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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of Sino Oil and Gas Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012
(Expressed in Hong Kong Dollars)

	Notes	**2012 (unaudited) HK$'000**	2011 (unaudited) HK$'000
Turnover	5	**15,226**	15,861
Direct costs		**(19,215)**	(12,826)
Gross (loss) / profit		**(3,989)**	3,035
Other revenue	6	**3,085**	24
Other gains and (losses), net		**(156)**	(15)
Administrative expenses		**(32,453)**	(16,543)
Loss from operations		**(33,513)**	(13,499)
Finance costs	7	**(27)**	(209)
Share of loss of a jointly controlled entity		**(1,258)**	(1,871)
Loss before income tax expenses	7	**(34,798)**	(15,579)
Income tax expenses	8	**-**	-
Loss for the period		**(34,798)**	(15,579)
Other comprehensive income, after tax			
Exchange difference on translating foreign operation		**(4,101)**	6,567
Total comprehensive income for the period		**(38,899)**	(9,012)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2012

(Expressed in Hong Kong Dollars)

	Notes	**2012 (unaudited) HK$'000**	2011 (unaudited) HK$'000
Loss attributable to:			
- Owners of the Company		**(34,798)**	(15,579)
- Non-controlling interests		**-**	-
		(34,798)	(15,579)
Total comprehensive income attributable to:			
- Owners of the Company		**(38,899)**	(9,012)
- Non-controlling interests		**-**	-
		(38,899)	(9,012)
		HK$ (cents)	HK$ (cents)
Loss per share			
– Basic and diluted	10	**(0.288)**	(0.170)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

(Expressed in Hong Kong Dollars)

	Notes	**30.6.2012 (Unaudited) HK$'000**	31.12.2011 (audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**258,815**	267,471
Gas exploration and evaluation assets	12	**3,078,470**	3,007,374
Intangible assets	13	**247,979**	249,997
Goodwill		**4,230**	4,230
Interest in a jointly controlled entity	14	**5,194**	6,452
Deposits and prepayments	15	**27,760**	32,368
		3,622,448	3,567,892
Current assets			
Inventories		**4,540**	635
Trade and other receivables, deposits and prepayments	15	**44,249**	24,235
Cash and cash equivalents		**25,140**	344,451
		73,929	369,321
Total assets		**3,696,377**	3,937,213
Current liabilities			
Other payables and accruals	16	**(310,136)**	(546,149)
Borrowings - secured	17	**(45,771)**	(22,287)
Taxation		**(2,301)**	(2,322)
		(358,208)	(570,758)
Net current liabilities		**(284,279)**	(201,437)
Total assets less current liabilities		**3,338,169**	3,366,455
Non-current liabilities			
Provision		**(1,121)**	(1,132)
Borrowings - secured	17	**(259,369)**	(285,693)
Deferred tax liabilities		**(18,674)**	(18,674)
		(279,164)	(305,499)
NET ASSETS		**3,059,005**	3,060,956
Capital and reserves attributable to owners of the Company			
Share capital	18	**121,560**	120,190
Reserves		**2,937,445**	2,940,766
TOTAL EQUITY		**3,059,005**	3,060,956

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 – unaudited

(Expressed in Hong Kong Dollars)

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000	Convertible note equity reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012	120,190	3,243,866	81,043	91,069	4,890	-	29,820	(509,922)	3,060,956	-	3,060,956
Total comprehensive income for the period	-	-	-	-	-	-	(4,101)	(34,798)	(38,899)	-	(38,899)
Shares issued under share option scheme – note 18 (i)	1,370	46,783	-	(11,205)	-	-	-	-	36,948	-	36,948
Lapse of share options – note 18 (iv)	-	-	-	(30,778)	-	-	-	30,778	-	-	-
Lapse of warrants – note 18(ii)	-	-	-	-	(3,640)	-	-	3,640	-	-	-
At 30 June 2012	**121,560**	**3,290,649**	**81,043**	**49,086**	**1,250**	**-**	**25,719**	**(510,302)**	**3,059,005**	**-**	**3,059,005**
At 1 January 2011	91,414	1,935,448	81,043	32,366	4,990	780,000	16,797	(413,683)	2,528,375	-	2,528,375
Total comprehensive income for the period	-	-	-	-	-	-	6,567	(15,579)	(9,012)	-	(9,012)
Shares issued under share option scheme	556	17,831	-	(5,154)	-	-	-	-	13,233	-	13,233
Shares issued on exercise of warrants	100	2,200	-	-	(100)	-	-	-	2,200	-	2,200
At 30 June 2011	**92,070**	**1,955,479**	**81,043**	**27,212**	**4,890**	**780,000**	**23,364**	**(429,262)**	**2,534,796**	**-**	**2,534,796**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2012

(Expressed in Hong Kong Dollars)

	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Net cash used in operating activities	**(19,102)**	(17,907)
Net cash used in investing activities	**(339,599)**	(216,596)
Net cash used before financing activities	**(358,701)**	(234,503)
Net cash generated from financing activities	**36,948**	16,619
Net decrease in cash and cash equivalents	**(321,753)**	(217,884)
Effect of foreign exchange rate changes on cash and cash equivalents	**2,442**	(239)
Cash and cash equivalents at 1 January	**344,451**	242,529
Cash and cash equivalents at 30 June	**25,140**	24,406
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**25,140**	24,406

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company with limited liability in Bermuda on 2 November 1999 under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 9 February 2000. The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Suite 3707-3708, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, respectively.

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The preparation of an interim report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the Company's Audit Committee.

The financial information relating to the financial year ended 31 December 2011 that is included in this interim financial report as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's head office. The auditors have expressed a modified opinion on those financial statements in their report dated 30 March 2012.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued)

The Group incurred a loss of HK$34,798,000 for the six months ended 30 June 2012 and its current liabilities exceeded current assets by HK$284,279,000 as at that date. 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 management of the Group to improve profitability and operational cash flows.

In year 2011, Orion Energy International Inc. ("Orion"), a wholly-owned subsidiary of the Company obtained a loan facility of RMB1 billion repayable by instalment over five years from a financial institution in the PRC. As at 30 June 2012, the Group had only utilised RMB200 million of this facility. The remaining facility of RMB800 million 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 "ODP") of the production sharing contract (the "Sanjiao PSC") and obtained a letter of reply from the National Development and Reform Commission – National Energy Administration ("NEA"), which gives consent on the work for the development of the coalbed methane reserve in the Sanjiao region in respect of the ODP of the Sanjiao production sharing contract (the "Reply").

In May 2012, the ODP was submitted to the NEA by the PRC partner of the project, China National Petroleum Corporation. On 16 August 2012, the Group received the Reply from NEA. Accordingly, upon utilisation of the remaining loan facility of RMB800 million, the pace of development of the Sanjiao project will be expedited.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, which have been prepared in accordance with all applicable HKFRSs, which term collectively includes all applicable individual HKFRSs, HKASs and interpretation issued by HKICPA, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

4. ADOPTION OF NEW AND REVISED HKFRSs

In the reporting period, the Group has adopted a number of new and revised HKFRSs, issued by the HKICPA that are effective for the accounting period beginning on 1 January 2012. The adoption of these new and revised HKFRSs has no material impact on the Group's financial statements.

The Group has not early adopted the new and revised HKFRSs which have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new and revised HKFRSs and the directors so far concluded that the application of these new and revised HKFRSs will have no material impact on the Group's financial statements.

5. TURNOVER AND SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the Group's 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:

i) Oil and gas exploitation: Exploitation and sale of crude oil and natural gas.

ii) 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.

Segment information about these businesses is set out as follows:

For the six months ended 30 June 2012

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated – note (i) HK$'000	Total HK'000
Results				
Revenue from external customers	15,226	-	-	15,226
Segments results – note (ii)	(9,930)	(5,726)	(17,857)	(33,513)
Finance costs	(6)	(7)	(14)	(27)
Share of loss of a jointly controlled entity	(1,258)	-	-	(1,258)
Loss before income tax expenses	(11,194)	(5,733)	(17,871)	(34,798)
Income tax expenses	-	-	-	-
Loss for the period	(11,194)	(5,733)	(17,871)	(34,798)
Assets and liabilities - at 30 June 2012				
Reportable segment assets - note (iii)	542,905	3,129,869	23,603	3,696,377
Reportable segment liabilities	66,677	568,352	2,343	637,372

5. TURNOVER AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 2011

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated – note (i) HK$'000	Total HK'000
Results				
Revenue from external customers	15,861	-	-	15,861
Segments results – note (ii)	1,716	(1,546)	(13,669)	(13,499)
Finance costs	(56)	(150)	(3)	(209)
Share of loss of a jointly controlled entity	(1,871)	-	-	(1,871)
Loss before income tax expenses	(211)	(1,696)	(13,672)	(15,579)
Income tax expenses	-	-	-	-
Loss for the period	(211)	(1,696)	(13,672)	(15,579)
Assets and liabilities – at 31 December 2011				
Reportable segment assets - note (iii)	555,743	3,229,218	152,252	3,937,213
Reportable segment liabilities	69,616	794,356	12,285	876,257

Notes:

(i) Unallocated segment results mainly include salaries, rental expense and professional fees for Hong Kong head office.

(ii) Included in the segment result of coalbed methane segment is the other revenue of HK$2,864,000 from trial sale of coalbed methane generated from the Sanjiao PSC for the six months ended 30 June 2012 (2011: Nil) (note 6).

(iii) Unallocated segment assets mainly include cash and cash equivalent for Hong Kong head office.

6. OTHER REVENUE

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Interest income	**161**	24
Income from sale of coalbed methane – note	**2,864**	-
Others	**60**	-
	3,085	24

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

7. LOSS BEFORE INCOME TAX EXPENSES

Loss before income tax expenses is arrived at after charging:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	**16,608**	209
Others	**27**	-
	16,635	209
Less: interest capitalised on gas exploration and evaluation assets	**(16,608)**	-
	27	209
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**14,052**	7,828
Contributions to defined contribution retirement plan	**288**	227
	14,340	8,055
c) Other items		
Depreciation of property, plant and equipment	**9,338**	4,143
Amortisation of intangible assets	**56**	222
Minimum lease payments under operating leases - property rentals	**3,527**	1,912

NOTES TO THE FINANCIAL STATEMENTS

8. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any income subject to Hong Kong profits tax for the six months ended 30 June 2012 and 2011. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the period. During the six months ended 30 June 2012 and 2011, the PRC subsidiaries had no assessable income subject to PRC income tax.

9. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the six months ended 30 June 2012 (2011: Nil).

10. 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$34,798,000 (six months ended 30 June 2011: HK$15,579,000) and the weighted average of 12,068,017,000 ordinary shares (six months ended 30 June 2011: 9,158,338,000 ordinary shares) in issue during the period.

b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2012 and 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 period.

11. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group incurred capital expenditure on property, plant and equipment with a cost of HK$3,096,000 (for the six months ended 30 June 2011: HK$4,269,000).

12. GAS EXPLORATION AND EVALUATION ASSETS

The gas exploration and evaluation assets mainly comprised the exploratory drilling, trenching costs and interest expenses capitalised in respect of the coalbed methane project in the PRC.

During the six months ended 30 June 2012, the Group incurred capital expenditure of HK$61,860,000 (for the six months ended 30 June 2011: HK$129,937,000) and interest capitalised is HK$16,608,000 (for the six months ended 30 June 2011: Nil). No amortization is provided for during the period as the project is not yet in its production stage.

At 30 June 2012, certain gas exploration and evaluation assets with a carrying value of HK$523,534,000 are pledged to secure the Group's borrowings as set out in note 17.

13. INTANGIBLE ASSETS

The intangible assets represent an oil exploitation right in respect of oil fields in the PRC.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	30.6.2012 **HK$'000**	31.12.2011 HK$'000
Share of net assets		
At 1 January	**6,452**	6,948
Share of loss for the period / year	**(1,258)**	(496)
	5,194	6,452

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2012	31.12.2011
	HK$'000	HK$'000
Trade receivables – note (i)	**20,021**	11,943
Other receivables	**18,899**	7,112
	38,920	19,055
Utility deposits	**2,048**	1,407
Current portion of other deposits and prepayments	**3,281**	3,773
	5,329	5,180
	44,249	24,235
Non-current portion of other deposits and prepayments – notes (ii) & (iii)	**27,760**	32,368

Notes:

(i) All the trade receivables and other receivables are expected to be recovered within one year. The average credit period granted to customers is 0-30 days from the invoice date. The trade receivables are not impaired and related to two customers which have good business track records with the Company. Ageing analysis of trade receivables are as follows:

	30.6.2012	31.12.2011
	HK$'000	HK$'000
< 30 days	**2,228**	3,389
31 – 60 days	**1,910**	2,680
Over 60 days	**15,883**	5,874
	20,021	11,943

(ii) Prepayments include prepaid exploration costs of HK$13,152,000 (2011: HK$10,828,000) on gas evaluation and exploration assets and prepaid construction costs of HK$8,798,000 (2011:HK$15,674,000) on the Group's construction in progress under property, plant and equipment.

(iii) The balance includes a guarantee deposit of HK$5,810,000 (2011: HK$5,866,000) paid to secure one of the Group's borrowings as set out in note 17.

NOTES TO THE FINANCIAL STATEMENTS

16. OTHER PAYABLES AND ACCRUALS

	30.6.2012	31.12.2011
	HK$'000	HK$'000
Consideration payable – note (i)	**1,002**	9,002
Other payables and accruals – note (ii)	**309,134**	537,147
	310,136	546,149

Notes:

(i) This represents the remaining consideration for the acquisition of subsidiaries to be settled in cash no later than 30 September 2012.

(ii) Other payables and accruals represent mainly the exploration costs payable in respect of gas exploration and evaluation assets and oil and gas properties.

17. BORROWINGS - SECURED

	30.6.2012	31.12.2011
Secured interest-bearing borrowings	**HK$'000**	HK$'000
On demand or within one year	**45,771**	22,287
More than one year, but not exceeding two years	**106,799**	91,393
More than two years, but not exceeding five years	**152,570**	194,300
	305,140	307,980
Amount due within one year included in current liabilities	**(45,771)**	(22,287)
Non-current portion	**259,369**	285,693

Notes:

(i) The Group obtained borrowings from two financial institutions in the PRC in year 2011. The borrowings carry interest at effective floating rates ranging from 8.9% to 12.6% for the six months ended 30 June 2012.

(ii) The borrowings are secured by certain assets of the Company as set out in note 12 and 15 and by personal guarantee from two directors of the Company. One of the borrowings is also secured by all the trade receivable from sales of Orion, certain number of shares of the Company and corporate guarantee by the Company.

18. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Issued and fully paid		
At 1 January 2011	9,141,478	91,414
Shares issued on exercise of warrants	10,000	100
Shares issued under share option scheme – note (i)	59,600	596
Shares issued on acquisitions	312,000	3,120
Shares issued on conversion of convertible notes	2,496,000	24,960
At 31 December 2011 and at 1 January 2012	12,019,078	120,190
Shares issued under share option scheme – note (i)	137,000	1,370
At 30 June 2012	12,156,078	121,560

Notes:

(i) During the six months ended 30 June 2012, 137,000,000 options were exercised to subscribe for 137,000,000 (2011: 59,600,000) ordinary shares in the Company at a consideration of HK$36,948,000 (2011: HK$13,953,000) of which HK$1,370,000 (2011: HK$596,000) was credited to share capital and the balance of HK$35,578,000 (2011:HK$13,357,000) was credited to the share premium account. HK$11,205,000 (2011:HK$1,297,000) was transferred from the share option reserve to the share premium account in accordance with the Group's accounting policy.

(ii) During the period, there were 344,000,000 and 20,000,000 outstanding unlisted warrants (the "Warrants") issued by the Company on 3 June 2010 and 7 June 2010 respectively, conferring rights to subscribe for ordinary shares of the Company at a subscription price of HK$0.22 per share during a period of 24 months commencing from the date of issue of the Warrants. The Warrants were unexercised and lapsed upon the expiration of their exercise periods on 2 June 2012 and 6 June 2012 respectively.

(iii) As at 30 June 2012, there are 250,000,000 outstanding unlisted warrants issued by the Company on 10 November 2010 conferring rights to subscribe for ordinary shares of the Company at a subscription price of HK$0.53 per share during the exercise period on and after 22 January 2011 and up to and including 10 November 2014.

(iv) During the period, 644,740,000 share options lapsed. Particulars of the share options of the Company are set out in the section "Share Option Scheme" in the Interim Report 2012.

19. COMMITMENTS

a) Operating lease commitments

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30.6.2012	31.12.2011
	HK$'000	HK$'000
Within 1 year	**4,661**	2,091
After 1 year but within 5 years	**3,012**	2,245
	7,673	4,336

The Group is the lessee of a number of properties held under operating leases. The leases typically run for an initial period of one to five years without an extension option. None of the leases includes contingent rentals.

b) Capital commitments

(i) Authorised but not contracted for

At 30 June 2012 and 31 December 2011, the Group was committed to develop in the total 9 new oil wells under the development contracts of the Liuluoyu Oil Field and Yanjiawan Oil Field. The estimated total capital expenditure for developing these new oil wells is HK$10.1 million (2011: HK$10.2 million).

(ii) Contracted but not provided for

	30.6.2012	31.12.2011
	HK$'000	HK$'000
Commitments in respect of the oil and gas fields in the PRC	**67,884**	82,231

NOTES TO THE FINANCIAL STATEMENTS

20. CONTINGENT LIABILITIES

The Group carries out oil exploitation operations in the PRC. The PRC has adopted environmental laws and regulations that affect the operations of the oil industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under the existing legislations, however, management believes that there are no probable liabilities that will have a material adverse effect on the financial position of the Group.

The Group also engages in the exploration, development and production of coalbed methane resources. The consequence of coalbed mining includes dismantlement and demolition of infrastructure in the mining sites. The Group may have obligations to make payments for restoration and rehabilitation of the land after the sites have been extracted. At 30 June 2012, a provision of HK$1,121,000 (2011: HK$1,132,000) was made in the condensed consolidated statement of financial position.

21. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Details of compensation paid to key management personnel including the directors of the Company are as follows:-

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
Salaries and other benefits including the contribution to defined contribution retirement plan	**7,415**	4,208

22. EVENTS AFTER THE REPORTING PERIOD

On 18 July 2012, the Company entered into the Subscription Agreements with the subscribers pursuant to which the Company has conditionally agreed to allot and issue a total of 200,000,000 new shares at a price of HK$0.15 per subscription share under general mandate. Details of the transaction was disclosed in the Company's announcement dated 18 July 2012. The subscription was completed on 31 July 2012. The net proceeds from the subscription of approximately HK$29,950,000 are intended to be used for general working capital and funds for the existing projects.

23. COMPARATIVE FIGURES

The comparative figures for share of loss of a jointly controlled entity as shown in the note 5 have been reclassified to conform to the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2012, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") reported a turnover of HK$15,200,000 (2011 interim: HK$15,800,000), a decrease of approximately 3.7%. The turnover was mainly derived from oil exploitation operations in the Liuluoyu, Yanjiawan and Jinzhuang oil fields in Shaanxi Province. An operating loss of HK$34,800,000 (2011 interim: Loss of HK$15,600,000) was incurred during the period. Revenue generated from the trial production and sales of coalbed methane ("CBM") at the Sanjiao block in the Erdos Basin amounted to HK$2,800,000 during the period, and was reflected under the item of Other Revenue as set out in note 6 to the financial statements.

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 has 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 "Sanjiao CBM Project"). The Group owns a 70% interest in the PSC.

At the end of 2011, the National Development and Reform Commission - National Energy Administration ("NEA") officially released a policy paper on "the 12th Five-Year Plan for Development and Utilization of Coalbed Methane (Coal Mine Methane)" (the "Plan"). This policy release reaffirmed the state's focus on the development of two CBM commercial bases in Qinshui Basin and the eastern fringe of the Erdos Basin. The Sanjiao CBM Project was listed as one of the Plan's core projects on the eastern fringe of the Erdos Basin.

The formulation of the Overall Development Program of the Sanjiao CBM Project was completed and submitted to NEA in May 2012. On 16 August 2012, a letter of reply was received from NEA, giving 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 and will substantially speed up the progress of the Sanjiao CBM Project.

In December 2011, Orion entered into a financing agreement with CDB Leasing Co., Ltd. ("CLC"), a company under the China Development Bank, pursuant to which CLC would grant a loan facility of RMB1 billion in support of Orion's development activities for the Sanjiao CBM Project. Orion has drawn down RMB200 million of this facility. Upon receipt of the Reply from NEA, the remaining loan facility provided by CLC will bring sufficient financial support for the development of Sanjiao CBM Project.

Currently, the Sanjiao block has a total of 9 vertical and directional wells, and 36 sets of multi-lateral horizontal wells, and is equipped with a compressed natural gas ("CNG") head station with daily compression capacity of 150,000 cubic meters, a ground pipeline network of approximately 7 kilometers, inter-well pipelines of approximately 12 kilometers, and outbound pipelines of approximately 7 kilometers. There is also a completed grid system of approximately 8.5 kilometers exclusive for Sanjiao block. The drilling of 21 vertical and directional wells and multi-lateral horizontal wells are due for completion soon. Designated pipelines are under construction to connect the Sanjiao block to the local natural gas pipeline network in Shanxi Province for industrial CBM users. A total of 25 wells within the Sanjiao block have already been connected to the pipeline network, which is expected to be commissioned in the fourth quarter of this year, initiating the Group's piped CBM sales. With reference to the progress and characteristics of different wells, trial sales of gas have begun in accordance with the program of dewatering. During the period, natural gas sales by CNG were approximately 2 million cubic meters.

The Sanjiao CBM Project is about to be in commercial production and will represent a sustained cash flow stream for the Group. The granting of the Reply by NEA will help expedite the pace of development of the project, which is expected to deliver significant revenues for the Group.

Liuluoyu and Yanjiawan

The Group's two oil fields in Liuluoyu and Yanjiawan in the Erdos Basin, Shaanxi Province, are both productive oil fields. During the period under review, the two fields had an aggregate crude oil production of approximately 2,500 tonnes, which was at a similar level compared with the corresponding period last year.

Jinzhuang

Jinzhuang is a productive oil field located on the Erdos Basin plateau in Shaanxi Province, with an area of 62 square kilometers. With the economic recoverable reserves of 4.16 million tonnes, Jinzhuang is an oil field with significant production potential. 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 period under review, crude oil output at the Jinzhuang oil field amounted to approximately 2,000 tonnes.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2012, the net assets of the Group were HK$3,059,000,000 (31 December 2011: HK$3,061,000,000) while its total assets were HK$3,696,000,000 (31 December 2011: HK$3,937,000,000). As at 30 June 2012, the Group had external borrowings of HK$305,000,000 (31 December 2011: HK$308,000,000) and the gearing ratio based on total assets was 8.25% (31 December 2011: 7.82%). Details of the Group's pledge of assets are shown in the notes 12 and 15 to the financial statements and the maturity profile of the Group's borrowings is shown in note 17 to the financial statements. At the end of June 2012, the Group's current ratio was 0.21 (31 December 2011: 0.65).

On 18 July 2012, the Group placed and issued a total of 200,000,000 new shares to independent investors at a price of HK$0.15 per share. The net proceeds of approximately HK$29,950,000 are designated for use as general working capital and funds for existing projects.

As the Sanjiao CBM Project has received the Reply from NEA, the remaining loan facility granted by CLC will provide sufficient funding to Orion. Currently, the implementation of various programs in the Sanjiao CBM Project has been satisfactory and the project is moving forward as scheduled. The Group's financial condition becomes sound and stable so as to facilitate new project developments.

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 30 June 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.

PROSPECTS

The Group will continue to focus on furthering its oil and gas exploitation businesses based in the Erdos Basin in Shaanxi Province.

Apart from selling natural gas in the form of CNG, the Group is also actively paving the way for selling piped gas, due to commence in the fourth quarter of this year. The construction of related pipelines is funded by a local enterprise in Shanxi Province and this has been approved by the Shanxi Provincial Government. Construction works are currently underway. Upon commissioning, these facilities will enable gas delivery to keep pace with the increase in production at the Sanjiao CBM Project. This will in turn help enhance the revenue and earning abilities of the project.

Based on the results of substantial exploration work for the Sanjiao CBM Project, we have full confidence in the future development of the project. 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. It will also reasonably expand and perfect the ground pipeline network to ensure that the CBM produced is fully utilized. PetroChina, as the PRC party, will continue to support the foreign party's tasks and undertake the liaison and approval work in respect of related procedures.

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 will also actively pursue other investment opportunities in non-conventional natural gas production and distribution.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group employed approximately 280 employees. The remuneration policies of the Group are based on the prevailing remuneration level in the market and the performance of respective companies and individual employees.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

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 unaudited interim report of the Company for the six months ended 30 June 2012.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 to the Listing Rules 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 30 June 2012 respectively.

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

Hong Kong, 24 August 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.