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 2012

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 2012, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in Hong Kong Dollars)

	Notes	2012 HK$'000	2011 HK$'000
Turnover	3 & 10	28,932	35,079
Direct costs		(25,415)	(31,380)
Gross profit		3,517	3,699
Other revenue	4	9,573	8,803
Other gains and (losses), net	5	(69,769)	2,475
Administrative expenses		(68,462)	(107,086)
Loss from operations		(125,141)	(92,109)
Finance costs	6(a)	(116)	(6)
Share of loss of a jointly controlled entity		(1,505)	(496)
Share of profit of an associate	12	1	-
Loss before income tax expenses	6	(126,761)	(92,611)
Income tax credit/(expenses)	7	13,356	(3,628)
Loss for the year		(113,405)	(96,239)
Other comprehensive income, after tax			
Exchange differences on translating foreign operation		8,675	13,023
Other comprehensive income for the year		8,675	13,023
Total comprehensive income for the year		(104,730)	(83,216)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2012
(Expressed in Hong Kong Dollars)

	Notes	2012 HK$'000	2011 HK$'000
Loss attributable to:			
Owners of the Company		(113,405)	(96,239)
Non-controlling interests		-	-
		(113,405)	(96,239)
Total comprehensive income attributable to:			
Owners of the Company		(104,730)	(83,216)
Non-controlling interests		-	-
		(104,730)	(83,216)
Loss per share			
- Basic and diluted	9	(0.927) HK cents	(0.979) HK cents

Consolidated Statement of Financial Position

At 31 December 2012
(Expressed in Hong Kong Dollars)

	Notes	2012 HK$'000	2012 HK$'000	2011 HK$'000	2011 HK$'000
Non-current assets					
Property, plant and equipment			229,847		267,471
Gas exploration and evaluation assets	11		3,272,934		3,007,374
Intangible assets			227,088		249,997
Goodwill			-		4,230
Interest in a jointly controlled entity			4,947		6,452
Interest in an associate	12		63,354		-
Deposits and prepayments	13		12,423		32,368
Total non-current assets			3,810,593		3,567,892
Current assets					
Inventories		3,924		635	
Trade, notes and other receivables, deposits and prepayments	13	42,388		24,235	
Pledged bank deposits		7,954		-	
Cash and cash equivalents		71,114		344,451	
Total current assets		125,380		369,321	
Total assets			3,935,973		3,937,213
Current liabilities					
Other payables and accruals	14	(442,561)		(546,149)	
Borrowings - secured	15	(92,834)		(22,287)	
Taxation		(2,345)		(2,322)	
Total current liabilities		(537,740)		(570,758)	
Net current liabilities			(412,360)		(201,437)
Total assets less current liabilities			3,398,233		3,366,455
Non-current liabilities					
Provisions		(971)		(1,132)	
Borrowings - secured	15	(368,739)		(285,693)	
Deferred tax liabilities		(5,349)		(18,674)	
Total non-current liabilities			(375,059)		(305,499)
NET ASSETS			3,023,174		3,060,956
Capital and reserves attributable to owners of the Company					
Share capital			123,560		120,190
Reserves			2,899,614		2,940,766
TOTAL EQUITY			3,023,174		3,060,956

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 basis.

During the year, the Group incurred a loss of HK$113,405,000 and its current liabilities exceeded current assets by HK$412,360,000 at end of reporting period. In addition, as described in the paragraphs below, the Group can only utilise the remaining loan facilities of RMB900,000,000 if certain prerequisites as described in (i) and (ii) below are met. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The directors are taking the following measures to improve the financial position and liquidity of the Group:

(i) As set out in note 15, in December 2011, 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 ("PRC"). As at 31 December 2012, the Group had utilised RMB320,000,000 of the facility. RMB80,000,000 of the remaining facility is available for use at any time and the other RMB600,000,000 can only be drawn after the Group has obtained final approval of its 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 in Sanjiao ("Sanjiao PSC") by the National Development and Reform Commission - National Energy Administration ("NEA"). Through the PRC partner of the project, China National Petroleum Corporation ("PetroChina"), the Group submitted the ODP to the NEA in May 2012. The Group received a reply from NEA in August 2012 which gave consent on the preliminary work on the development of the Sanjiao PSC. The directors anticipate that the final approval of the ODP will be obtained in the fourth quarter of 2013;

(ii) The Group obtained confirmation from another financial institution in the PRC for a loan facility of up to RMB500,000,000 for the Sanjiao PSC, of which RMB200,000,000 can be drawn any time by the Group. The remaining balance can only be drawn after the Group has obtained the final approval of the ODP from NEA in respect of the Sanjiao PSC;

(iii) The Group is in close discussion with a bank in the PRC for a loan facility to the extent of RMB300,000,000. The bank has already issued a letter of intent to the Group which confirms that negotiation and due diligence are in progress; and

(iv) Other than the above mentioned, the Group is considering other possible sources of financing, including but not limited to advances from major shareholders and equity financing.

As a result of the above measures 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 at least for a period of twelve months from the end of reporting period. If the Group were unable to continue as a going concern, the Group might not be able to realise its assets and discharge its liabilities in the normal course of business.

2. ADOPTION OF HKFRSs

Adoption of amendments to HKFRSs - first effective on 1 January 2012

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these amendments have no material impact on the Group's financial statements.

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 2012 and 2011.

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

	2012 HK$'000	2011 HK$'000
Sale of crude oil	28,932	35,079

4. OTHER REVENUE

	2012 HK$'000	2011 HK$'000
Interest income on bank deposits	217	75
Interest income on other loan (note a)	-	7,822
Income from sale of coalbed methane (note b)	9,110	550
Others	246	356
	9,573	8,803

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 sales of coalbed methane generated from the Sanjiao PSC.

5. OTHER GAINS AND (LOSSES), NET

	2012 HK$'000	2011 HK$'000
Impairment loss on property, plant and equipment (note)	(41,103)	(1,414)
Impairment loss on intangible assets (note)	(23,924)	-
Impairment loss on goodwill (note)	(4,230)	-
Write off of property, plant and equipment	(330)	-
Write off of deposits and other receivables	(172)	(2,355)
Exchange gains/(losses), net	(10)	6,244
	(69,769)	2,475

Note: During the year ended 31 December 2012, as result of the delay in the implementation of the development plans of Liuluoyu Oil Field and Yanjiawan Oil Field, the recoverable amount of each of the cash generating unit of Liuluoyu Oil Field and Yanjiawan Oil Field, as determined by an independent professional firm of valuers using the value in use approach is less than the respective carrying amount. Accordingly, impairment losses of HK$26,160,000 and HK$14,943,000 on the oil and gas properties and HK$21,972,000 and HK$1,952,000 on the operation right of Liuluoyu Oil Field and Yanjiawan Oil Field respectively, and HK$4,230,000 on goodwill of Liuluoyu were recognised. The discount rate used in the value in use calculations at 31 December 2012 was 18%.

6. LOSS BEFORE INCOME TAX EXPENSES

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

	2012 HK$'000	2011 HK$'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	31,447	4,555
Others	407	6
	31,854	4,561
Less: interest capitalised to gas exploration and evaluation assets (note 11)	(31,738)	(4,555)
	116	6
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	33,604	24,288
Equity-settled share-based payment expenses	-	60,000
Contributions to defined contribution retirement plan	1,953	880
	35,557	85,168

6. LOSS BEFORE INCOME TAX EXPENSES (CONTINUED)

	2012 HK$'000	2011 HK$'000
c) Other items		
Auditor's remuneration	1,443	1,656
Depreciation of property, plant and equipment (note)	4,960	8,802
Amortisation of intangible assets #	1,397	46
Minimum lease payments under operating lease		
– property rentals	6,044	4,450

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

Note: During the year, the Group reassessed the depreciation method of oil and gas properties and resolved to change the method from straight line over estimated useful life of 14 years to units of production as management considers the change can more accurately reflect the expected pattern of consumption of future economic benefits generated from these assets. The estimate has been applied prospectively from the start of 1 January 2012 and it is not practicable to estimate the effect in future period. The effect of the change in accounting estimate was a reduction in depreciation charge for the year of HK$14,479,000.

7. INCOME TAX CREDIT / (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 2012 and 2011. During the years 2012 and 2011, the subsidiaries in the PRC were subject to statutory tax rate of 25%.

The amount of income tax expenses (credited)/charged to the consolidated statement of comprehensive income represents:

	2012 HK$'000	2011 HK$'000
Current income tax		
- PRC enterprises income tax	-	1,358
Deferred tax for the year	(13,356)	2,270
Income tax (credit)/expenses	(13,356)	3,628

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: HK$Nil).

9. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$113,405,000 (2011: HK$96,239,000) and the weighted average number of ordinary shares of 12,230,404,000 (2011: 9,832,554,000) in issue during the year.

(i) Loss

	2012 HK$'000	2011 HK$'000
Loss attributable to owners of the Company	(113,405)	(96,239)

(ii) Number of ordinary shares

	2012 '000	2011 '000
Weighted average number of ordinary shares in issue during the year	12,230,404	9,832,554

b) Diluted loss per share

Diluted loss per share is calculated based on the 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 warrants subscribed.

Diluted loss per share for the years ended 31 December 2012 and 2011 are 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 both years.

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 (2011: 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 2012

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated HK$'000	Total HK$'000
Results				
Revenue from external customers	28,932	-	-	28,932
Segment results [1&2]	(9,423)	(8,983)	(37,478)	(55,884)
Finance costs	(116)	-	-	(116)
Impairment loss on property, plant and equipment	(41,103)	-	-	(41,103)
Impairment loss on goodwill	(4,230)	-	-	(4,230)
Impairment loss on intangible assets	(23,924)	-	-	(23,924)
Share of profit of an associate	-	1	-	1
Share of loss of a jointly controlled entity	(1,505)	-	-	(1,505)
Loss before income tax expenses	(80,301)	(8,982)	(37,478)	(126,761)
Income tax credit	13,356	-	-	13,356
Loss for the year	(66,945)	(8,982)	(37,478)	(113,405)
Assets and liabilities				
Reportable segment assets [3]	469,933	3,460,214	5,826	3,935,973
Reportable segment liabilities	34,191	827,043	51,565	912,799
Other segment information				
Depreciation and amortisation	4,092	1,709	556	6,357
Capital expenditure incurred during the year	4,023	257,546	10	261,579

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

Notes:

1. Unallocated 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$9,110,000 (2011: HK$550,000) from the trial sale of coalbed methane generated from the Sanjiao PSC for the year (note 4).

3. Unallocated 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 an external customer and non-current assets other than deposits paid and interest in a jointly controlled entity and interest in an associate ("specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	988	2,443
The PRC	28,932	35,079	3,731,651	3,553,131
	28,932	35,079	3,732,639	3,555,574

Revenues during the current and prior year represent sales to the Group's sole customer of the oil and gas exploitation segment.

11. GAS EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2011	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
Additions*	223,674
Interest capitalised (note 6(a))	31,738
Exchange adjustments	10,148
At 31 December 2012	3,272,934

* The amount included a decrease in provision for environmental restoration and decommission costs of HK$161,000 (2011: HK$1,132,000 increase).

As at 31 December 2012 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 Asset Appraisal 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. INTEREST IN AN ASSOCIATE

	2012 HK$'000	2011 HK$'000
Investment cost	63,353	-
Share of post-acquisition profit	1	-
As at 31 December	63,354	-

Particulars of the Group’s associate are as follows:

Name of company	Form of business structure	Place of incorporation	Percentage of ordinary shares indirectly held	Principal activity
山西國梁煤層氣開發有限公司	Sino-foreign equity joint venture	The PRC	30%	Development and operation of a liquefied natural gas plant ("LNG plant") in the PRC to produce liquefied coalbed methane

On 24 December 2012, the Group indirectly acquired a 30% equity interest of 山西國梁煤層氣開發有限公司 ("山西國梁") by acquiring a 100% equity interest of Superb China Limited and Pipeline International Limited (collectively "Superb Group") for a consideration of RMB30,000,000 (equivalents to HK$37,230,000). The directors of the Company consider that the Company has the power to exercise significant influence over 山西國梁 and accounted for the equity interest in 山西國梁 as an associate. Subsequent to the acquisition and before 31 December 2012, shareholders of 山西國梁 injected capital of RMB70,000,000 into 山西國梁 of which HK$26,100,000 (equivalents to RMB21,000,000) was contributed by the Group.

13. TRADE, NOTES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 HK$'000	2011 HK$'000
Non-current asset		
Other deposits and prepayments (note (i) & (ii))	12,423	32,368
Current assets		
Trade receivables	10,471	11,943
Notes receivable (note (iii))	2,488	-
Other receivables	23,469	7,112
	36,428	19,055
Utility deposits	1,404	1,407
Other deposits and prepayments (note (ii))	4,556	3,773
	5,960	5,180
	42,388	24,235

13. TRADE, NOTES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes:

(i) The balance includes a guarantee deposit of HK$9,653,000 (2011: HK$5,866,000) paid to secure the Group's borrowings as set out in note 15.

(ii) Prepayments include prepaid exploration costs of HK$2,770,000 (2011: HK$10,828,000) on the Group's gas evaluation and exploration assets and prepaid construction costs of HK$ Nil (2011: HK$15,674,000) on the Group's construction in progress under property, plant and equipment.

(iii) As at 31 December 2012, a note receivable of HK$1,244,000 (2011 : HK$ Nil) was pledged to secure a bank loan (note 15)

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

	2012 HK$'000	2011 HK$'000
< 30 days	2,484	3,389
30 - 60 days	534	2,680
61 - 90 days	7,453	5,874
	10,471	11,943

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 of the Group.

14. OTHER PAYABLES AND ACCRUALS

	2012 HK$'000	2011 HK$'000
Current liabilities		
Consideration payables (note (i))	13,402	9,002
Other payables and accruals (note (ii))	392,448	537,147
Amounts due to shareholders (note (iii))	36,711	-
	442,561	546,149

Notes:

(i) As at 31 December 2012, HK$1,002,000 (2011: HK$ 9,002,000) represented the remaining consideration for the acquisition of subsidiaries in 2011 to be settled in cash. The settlement date was extended from 30 September 2012 to 30 September 2013. The balance of HK$12,400,000 as at 31 December 2012 represented the balance consideration for the acquisition of the associate (note 12) which will be settled in cash in 2013.

(ii) Other payables and accruals include loans denominated in USD of HK$ Nil (2011: HK$78,877,000) from certain non-controlling shareholders of the Group. The loans were unsecured, bored interest at 3% per annum and fully settled during the year. Other payables also include exploration costs payable of approximately HK$341,383,000 (2011: HK$443,635,000) in respect of gas exploration and evaluation assets and oil and gas properties.

(iii) Amounts due to shareholders who are also directors included a loan denominated in Renminbi of HK$3,732,000 from one of the directors. The loan is unsecured, bearing interest at 8% per annum and repayable in April 2013. The remaining balances are unsecured, interest free and repayable on demand.

15. BORROWINGS -SECURED

	2012 HK$'000	2011 HK$'000
Secured interest-bearing borrowings		
On demand or within one year	92,834	22,287
More than one year, but not exceeding two years	132,398	91,393
More than two years, but not exceeding five years	236,341	194,300
	461,573	307,980
Amount due within one year included in current liabilities	(92,834)	(22,287)
Non-current portion	368,739	285,693

As at 31 December 2012, the Group obtained borrowings from three (2011: two) parties 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 RMB50,000,000 (equivalent to 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$58,376,000 (2011: 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 to be repaid by instalment over five years, of which RMB200,000,000 was to finance the exploration phase and RMB800,000,000 to be drawn after obtaining the approval of the ODP in respect of the Sanjiao PSC. During the year, a revised agreement was signed between OEI and CDB Leasing, pursuant to which OEI can draw loans to the extent of RMB400,000,000 and RMB600,000,000 during exploration stage and production stage of the Sanjiao PSC respectively. As at 31 December 2012, OEI drew down total loans of RMB320,000,000 (equivalent to HK$398,048,000) (2011:RMB200,000,000 (equivalent to HK$246,384,000)).

The facility is secured by certain gas exploration and evaluation assets with a carrying amount of HK$598,173,000 (2011: HK$359,882,000) (note 11), a guarantee deposit of HK$9,653,000 (2011: HK$5,866,000) (note 13), 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 held by certain directors and shareholders of the Company, personal guarantees of Dr. Dai Xiaobing and his spouse and a corporate guarantee by the Company.

In the opinion of the directors, the financing arrangement is in substance a secured borrowing. As explained in note 1(b)(i), the Group received a consent on the preliminary work on the development of the Sanjiao PSC from NEA in August 2012. The directors anticipate that the ODP will be approved by NEA in the fourth quarter of 2013.

15. BORROWINGS –SECURED (CONTINUED)

(iii) During 2012, the Group entered into a loan agreement ("Agreement 3") with Beijing Bank for loan facilities of RMB1,069,000 (equivalent to HK$1,330,000) which are secured by a bill receivable amounting to HK$1,244,000 (note 13(iii)) and charges over bank deposits amounting to HK$124,000. As at 31 December 2012, two loans in the total of RMB1,069,000 (equivalent to HK$1,330,000) were drawn. The loans are repayable within one year.

The borrowings under Agreement 1, Agreement 2 and Agreement 3 carry interest at effective floating rates ranging from 5.6% to 11.7% (2011: from 9.4% to 12.6%) during the year.

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 2012 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 loss of HK$113,405,000 during the year ended 31 December 2012 and its current liabilities exceeded current assets by HK$412,360,000 as at that date; and (ii) the Group can only utilise the remaining loan facility of RMB900,000,000 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 2012, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") reported a turnover of HK$28,900,000 (2011: HK$35,100,000). During the year under review, the Company recorded a loss of HK$113,400,000 including the impairment losses of Liuluoyu and Yanjiawan Oil Fields (loss in 2011: HK$96,200,000). There was a great progress in the development of Sanjiao CBM Block and the sales of piped gas commenced at the end of last year.

Oil and Natural Gas Exploitation

Coalbed Methane Exploitation—Sanjiao Block in the Erdos Basin

Through its wholly-owned subsidiary Orion Energy International Inc. ("Orion"), the Group entered into a production sharing contract ("PSC") with its partner in the PRC, 中國石油天然氣集團公司 China National Petroleum Corporation ("PetroChina"), covering exploration, exploitation and production at a CBM field in the Sanjiao Block located in Shanxi and Shaanxi Provinces. The Group owns a 70% interest in the PSC.

The PSC entered between Orion and PetroChina covered the block in Erdos Basin in Shanxi and Shaanxi Provinces, with a total of 383 square kilometers. According to a competent person's report provided to the Company in November 2011, the proved and probable coalbed methane reserve of Sanjiao Block amounted to 405.6 billion cubic feet (approximately 11.5 billion cubic meters).

Inclusion in the "12th Five-Year Plan" in China

At the end of 2011, the National Development and Reform Commission ("NDRC") officially released a policy paper on "The 12th Five-Year Plan for Development and Utilization of Coalbed Methane (Coal Mine Methane)" (the "Plan"). According to the Plan, the state will focus on the development of two CBM commercial bases in Qinshui Basin and the eastern fringe of the Erdos Basin. By 2015, the productive capacity of CBM on the eastern fringe of the Erdos Basin will reach 5 billion cubic meters (approximately 176 billion cubic feet). The Sanjiao Block was listed as one of the Plan's core projects on the eastern fringe of the Erdos Basin.

According to the Plan, China will accelerate the development of the industry by increasing CBM exploration investment during the "12th Five-Year" period, strengthening the management of external cooperation to encourage investment of foreign investors and private companies, and continuously adopting tax incentives and increasing the subsidies for the utilization of CBM.

Following the official publishing of the paper of the Plan, the total investment of the eastern fringe of the Erdos Basin amounted to approximately RMB203 billion. The Sanjiao Block project was officially included in the national plan and is expected to gain greater support from the central and local governments. The profitability of the project is enhanced with further improvement in the external environment for development, construction and operation.

Receipt of Reply from National Energy Administration for ODP

In August 2012, the National Development and Reform Commission – National Energy Administration ("NEA") granted a reply for the application of the overall plan for the development of Sanjiao CBM Project (the "ODP") with the consent on the work for the development of the coalbed methane reserve in the Sanjiao region (the "Reply"). The granting of the Reply represents NEA's official acceptance of the application to have the Sanjiao CBM Project proceeding from exploration to production phase. It signifies a milestone in the project's commercial production process.

Steady Development of the Blocks

The exploration of Sanjiao Block lasted for six years since 2006 and is steadily undergoing the exploitation and sales of the output from well drilling and the portal, as well as the establishment of pipelines, central processing plant, pipeline network auxiliary facilities, compressed natural gas ("CNG") stations and piped gas sales channels.

As of the end of 2012, the Sanjiao Block has a total of 32 vertical wells, and 38 sets of multi-lateral horizontal wells, and is equipped with a CNG head station with daily capacity of 150,000 cubic meters, a ground pipeline network of approximately 17 kilometers, inter-well pipelines of approximately 24 kilometers, and outbound pipelines of approximately 17 kilometers. There is also a completed grid system of approximately 10 kilometers exclusive for Sanjiao block.

Opening up of Sales Channels

The western area of Shanxi Province has a strong demand of natural gas due to under-supply of gas and the lack of infrastructures such as pipelines. To meet the gas demand of the markets near the Sanjiao Block, in addition to Orion's CNG head station, the Shanxi provincial government planned to set up three designated coalbed methane pipelines of the Sanjiao Block and its surrounding areas.

Pipelines are constructed and invested by a third party, including (1) the coalbed methane pipeline from Sanjiao to Linxian for gas supply for residential, commercial and industrial use and heating in winter; (2) the designated coalbed methane pipeline of the Sanjiao CBM Block for gas supply to Senze Coal & Aluminum Group, a local coal and aluminum manufacturer; (3) the coalbed methane pipeline from Sanjiao to Lishi for gas supply for residential, commercial and industrial use in Luliang,.

On 5 December 2012, the first pipeline from Sanjiao to Linxian, with a designed annual capacity of 350 million cubic meters, commenced the operation and started to contribute to the piped gas sales of the Sanjiao project. On 21 January 2013, the second designated coalbed methane pipeline from Sanjiao to Senze Coal & Aluminum Group, with a designed annual capacity of 350 million cubic meters, began to supply gas for sales.

The commencement of operation of the Sanjiao CBM Project pipelines is a milestone for the project development. With the gradual improvement of pipelines, sales volume of coalbed methane in Sanjiao is expected to achieve a breakthrough in growth and signifies a new stage of development in 2013.

During the year, the sales volume of natural gas in the Sanjiao Block amounted to 6.15 million cubic meters, of which the trial sales of natural gas in the form of CNG were approximately 6 million cubic meters. The piped gas sales began in December and recorded sales of approximately 150,000 cubic meters.

Liuluoyu and Yanjiawan

The Group's two oil fields in Liuluoyu and Yanjiawan in the Erdos Basin, Shaanxi Province, are both productive oil fields. However, after consideration of the delay in implementation of the development plans of the oil fields, the Group had made impairment losses of HK$69,300,000 for the relevant oilfields. During the year under review, the two fields had an aggregate crude oil production of approximately 4,900 tones (2011: 6,500 tonnes).

Jinzhuang

Jinzhuang is a productive oil field located on the Erdos Basin plateau in Shaanxi Province, with an area of 62 square kilometers. The Group acquired a company which holds the rights of exploitation and operation of Jinzhuang oil field up to 2025 and is entitled to share and receive 95% of the income generated from the sales of crude oil exploited at the oil field. The Group is drawing up an overall development plan for the various blocks in the oil field with a view to further expanding its production. During the year under review, crude oil output amounted to approximately 3,500 tones (2011: 5,000 tonnes).

Summary of Resources

Oil and gas reserves of the Group as at 31 December 2012 are summarized as follows:

	Crude Oil		**Coalbed Methane**
	Liuluoyu and Yanjiawan tonnes	**Jinzhuang** tonnes	**Sanjiao** Billion cubic feet (Gross)
Proved and Probable	383,600 (Note a)	4,164,000 (Note b)	405.6 (Note c)

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

(b) The oil reserve is extracted from a report formulated by an independent professional 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 prepared in accordance with the standards for "Petroleum Resources Management System" recognized under Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong and provided to the Company in November 2011.

Category	Coalbed Methane Reserve Billion cubic feet (Gross)
Proved (1P)	79.1
Proved and Probable (2P)	405.6

(d) Reserve translation reference: Crude oil per ton is approximately equivalent to 7.3 barrels; natural gas per cubic meter is approximately equivalent to 35.2 cubic feet.

Acquisition of LNG project

As at the end of December 2012, the Group acquired a 30% equity interest of a sino-foreign joint venture established in Shanxi Province in China from an independent third party at a total consideration of RMB30 million, the remaining 51% and 19% interest were held by 山西燃氣產業集團有限公司 and 山西新民能源投資集團有限公司 respectively. The sino-foreign joint venture plans to set up a liquefied natural gas ("LNG") station with daily processing capacity of 1.2 million tonnes in Sanjiao area, Shanxi. The joint venture has completed the preliminary preparation and obtained approval from the relevant government authorities. The first phase of LNG station is expected to be completed in the mid 2014, and our Sanjiao CBM Block will supply gas to the LNG station in the future.

FINANCIAL REVIEW

Capital Structure

In July 2012, the Company successfully placed a total of 200,000,000 shares and the net proceeds of approximately HK$29,950,000 were raised for use as general working capital and funds for the existing projects.

The Reply from NEA for the Sanjiao CBM Project in August 2012, and the loan facility granted by CDB Leasing Co., Ltd. at the end of 2011 and banking facilities granted by other financial institutions provided necessary funding to Sanjiao CBM Project. Currently, the implementation of various programs in the Sanjiao CBM Project has been satisfactory and sales have commenced. The Group's financial condition becomes sound and stable so as to facilitate new project developments.

Liquidity and Financial Resources

As at 31 December 2012, the net assets of the Group were HK$3,023 million (31 December 2011: HK$3,061 million) while its total assets were HK$3,936 million (31 December 2011: HK$3,937million). As at 31 December 2012, the Group had external borrowings of HK$461.5 million (31 December 2011: HK$307.9 million) and the gearing ratio based on total assets was 11.73% (31 December 2011: 7.82%). As at 31 December 2012, the current ratio was 0.23 (31 December 2011: 0.65).

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 2012, 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 2012, the Group employed approximately 365 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 oil and gas exploitation businesses in the Erdos Basin in Shaanxi Province.

The Sanjiao Block transmitted natural gas for sales in the form CNG and via two pipelines in 2012. Looking forward to 2013, sales of the Sanjiao Block will continue to grow and keep pace with the increase in its production. This will in turn help to enhance revenue and profitability of the project.

In 2013, the Group will actively develop the facilities in the surrounding areas and plans to complete the ground pipeline of 35.5 kilometers by the end of the year, so that the total pipelines in the block will increase to 93.5 kilometers. We will also further expand and perfect the ground pipeline network to ensure that the CBM produced is fully utilized, and complete the first stage of construction of the central processing plant with daily processing capacity of 500,000 cubic meters, as well as commencing the construction of the LNG station with processing capacity of 1.2 million cubic meters acquired at the end of the year.

Both PetroChina and Orion maintain that the Sanjiao CBM Project is the project with the fastest development pace and most promising prospects among all of PetroChina’s sino-foreign CBM development projects. As the operator of the project, Orion is now backed by the Reply of NEA and extensive financial support, and will ramp up well drilling and development works within the proven reserve block in order to maximize the development of the CBM reserve. PetroChina, as the PRC partner, will continue to support the foreign party’s tasks and undertake the liaison and approval work in respect of related procedures.

The total area of Sanjiao Block is 383 square kilometers, among which 283 square kilometers have been explored. The potential for exploitation in Sanjiao Block remains substantial, which is favourable to the prospect for long-term development. Management believes that the Sanjiao CBM Project will become a growth driver of the Group and will bring satisfactory long-term returns for shareholders going forward. In addition to the focused development of the Sanjiao CBM Project, the Group is drawing up an overall development plan for the oil blocks in Jinzhuang so as to further expanding its production. In the meantime, the Group will also actively pursue other investment opportunities in non-conventional natural gas production and distribution and other mid-stream businesses.

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 2012 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.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited has been amended and renamed the "Corporate Governance Code" (the "New Code") effective from 1 April 2012. The Company has complied with all the code provisions of the Former Code and the New Code during the period from 1 January 2012 to 31 March 2012 and the period from 1 April 2012 to 31 December 2012 respectively.

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 2012.

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

Hong Kong, 27 March 2013

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.