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 2014

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 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000
Turnover	5	**8,516**	11,504
Direct costs		**(8,189)**	(10,834)
Gross profit		**327**	670
Other revenue	6	**40,239**	18,991
Other gains and (losses), net		**1,859**	(332)
Administrative expenses		**(33,875)**	(35,603)
Profit / (loss) from operations		**8,550**	(16,274)
Finance costs	7	**(2,245)**	(7,962)
Share of loss of a joint venture	14	**(262)**	(9)
Share of loss of an associate	15	**(138)**	(250)
Profit / (loss) before income tax expense	7	**5,905**	(24,495)
Income tax expense	8	**-**	-
Profit / (loss) for the period		**5,905**	(24,495)
Other comprehensive income, after tax			
Item that may be reclassified to profit and loss: -			
Exchange difference on translating foreign operation		**(28,467)**	11,804
Total comprehensive income for the period		**(22,562)**	(12,691)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2014

	Notes	**2014 (unaudited) HK$'000**	2013 (unaudited) HK$'000
Profit / (loss) attributable to:			
- Owners of the Company		**5,905**	(24,495)
- Non-controlling interests		**-**	-
		5,905	(24,495)
Total comprehensive income attributable to:			
- Owners of the Company		**(22,562)**	(12,691)
- Non-controlling interests		**-**	-
		(22,562)	(12,691)
		HK$ (cents)	HK$ (cents)
Earnings /(loss) per share			
– Basic	10	**0.0393**	(0.1971)
– Diluted	10	**0.0390**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2014

	Notes	**30.6.2014 (Unaudited) HK$'000**	31.12.2013 (audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**228,358**	234,670
Gas exploration and evaluation assets	12	**3,616,731**	3,602,475
Intangible assets	13	**227,768**	232,960
Goodwill		**-**	-
Interest in a joint venture	14	**953**	1,215
Interest in an associate	15	**62,593**	62,731
Deposits and prepayments	16	**18,745**	20,402
		4,155,148	4,154,453
Current assets			
Inventories		**20,015**	21,349
Trade and other receivables, deposits and prepayments	16	**45,445**	74,229
Pledged bank deposits		**1,979**	7,832
Cash and cash equivalents		**18,048**	17,536
		85,487	120,946
Total assets		**4,240,635**	4,275,399
Current liabilities			
Other payables and accruals	17	**(101,018)**	(199,568)
Borrowings - secured	18	**(142,454)**	(145,932)
Other loans	19	**(100,000)**	-
Taxation		**(2,364)**	(2,414)
		(345,836)	(347,914)
Net current liabilities		**(260,349)**	(226,968)
Total assets less current liabilities		**3,894,799**	3,927,485
Non-current liabilities			
Provisions	23	**(731)**	(747)
Borrowings - secured	18	**(250,800)**	(336,210)
Convertible notes	20	**(147,522)**	(134,920)
Deferred tax liabilities		**(8,371)**	(8,371)
		(407,424)	(480,248)
NET ASSETS		**3,487,375**	3,447,237
Capital and reserves attributable to owners of the Company			
Share capital	21	**150,539**	147,539
Reserves		**3,336,836**	3,299,698
TOTAL EQUITY		**3,487,375**	3,447,237

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 – 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 2014	147,539	3,737,663	81,043	48,020	1,250	15,913	64,984	(649,175)	3,447,237	-	3,447,237
Profit for the period	-	-	-	-	-	-	-	5,905	5,905	-	5,905
Other comprehensive income	-	-	-	-	-	-	(28,467)	-	(28,467)	-	(28,467)
Total comprehensive income for the period	-	-	-	-	-	-	(28,467)	5,905	(22,562)	-	(22,562)
Shares issued on placing – note 21	3,000	59,700	-	-	-	-	-	-	62,700	-	62,700
At 30 June 2014	**150,539**	**3,797,363**	**81,043**	**48,020**	**1,250**	**15,913**	**36,517**	**(643,270)**	**3,487,375**	**-**	**3,487,375**
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	9,280	139,196	-	-	-	-	-	-	148,476	-	148,476
Issue of convertible notes	-	-	-	-	-	31,297	-	-	31,297	-	31,297
Conversion of convertible notes	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**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(24,799)**	(43,143)
Net cash used in investing activities	**(40,993)**	(204,416)
Net cash used before financing activities	**(65,792)**	(247,559)
Net cash generated from financing activities	**68,294**	457,429
Net increase in cash and cash equivalents	**2,502**	209,870
Cash and cash equivalents at 1 January	**17,536**	71,114
Effect of foreign exchange rate changes on cash and cash equivalents	**(1,990)**	(5,567)
Cash and cash equivalents at 30 June, representing cash and bank balances	**18,048**	275,417

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 2013 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 2013 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 2013 are available from the Company's head office or at the Company's website (www.sino-oilgas.hk). The auditor has expressed a modified opinion on those financial statements in his report dated 21 March 2014.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued)

The Group's current liabilities exceeded its current assets by HK$260,349,000 as at 30 June 2014. 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 2014, the Group had only utilised RMB400 million of this facility. The remaining facility of RMB600 million can only be drawn after the Group has obtained the final approval of its 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") 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 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 are optimistic that the approval process of the ODP is to be completed in near future.

Besides the above loan facility and the banking facilities granted by other financial institution, the Group has raised a short term loan of HK$100 million during the period. Further, the Group has also successfully issued shares on placing in January and July 2014. The funds raised are approximately HK$63 million and HK$594 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.

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 2013 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 2014. 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 (2013: 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 2014

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated – note (i) HK$'000	Total HK'000
Results				
Revenue from external customers	8,516	-	-	8,516
Segments results – note (ii)	(3,015)	29,167	(17,602)	8,550
Finance costs	(30)	-	(2,215)	(2,245)
Share of loss of a joint venture	(262)	-	-	(262)
Share of loss of an associate	-	(138)	-	(138)
Profit / (loss) before income tax expense	(3,307)	29,029	(19,817)	5,905
Income tax expense	-	-	-	-
Profit / (loss) for the period	(3,307)	29,029	(19,817)	5,905
Assets and liabilities - at 30 June 2014				
Reportable segment assets - note (iii)	460,520	3,773,695	6,420	4,240,635
Reportable segment liabilities	21,976	480,156	251,128	753,260

NOTES TO THE FINANCIAL STATEMENTS

5. TURNOVER AND SEGMENT REPORTING (Continued)

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 joint venture	(9)	-	-	(9)
Share of loss of an associate	-	(250)	-	(250)
(Loss) / profit before income tax expense	(4,353)	6,418	(26,560)	(24,495)
Income tax expense	-	-	-	-
(Loss)/ profit for the period	(4,353)	6,418	(26,560)	(24,495)
Assets and liabilities				
- at 31 December 2013				
Reportable segment assets - note (iii)	475,176	3,787,872	12,351	4,275,399
Reportable segment liabilities	28,992	648,609	150,561	828,162

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 from trial sale of coalbed methane generated from the Sanjiao PSC of HK$28,352,000 (six months ended 30 June 2013: HK$18,280,000) and the related government subsidies of HK$10,280,000 (six months ended 30 June 2013: nil) (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	
	2014	2013
	HK$'000	HK$'000
Interest income on bank deposits	**114**	192
Income from sale of coalbed methane – note (i)	**28,352**	18,280
Government subsidies – note (ii)	**10,280**	-
Sub-lease income	**1,005**	-
Others	**488**	519
	40,239	18,991

Notes:

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

(ii) It represents the regular subsidies from relevant government authority on the sale of coalbed methane from the Sanjiao PSC for the period from year 2012 to 30 June 2014.

7. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE

Profit / (loss) before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2014	2013
	HK$'000	HK'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	**20,920**	25,287
Imputed interest expense on convertible notes – note 20	**12,813**	6,910
Amortisation of transaction costs on issue of convertible notes – note 20	**1,405**	468
Interest on other loans – note 19	**2,115**	-
Interest on amounts due to shareholders	**443**	515
Others	**30**	69
	37,726	33,249
Less: interest capitalised on gas exploration and evaluation assets – note 12	**(35,481)**	(25,287)
	2,245	7,962

NOTES TO THE FINANCIAL STATEMENTS

7. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE (Continued)

Profit / (loss) before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2014	2013
	HK$'000	HK'000
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**18,300**	17,328
Contributions to defined contribution retirement plan	**958**	681
	19,258	18,009
c) Other items		
Depreciation of property, plant and equipment	**1,458**	1,813
Amortisation of intangible assets	**338**	438
Minimum lease payments under operating leases - property rentals	**3,285**	3,240

8. INCOME TAX EXPENSE

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 2014 and 2013. 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 2014 and 2013, 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 2014 (six months ended 30 June 2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

10. EARNINGS / (LOSS) PER SHARE

a) Basic earnings / (loss) per share

The calculation of basic earnings / (loss) per share is based on the profit attributable to owners of the Company of HK$5,905,000 (loss for the six months ended 30 June 2013: HK$24,495,000) and the weighted average of 15,029,069,000 ordinary shares (six months ended 30 June 2013: 12,428,691,000 ordinary shares) in issue during the period.

b) Diluted earnings / (loss) per share

Diluted earnings per share is calculated by dividing the profit attributable to owners of the Company of HK$5,905,000 by the total of weighted average of 15,029,069,000 ordinary shares in issue and dilutive potential ordinary shares of 114,095,000 arising from convertible notes for the period ended 30 June 2014.

Diluted loss per share for the six months ended 2013 is not applicable 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. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group incurred capital expenditure on property, plant and equipment with a cost of HK$76,000 (six months ended 30 June 2013: HK$3,230,000).

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 2014, the Group incurred capital expenditure of HK$36,902,000 (six months ended 30 June 2013: HK$27,453,000) and interest capitalised is HK$35,481,000 (six months ended 30 June 2013: HK$25,287,000). No amortisation is provided for during the period as the project is not yet in its production stage.

At 30 June 2014, certain gas exploration and evaluation assets with a carrying value of HK$661,880,000 (31 December 2013: HK$676,025,000) are pledged to secure the Group's borrowings as set out in note 18.

NOTES TO THE FINANCIAL STATEMENTS

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. INTEREST IN A JOINT VENTURE

	30.6.2014 HK$'000	31.12.2013 HK$'000
Share of net assets		
As at 1 January	**1,215**	4,947
Share of loss for the period / year	**(262)**	(232)
Dividend received	**-**	(3,500)
	953	1,215

15. INTEREST IN AN ASSOCIATE

	30.6.2014 HK$'000	31.12.2013 HK$'000
As at 1 January	**62,731**	63,354
Share of loss for the period/year	**(138)**	(623)
	62,593	62,731

16. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2014	31.12.2013
	HK$'000	HK$'000
Non-current assets		
Deposits and prepayments – note (ii) & (iii)	**18,745**	20,402
Current assets		
Trade receivables – note (i)	**6,568**	5,046
Other receivables	**32,976**	61,387
	39,544	66,433
Utility deposits	**454**	502
Other deposits and prepayments	**5,447**	7,294
	5,901	7,796
	45,445	74,229

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:

	30.6.2014	31.12.2013
	HK$'000	HK$'000
1 – 30 days	**1,169**	5,046
31 – 60 days	**848**	-
Over 60 days	**4,551**	-
	6,568	5,046

(ii) Prepayments include prepaid exploration costs of HK$9,220,000 (31 December 2013: HK$10,674,000) on gas evaluation and exploration assets.

(iii) The balance includes a guarantee deposit of HK$9,525,000 (31 December 2013: HK$9,728,000) paid to secure one of the Group's borrowings as set out in note 18.

NOTES TO THE FINANCIAL STATEMENTS

17. OTHER PAYABLES AND ACCRUALS

	30.6.2014 HK$'000	31.12.2013 HK$'000
Other payables and accruals – note	**101,018**	184,213
Amounts due to shareholders	**-**	15,355
	101,018	199,568

Note: Other payables and accruals represent mainly the exploration costs payable in respect of gas exploration and evaluation assets and oil and gas properties.

18. BORROWINGS - SECURED

Secured interest-bearing borrowings	**30.6.2014 HK$'000**	31.12.2013 HK$'000
On demand or within one year	**142,454**	145,932
More than one year, but not exceeding two years	**125,400**	128,080
More than two years, but not exceeding five years	**125,400**	208,130
	393,254	482,142
Amount due within one year included in current liabilities	**(142,454)**	(145,932)
Non-current portion	**250,800**	336,210

Notes:

(i) The borrowings carry interest at effective floating rates ranging from 8.9% to 11.685% for the six months ended 30 June 2014.

(ii) The borrowings are secured by certain assets of the Group as set out in notes 12 and 16 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.

19. OTHER LOANS

On 17 March 2014, the Group has obtained a facility of HK$100,000,000 from a company that is wholly owned by a stated-owned financial enterprise (which is the holding company of a corporate shareholder of the Company). The Group has fully utilised HK100,000,000 of this facility during the reporting period.

The loan is unsecured, personal guaranteed by a director and interest bearing at 8% per annum. It was fully settled on 31 July 2014.

20. 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	**1,874**	-
Imputed interest expense	**21,775**	-
Interest paid	**(2,190)**	-
At 31 December 2013 and 1 January 2014	**134,920**	**15,913**
Amortisation of transaction costs – note 7 (a)	**1,405**	-
Imputed interest expense – note 7 (a)	**12,813**	-
Interest paid	**(1,616)**	-
At 30 June 2014	**147,522**	**15,913**

Imputed interest expense on the convertible notes 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 2013	12,356,078	123,560
Shares issued on placing	928,000	9,280
Shares issued on conversion of convertible notes	748,503	7,485
Shares issued to extinguish financial liabilities	721,350	7,214
At 31 December 2013 and at 1 January 2014	14,753,931	147,539
Shares issued on placing – note	300,000	3,000
At 30 June 2014	15,053,931	150,539

Note: During the six months ended 30 June 2014, 300,000,000 (year ended 31 December 2013: 928,000,000) ordinary shares were subscribed at HK$0.22 (year ended 31 December 2013: HK$0.167) per share with proceeds of HK$66,000,000 (year ended 31 December 2013: HK$154,976,000). Accordingly, the Company's issued share capital was increased by HK$3,000,000 (year ended 31 December 2013: HK$9,280,000) and the balance of the proceeds, net of direct cost incurred, of HK$59,700,000 (year ended 31 December 2013: HK$139,196,000) was credited to the share premium account.

22. COMMITMENTS

a) Operating lease commitments - Lessee

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	30.6.2014	31.12.2013
	HK$'000	HK$'000
Within 1 year	**4,413**	2,354
After 1 year but within 5 years	**1,225**	537
	5,638	2,891

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) Operating lease commitments - Lessor

At 30 June 2014, the minimum rent receivables under non-cancellable operating leases are as follows:

	30.6.2014	31.12.2013
	HK$'000	HK$'000
Within 1 year	**2,048**	2,092
After 1 year but within 5 years	**1,366**	1,333
	3,414	3,425

The Group sub-leases certain of its properties in the PRC under operating leases. The sub-leasing of properties in PRC usually runs one to five years. Lease payment is negotiated and conducted in a contract. None of the leases includes contingent rentals.

22. COMMITMENTS (Continued)

c) Capital commitments

(i) Authorised but not contracted

At 30 June 2014 and 31 December 2013, the Group was committed to develop a total 9 (31 December 2013:9) 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 2013: HK$10.6 million).

(ii) Contracted but not provided for

	30.6.2014	31.12.2013
	HK$'000	HK$'000
Commitments in respect of the Sanjiao PSC	**2,348**	15,078

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 2014, a provision of HK$731,000 (31 December 2013: HK$747,000) was made in the condensed consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2014	2013
	HK$'000	HK$'000
Salaries and other benefits including the contribution to defined contribution retirement plan	**8,341**	8,612

25. POSSIBLE ACQUISITION

On 30 June 2014, a wholly-owned subsidiary of the Company entered into an non-legally binding Memorandum of Understanding with the vendor in relation to the possible acquisition of entire equity interest in a target group which is principally engaged in the exploration, exploitation and production of petroleum in the Canada Oil Field. The consideration shall not exceed CAD60,000,000 (equivalent to approximately HK$435,600,000) and shall be settled by way of a combination of cash and/or the new Shares to be allotted and issued by the Company and/or promissory notes to be issued by the Company. A refundable deposit of CAD30,000,000 (equivalent to approximately to HK$216,000,000) was paid in July 2014. Details are disclosed in the Company's announcement dated 30 June 2014.

26. EVENT AFTER THE REPORTING PERIOD

On 8 July 2014, the Company entered into subscription agreements with subscribers for allotting and issuing a total of 2,900,000,000 shares at a price of HK$0.205 per share. The net proceeds of approximately HK$593,500,000 are used / to be used for repayment of loan and operations of the Group's existing oil and gas projects and payment for the deposit and/or total consideration for the possible acquisition as disclosed in note 25.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2014, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") reported a net profit of HK$5,905,000 (2013 interim: net loss of HK$24,495,000). The Group achieved a turnaround during the period mainly owing to the increase in other revenue generated from the coalbed methane ("CBM") operation by approximately 111% to HK$38,632,000 (2013 interim: HK$18,280,000). The afore-mentioned first-half CBM operation included trial sale of CBM of HK$28,352,000 as well as related proportionate regular government subsidies of HK$10,280,000 from 2012 to 30 June 2014. Turnover for the first half amounted to HK$8,516,000 (2013 interim: HK$11,504,000), which only included the results from oil exploitation operations in Liuluoyu, Yanjiawan and Jinzhuang oil fields in Shaanxi Province.

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% interests in the PSC. The PSC covers a 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 of Sanjiao block amounted to 405.6 billion cubic feet (approximately 11.5 billion cubic meters).

In August 2012, the National Development and Reform Commission – National Energy Administration ("NEA") granted a reply to the application of the overall development plan ("ODP") for the development of Sanjiao CBM project. At present, various consents from government authorities and specific assessment reports in relation to the ODP have been progressing satisfactorily. Orion has been notified by PetroChina recently that the report on environmental effects from Sanjiao CBM project was approved by Shanxi Provincial Department of Environmental Protection in July 2014. The report on environmental effects is a core assessment report which is the most crucial and symbolic part of the ODP. This approval also marks substantial progress of the ODP approval, and indicates the support and recognition from the relevant government authorities in relation to the exploration, development and production of Sanjiao CBM project. Pursuant to Regulations on Exploitation of Onshore Petroleum Resources in Cooperation with Foreign Enterprises, only when a foreign CBM cooperation project has obtained the State's approval of its ODP is allowed to carry out sizable development and production. Hence, this approval has laid a solid foundation for the grant of final approval of the ODP from the PRC government. This implies that Sanjiao CBM project is likely to enter into the development and production stage as expected, and the Group is very optimistic that the reporting and approval process of the ODP will be completed soon.

Infrastructure

At the end of the second quarter of 2014, the Sanjiao CBM project has completed a total of 73 wells, comprising 40 multilateral horizontal wells and 33 vertical wells. Out of the total 73 wells, 59 wells were in the normal dewatering stage, of which 49 wells had access to the gas collection pipeline network. Adopting the multi-lateral horizontal well-drilling system designed by oil service professionals from the States, one pilot experimental well has been drilled with dewatering and extraction of gas currently underway.

In 2012, the Group 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 in line with the increase in CBM production.

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 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; (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; and (3) the CBM pipeline from Sanjiao to Lvliang for gas supply to natural gas network of Xiaoyi and central Shanxi.

In addition, a Sino-foreign joint venture in which the Group holds 30% equity interest, is in the process of setting 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 design of the first phase of the LNG plant which has a daily processing capacity of 300,000 cubic meters has already been completed. The timetable of construction will be decided in line with the final approval of the ODP.

Sales

During the period, the Sanjiao project recorded CBM production of 22.93 million cubic meters (2013 interim: 20.24 million cubic meters), with CBM sales of 20.53 million cubic meters (2013 interim: 12.48 million cubic meters). The average gas sale-to-production rate thus increased to 89.5% (2013 interim: 61.7%). In terms of the composition of gas sales during the period, industrial piped and residential piped CBM sales accounted for 89.7% (2013 interim: 79.7%) and 10.1% (2013 interim: 10.9%) of total sales respectively. Total piped CBM sales contributed 99.8% (2013 interim: 90.6%) of total gas sales during the period.

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 reallocated resources to focus on the Sanjiao CBM project. The development of the oilfields in the PRC is thus proceeding somewhat more slowly than previously.

During the period under review, the three oilfields in Liuluoyu, Yanjiawan and Jinzhuang, all in the Erdos Basin, Shaanxi Province, yielded an aggregate crude oil output of approximately 2,400 tonnes (2013 interim: 3,300 tonnes).

Possible acquisition of oilfield in Canada

The Company signed a non-legally binding memorandum of understanding ("MOU") on 30 June 2014 in relation to the possible acquisition of an oilfield in Canada. The registered owner of the Canada oilfield (the "Target Group") is principally engaged in the exploration and exploitation of petroleum. The field is located about 800 kilometers north of Calgary city in Alberta Province and covers an area of approximately 220 square kilometers. The field is situated along the highway with well-established ground infrastructure, which can achieve savings in road construction and facilitate operations.

The field has four oil reservoirs from top to bottom, the oil reserves of which are mainly Keg River Reefs oil reserve, at a depth of about 1,400 meters, which belongs to a carbonate oil pool. It is characterized as porous dolomite and a draping structure overlaid on the reefs. The increased dolomitization has enhanced the secondary porosity. In general, oil is trapped in the porous carbonate with top-sealing mudstones and shales. Exploration and development of carbonate oil pools is the dominant practice in the Canadian conventional oil sector because of the relatively low exploration cost and high oil production, as well as the concentrated surface infrastructures and development.

Pursuant to the MOU, the consideration for the acquisition of the entire equity interest in the Target Group shall not exceed CAD60 million (equivalent to approximately HK$435.6 million) and shall be settled by way of a combination of cash and/or new shares in the Company and/or promissory notes to be issued by the Company. The consideration for the possible acquisition shall be subject to further negotiation between the parties to the MOU with reference to, among other things, a valuation report relating to the working interests in the Canada oilfield and the results of well exploration.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, the net assets of the Group were HK$3,487,000,000 (31 December 2013: HK$3,447,000,000) while its total assets were HK$4,241,000,000 (31 December 2013: HK$4,275,000,000). The Group had external borrowings of HK$640,776,000 which included the financial component of convertible notes (31 December 2013: HK$617,062,000) and the gearing ratio based on total assets was 15.11% (31 December 2013: 14.43%). Details of the Group's pledge of assets are shown in notes 12 and 16 to the financial statements and the maturity profile of the Group's borrowings is shown in note 18 to the financial statements. As at the end of June 2014, the current ratio was 0.25 (31 December 2013: 0.35). Although the gearing ratio and liquidity positions were less favorable than those of the last reporting period, the overall financial position of the Group has improved substantially in July upon the completion of the fund raising exercise (details of which were stated in the fourth paragraph of this section).

In January 2014, the Company entered into subscription agreements with no less than six subscribers, to which a total of 300,000,000 subscription shares were allotted and issued at a price of HK$0.22 per subscription share. The proceeds from the subscriptions of approximately HK$66,000,000 are intended to be used for operations of the Group's existing oil and gas projects and working capital.

On 17 March 2014, the Company entered into a facility agreement with a wholly-owned subsidiary of China Orient Asset Management Corporation. Pursuant to the agreement, the Company was granted a facility up to an aggregate principal amount of HK$100,000,000 ("the "COAM Facility"); while the Company agreed to grant warrants to the lender. The warrants carry rights to subscribe for warrant shares at an exercise price of HK$0.2714 per share, in aggregate of up to HK$50,000,000 for a period of one year from the date of issue.

On 8 July 2014, the Company entered into subscription agreements with no less than six subscribers for the allotment and issue of 2,900,000,000 subscription shares at a price of HK$0.205 per subscription share. The net proceeds from the subscriptions of approximately HK$593,500,000 have been used for the repayment of the loan from the afore-mentioned COAM Facility, and intended to be used for operations of the Group's existing oil and gas projects and payment for the necessary deposit and/or total consideration for the possible acquisition of the Canadian oilfield.

Apart from the above financing sources, Orion may utilize the remaining loan facility provided by CDB Leasing Co., Ltd. as and when needed upon approval of the ODP. The overall financial position of the Group has strengthened steadily, and with the satisfactory operation and development 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 and assets that are denominated in a currency other than the functional currency of the operations to which they relate. At 30 June 2014, 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

Natural gas and oil exploitation is the focus of the Group's ongoing development. It 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, the capacity of the CBM processing station is expected to be increased to facilitate the rapid increase in natural gas output and sales upon approval of the ODP in the near future. 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 employed advanced foreign well-drilling technologies to seek to further explore the recoverable gas reserves of the Sanjiao block. It is also pursuing investment opportunities in mid-stream and lower-stream businesses. Management will focus on co-ordination and reporting work to facilitate the approval of the ODP. 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.

With regard to the petroleum business, the possible acquisition of the Canadian oilfield is currently being actively pursued. According to data provided by the vendor and initial technical review conducted by internal experts, the Group is confident of the field's oil reserves. The possible acquisition, if it materializes, represents a good opportunity for the Group to expand its gas and oil exploration and exploitation business and to maximize shareholders' return.

The Board and the staff teams are greatly encouraged by the Group's turnaround during the first half. As the Sanjiao project matures, and with the possible overseas investment opportunities, the Board seeks to enhance the Company's profitability and broaden its asset base.

Employees and Remuneration Policies

As at 30 June 2014, the Group employed approximately 330 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 2014, 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 2014.

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 2014.

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

Hong Kong, 22 August 2014

As at the date of this announcement, the Board comprises three Executive Directors, namely, Dr. Dai Xiaobing, Mr. King Hap Lee and Mr. Wan Tze Fan Terence; three Non-executive Directors, Mr. Chen Hua, Mr. Huang Shaowu 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.