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 2013

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 2013, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
(Expressed in Hong Kong Dollars)

	Notes	2013 HK$'000	2012 HK$'000
Turnover	3 & 10	21,598	28,932
Direct costs		(25,397)	(25,415)
Gross (loss) / profit		(3,799)	3,517
Other revenue	4	42,472	9,573
Other losses, net	5	(25,836)	(69,769)
Administrative expenses		(70,469)	(68,462)
Loss from operations		(57,632)	(125,141)
Finance costs	6(a)	(25)	(116)
Share of loss of a jointly controlled entity		(232)	(1,505)
Share of (loss) / profit of an associate	12	(623)	1
Loss before income tax expenses	6	(58,512)	(126,761)
Income tax (expenses) / credit	7	(2,820)	13,356
Loss for the year		(61,332)	(113,405)
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operation		26,489	8,675
Total comprehensive income for the year		(34,843)	(104,730)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2013
(Expressed in Hong Kong Dollars)

	Notes	2013 HK$'000	2012 HK$'000
Loss attributable to:			
Owners of the Company		(61,332)	(113,405)
Non-controlling interests		-	-
		(61,332)	(113,405)
Total comprehensive income attributable to:			
Owners of the Company		(34,843)	(104,730)
Non-controlling interests		-	-
		(34,843)	(104,730)
Loss per share			
- Basic and diluted	9	(0.467) HK cents	(0.927) HK cents

Consolidated Statement of Financial Position

At 31 December 2013
(Expressed in Hong Kong Dollars)

		2013		2012	
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets					
Property, plant and equipment			234,670		229,847
Gas exploration and evaluation assets	11		3,602,475		3,272,934
Intangible assets			232,960		227,088
Goodwill			-		-
Interest in a jointly controlled entity			1,215		4,947
Interest in an associate	12		62,731		63,354
Deposits and prepayments	13		20,402		12,423
Total non-current assets			4,154,453		3,810,593
Current assets					
Inventories		21,349		3,924	
Trade, notes and other receivables, deposits and prepayments	13	74,229		42,388	
Pledged bank deposits		7,832		7,954	
Cash and cash equivalents		17,536		71,114	
Total current assets		120,946		125,380	
Total assets			4,275,399		3,935,973
Current liabilities					
Other payables and accruals	14	(199,568)		(442,561)	
Borrowings - secured	15	(145,932)		(92,834)	
Taxation		(2,414)		(2,345)	
Total current liabilities		(347,914)		(537,740)	
Net current liabilities			(226,968)		(412,360)
Total assets less current liabilities			3,927,485		3,398,233
Non-current liabilities					
Provisions		(747)		(971)	
Borrowings - secured	15	(336,210)		(368,739)	
Convertible notes	16	(134,920)		-	
Deferred tax liabilities		(8,371)		(5,349)	
Total non-current liabilities			(480,248)		(375,059)
NET ASSETS			3,447,237		3,023,174
Capital and reserves attributable to owners of the Company					
Share capital			147,539		123,560
Reserves			3,299,698		2,899,614
TOTAL EQUITY			3,447,237		3,023,174

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$61,332,000 and its current liabilities exceeded current assets by HK$226,968,000 at end of reporting period. In addition, as described in the paragraphs below, the Group can only utilise the remaining loan facilities of RMB1,100,000,000 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 2013, the Group had utilised RMB400,000,000 of the facility. 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 mid-2014;

(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) On 17 March 2014, the Group obtained a facility of HK$100,000,000 from a company wholly owned by a stated-owned financial enterprise (which is the holding company of a shareholder of the Company). The facility is to be utilised as general working capital of the Group; 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, equity financing and borrowing from financial institutions.

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 new / revised HKFRSs - effective on 1 January 2013

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits
HK(IFRIC) – Interpretation 20	Stripping Costs of the Production Phase of a Surface Mine
Amendments to HKFRS1	Government loans

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 years 2013 and 2012.

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

	2013 HK$'000	2012 HK$'000
Sale of crude oil	21,598	28,932

4. OTHER REVENUE

	2013 HK$'000	2012 HK$'000
Interest income on bank deposits	579	217
Income from sale of coalbed methane (note)	38,899	9,110
Sub-lease income	852	-
Others	2,142	246
	42,472	9,573

Note: It represents trial sales of coalbed methane generated from the Sanjiao PSC.

5. OTHER LOSSES, NET

	2013 HK$'000	2012 HK$'000
Loss on extinguishment of financial liabilities[1]	(25,247)	-
Impairment loss on property, plant and equipment[2]	-	(41,103)
Impairment loss on intangible assets[2]	-	(23,924)
Impairment loss on goodwill[2]	-	(4,230)
Loss on disposal / write off of property, plant and equipment	(7)	(330)
Deposits and other receivables written off	(534)	(172)
Exchange losses, net	(48)	(10)
	(25,836)	(69,769)

Notes:

1. In November 2013, the Company issued 721,350,000 shares to extinguish financial liabilities of HK$144,270,000 as disclosed in the Company's announcement dated 28 November 2013. The fair value of these shares based on the closing market price of HK$0.235 per share on 13 December 2013 which is the issue date of shares, amounted HK$169,517,000. The difference between the carrying amount of the financial liabilities extinguished and the fair value of these shares are recognised as loss of extinguished of financial liabilities of HK$25,247,000.

2. 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 was 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):

	2013 HK$'000	2012 HK$'000
a) Finance costs		
Amortisation of convertible notes transaction costs	1,874	-
Interest on borrowings wholly repayable within five years	49,932	31,447
Imputed interest on convertible notes	21,775	-
Interest on late payment charged by the subcontractor	52,536	-
Others	590	407
	126,707	31,854
Less: interest capitalised to gas exploration and evaluation assets (note 11)	(126,682)	(31,738)
	25	116
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	36,097	33,604
Contributions to defined contribution retirement plan	1,726	1,953
	37,823	35,557

6. LOSS BEFORE INCOME TAX EXPENSES (CONTINUED)

	2013 HK$'000	2012 HK$'000
c) Other items		
Auditor's remuneration	1,450	1,443
Depreciation of property, plant and equipment	3,516	4,960
Amortisation of intangible assets #	823	1,397
Minimum lease payments under operating lease		
– property rentals	5,878	6,044

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

7. INCOME TAX (EXPENSES) / CREDIT

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 2013 and 2012. During the years 2013 and 2012, 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:

	2013 HK$'000	2012 HK$'000
Current income tax		
- PRC enterprises income tax	-	-
Deferred tax for the year	(2,820)	13,356
Income tax (expenses) / credit	(2,820)	13,356

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: 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$61,332,000 (2012: HK$113,405,000) and the weighted average number of 13,142,713,000 (2012: 12,230,404,000) ordinary shares in issue during the year.

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, warrants subscribed and convertible notes issued.

The Company's outstanding share options, warrants and convertible notes, 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 (2012: 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.

a) Business segments

Segment information about these businesses is set out as follows:

For the year ended 31 December 2013

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated HK$'000	Total HK$'000
Results				
Revenue from external customers	21,598	-	-	21,598
Segment results [1&2]	(10,075)	15,057	(62,614)	(57,632)
Finance costs	(25)	-	-	(25)
Share of loss of a jointly controlled entity	(232)	-	-	(232)
Share of loss of an associate	-	(623)	-	(623)
(Loss) / profit before income tax expenses	(10,332)	14,434	(62,614)	(58,512)
Income tax expenses	(2,820)	-	-	(2,820)
(Loss) / profit for the year	(13,152)	14,434	(62,614)	(61,332)
Assets and liabilities				
Reportable segment assets [3]	475,176	3,787,872	12,351	4,275,399
Reportable segment liabilities	28,992	648,609	150,561	828,162
Other segment information				
Depreciation and amortisation	2,222	1,752	365	4,339
Capital expenditure incurred during the year	1,375	295,550	66	296,991

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 loss of a jointly controlled entity	(1,505)	-	-	(1,505)
Share of profit of an associate	-	1	-	1
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

Notes:

1. Unallocated results mainly include salaries, rental expense and professional fees for Hong Kong head office and loss on extinguishment of financial liabilities.

2. Included in the segment result of coalbed methane segment is revenue of HK$38,899,000 (2012: HK$9,110,000) from the trial sales 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	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	1,594	988
The PRC	21,598	28,932	4,079,185	3,731,651
	21,598	28,932	4,080,779	3,732,639

During the year, revenues from the Group's sole customer were HK$21,598,000 (2012: HK$28,932,000), being 100% (2012: 100%) 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 2012	3,007,374
Additions*	223,674
Interest capitalised (note 6(a))	31,738
Exchange adjustments	10,148
At 31 December 2012	3,272,934
Additions*	168,608
Interest capitalised (note 6(a))	126,682
Exchange adjustments	34,251
At 31 December 2013	3,602,475

* The amount included adjustment for a decrease in provision for environmental restoration and decommission costs of HK$253,000 (2012: HK$161,000).

As at 31 December 2013 and 2012, the major components of gas exploration and evaluation assets were exploration right, 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

	2013 HK$'000	2012 HK$'000
As at 1 January	63,354	-
Investment in December 2012	-	63,353
Share of post-acquisition (loss) / profit	(623)	1
As at 31 December	62,731	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 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

	2013 HK$'000	2012 HK$'000
Non-current asset		
Deposits and prepayments (note (i) & (ii))	20,402	12,423
Current assets		
Trade receivables	5,046	10,471
Notes receivable (note (iii))	-	2,488
Other receivables	61,387	23,469
	66,433	36,428
Utility deposits	502	1,404
Other deposits and prepayments (note (ii))	7,294	4,556
	7,796	5,960
	74,229	42,388

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

Notes:

(i) The balance includes a guarantee deposit of HK$9,728,000 (2012: HK$9,653,000) paid to secure the Group's borrowings as set out in note 15(ii).

(ii) Prepayments include prepaid exploration costs of HK$10,674,000 (2012: HK$2,770,000) on the Group's gas evaluation and exploration assets.

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

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

	2013 HK$'000	2012 HK$'000
< 30 days	5,046	2,484
30 - 60 days	-	534
61 - 90 days	-	7,453
	5,046	10,471

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 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

	2013 HK$'000	2012 HK$'000
Current liabilities		
Consideration payables (note (i))	-	13,402
Other payables and accruals (note (ii))	184,213	392,448
Amounts due to shareholders (note (iii))	15,355	36,711
	199,568	442,561

Notes:

(i) As at 31 December 2012, HK$1,002,000 represented the remaining consideration for the acquisition of subsidiaries in 2011 and HK$12,400,000 represented the outstanding consideration for the acquisition of the associate (note 12) in 2012. Both amounts were fully settled during the year ended 31 December 2013.

(ii) Other payables include exploration costs payable of approximately HK$149,955,000 (2012: HK$341,383,000) 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$3,842,000 (2012: HK$3,732,000) from one of the directors. The loan is unsecured, bearing interest at 8% per annum and was settled in January 2014. Another loan from a shareholder amounted to HK$7,500,000 is guaranteed by two of directors of the Company, unsecured, bearing interest at 8% per annum and was settled in February 2014. The remaining balance is unsecured, interest free and repayable on demand.

15. BORROWINGS –SECURED

	2013 HK$'000	2012 HK$'000
Secured interest-bearing borrowings		
On demand or within one year	145,932	92,834
More than one year, but not exceeding two years	128,080	132,398
More than two years, but not exceeding five years	208,130	236,341
	482,142	461,573
Amount due within one year included in current liabilities	(145,932)	(92,834)
Non-current portion	336,210	368,739

As at 31 December 2013, the Group obtained borrowings from two (2012: three) 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$60,108,000 (2012: HK$58,376,000) 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. In 2012, 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 2013, loans due to CDB Leasing, net of repayment, amounted to RMB350,000,000 (equivalent to HK$448,280,000) (2012: RMB320,000,000 (equivalent to HK$398,048,000)).

The facility is secured by certain gas exploration and evaluation assets with a carrying amount of HK$615,917,000 (2012: HK$598,173,000) (note 11), a guarantee deposit of HK$9,728,000 (2012: HK$9,653,000) (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 are confident that the ODP will be approved by NEA in mid-2014.

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 notes 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. During the year ended 31 December 2013, the loans were fully repaid.

The borrowings under Agreement 1, Agreement 2 and Agreement 3 carry interest at effective floating rates ranging from 8.9% to 11.7% (2012: from 5.6% to 11.7%) during the year.

16. CONVERTIBLE NOTES

	Liability component HK$'000	Equity component HK$'000
At 1 January 2013	-	-
Face value of convertible notes issued on 26 April 2013 after 4% discount	231,510	32,490
Transaction costs on issue	(8,432)	(1,194)
Conversion of convertible notes	(109,617)	(15,383)
Amortisation of transaction costs (note 6 (a))	1,874	-
Imputed interest expenses (note 6 (a))	21,775	-
Interest paid	(2,190)	-
At 31 December 2013	134,920	15,913

The Company issued convertible notes in an aggregate principal amount of HK$275,000,000 with a 4% discount and a 2% coupon rate on 26 April 2013. The convertible note was denominated in Hong Kong dollars and will mature in three years from the issue date. The notes can be converted to ordinary shares of the Company at the holder's option at the rate of HK$0.167 per share.

The fair values of the liability component and the equity conversion component were determined at the date of issue of the convertible notes. The fair value of the liability component, included as non-current financial liabilities, was calculated using the market interest rate for an equivalent non-convertible notes. The residual amount, representing the value of the equity conversion component, was included in equity, net of deferred income taxes, where applicable.

Imputed interest expense on the convertible notes was charged at the rate of 18.67% calculated using the effective interest method.

17. EVENTS AFTER THE REPORTING PERIOD

(a) On 13 January 2014, the Company entered into the subscription agreements with six subscribers for allotting and issuing a total of 300,000,000 shares at a price of HK$0.22 per share. The net proceeds of approximately HK$65,800,000 are intended to be used for operations of the Group's existing oil and gas projects and working capital.

(b) On 17 March 2014, the Group has obtained a facility of HK$100,000,000 from a company that is wholly owned by a state-owned financial enterprise (which is the holding company of a shareholder of the Company). The facility is to be utilized as general working capital of the Company. Details are disclosed in the Company's announcement dated 17 March 2014.

18. 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 2013 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 notes to financial statements which states that the Group incurred a loss of HK$61,332,000 during the year ended 31 December 2013 and its current liabilities exceeded current assets by HK$226,968,000 as at that date. 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 2013, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a turnover of HK$21,598,000 (2012: HK$28,932,000) and also posted trial sales of coalbed methane ("CBM") amounting to HK$38,899,000 (2012: HK$9,110,000) as disclosed under the item of other revenue.

The Group's loss for the year narrowed significantly to HK$61,332,000 (loss in 2012: HK$113,400,000), as a result of increasing trial sales from the Sanjiao CBM project and no impairment allowance (2012: HK$69,257,000) was required for the year. Included in the loss was loss on extinguishment of financial liabilities of HK$25,247,000 (2012: Nil) in respect of the new shares issued in November 2013 to settle a sum payable for well-drilling and related services. This was treated as non-cash items. The operating loss was also reduced to HK$57,632,000 (loss in 2012: HK$125,141,000) accordingly.

Natural Gas and Oil Exploitation

Coalbed Methane Exploitation -- Sanjiao Block in the Erdos Basin

Project Overview

Through its wholly-owned subsidiary Orion Energy International Inc. ("Orion"), the Group entered into a production sharing contract ("PSC") with China National Petroleum Corporation ("PetroChina"), its partner in the PRC, for exploration, exploitation and production at a CBM field in the Sanjiao block located in the Erdos Basin in Shanxi and Shaanxi provinces. The Group has a 70% interest in the PSC. In August 2012, the National Energy Administration Bureau ("NEA") under the National Development and Reform Commission ("NDRC") accepted the application of the overall plan for the development of the Sanjiao CBM project (the "ODP"). This signifies a milestone in the project's commercial production process with assessment works ongoing smoothly towards obtaining relevant approvals.

The PSC entered into between Orion and PetroChina covers the block in the Erdos Basin in Shanxi and Shaanxi provinces, with a total site area of 383 square kilometers. According to a competent person's report provided to the Company in November 2011, the proved and probable CBM reserves in the Sanjiao block amounted to 405.6 billion cubic feet (approximately 11.5 billion cubic meters) then.

Infrastructure

By the end of 2013, the Sanjiao project had completed a total of 72 wells, including 39 multi-lateral horizontal wells, while the remaining 33 were vertical wells. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 39 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately 15 kilometers of 10KV power grid and approximately 24 kilometers of 10KV branch power line were also completed as at the year end.

Adopting the multi-lateral horizontal well-drilling system designed by US oil service professionals, one pilot experimental well has been drilled with dewatering and extraction of gas currently underway.

In 2012, the Company completed the construction of a CBM processing station with daily processing capacity of 150,000 cubic meters. Given that the processing capacity of the station has reached saturation point, the Company has commenced works to expand the station to a total daily capacity of approximately 500,000 cubic meters. Expansion works are expected to be completed by the end of 2014.

In addition, in December 2012 the Group acquired a 30% equity interest in a Sino-foreign joint venture. In order to broaden sales channels in the future, the Sino-foreign joint venture plans to set up a liquefied natural gas ("LNG") plant with daily processing capacity of 1.2 million cubic meters in the Sanjiao area of Shanxi Province.

The first phase of the LNG station with daily capacity of 300,000 cubic meters is expected to be completed by the end of 2014.

Owing to the tight gas supply in the western part of Shanxi Province and the lack of pipelines and other infrastructure, the Shanxi provincial government has planned to set up three designated CBM pipelines in the Sanjiao block and its surrounding areas.

These pipelines are all constructed and invested by third parties, including (1) the CBM pipeline from Sanjiao to Linxian for gas supply for residential, commercial and industrial use, as well as heating in winter, with an annual designed gas transmission capacity of 350 million cubic meters, which commenced operation in December 2012; (2) the designated CBM pipeline of the Sanjiao CBM block for gas supply to Senze Coal & Aluminum Group, a local coal and aluminum manufacturer, with an annual designed gas-transmission capacity of 350 million cubic meters, which commenced operations in January 2013; and (3) the CBM pipeline from Sanjiao to Luliang for gas supply to natural gas network of Xiaoyi and central Shanxi, with works completed at the end of 2013. This pipeline is scheduled to commence operations during 2014.

Sales

On 28 June 2013, the NDRC issued a notice announcing that the city-gate price of natural gas for non-residential users would be adjusted effective from 10 July 2013 and that the maximum increase in price should be no more than RMB0.40 per cubic meter.

In line with the adjustment to the national natural gas price policy, the Group and PetroChina jointly decided to adjust the CBM selling price of gas from the Sanjiao project. An agreement was reached and signed on 16 August 2013 to adjust the wellhead price for CBM sales to non-residential users. Pursuant to the agreement, the wellhead price for piped CBM will be increased by RMB0.32 per cubic meter, while the price for compressed natural gas (“CNG”) will be raised by RMB0.33 per cubic meter, with increases of more than 21%. The price adjustments will have an immediate and significant positive impact on the revenue and earnings of the Sanjiao project.

During the year, the Sanjiao project recorded CBM production of approximately 45.45 million cubic meters, with CBM sales of approximately 30.45 million cubic meters (2012: 6.15 million cubic meters) and a gas sale-to-production rate of 67.0% for the full year of 2013. Gas sales for the year were composed of industrial piped CBM sales, residential piped CBM sales, and CNG sales, which accounted for 84.7%, 10.2% and 5.1% respectively. As such, piped CBM sales accounted for 94.9% of total gas sales during the year.

During the reporting year, the Sanjiao project already posted an operating profit. With sales growth and the price increase, the Group is confident of the project’s long-term profitability.

Oilfields located in Shaanxi Province—Liuluoyu, Yanjiawan and Jinzhuang

In view of the promising prospects for the development of the CBM business, the Group has allocated resources to refocus on the Sanjiao CBM project. The development of the oilfields is thus proceeding somewhat more slowly than previously.

During the year under review, the two oilfields in Liuluoyu and Yanjiawan in the Erdos Basin, Shaanxi Province, yielded an aggregate crude oil production of approximately 3,500 tonnes (2012: 4,900 tonnes). On the other hand, Jinzhuang on the Erdos Basin plateau in Shaanxi Province, with an area of 62 square kilometers, reported crude oil output of approximately 2,600 tonnes (2012: 3,500 tonnes).

FINANCIAL REVIEW

Capital Structure

In April 2013, a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited (“COAMCI”) and the Group entered into a subscription agreement in respect of the issue of convertible notes in an aggregate principal amount of HK$275,000,000 due 2016. Proceeds of approximately HK$264 million were raised. In June 2013, the Group raised proceeds of approximately HK$155,000,000 through the allotment and issue of 928 million new shares to not less than six subscribers at an issue price of HK$0.167. Proceeds from both exercises were used to finance the Group's existing oil and gas projects and as general working capital.

On 28 November 2013, the Group, Orion Energy (Hong Kong) Co. Limited (the "Subscriber") and北京奧瑞安能源技術開發有限公司 (Beijing Orion Energy Technology Development Limited[#]) ("Beijing Orion") entered into a subscription agreement pursuant to which the Subscriber has subscribed for and the Company has allotted and issued 721,350,000 shares at the subscription price of HK$0.20. The subscription shares represent approximately 5.25% of the existing issued share capital of the Company and approximately 4.99% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares. The proceeds from the subscription of approximately RMB113,400,000 (equivalent to approximately HK$144,270,000) were used for the set-off of the total sum payable to Beijing Orion for the provision of well-drilling and related services for the Sanjiao CBM project in the past years. The issue has also indirectly helped improve the liquidity position of the Group.

In January 2014, the Company allotted and issued a total of 300 million new shares to not less than six subscribers at an issue price of HK$0.22. The net proceeds from the subscription of approximately HK$65,800,000 are intended to be used for the operation of the Group's existing oil and gas projects and as working capital.

On 17 March 2014, the Company entered into a facility agreement with a wholly-owned subsidiary of COAMCI. Pursuant to which the Company was granted a facility up to an aggregate principal amount of HK$100,000,000; and the Company agreed to grant to the lender warrants carrying rights to subscribe for warrant shares at an exercise price of HK$0.2714 per share (subject to adjustment) in aggregate of up to HK$50 million.

Apart from the above sources of financing, Orion may utilize the remaining loan facility of RMB600,000,000 provided by CDB Leasing Co., Ltd. upon the approval of the ODP. Leveraging the afore-mentioned strong funding support, the operation and development of the Sanjiao CBM project, as well as the Group's overall financial position, have strengthened steadily. The Group is able to meet the funding needs for developing various oil and gas projects and for potential investment opportunities.

For identification purposes only

Liquidity and Financial Resources

As at 31 December 2013, the net assets of the Group were HK$3,447,000,000 (31 December 2012: HK$3,023,000,000) while its total assets were HK$4,275,000,000 (31 December 2012: HK$3,936,000,000). As at 31 December 2013, the Group had external borrowings of HK$617,062,000 which includes the financial component of convertible notes (31 December 2012: HK$461,573,000) and the gearing ratio based on total assets was 14.43% (31 December 2012: 11.73%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings are shown in note 15 to the financial statements disclosed in this announcement. As at 31 December 2013, the current ratio was 0.35 (31 December 2012: 0.23), reflecting a gradual improvement on the liquidity position.

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 2013, 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 2013, the Group employed approximately 360 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

Natural gas and oil exploitation is the focus of the Group's ongoing development. The Group will continue to expand the exploration and production of the Sanjiao CBM project in the Erdos Basin in Shaanxi Province, an area listed by NEA as a core CBM production base in China. The Sanjiao block has been listed as a core project under the "12th Five-Year Plan". It is expected that the project will be able to enjoy stronger policy support in terms of the use of land, government approvals and financing.

In addition to the active development of ground facilities, expansion works for the CBM processing station are expected to complete by the end of 2014. Upon completion the daily processing capacity of the station will be increased to 500,000 cubic meters, hence significantly boosting gas sales. Furthermore, the increase in CBM price will have a positive impact on the Sanjiao project's revenue and earnings and its contribution to the Group.

The Group has not only employed foreign advanced well-drilling technologies to seek to further explore the recoverable gas reserves of the Sanjiao block, it is also pursuing investment opportunities in mid- and lower-stream businesses. At the same time, the Group is trying to expedite the ODP application of the Sanjiao CBM project. The Sanjiao CBM project is a major growth driver for the Group and has already moved forward into trial commercial operations with operating profit recorded. Management is confident that the project will 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 2013 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 Company complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2013.

AUDIT COMMITTEE

The Audit Committee of the Company 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 2013.

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

Hong Kong, 21 March 2014

As at the date of this announcement, the Board comprises five Executive Directors, namely, Dr. Dai Xiaobing, Mr. King Hap Lee, Mr. Zhu Danping, Mr. Wang Ziming and Mr. Wan Tze Fan Terence; two Non-executive Directors, Mr. Kong Siu Tim and Mr. Ma Tengying, and four Independent Non-executive Directors, namely, Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.