payments of HK$56,656,000 for future funding of the development and operation of Jinzhuang Oil Field; and (iii) amounts of HK$105,802,000 on oil and gas properties the Group has developed in the Jinzhuang Oil Field.

In May 2010, the Group entered into an operation agreement with an independent PRC third party (the "PRC Party") for the exploration, development and production of crude oil and natural gas that exist in an exploration area located in Shaanxi Province in the PRC (the "Jinzhuang Oil Field") for a period from 1May 2010 to 31 July 2011. The PRC Party is a party to a production sharing contract with a state owned enterprise for the exploration, development and production of crude oil and natural gas in the Jinzhuang Oil Field (the "Jinzhuang PSC").

Jinzhuang Oil Field is in its production phase. Pursuant to the operation agreement, the Group is engaged as the operator to explore, develop and produce crude oil and natural gas from the oil field. During the period, the Group bored all the development and operation costs and shared 95% of the income from sale of crude oil and the entire income from the sale of natural gas extracted from the Jinzhang Oil Field. The operation of the Jinzhuang Oil Field is jointly controlled by the Group and the PRC Party. At the expiration of the operation agreement, the PRC Partner is obligated to purchase the oil and gas properties developed and paid for by the Group at their carrying amount.

In the meantime, a Hong Kong holding company (the "HK Group") has acquired the rights and obligations of the Jinzhuang PSC from the PRC Party. The Group has also signed a memorandum of understanding with the HK Group and paid an interest free and fully refundable deposit of HK$60,000,000 to the HK Group such that the Group has up to July 2011 to decide whether or not to acquire the entire equity interest of HK Group. The deposit is secured by the shares of HK Group.

The Group currently has not decided whether or not to acquire the HK Group. The Group's decision will depend on the oil and gas reserves of the Jinzhuang Oil Field and the internal resources of the Group. Until the Group makes the decision, all the Group's assets in respect of the Jinzhuang Oil Field are shown as "Other assets" as detailed above.

16. OTHER PAYABLES AND ACCRUALS

	2010	2009
	HK$'000	HK$'000
Consideration payable (note (i))	500,000	-
Other payables and accruals (note ii)	378,952	21,330
Amount due to a non-controlling interest of a subsidiary	-	270
Amounts due to directors	-	167
	878,952	21,767

Notes:

(i) This represents the remaining part of the consideration for the acquisition of subsidiaries (note 18) to be settled in cash.

(ii) Other payables and accruals include loans denominated in USD of HK$78,877,000 (2009: Nil) from certain non-controlling shareholders of the Group. The loans are unsecured, bear interest at 3% per annum and repayable within 1 year. The balance also includes exploration costs payable of approximately HK$290,205,000 in respect of the gas exploration and evaluation assets and the oil and gas properties.

17. DISPOSAL OF SUBSIDIARIES

On 30 December 2010, the Group disposed of Ally Bond Limited and its subsidiary, Genesis Petroleum US, Inc. ("Ally Bond Group"), which are engaged in oil exploitation and sale of crude oil. The net assets of Ally Bond Group as at the completion date were as follows:

	HK$'000
Property, plant and equipment	28,103
Intangible assets	43,092
Pledged deposits	1,130
Cash and cash equivalents	65
Other payables and accruals	(1,708)
Provision	(338)
Net assets disposed of	70,344
Reclassification from exchange reserve	(334)
Non-controlling interest	1,424
	71,434
Gain on disposal (note 6)	68,566
Total consideration	140,000
Satisfied by:	
Cash consideration receivables (note 13 (i))	14,000
Promissory notes (note 14)	126,000
	140,000
Net cash outflow arising on disposal:	
Cash and cash equivalents balances disposed of	(65)

Ally Bond Group contributed HK$ Nil to the Group's turnover and a loss of HK$14,248,000 for the period to the date of disposal.

17. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

On 30 December 2010, the Group disposed of King Giant Investments Limited and its subsidiaries, G Energy US Holdings Inc. and Nathan Oil LLC ("King Giant Group") which are engaged in oil exploitation and sale of crude oil. The net assets of King Giant Group as at the completion date were as follows:

	HK$'000
Intangible assets	5,575
Trade and other receivables	294
Cash and cash equivalents	171
Other payables and accruals	(271)
Net assets disposed of	5,769
Reclassification from exchange reserve	(1)
	5,768
Gain on disposal (note 6)	4,232
Total consideration	10,000
Satisfied by:	
Cash consideration receivables (note 13 (i))	1,000
Promissory notes (note 14)	9,000
	10,000
Net cash outflow arising on disposal:	
Cash and cash equivalents balances disposed of	(171)

King Giant Group contributed HK$734,000 to the Group's turnover and a profit of HK$266,000 for the period to the date of disposal.

18. ACQUISITION OF SUBSIDIARIES

On 15 November 2010, the Group indirectly acquired a 100% equity interest of Orion Energy International Inc. ("OEI") by acquiring a 100% equity interest of Power Great Limited, the holding company of OEI. The acquisition was accounted for as purchase of assets and assumption liabilities as the operation of OEI at that time did not constitute a business for accounting purpose. OEI solely engages in coalbed methane exploration, development production. Details of the costs of net assets acquired are as follows:

	HK$'000	HK$'000
Gas exploration and evaluation assets (note 12)	2,570,586	
Property, plant and equipment	1,665	
Cash and cash equivalents	4,682	
Other receivables	1,433	
Other payables and accruals	(269,566)	
		2,308,800
Satisfied by:		
Cash consideration paid	280,000	
Cash consideration payable (note 16)	500,000	
Issue of ordinary shares at fair value	748,800	
Issue of convertible notes	780,000	
		2,308,800
Net cash outflow arising from acquisition:		
Cash consideration paid		(280,000)
Cash and cash equivalents acquired		4,682
		(275,318)

As part of the consideration is to be settled by the Company's equity instruments, the acquisition is an equity settled share-based payment transaction. According to HKFRS 2, the fair value of the equity instruments should be recognised based on the fair value of the net assets acquired. However, the directors of the Company consider that it would be more prudent and appropriate to measure the fair value of the net assets acquired by reference to the fair value of the equity instruments to be issued, as the valuation of the Group's participating interest in the production sharing contract is based on the reverse of the coalbed methane resources, and it cannot be reliability measure at this moment. The amount by which the consideration exceeded the net assets acquired as at completion date is included costs of gas exploration and evaluation assets on the consolidated statement of financial position.

19. EXTRACT OF THE AUDITOR'S REPORT

The Company's auditor has modified their report on the Group's consolidated financial statements for the year ended 31 December 2010, an extract of which is as follows:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3(b) to the consolidated financial statements which indicates that the Group had operating cash outflows of HK$109,333,000 for the year ended 31 December 2010 and, as at that date, the Group's current liabilities exceeded its current assets by HK$207,122,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2010, Sino Oil and Gas Holdings Limited (the "Company" or "Sino Oil and Gas") and its subsidiaries (collectively the "Group") recorded a turnover of HK$29,200,000 (2009: HK$15,200,000), representing an increase of 92.8% year on year. The increase in turnover was mainly contributed by the oil and gas blocks in Shaanxi Province, which have proceeded into the second phase of exploitation. While production levels were still below optimal scale, productivity has improved gradually. In addition, the Group completed the exploration phase of the acquired coalbed methane (CBM) field in the Sanjiao Block in mid-November 2010; the field will commence full production in 2011 and is expected to contribute further to the Group.

The Group disposed of its oilfield operations in the United States for considerations of HK$150 million at the end of December 2010 and recorded gain on disposal of HK$72.7 million. During the year under review, the profit attributable to shareholders of the Group amounted to HK$4,600,000 (2009: Loss of HK$18,900,000), with an operating profit of HK$12,300,000 (2009: Loss of HK$25,600,000).

Oil and Natural Gas Exploitation

Liuluoyu and Yanjiawan

Both of our two oil fields in the PRC, namely Liuluoyu and Yanjiawan, are located in Erdos Basin, Shaanxi Province, with a production of approximately 6,810 tonnes of crude oil during the year. In addition to the existing oil wells, in view of the geological formation of the blocks and successful gas production in adjacent fields in Erdos Basin, our technical team has been actively working on the second phase of exploitation of the oil resources on these blocks, as well as the exploration of natural gas during the year in order to enhance the efficiency of our oil fields. The team successfully discovered a high-yield shallow gas reserve at Liu-cong 6-4 well in Liuluoyu oil field in October 2010. According to preliminary tests, the daily open flow of each gas well would be more than 10,000 cubic meters. It is conservatively expected that the minimum daily production of each well will be more than 3,000 cubic meters.

Liuluoyu oil field is located in Ganquan County, Shaanxi Province. According to the relevant data from oil field experts, it is expected that the shallow gas reserve in the Liuluoyu block is at a depth of about 300-500 meters with an estimated recoverable reserve of about 500 million cubic meters. The natural gas production in Liuluoyu oil field will substantially increase in the future. In 2010, the trial production of natural gas yielded a total of approximately 2 million cubic meters.

The management remains cautiously optimistic of discovering large quantities of natural gas in the blocks and anticipates that the natural gas discovery will further enhance the investment return of the two oil fields in Erdos Basin.

Jinzhuang

The Group obtained a 15 month operation right of Jinzhuang oil field in May 2010 under an operating agreement. As such, the Group owns a 95% economic interest in the turnover from the production sharing right of Jinzhuang oil field during the operating period. Pursuant to the agreement, the Group will have the first right of refusal to acquire the oil field at an agreed price upon the end of the period.

Jinzhuang oil field is located at the plateau of Erdos Basin, Shaanxi Province, with an area of 62 square kilometers. From September to December 2010, crude oil output amounted to approximately 1,680 tonnes. According to the preliminary assessment carried out by a local independent assessment agency, the 3P (the sum of proven, probable and possible reserves) of crude oil was approximately 25 million tonnes.

The Group has also carried out preliminary exploration of tight gas reserve in Jinzhuang oil field and completed two exploration wells to a depth of approximately 3,200 meters, leading to the discovery of tight gas reserve of industrial value at underground levels of about 3,200 meters to 2,800 meters. According to preliminary tests, the daily open flow of each gas well would be more than 50,000 cubic meters. It is expected that the daily production of each well will be more than 20,000 cubic meters upon stabilization of production. Trial sales of the natural gas output commenced in November 2010, with trial production amounting to approximately 2.3 million cubic meters. The management expects that the discovery of the tight gas reserve in Jinzhuang oil field will bring promising additional income to the Group.

Coalbed Methane (CBM) Exploitation – Sanjiao Block in Erdos Basin

In July 2010, the Group entered into an acquisition agreement to acquire the entire interest of Orion Energy International Inc. ("Orion") for a total consideration of HK$2.34 billion. Orion owns a 70% interest in a CBM exploration, exploitation and production project in the Sanjiao Block located in Shanxi and Shaanxi Provinces pursuant to a production sharing contract ("PSC") entered into with PetroChina Company Limited ("PetroChina", HKEX: 857), the Chinese partner in this development project. The total gross 2P reserve of the Sanjiao Block as per the Competent Person's Report as disclosed on the circular dated 26 September 2010 is 356.6 bcf. The acquisition was duly completed in November 2010.

In December 2010, the Ministry of Commerce of the PRC approved the extension of the exploration period of PSC of the Sanjiao Block to 30 June 2012, and the relevant government authorities renewed the operation license for Orion in December as well, with its term extended to 30 June 2012. The Ministry of Land and Resources of the PRC also approved the term of the exploration license of the Sanjiao Block to be extended to 8 July 2012. The obtaining of these three licenses provided a lawful foundation for the application of the overall development plan of the Sanjiao Block under the PSC. Moreover, according to the PRC standards, the proven reserve of CBM of 43.5 billion cubic meters of the Sanjiao Block has been reviewed and endorsed by the Expert Review Group of the State Reserve Committee of the PRC. Accordingly, the Company is in the process of preparing and reporting the overall development project plan of the Sanjiao Project, which is expected to obtain the approval of the National Development and Reform Commission during the year.

As of December 2010, Orion had completed 17 multi-lateral horizontal wells in the Sanjiao Block, with an annual production capacity of 130 million cubic meters of CBM. The Chinese partner, PetroChina, has established and commenced the operation of a compressed natural gas head station with a daily compression capacity of 30,000 cubic meters. The project is ready to run external trial sales of CBM. The management expects that CBM production will enter into a formal production phase in the second quarter of 2011, which will bring a contribution to the Group's revenue.

Disposal of the oil fields in the United States

The Group had previously operated two oil blocks in the United States, namely Grassy Trails located in Utah and Squaw Canyon located in the Four Corners area of Colorado, New Mexico, Utah and Arizona.

These two oil fields reported normal operations, contributing stable and ongoing income to the Group. In view of the gradual shift of the business focus of the Group to oil and gas exploitation in the Erdos Basin of the PRC, and as it is planned to actively engage in the development of new CBM business, the management decided to dispose of the oilfield assets in the United States after cautious study and consideration, for more effective deployment of management and technical resources.

In December 2010, the Group disposed of its oil and gas business for a consideration of HK$150 million. The disposal brought in a gain of HK$72.7 million to the Group.

FINANCIAL REVIEW

Capital Structure

In April and June 2010, the Company successfully placed 1,624 million shares and 600 million warrants, respectively, raising net proceeds of approximately HK$343 million. The proceeds are used as general working capital, for possible oil and gas investment opportunities and further development of existing oil and exploitation projects in China.

Och-Ziff, one of the largest global institutional asset management firms, became the Group's strategic shareholder in October 2010. OZ Management LP under Och-Ziff subscribed to an aggregate of 432,220,000 new shares in the Company at a price of HK$0.45 per share. The placing shares accounted for approximately 4.73% of the share capital of the Company as at the end of the year, contributing net proceeds of HK$194.3 million to the Company.

A total of 437,000,000 new shares were placed to Ping An Life Insurance Company of China Limited, a subsidiary of Ping An Insurance (Group) Co. of China, Ltd. ("Ping An Life Insurance") in December 2010. Accordingly, Ping An Life Insurance became another important strategic shareholder of the Group in addition to Och-Ziff. Ping An Life Insurance is the second largest life insurance company in the PRC. The placing shares accounted for approximately 4.78% of the Company's share capital as of the end of the year, contributing net proceeds of HK$194.3 million to the Company.

While such placement activities brought additional working capital to the Group, it also satisfied future investment needs. With the engagement of quality strategic shareholders, the Group's management capability and development strategies were seen to be recognized by investors.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2010, the net assets of the Group were HK$2,528 million (31 December 2009: HK$148.3 million) while its total assets were HK$3,423 million (31 December 2009: HK$246.2 million). As at 31 December 2010, the Group did not have external borrowings (31 December 2009:

Nil) and the gearing ratio based on total assets was 0%. As at 31 December 2010, the current ratio was 0.76 (31 December 2009: 0.8). The current ratio as at the end of 2010 was seen to have weakened, but in early March 2011, with the support of the shareholders, the due date of a payable of HK$300 million has been extended to early next year. The Group's liquidity has subsequently improved.

Foreign Exchange Fluctuations

The Group is exposed to currency risk primarily through sales and purchase transactions and recognized liabilities of assets that are denominated in a currency other than the functional currency of the operations to which they relate. At 31 December 2010, no related hedges were made by the Group. In respect of trade and other receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed approximately 183 employees. The remuneration policy of the Group is based on the prevailing remuneration level in the market and the performance of respective companies and individual employees.

PROSPECTS

The Group will continue to focus on the expansion of its oil and gas business in Erdos Basin in the coming year. In addition to the traditional business of oil exploitation, the Group will also actively engage in the exploitation of unconventional natural gas such as shallow gas reserves and CBM.

The shallow gas reserve discovered by the Group in Liuluoyu oil field will be a new profit growth point. The Group plans to make further investments in the development of shallow gas reserves in the coming two years, and in the construction of auxiliary ground transportation and distribution facilities. The Group has performed exploration and exploitation of the tight gas reserve in Jinzhuang oil field in early 2011. Trial sale of local natural gas commenced in 2010, and the sale of natural gas from the tight gas reserve will improve the overall operating income. The management will continue to consolidate the oil and gas exploitation operations in Shaanxi area, optimize the management and technology of the oil and gas assets in Erdos Basin, and enhance the overall synergy effect and production efficiency.

With the completion of the acquisition of Orion, the contribution from our CBM business will gradually be reflected in 2011. As Sanjiao Block is one of the best CBM fields in China, the management is confident that, upon the commencement of production in the first half of this year, Sanjiao Block will become a large-scale CBM field within the next three years with annual output exceeding one billion cubic meters.

The Government of Shanxi Province has planned three gas pipelines and a liquefied natural gas plant in Sanjiao and its surrounding areas, which were completed and put into operation in succession in early 2011. The CBM produced from Sanjiao Block will be transported primarily through these newly constructed facilities to the central and western parts of Shanxi Province where industrial natural gas consumption is concentrated. The management believes that the CBM project in Sanjiao Block will be the key driver of growth for the Group in the future bringing considerable long-term return on investment to the shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in the year 2010.

AUDIT COMMITTEE

The Audit Committee, which comprises all independent non-executive directors, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited financial statements for the year ended 31 December 2010.

By order of the Board
Sino Oil and Gas Holdings Limited
Kong Siu Tim
Chairman

Hong Kong, 25 March 2011

As at the date of this announcement, the Board comprises four Executive Directors, namely, Mr. Kong Siu Tim, Dr. Dai Xiaobing, Mr. Wang Ziming and Mr. Wan Tze Fan Terence; one Non-executive Director, Mr. Ni Zhenwei, and three Independent Non-executive Directors, namely, Dr. Di Lingjun, Mr. Wong Kwok Chuen Peter and Dr. Wong Lung Tak Patrick.