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 2011

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 2011, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Hong Kong Dollars)

	Notes	2011 HK$'000	2010 HK$'000
Turnover	3 & 10	35,079	29,224
Direct costs		(31,380)	(26,021)
Gross profit		3,699	3,203
Other revenue	4	8,803	5,558
Other gains and (losses), net	5	2,475	73,066
Administrative expenses		(107,086)	(69,522)
(Loss)/profit from operations		(92,109)	12,305
Finance costs	6(a)	(6)	(1,453)
Share of loss of a jointly controlled entity		(496)	(2,658)
(Loss)/profit before income tax expenses	6	(92,611)	8,194
Income tax expenses	7	(3,628)	(3,510)
(Loss)/profit for the year		(96,239)	4,684
Other comprehensive income, after tax			
Exchange differences on translating foreign operation		13,023	7,407
Less: Reclassification of exchange reserve to profit or loss upon disposal of foreign subsidiaries		-	(335)
Other comprehensive income for the year		13,023	7,072
Total comprehensive income for the year		(83,216)	11,756

Consolidated Statement of Comprehensive Income *(Continued)*

For the year ended 31 December 2011
(Expressed in Hong Kong Dollars)

	Notes	2011 HK$'000	2010 HK$'000
(Loss)/profit attributable to:			
Owners of the Company		(96,239)	6,108
Non-controlling interests		-	(1,424)
		(96,239)	4,684
Total comprehensive income attributable to:			
Owners of the Company		(83,216)	13,180
Non-controlling interests		-	(1,424)
		(83,216)	11,756
(Loss)/earnings per share			
- Basic	9	(0.979 HK cents)	0.101 HK cents
- Diluted	9	(0.979 HK cents)	0.098 HK cents

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in Hong Kong Dollars)

	Notes	2011 HK$'000	2011 HK$'000	2010 HK$'000	2010 HK$'000
Non-current assets					
Property, plant and equipment			267,471		89,199
Gas exploration and evaluation assets	11		3,007,374		2,598,644
Intangible assets			249,997		49,219
Goodwill			4,230		4,230
Interest in a jointly controlled entity			6,452		6,948
Deposits and prepayments	12		32,368		2,355
Total non-current assets			3,567,892		2,750,595
Current assets					
Inventories		635		-	
Trade and other receivables, deposits and prepayments	12	24,235		72,738	
Notes receivable		-		135,000	
Other assets		-		222,458	
Cash and cash equivalents		344,451		242,529	
Total current assets		369,321		672,725	
Total assets			3,937,213		3,423,320
Current liabilities					
Other payables and accruals	13	(546,149)		(878,952)	
Borrowings - secured	14	(22,287)		-	
Taxation		(2,322)		(895)	
Total current liabilities		(570,758)		(879,847)	
Net current liabilities			(201,437)		(207,122)
Total assets less current liabilities			3,366,455		2,543,473
Non-current liabilities					
Provisions		(1,132)		-	
Borrowings - secured	14	(285,693)		-	
Deferred tax liabilities		(18,674)		(15,098)	
Total non-current liabilities			(305,499)		(15,098)
NET ASSETS			3,060,956		2,528,375
Capital and reserves attributable to owners of the Company					
Share capital			120,190		91,414
Reserves			2,940,766		2,436,961
TOTAL EQUITY			3,060,956		2,528,375

Notes to the Financial Statements

1. BASIS OF PREPARATION

(a) 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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement and going concern assumption

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 incurred a loss of HK$96,239,000 for the year ended 31 December 2011 and its current liabilities exceeded current assets by HK$201,437,000 as at that date. In addition, as described in the paragraph below, the Group can only utilise the remaining loan facility of RMB800,000,000 if certain prerequisites are met. 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 continue as a going concern will depend on it being able to utilise the remaining loan facility and the continuing efforts of management of the Group to improve profitability and operational cash flows.

As set out in note 14, the Group obtained a loan facility of RMB1,000,000,000 repayable by instalment over five years from a financial institution in the People's Republic of China (the "PRC"). As at 31 December 2011, the Group had only utilised RMB200,000,000 of this facility. The remaining facility of RBM 800,000,000 can only be drawn after the Group has submitted a plan for the development of the coalbed methane field or part of the coalbed methane field (the "Overall Development Program" or "ODP") of the production sharing contract ("Sanjiao PSC") and obtained the approval of the ODP by the National Development and Reform Commission (the "Commission"). PetroChina Coalbed Methane Gas Company ("PetroChina CBM"), the PRC party under the Sanjiao PSC, has confirmed to the Group in writing that its head office has approved the ODP. PetroChina CBM further confirmed that they are in the process of completing the formalities for the submission of the ODP to the Commission. PetroChina CBM anticipates to submit the ODP to the Commission by middle of May 2012. As advised by the Group's legal counsel in the PRC, there should be no obstacle in obtaining preliminary approval of the ODP from the Commission once it is submitted by PetroChina CBM and the approval process will normally be completed in ten working days. Accordingly, the directors are confident that the ODP will be preliminarily approved before 30 June 2012 and the Group will be able to make use of the remaining loan facility of RMB800,000,000.

As a result of the above and after taking into account the Group's cash flow projection for the coming year, the directors are of the opinion that the Group will have sufficient working capital to meet its liabilities as they fall due in the next twelve months from the end of the reporting period. If the Group were unable to continue as a going concern, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

2. ADOPTION OF HKFRSs

Adoption of new / revised HKFRSs - effective 1 January 2011

HKFRSs (Amendments)	Improvements to HKFRSs 2010
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of these new / revised standards and interpretations has no material impact on the Group's financial statements.

HKFRS 7(Amendments) – Financial Instruments: Disclosures

As part of the Improvements to HKFRSs issued in 2010, HKFRS 7 has been amended to enhance the interaction between quantitative and qualitative disclosures. If the carrying amount of a financial asset best represents the maximum exposure to credit risk, the standard does not require a positive statement to this effect in the financial statements. This amended disclosure requirement has been applied retrospectively. The carrying amount of the Group's trade receivables represents the Group's maximum exposure to credit risk in respect of these financial assets as at 31 December 2011 and 2010. The prior year financial statements included a positive statement to this effect which is removed in the 2011 financial statements following the amendments. The adoption of the amendments has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

3. 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 exploration, development and production of coalbed methane is in the exploration stage, no turnover was generated during the year 2010 and 2011.

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

	2011 HK$'000	2010 HK$'000
Sale of crude oil	35,079	23,899
Sale of natural gas	-	5,325
	35,079	29,224

4. OTHER REVENUE

	2011 HK$'000	2010 HK$'000
Interest income on bank deposits	75	103
Interest income on other loan (note a)	7,822	-
Imputed interest income on notes receivable	-	1,444
Income from sale of coalbed methane (note b)	550	-
Rental income	-	115
Compensation (note c)	-	2,962
Others	356	934
	8,803	5,558

Note: a) In August 2011, the Group advanced HK$140,000,000 to a third party at an interest rate of 15% per annum. The principal together with the interest thereon of HK$7,822,000 were fully settled in December 2011. A director of the Company is also a director of the third party.

b) It represents trial sale of coalbed methane generated from the Sanjiao PSC.

c) The amount represented compensation from an operating consultant for causing a technical fault which led to less crude oil being produced from the Liuluoyu Oil Field.

5. OTHER GAINS AND (LOSSES), NET

	2011 HK$'000	2010 HK$'000
Deposits and other receivables written off	(2,355)	(465)
Loss on disposal of property, plant and equipment	-	(3)
Impairment loss on property, plant and equipment	(1,414)	-
Exchange gains, net	6,244	1,439
Gain on disposal of subsidiaries	-	72,798
Loss on redemption of convertible note	-	(703)
	2,475	73,066

6. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSES

(Loss)/profit before income tax expenses is arrived at after charging/(crediting):

	2011 HK$'000	2010 HK$'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	4,555	196
Imputed interest on convertible notes	-	1,452
Others	6	1
	4,561	1,649
Less: interest capitalised to gas exploration and evaluation assets	(4,555)	(196)
	6	1,453
b) Other items		
Cost of inventories	-	446
Auditor's remuneration	1,656	1,243
Depreciation of property, plant and equipment	8,802	10,351
Amortisation of intangible assets #	46	323

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

7. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the group companies did not have any estimated assessable profits subject to Hong Kong profits tax during the years ended 31 December 2011 and 2010. During the year 2011 and 2010, the subsidiaries in the PRC are subject to statutory tax rate of 25%. The former subsidiaries in the United States (the "US"), which are subject to a tax rate of 34%, incurred losses for tax purpose during the year ended 31 December 2010.

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

	2011 HK$'000	2010 HK$'000
Current income tax		
- PRC enterprises income tax	1,358	873
Deferred tax expenses for the year	2,270	2,637
Income tax expenses	3,628	3,510

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

9. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK$96,239,000 (2010: profit of HK$6,108,000) and the weighted average number of 9,832,554,000 ordinary shares (2010: 6,064,116,000 ordinary shares) in issue during the year.

(i) (Loss)/earnings

	2011 HK$'000	2010 HK$'000
(Loss)/profit attributable to owners of the Company	(96,239)	6,108

(ii) Number of ordinary shares

	2011 '000	2010 '000
Weighted average number of ordinary shares in issue during the year	9,832,554	6,064,116

b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated based on the (loss)/profit 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 warrants subscribed.

(ii) Number of ordinary shares

	2011 '000	2010 '000
Weighted average number of ordinary shares in issue during the year	9,832,554	6,064,116
Effect of dilutive potential ordinary shares:		
- Share options	-	109,077
- Warrants	-	77,044
Weighted average number of ordinary shares for purposes of diluted earnings per share	9,832,554	6,250,237

Diluted loss per share for the year ended 31 December 2011 is the same as the basic loss per share as the Company's outstanding share options and warrants, where applicable, had an anti-dilutive effect on the basic loss per share in that year.

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 (2010: 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:

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

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' results 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 2011

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated HK$'000	Total HK$'000
Results				
Revenue from external customers	35,079	-	-	35,079
Segment results [1&2]	(2,877)	(5,999)	(81,819)	(90,695)
Finance costs	(2)	(3)	(1)	(6)
Impairment loss on property, plant and equipment	(1,414)	-	-	(1,414)
Share of loss of a jointly controlled entity	(496)	-	-	(496)
Loss before income tax expenses	(4,789)	(6,002)	(81,820)	(92,611)
Income tax expenses	(3,628)	-	-	(3,628)
Loss for the year	(8,417)	(6,002)	(81,820)	(96,239)
Assets and liabilities				
Reportable segment assets [3]	571,416	3,245,911	119,886	3,937,213
Reportable segment liabilities	69,616	794,356	12,285	876,257
Other segment information				
Depreciation and amortisation	7,213	842	793	8,848
Capital expenditure incurred during the year	267,088	383,443	74	650,605

10. SEGMENT REPORTING (CONTINUED)

a) Business segments

Segment information about these businesses is set out as follows:

For the year ended 31 December 2010

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

Notes:

1. Unallocated segment results mainly include salaries, rental expense and professional fees for Hong Kong head office and equity-settled share-based payment expenses.

2. Included in the segment result of coalbed methane segment is revenue of HK$550,000 from the trial sale of coalbed methane generated from the testing of the Sanjiao PSC for the year 2011(2010: Nil) (note 4).

3. Unallocated segment assets mainly include cash and cash equivalents.

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 deposits paid and interest in a jointly controlled entity ("specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	2,443	3,126
The PRC	35,079	28,490	3,553,131	2,738,166
The US	-	734	-	-
	35,079	29,224	3,553,131	2,738,166
	35,079	29,224	3,555,574	2,741,292

During the year, revenues from the Group's largest and second largest customers were HK$35,079,000 (2010: HK$23,253,000) and HK$Nil (2010: HK$5,237,000), being 100% (2010: 80%) and 0% (2010: 18%) of the Group's total revenue from the oil and gas exploitation segment.

11. GAS EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2010	-
Additions through acquisition	2,570,586
Additions	22,906
Interest capitalised (note 6(a))	196
Exchange adjustments	4,956
At 31 December 2010	2,598,644
Additions through acquisition	87,360
Additions*	291,749
Interest capitalised (note 6(a))	4,555
Exchange adjustments	25,066
At 31 December 2011	3,007,374

* The amount included provision for environmental restoration and decommission costs of HK$1,132,000.

Gas exploration and evaluation assets arose from the acquisition of Power Great Limited and its subsidiary ("Power Great Group"). The operations of Power Great Group are governed by and based on the Sanjiao PSC.

As at 31 December 2010 and 2011, 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 Sanjiao PSC during the year, and the valuation report prepared by the American Appraisal China Limited, an independent firm of professional valuers, which possesses the relevant professional qualifications and experience. 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.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011 HK$'000	2010 HK$'000
Trade receivables	11,943	6,945
Bills receivable	-	5,317
Other receivables (note i)	7,112	16,718
Amount due from a non-controlling interest of a subsidiary	-	166
	19,055	29,146
Utility deposits	1,407	1,034
Current portion of other deposits and prepayments (note iii)	3,773	42,558
	5,180	43,592
	24,235	72,738
Non-current portion of other deposits and prepayments (note (ii) & (iii))	32,368	2,355

Notes:

(i) As at 31 December 2010, the balance included considerations receivable of HK$15,000,000 on the disposal of Ally Bond Limited and its subsidiaries and King Giant Limited and its subsidiaries, which was subsequently received in January 2011.

(ii) The balance includes a guarantee deposit of HK$5,866,000 paid to secure the Group's borrowings as set out in note 14.

(iii) Prepayments include prepaid exploration costs of HK$10,828,000 (2010: HK$42,231,000) on the Group's gas evaluation and exploration assets and prepaid construction costs of HK$15,674,000 (2010: Nil) on the Group's construction in progress under property, plant and equipment.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

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

	2011 HK$'000	2010 HK$'000
< 30 days	3,389	3,210
30 - 60 days	2,680	3,569
61 - 90 days	5,874	166
	11,943	6,945

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.

The Group recognised impairment loss on individual assessment based on the accounting policy stated of the Group.

13. OTHER PAYABLES AND ACCRUALS

	2011 HK$'000	2010 HK$'000
Current liabilities		
Consideration payable (note (i))	9,002	500,000
Other payables and accruals (note (ii))	537,147	378,952
	546,149	878,952

Notes:

(i) As at 31 December 2011, the balance represented the remaining consideration for the acquisition of Kenwin Group (note 15) to be settled in cash no later than 30 September 2012. The balances of HK$500,000,000 as at 31 December 2010 represented the remaining consideration for the acquisition of the Power Great Group. The amount was settled in cash during the year ended 31 December 2011.

(ii) Other payables and accruals include loans denominated in USD of HK$78,877,000 (2010: HK$78,877,000) from certain non-controlling shareholders of the Group. The loans are unsecured, bear interest at 3% per annum and repayable on demand. The balance also includes exploration costs payable of approximately HK$443,635,000 (2010: HK$290,205,000) in respect of gas exploration and evaluation assets and oil and gas properties.

14. BORROWINGS -SECURED

	2011 HK$'000	2010 HK$'000
Secured interest-bearing borrowings		
On demand or within one year	22,287	-
More than one year, but not exceeding two years	91,393	-
More than two years, but not exceeding five years	194,300	-
	307,980	-
Amount due within one year included in current liabilities	(22,287)	-
Non-current portion	285,693	-

During the year ended 31 December 2011, the Group obtained borrowings of HK$61,596,000 (equivalents to RMB50,000,000) and HK$246,384,000 (equivalents to RMB200,000,000) from two parties respectively as follows:

(i) On 19 September 2011, Orion Energy International Inc. ("OEI"), an indirect wholly owned subsidiary of the Group, entered into a financing agreement ("Agreement 1") with Minsheng Financial Leasing Co., Ltd (民生金融租賃股份有限公司) ("Minsheng"), an independent third party, pursuant to which Minsheng advanced HK$61,596,000 under certain conditions to OEI to be repaid by instalment over three years. In the opinion of the directors, the financing arrangement is in substance a secured borrowing. This borrowing is secured by certain gas exploration and evaluation assets of OEI with a carrying amount of HK$57,807,000 and a personal guarantee from the Company's shareholders, Mr. Dai Xiaobing and Mr. King Hap Lee who are also directors of the Company.

(ii) On 23 December 2011, OEI entered into another financing agreement ("Agreement 2") with CDB Leasing Co., Ltd (國銀金融租賃有限公司) ("CDB Leasing"), an independent third party, pursuant to which CDB Leasing granted a facility of RMB1,000,000,000 to OEI be repaid by instalment over five years of which RMB200,000,000 was to finance the exploration phase which amount OEI drew before 31 December 2011. Pursuant to Agreement 2, OEI can only draw on the remaining facility of RMB800,000,000 upon submission of its ODP on the Sanjiao PSC to the Commission and the preliminary approval of the ODP to be obtained from the Commission on or before 30 June 2012. If approval of the ODP is not obtained before 30 June 2012, any drawn down made would immediately become payable on demand.

The facility is secured by certain gas exploration and evaluation assets with carrying amount of HK$359,882,000, a guarantee deposit of HK$5,866,000, all trade receivables from sales generated from the Sanjiao PSC, all the shares of OEI held by Power Great Limited, a wholly-owned subsidiary of the Company, 2,296,000,000 shares of the Company, personal guarantees of Mr. Dai Xiaobing who is a shareholder and director of the Company and a corporate guarantee by the Company.

In the opinion of the directors, the financing arrangement is in substance a secured borrowing. The directors are confident that the ODP will be approved by the relevant PRC authority before 30 June 2012.

The borrowings under Agreement 1 and Agreement 2 carry interest at effective floating rates ranging from 9.4% to 12.6% for the year ended 31 December 2011.

15. ACQUISITION OF SUBSIDIARIES

On 4 November 2011, the Group indirectly acquired a 100% equity interest of 西安利隆石油開採技術有限公司 by acquiring a 100% equity interest of Kenwin Global Limited and Trillion International Petroleum Extraction Technology Limited, the ultimate holding and immediate holding company of 西安利隆石油開採技術有限公司. The acquisition has been accounted for as purchase of assets and assumption of liabilities since the operation of 西安利隆石油開採技術有限公司 does not constitute a business for accounting purpose in that its main activity is to hold the operating rights of the Jinzhuang Oil Field. Details of the cost of net assets acquired are as follows:

	HK$'000	HK$'000
Property, plant and equipment	35,078	
Intangible assets	197,157	
Other receivables	3,648	
Cash and cash equivalents	423	
Other payables and accruals	(5,442)	
		230,864
Satisfied by:		
Cash consideration paid	39,862	
Cash consideration payable	9,002	
Transfer of refundable deposits	60,000	
Assignment of notes receivable	122,000	
		230,864
Net cash outflow arising from acquisition:		
Cash consideration paid		(39,862)
Cash and cash equivalents acquired		423
		(39,439)

16. EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

"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 2011 and of the Group's loss 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 1(b) to the consolidated financial statements which states that: (i) the Group incurred a net loss of HK$96,239,000 during the year ended 31 December 2011 and its current liabilities exceeded current assets by HK$201,437,000 as at that date; and (ii) the Group can only utilise the remaining loan facility of RMB800,000,000 on meeting certain prerequisites. 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

During the year ended 31 December 2011, Sino Oil and Gas Holdings Limited (the "Company" or "Sino Oil and Gas") and its subsidiaries (collectively the "Group") reported a turnover of HK$35,100,000 (2010: HK$29,200,000, an increase of approximately 20% year on year. During the year under review, the Company incurred a loss of HK$96,200,000 (2010: profit of HK$4,600,000), including an expense of HK$60,000,000 (2010: HK$19,000,000) as share-based payment for equity-settled share option issue in December 2011.

Natural Gas and Oil Exploitation

Coalbed Methane Exploitation – Sanjiao Block in Erdos Basin

The Group, through its wholly-owned subsidiary Orion Energy International Inc. ("Orion"), entered into a production sharing contract ("PSC") with PetroChina Coalbed Methane Gas Company ("PetroChina CBM"). Pursuant to the PSC, the Group participates in coalbed methane (CBM) exploration, exploitation and production in the Sanjiao Block located in Shanxi and Shaanxi Provinces and is entitled to a 70% interest in the project.

During the period under review, Orion continued with the preparation and reporting work in respect of the Overall Development Program ("ODP") of the Sanjiao Program. The ODP will be submitted to the National Development and Reform Commission ("NDRC") via PetroChina CBM within May 2012 for approval. It is expected that NDRC's preliminary approval will be obtained shortly, upon submission of the ODP.

In May 2011, the Group entered into a sales collaboration agreement with PetroChina CBM on the basis of the PSC. Pursuant to this agreement, the Group and PetroChina CBM signed a sales and purchase agreement with a company engaged in CBM businesses in Shanxi Province in June 2011. CBM produced from the Sanjiao Block in Shanxi Province was to be sold to this buyer in the form of compressed natural gas (CNG). A CNG head station with daily compression capacity of 30,000 cubic meters was commissioned in August 2011, enabling the commencement of trial sales of CBM. The pricing of CBM is determined with reference to local prices as approved by the Development and Reform Commission of Shanxi Province, subject to adjustments in accordance with market conditions and national policy. Daily CNG sales currently amounts to approximately 18,000 cubic meters per day at an average price of RMB1.51 per cubic meter. Up to the end of December 2011, Orion had completed 35 multilateral horizontal wells, 6 U-shaped remote connected horizontal wells and 9 vertical and directional wells in the Sanjiao Block. A ground pipeline network of 7 kilometers and interwell pipelines measuring 12 kilometers have also been built.

The Group is working with PetroChina CBM on the expansion of the head station for CNG with a view to furthering the scale of commercial operations of the project. Infrastructure works were completed in the fourth quarter of 2011 with facilities installation, testing and turning currently in progress. It is expected that upon commissioning of the expanded CNG head station by the second quarter of 2012, daily compression capacity will reach 150,000 cubic meters. Daily sales could reach 100,000 cubic meters.

According to a competent person's report, the aggregate of the proved reserves, probable reserves plus possible reserves of the Sanjiao CBM field attributable to the Group was 669.5 billion cubic feet (bcf), 15% higher than the original reserves as stated in the circular issued in September 2010 in respect of the acquisition.

NDRC officially released a policy paper on the “12th Five-Year Plan for Development and Utilization of Coalbed Methane (Coal Mine Methane)” (the “Plan”) on 31 December 2011. The Plan indicated the state’s focus on the development of two CBM commercial bases in Qinshui Basin and the eastern fringe of Erdos Basin. By 2015 the productive capacity of CBM on the eastern fringe of Erdos Basin will reach 5 billion cubic meters. The Group’s Sanjiao CBM project in Shanxi Province has been listed as a core project on the eastern fringe under the Plan.

In December 2011, the Sanjiao natural gas development project received support from the China Development Bank (“CDB”). Through its subsidiary CDB Leasing Co., Ltd., CDB extended a facility of RMB1 billion to Orion, to be drawn down over two years and with a term of five years. The financing will provide adequate funding for the development of the CBM project.

Liuluoyu and Yanjiawan

The Group’s two oil fields in Erdos Basin, Shaanxi Province, Liuluoyu and Yanjiawan, are both producing oil fields. During the year under review, the two fields had an aggregate crude oil production of approximately 6,540 tonnes, which was at a similar level to the previous year.

Jinzhuang

The Group obtained a 15-month operation right of Jinzhuang oil field under a sub-contracting agreement commencing in May 2010 and expiring in the end of October 2011. Jinzhuang is a producing oil field located at the plateau of Erdos Basin, Shaanxi Province, with an area of 62 square kilometers.

The Group owns a 95% production sharing right to the turnover from Jinzhuang oil field during the sub-contracting period. Pursuant to the agreement, the Group has the right of first refusal to acquire the oil field at the agreed price upon the ending of the sub-contracting period. On 4 November 2011, the Group acquired the target group which holds the afore-mentioned contractual right until 2025, and is entitled to share and receive 95% of the income generated from the sales of oil exploited at the oil field. The consideration for the acquisition was RMB188 million.

According to an independent reserve report, the economic reserve of oil in Jinzhuang Block amounts to 4.16 million tonnes. The Group is optimistic about the prospects of this block and is currently drawing up an overall development plan for the various blocks it operates in Shaanxi.

During the year under review, crude oil output at Jinzhuang oil field amounted to approximately 4,970 tonnes.

Summary of Resources

Oil and gas reserves of the Group as at 31 December 2011 are summarized as follows:

	Crude Oil		Coalbed Methane
	Liuluoyu and Yanjiawan	Jinzhuang	Sanjiao
	Million barrels		Billion cubic feet (Gross)
Proved and Probable	2.8 (Note a)	30.4 (Note b)	4,056 (Note c)

Notes

(a) The oil reserve is estimated by an internal experts.

(b) The oil reserve is extracted from a report formulated by an independent reserve valuation firm in September 2011 according to the PRC's reserve standards.

(c) The gas reserve is extracted from a competent person's report provided to the Company in November 2011.

FINANCIAL REVIEW

Capital Structure

On 30 June 2011, Mandolin Fund Pte Limited ("Mandolin Fund") acquired a total of 1,300,000,000 shares in the Company for investment purposes. Subsequent to the acquisition of shares, Mandolin Fund has become the biggest substantial shareholder of the Company. As at 31 December 2011, Mandolin Fund held 1,518,215,000 shares in the Company, representing approximately 12.6% of the total issued share capital of the Company. Mandolin Fund is a subsidiary of Richard Chandler Corporation, which has been providing capital to companies and governments in Asia, Africa, Latin America and Eastern Europe. It has invested in a wide range of industries, such as telecommunications, power, steel, banking and energy.

Liquidity and Financial Resources

As at 31 December 2011, net assets of the Group were HK$3,061,000,000 (31 December 2010: HK$2,528,000,000) while its total assets were HK$3,937,000,000 (31 December 2010: HK$3,423,000,000). As at 31 December 2011, the Group had external borrowings of HK$307,980,000 (31 December 2010: Nil) and the gearing ratio based on total assets was 7.82% (31 December 2010: 0%). As at 31 December 2011, the current ratio was 0.65 (31 December 2010: 0.76). In early July 2011, the Group successfully issued convertible notes in an aggregate amount of HK$468 million. Subsequently, the current ratio has been improved indicating improved cash flow for the Group. The net proceeds from the issuance, other than those used as general working capital, will lay a solid foundation for the imminent active development of the Sanjiao CBM project.

Foreign Exchange Fluctuations

The Group is exposed to currency risk primarily through recognised assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. At 31 December 2011, 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 2011, the Group employed approximately 275 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 expanding its exploitation businesses based in the Erdos Basin, which is endowed with rich oil and natural gas resources.

NDRC deputy director and head of the National Energy Administration Liu Tienan made remarks on China's energy sector at a national energy work conference held on 10 January 2012. He reaffirmed the state's furtherance of the coordinated development of natural gas with a goal to realize rapid growth of domestic production. The country will forge ahead with the development of unconventional natural gas.

According to meeting reports, during the 12th Five-Year Plan period from 2011 to 2015, natural gas users will increase by 100 million to a total of 250 million. The country plans to produce 21 billion cubic meters of CBM by 2015.

Pursuant to the 12th Five-Year Plan, China will expedite the transformation of the CBM sector by encouraging market-driven operations and policy support. Related ministries are in negotiation in respect of raising the exploitation subsidy from the current RMB0.2 to RMB0.4 per cubic meter. In addition, the state will budget RMB3 billion per year for the governance of the CBM sector and on tax incentives to subsidize enterprises to import CBM equipment.

In addition to gaining policy support under the 12th Five-Year Plan, the infrastructure construction of the Sanjiao CBM project has also been much encouraged by local authorities. The Group has already commenced trial sales of CNG generated at test runs to local enterprises in Shanxi Province. External sales began in August 2011 with current daily sales amounting to 18,000 cubic meters. Upon completion of the expansion of the CNB head station, production capacities will increase further.

The Group has commenced the tendering for drilling works in 2012. It is expected that 50-60 new horizontal, vertical and directional wells will be drilled within this year.

Apart from selling natural gas in the form of CNG, the Group is also actively paving the way for selling piped and liquefied natural gas (LNG). Plans are under way to realize piped gas and LNG supply in the second half of this year. Construction works of a new pipeline mainly invested in by a local state-owned enterprise in Shanxi Province were completed in the fourth quarter of 2011. The new pipeline is designated for CBM transportation and passes through the main CBM blocks on the eastern fringe of Erdos Baisn. It is situated between Linxian and Lishi in Lvliang Municipality, Shanxi Province, and will form part of the first phase of the "Linxian-Liulin-Linfen" gas pipeline project. The length of the gas pipeline is 130 kilometers with an annual transportation capacity of 1.1 billion cubic meters. The pipeline will be located about 20 kilometers east of the Sanjiao Block. Shanxi Provincial Government has also approved the construction of two small-scale LNG plants within the Sanjiao Block. The Group expects the construction of local pipelines in Shanxi and the LNG plants to drive the production scale expansion of the CBM project, and to bring further improvements in the project's revenues and profitability. Management believes that the Sanjiao CBM project will become the Group's future growth drivers. The Group looks forward to capturing the opportunities arising from the 12th Five-Year Plan to bring satisfactory long-term returns for 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.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

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 2011.

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 2011.

By order of the Board
Sino Oil and Gas Holdings Limited
Dai Xiaobing
Chairman

Hong Kong, 30 March 2012

As at the date of this announcement, the Board comprises five Executive Directors, namely, Dr. Dai Xiaobing, Mr. King Hap Lee, Mr. Xu Zucheng, Mr. Wang Ziming and Mr. Wan Tze Fan Terence; one Non-executive Director, Mr. Kong Siu Tim, and three Independent Non-executive Directors, namely, Mr. Wong Kwok Chuen Peter, Dr. Wong Lung Tak Patrick and Dr. Wang Yanbin.