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 2013

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 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	**2013 (unaudited) HK$'000**	2012 (unaudited) HK$'000
Turnover	5	**11,504**	15,226
Direct costs		**(10,834)**	(19,215)
Gross profit / (loss)		**670**	(3,989)
Other revenue	6	**18,991**	3,085
Other losses, net		**(332)**	(156)
Administrative expenses		**(35,603)**	(32,453)
Loss from operations		**(16,274)**	(33,513)
Finance costs	7	**(7,962)**	(27)
Share of loss of a jointly controlled entity	15	**(9)**	(1,258)
Share of loss of an associate	16	**(250)**	-
Loss before income tax expenses	7	**(24,495)**	(34,798)
Income tax expenses	8	**-**	-
Loss for the period		**(24,495)**	(34,798)
Other comprehensive income, after tax			
Item that may be subsequently reclassified to profit and loss: -			
Exchange difference on translating foreign operation		**11,804**	(4,101)
Total comprehensive income for the period		**(12,691)**	(38,899)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2013

	Notes	**2013 (unaudited) HK$'000**	2012 (unaudited) HK$'000
Loss attributable to:			
- Owners of the Company		**(24,495)**	(34,798)
- Non-controlling interests		**-**	-
		(24,495)	(34,798)
Total comprehensive income attributable to:			
- Owners of the Company		**(12,691)**	(38,899)
- Non-controlling interests		**-**	-
		(12,691)	(38,899)
		HK$ (cents)	HK$ (cents)
Loss per share			
– Basic and diluted	10	**(0.197)**	(0.288)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	30.6.2013 (Unaudited) HK$'000	31.12.2012 (audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**235,195**	229,847
Gas exploration and evaluation assets	12	**3,342,305**	3,272,934
Intangible assets	13	**230,008**	227,088
Goodwill	14	**-**	-
Interest in a jointly controlled entity	15	**4,938**	4,947
Interest in an associate	16	**63,104**	63,354
Deposits and prepayments	17	**35,518**	12,423
		3,911,068	3,810,593
Current assets			
Inventories		**4,227**	3,924
Trade, note and other receivables, deposits and prepayments	17	**52,974**	42,388
Pledged bank deposits		**7,955**	7,954
Cash and cash equivalents		**275,417**	71,114
		340,573	125,380
Total assets		**4,251,641**	3,935,973
Current liabilities			
Other payables and accruals	18	**(300,463)**	(442,561)
Borrowings - secured	19	**(127,616)**	(92,834)
Taxation		**(2,382)**	(2,345)
		(430,461)	(537,740)
Net current liabilities		**(89,888)**	(412,360)
Total assets less current liabilities		**3,821,180**	3,398,233
Non-current liabilities			
Provision	23	**(987)**	(971)
Borrowings - secured	19	**(395,039)**	(368,739)
Convertible notes	20	**(163,779)**	-
Deferred tax liabilities		**(5,349)**	(5,349)
		(565,154)	(375,059)
NET ASSETS		**3,256,026**	3,023,174
Capital and reserves attributable to owners of the Company			
Share capital	21	**137,331**	123,560
Reserves		**3,118,695**	2,899,614
TOTAL EQUITY		**3,256,026**	3,023,174

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 – unaudited

	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 2013	123,560	3,318,649	81,043	48,020	1,250	-	38,495	(587,843)	3,023,174	-	3,023,174
Loss for the period	-	-	-	-	-	-	-	(24,495)	(24,495)	-	(24,495)
Other comprehensive income	-	-	-	-	-	-	11,804	-	11,804	-	11,804
Total comprehensive income for the period	-	-	-	-	-	-	11,804	(24,495)	(12,691)	-	(12,691)
Shares issued on placing – note 21 (ii)	9,280	139,196	-	-	-	-	-	-	148,476	-	148,476
Issue of convertible notes – note 20	-	-	-	-	-	31,297	-	-	31,297	-	31,297
Conversion of convertible notes – note 21 (iii)	4,491	70,509	-	-	-	(9,230)	-	-	65,770	-	65,770
At 30 June 2013	**137,331**	**3,528,354**	**81,043**	**48,020**	**1,250**	**22,067**	**50,299**	**(612,338)**	**3,256,026**	**-**	**3,256,026**
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
Loss for the period	-	-	-	-	-	-	-	(34,798)	(34,798)	-	(34,798)
Other comprehensive income	-	-	-	-	-	-	(4,101)		(4,101)	-	(4,101)
Total comprehensive income for the period	-	-	-	-	-	-	(4,101)	(34,798)	(38,899)	-	(38,899)
Shares issued under share option scheme – note 21 (i)	1,370	46,783	-	(11,205)	-	-	-	-	36,948	-	36,948
Lapse of share options	-	-	-	(30,778)	-	-	-	30,778	-	-	-
Lapse of warrants	-	-	-	-	(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**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2013

	2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
Net cash used in operating activities	**(43,143)**	(19,102)
Net cash used in investing activities	**(204,416)**	(339,599)
Net cash used before financing activities	**(247,559)**	(358,701)
Net cash generated from financing activities	**457,429**	36,948
Net increase / (decrease) in cash and cash equivalents	**209,870**	(321,753)
Effect of foreign exchange rate changes on cash and cash equivalents	**(5,567)**	2,442
Cash and cash equivalents at 1 January	**71,114**	344,451
Cash and cash equivalents at 30 June	**275,417**	25,140
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**275,417**	25,140

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 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 2012 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for a 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 2012 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 2012 are available from the Company's head office or at the Company's website (www.sino-oilgas.hk). The auditors have expressed a modified opinion on those financial statements in their report dated 27 March 2013.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued)

The Group incurred a loss of HK$24,495,000 for the six months ended 30 June 2013 and its current liabilities exceeded current assets by HK$89,888,000 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 2013, the Group had only utilised RMB400 million of this facility. The remaining facility of RMB600 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 the final approval from 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 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.

Besides the above loan facility and the banking facilities granted by other financial institution, the Group has successfully issued convertible notes in April 2013 and issued shares on placing in June 2013. The funds raised are approximately HK$264 million and HK$155 million respectively. The Group's overall financial position is sound and stable and enabling it to provide sufficient funds for the development of its oil and gas projects including the Sanjiao CBM Block Project.

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 2012 annual financial statements, which have been prepared in accordance with all applicable HKFRSs, except for the new standards, amendments and interpretations of HKFRSs issued by HKICPA which have become effective in this period.

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 2013. 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.

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER AND 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:

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 2013

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated – note (i) HK$'000	Total HK'000
Results				
Revenue from external customers	11,504	-	-	11,504
Segments results – note (ii)	(4,284)	6,678	(18,668)	(16,274)
Finance costs	(60)	(10)	(7,892)	(7,962)
Share of loss of a jointly controlled entity	(9)	-	-	(9)
Share of loss of an associate	-	(250)	-	(250)
(Loss) / profit before income tax expenses	(4,353)	6,418	(26,560)	(24,495)
Income tax expenses	-	-	-	-
(Loss)/ profit for the period	(4,353)	6,418	(26,560)	(24,495)
Assets and liabilities - at 30 June 2013				
Reportable segment assets - note (iii)	478,989	3,590,197	182,455	4,251,641
Reportable segment liabilities	28,586	799,154	167,875	995,615

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER AND SEGMENT REPORTING (Continued)

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 31 December 2012				
Reportable segment assets - note (iii)	469,933	3,460,214	5,826	3,935,973
Reportable segment liabilities	34,191	827,043	51,565	912,799

Notes:

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

(ii) Included in the segment result of coalbed methane segment is other revenue of HK$18,280,000 (six months ended 30 June 2012: HK$2,864,000) from trial sale of coalbed methane generated from the Sanjiao PSC for the six months ended 30 June 2013 (note 6).

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

NOTES TO THE FINANCIAL STATEMENTS

6. OTHER REVENUE

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Interest income	**192**	161
Income from sale of coalbed methane – note	**18,280**	2,864
Others	**519**	60
	18,991	3,085

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	
	2013	2012
	HK$'000	HK'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	**25,287**	16,608
Imputed interest on convertible notes – note 20	**6,910**	-
Amortisation of transaction costs on issue of convertible note – note 20	**468**	-
Interest on amounts due to shareholders – note 18 (iii)	**515**	-
Others	**69**	27
	33,249	16,635
Less: interest capitalised on gas exploration and evaluation assets – note 12	**(25,287)**	(16,608)
	7,962	27
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**17,328**	14,052
Contributions to defined contribution retirement plan	**681**	288
	18,009	14,340
c) Other items		
Depreciation of property, plant and equipment	**1,813**	9,338
Amortisation of intangible assets	**438**	56
Minimum lease payments under operating leases - property rentals	**3,240**	3,527

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 2013 and 2012. 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 2013 and 2012, the PRC subsidiaries had no assessable profit subject to PRC income tax after offsetting with available tax losses.

9. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the six months ended 30 June 2013 (six months ended 30 June 2012: 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$24,495,000 (six months ended 30 June 2012: HK$34,798,000) and the weighted average of 12,428,691,000 ordinary shares (six months ended 30 June 2012: 12,068,017,000 ordinary shares) in issue during the period.

b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2013 and 2012 is the same as the basic loss per share as the Company's outstanding share options, warrants and convertible notes 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 2013, the Group incurred capital expenditure on property, plant and equipment with a cost of HK$3,230,000 (six months ended 30 June 2012: HK$3,096,000).

NOTES TO THE FINANCIAL STATEMENTS

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 2013, the Group incurred capital expenditure of HK$27,453,000 (six months ended 30 June 2012: HK$61,860,000) and interest capitalised is HK$25,287,000 (six months ended 30 June 2012: HK$16,608,000). No amortization is provided for during the period as the project is not yet in its production stage.

At 30 June 2013, certain gas exploration and evaluation assets with a carrying value of HK$748,200,000 (31 December 2012: HK$656,549,000) are pledged to secure the Group's borrowings as set out in note 19.

13. INTANGIBLE ASSETS

The intangible assets represent rights under three development contracts which give the Group the right to participate in the production of crude oil in the PRC.

14. GOODWILL

	30.6.2013 **HK$'000**	31.12.2012 HK$'000
As at 1 January	**-**	4,230
Impairment loss	**-**	(4,230)
	-	-

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	30.6.2013 **HK$'000**	31.12.2012 HK$'000
Share of net assets		
As at 1 January	**4,947**	6,452
Share of loss for the period / year	**(9)**	(1,505)
	4,938	4,947

16. INTEREST IN AN ASSOCIATE

	30.6.2013	31.12.2012
	HK$'000	HK$'000
As at 1 January	**63,354**	63,353
Share of post-acquisition (loss) / profit	**(250)**	1
	63,104	63,354

Particulars of the Group's associate are as follows:

	30.6.2013	31.12.2012
	HK$'000	HK$'000
Total assets	**88,197**	87,079
Total liabilities	**(325)**	-
Net assets	**87,872**	87,079
Group's share of net assets	**26,361**	26,124

	Six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Loss for the period	**(831)**	-
Share of loss for the period	**(250)**	-

17. TRADE, NOTE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2013 HK$'000	31.12.2012 HK$'000
Non-current assets		
Deposits and prepayments – note (ii) & (iii)	**35,518**	12,423
Current assets		
Trade receivables – note (i)	**7,906**	10,471
Note receivable	**-**	2,488
Other receivables – note (iv)	**40,475**	23,469
	48,381	36,428
Utility deposits	**1,419**	1,404
Other deposits and prepayments	**3,174**	4,556
	4,593	5,960
	52,974	42,388

Notes:

(i) Trade 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 one customer which has good business track records with the Group. Ageing analysis of trade receivables is as follows:

	30.6.2013 HK$'000	31.12.2012 HK$'000
< 30 days	**917**	2,484
31 – 60 days	**2,286**	534
61 – 90 days	**4,703**	7,453
	7,906	10,471

(ii) Prepayments include prepaid exploration costs of HK$25,919,000 (31 December 2012: HK$2,770,000) on gas evaluation and exploration assets.

(iii) The balance includes a guarantee deposit of HK$9,599,000 (31 December 2012: HK$9,653,000) paid to secure one of the Group's borrowings as set out in note 19.

(iv) The balance represents mainly the receivables from trial sale of coalbed methane generated from the Sanjiao PSC.

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER PAYABLES AND ACCRUALS

	30.6.2013 HK$'000	31.12.2012 HK$'000
Consideration payable – note (i)	**738**	13,402
Other payables and accruals – note (ii)	**295,934**	392,448
Amounts due to shareholders – note (iii)	**3,791**	36,711
	300,463	442,561

Notes:

(i) This represents the remaining consideration for the acquisition of subsidiaries to be settled in cash no later than 30 September 2013.

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

(iii) The loan is unsecured, bearing interest at 8% per annum and repayable in or before October 2013.

19. BORROWINGS - SECURED

Secured interest-bearing borrowings	30.6.2013 HK$'000	31.12.2012 HK$'000
On demand or within one year	**127,616**	92,834
More than one year, but not exceeding two years	**142,279**	132,398
More than two years, but not exceeding five years	**252,760**	236,341
	522,655	461,573
Amount due within one year included in current liabilities	**(127,616)**	(92,834)
Non-current portion	**395,039**	368,739

Notes:

(i) The borrowings carry interest at effective floating rates ranging from 8.9% to 11.685% for the six months ended 30 June 2013.

(ii) The borrowings are secured by certain assets of the Group as set out in notes 12 and 17 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 a corporate guarantee by the Company.

NOTES TO THE FINANCIAL STATEMENTS

20. CONVERTIBLE NOTES

	Liability component HK$'000	**Equity component HK$'000**
At 1 January 2013	**-**	**-**
Consideration of convertible note issued on 26 April 2013	**231,511**	**32,490**
Transaction costs on issue	**(8,432)**	**(1,193)**
Conversion of convertible notes	**(65,770)**	**(9,230)**
Amortisation of transaction cost	**468**	**-**
Imputed interest expenses – note 7 (a)	**6,910**	**-**
Accrued interest	**(908)**	**-**
At 30 June 2013	**163,779**	**22,067**

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 would mature in three years from the issue date. The note 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 note. 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 note. 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 note was charged at the rate of 18.67% calculated using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Issued and fully paid		
At 1 January 2012	12,019,078	120,190
Shares issued under share option scheme – note (i)	137,000	1,370
Shares issued on placing – note (ii)	200,000	2,000
At 31 December 2012 and at 1 January 2013	12,356,078	123,560
Shares issued on placing – note (ii)	928,000	9,280
Shares issued on conversion of convertible notes - note (iii)	449,102	4,491
At 30 June 2013	13,733,180	137,331

Notes:

(i) During the year ended 31 December 2012, 137,000,000 options were exercised to subscribe for 137,000,000 ordinary shares in the Company at a consideration of HK$36,948,000 of which HK$1,370,000 was credited to share capital and the balance of HK$35,578,000 was credited to the share premium account. HK$11,205,000 was transferred from the share option reserve to the share premium account in accordance with the Group's accounting policy.

(ii) During the six months ended 30 June 2013, 928,000,000 (year ended 31 December 2012: 200,000,000) ordinary shares were subscribed at HK$0.167 (year ended 31 December 2012: HK$0.15) per share with proceeds of HK$154,976,000 (year ended 31 December 2012: HK$30,000,000). Accordingly, the Company's issued share capital was increased by HK$9,280,000 (year ended 31 December 2012: HK$2,000,000) and the balance of the proceeds (after deducting transaction cost) of HK$139,196,000 (year ended 31 December 2012: HK$28,000,000) was credited to the share premium account.

(iii) During the six months ended 30 June 2013, certain convertible notes were converted to subscribe for 449,101,796 ordinary shares in the Company at a consideration of HK$75,000,000 of which HK$4,491,000 was transferred to share capital and the balances of HK$70,509,000 was transferred to the share premium account respectively.

22. COMMITMENTS

a) Operating lease commitments

At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30.6.2013	31.12.2012
	HK$'000	HK$'000
Within 1 year	**2,942**	5,731
After 1 year but within 5 years	**727**	1,861
	3,669	7,592

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 2013 and 31 December 2012, the Group was committed to develop a 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 approximately HK$10.4 million (31 December 2012: HK$10.3 million).

(ii) Contracted but not provided for

	30.6.2013	31.12.2012
	HK$'000	HK$'000
Commitments in respect of the Sanjiao PSC	**181,747**	12,224

NOTES TO THE FINANCIAL STATEMENTS

23. 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 2013, a provision of HK$987,000 (31 December 2012: HK$971,000) was made in the condensed consolidated statement of financial position.

24. 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	
	2013	2012
	HK$'000	HK$'000
Salaries and other benefits including the contribution to defined contribution retirement plan	**8,612**	7,415

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2013, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") reported a turnover of HK$11,504,000 (2012 interim: HK$15,226,000), while trial sales of coalbed methane ("CBM") amounting to HK$18,280,000 (2012 interim: HK$2,864,000) which was disclosed under other revenue. The turnover only included the results from oil exploitation operations in the Liuluoyu, Yanjiawan and Jinzhuang oil fields in Shaanxi Province. The CBM propduced from Sanjiao Block, which is still under trial sale, achieved significant progress and saw an impressive growth in the sales of CBM. The Group is much encouraged by the strong sales performance of CBM for the first half of the year.

During the period, the Company reported an operating loss of HK$24,495,000 (2012 interim: loss of HK$34,798,000), partly due to the imputed interest expenses of HK$ 6,910,000 incurred from the issuance of convertible notes in April 2013, which were treated as a non-cash item.

Apart from the remaining loan facility of RMB600 million provided by CDB Leasing Co., Ltd. ("CLC") and a stand-by facility granted by other financial institution, the Group raised proceeds of approximately HK$264 million and HK$155 million respectively through the issuance of convertible notes to Sunny Merit Holdings Corporation, a wholly-owned subsidiary of China Orient Asset Management Corporation ("COAMC") in April 2013 and through the issuance of new shares in June. The Group's overall financial position is sound and stable and enabling it to provide sufficient funds for the development of its oil and gas projects including Sanjiao CBM Block Project.

Natural Gas and Oil 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 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% interests in the PSC. In August 2012, the National Energy Administration Bureau ("NEA") under the National Development and Reform Commission accepted the application of the overall plan for the development of Sanjiao CBM Project (the "ODP"). This signifies a milestone in the project's commercial production process. Currently, various special assessment works are proceeding smoothly and it is expected to obtain approvals from relevant government authorities sequentially.

On 28 June 2013, the National Development and Reform Commission issued a notice announcing that the natural gas city gate price for non-residential users would be adjusted effective from 10 July 2013 and the maximum increase in this price should be no more than RMB0.4 per cubic meter. In line with the national natural gas price policy, the Group and PetroChina jointly decided to adjust the CBM selling price of Sanjiao Project. Currently, both parties agreed to increase the CBM wellhead price for non-residential users by around RMB0.3 to RMB0.4 per cubic meter.

With respect to oil and gas technology, Orion has cooperated with a US professional oil service company since 2012 for providing new designs of multi-lateral horizontal well drilling based on the analysis of the existing geological data and well-drilling data of the Sanjiao Block. New well design not only reduces the costs but also increases single well production significantly when compared with the existing horizontal wells in the Sanjiao Block. Orion is currently conducting well drilling works for two pilot experimental wells and expects that such well drilling will be completed by the end of this year, when it will start dewatering and extraction of gas.

Ground facilities have been put in operation gradually. The Group has completed the construction of approximately 15 kilometers of high voltage power grid. Currently, it is undergoing replacement works for power grid for sets of wells. It is expected that the replacement works will be completed by the end of September this year, and CBM production costs will be further reduced. Further, owing to the strained gas supply in the western part of Shanxi Province and the lack of pipelines and other infrastructure, the Shanxi provincial government had a plan to set up three designated CBM pipelines in the Sanjiao Block and its surrounding areas, two of which have officially commenced operation.

Pipelines are constructed and invested by third parties, including (1) the CBM pipeline from Sanjiao to Linxian for gas supply for residential, commercial and industrial use and heating in winter with an annual design capacity of gas transmission 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 design capacity of gas transmission of 350 million cubic meters, which commenced operation in January 2013; (3) the CBM pipeline from Sanjiao to Lishi for gas supply for residential, commercial and industrial use in Luliang. The construction works have been commenced and the pipeline is expected to be completed by the end of the year.

In addition, the Group acquired a 30% equity interests in a Sino-foreign joint venture in December 2012. The Sino-foreign joint venture plans to set up a liquefied natural gas (“LNG”) station with daily processing capacity of 1.2 million cubic meters in Sanjiao area, Shanxi, in order to broaden sales channels. The first phase of the LNG plant station with daily capacity of 300,000 cubic meters is expected to be completed by the end of 2014.

For the first half of the year, the sales volume of natural gas in the Sanjiao Block amounted to 12.48 million cubic meters (2012 interim: 1.92 million cubic meters), of which piped gas sales were approximately 11.24 million cubic meters (2012 interim: nil), and the trial sales of natural gas in the form of compressed natural gas were approximately 1.24 million cubic meters (2012 interim: 1.92 million cubic meters).

Oilfields located in Shaanxi Province—Liuluoyu, Yanjiawan and Jinzhuang

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 1,900 tonnes (2012 interim: 2,500 tonnes). On the other hand, 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. The Group is considering devising 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 amounted to approximately 1,400 tonnes (2012 interim: 2,000 tonnes).

Liquidity, Financial Resources and Capital Structure

As at 30 June 2013, the net assets of the Group were HK$3,256,000,000 (31 December 2012: HK$3,023,000,000) while its total assets were HK$4,252,000,000 (31 December 2012: HK$3,936,000,000). As at 30 June 2013, the Group had external borrowings of HK$686,434,000 (31 December 2012: HK$461,573,000) and the gearing ratio based on total assets was 16.1% (31 December 2012: 11.73%). Details of the Group’s pledge of assets are shown in notes 12 and 17 to the financial statements and the maturity profile of the Group’s borrowings is shown in note 19 to the financial statements. As at 30 June 2013, the current ratio was 0.79 (31 December 2012: 0.23) and the cash flow position of the Group has been significantly improved.

In April 2013, COAMC and the Company 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 from the issue of convertible notes after discount amounted to approximately HK$264,000,000. Also in June 2013, the Company allotted 928,000,000 new shares at a price of HK$0.167 per share, raising proceeds of approximately HK$155,000,000. The above proceeds are being used for operating the Group's existing oil and gas projects and for general working capital purposes.

Apart from the above financing sources, Orion may utilize the remaining loan facility provided by CLC upon the approval of ODP. Leveraging on its sound and stable financial position, as well as satisfactory operation of the Sanjiao CBM Project, the Group is able to meet the funding needs for developing various oil and gas projects.

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 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.

PROSPECTS

The Group focuses on the development of natural gas and oil exploration businesses, particularly in the Erdos Basin in Shaanxi Province which has been listed as one of the bases for CBM industrialization by NEA.   We will continue to expand the development and production of Sanjiao CBM Project. The inclusion of the Sanjiao Block as a core project under the “12th Five-Year Plan” will gain policy support for it, facilitating future land use applications, government approvals and funding support.

In this year, the Group will continue to actively develop the ground facilities in the areas. We will also further expand and improve the ground pipeline network to ensure that the CBM produced is fully utilized. Moreover, it is planned to expand the capacity of CBM pressurized dewatering plant to a daily processing capacity of 500,000 cubic meters.

With gradual improvement in the development of auxiliary facilities, Sanjiao Project reported a big jump in its sales in the first half of the year. In addition, the National Development and Reform Commission decided that the natural gas city gate price for non-residential users would be adjusted effective from 10 July 2013. The Group and PetroChina have jointly determined the new gas selling price for Sanjiao CBM project. The Group believes that the price adjustment will benefit the revenue of the Sanjiao Project, and hence immediately bring significant and positive impact on its contribution to the Group.

In the second half of the year, the Group expects the exploitation right of Sanjiao block will be granted by Ministry of Land and Resources by end of the year; and will also focus on undertaking and speeding up the liaison and approval work in respect of the ODP application for Sanjiao CBM Project.

Meanwhile, the Group will introduce foreign advanced drilling technology to ramp up well drilling and development works within the proven reserve block in order to maximize the development of the CBM reserve. The total area of Sanjiao PSC 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.

Sanjiao CBM Project will be a growth driver of the Group and will bring satisfactory long-term returns for shareholders going forward. In addition, the Group is drawing up a development plan for certain oil blocks in Jinzhuang so as to further expand its production and explore the feasibility of development of natural gas in the block. 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.

EMPLOYEES AND REMUNERATION POLICES

As at 30 June 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.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2013, 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 Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick and Dr. Wang Yanbin, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim report of the Company for the six months ended 30 June 2013.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2013.

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

Hong Kong, 16 August 2013

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.