中國油氣控股有限公司
SINO OIL AND GAS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 702)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the "Board") of Sino Oil and Gas Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014, together with the comparative figures for the last year as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014
(Expressed in Hong Kong Dollars)

	Notes	2014 HK$'000	2013 HK$'000
Turnover	3 & 10	16,540	21,598
Direct cost		(19,739)	(25,397)
Gross loss		(3,199)	(3,799)
Other revenue	4	76,385	42,472
Other losses, net	5	(1,126)	(25,836)
Administrative expenses		(62,101)	(70,469)
Profit/(loss) from operations		9,959	(57,632)
Finance costs	6(a)	(329)	(25)
Share of loss of a joint venture		(628)	(232)
Share of loss of an associate	12	(283)	(623)
Profit/(loss) before income tax expense	6	8,719	(58,512)
Income tax credit/(expense)	7	1,701	(2,820)
Profit/(loss) for the year		10,420	(61,332)
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operation		(60,868)	26,489
Total comprehensive income for the year		(50,448)	(34,843)

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the year ended 31 December 2014
(Expressed in Hong Kong Dollars)

	Notes	2014 HK$'000	2013 HK$'000
Profit/(loss) attributable to:			
Owners of the Company		10,420	(61,332)
Non-controlling interests		-	-
		10,420	(61,332)
Total comprehensive income attributable to:			
Owners of the Company		(50,448)	(34,843)
Non-controlling interests		-	-
		(50,448)	(34,843)
Earning/(loss) per share			
- Basic	9	0.064 HK cents	(0.467) HK cents
- Diluted	9	0.060 HK cents	N/A

Consolidated Statement of Financial Position

At 31 December 2014
(Expressed in Hong Kong Dollars)

	Notes	2014 HK$'000	2014 HK$'000	2013 HK$'000	2013 HK$'000
Non-current assets					
Property, plant and equipment			226,242		234,670
Gas exploration and evaluation assets	11		3,749,048		3,602,475
Intangible assets			227,527		232,960
Interest in a joint venture			587		1,215
Interest in an associate	12		62,448		62,731
Deposits and prepayments	14		19,240		20,402
Loan receivables	13		2,880		-
Total non-current assets			4,287,972		4,154,453
Current assets					
Inventories		15,163		21,349	
Trade, notes and other receivables, deposits and prepayments	14	295,622		74,229	
Short-term investment	15	80,330		-	
Loan receivables	13	637		-	
Pledged bank deposits		-		7,832	
Cash and cash equivalents		19,455		17,536	
Total current assets		411,207		120,946	
Total assets			4,699,179		4,275,399
Current liabilities					
Other payables and accruals	16	(160,030)		(199,568)	
Warrant liability	17	(1,955)		-	
Borrowings - secured	18	(124,930)		(145,932)	
Taxation		(2,373)		(2,414)	
Total current liabilities		(289,288)		(347,914)	
Net current assets/(liabilities)			121,919		(226,968)
Total assets less current liabilities			4,409,891		3,927,485
Non-current liabilities					
Provisions		(1,280)		(747)	
Borrowings - secured	18	(187,395)		(336,210)	
Convertible notes	19	(160,750)		(134,920)	
Deferred tax liabilities		(6,477)		(8,371)	
Total non-current liabilities			(355,902)		(480,248)
NET ASSETS			4,053,989		3,447,237
Capital and reserves attributable to owners of the Company					
Share capital			179,539		147,539
Reserves			3,874,450		3,299,698
TOTAL EQUITY			4,053,989		3,447,237

Notes to the Financial Statements

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ADOPTION OF HKFRSs

(a) Adoption of new / revised HKFRSs – effective 1 January 2014

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) 21	Levies

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

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements [1]
HKFRS 9 (2014)	Financial Instruments[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
HKFRS 14	Regulatory Deferral Accounts[1]
HKFRS 15	Revenue from Contracts with Customers[2]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2017
[3] Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that they are not yet in a position to quantify the effects on the Group's financial statements.

3. TURNOVER

The principal activities of the Group are operation of (i) exploitation and sale of crude oil and natural gas; and (ii) exploration, development and production of coalbed methane. Since the operation of exploration, development and production of coalbed methane is in the exploration stage, revenue generated from trial sales was not recorded as turnover during the years 2014 and 2013.

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

	2014 HK$'000	2013 HK$'000
Sale of crude oil	16,540	21,598

4. OTHER REVENUE

	2014 HK$'000	2013 HK$'000
Interest income		
- bank deposits	458	579
- short-term investment	3,055	-
- others	74	-
Total interest income on financial assets that are not at fair value through profit or loss	3,587	579
Income from sale of coalbed methane – note (i)	63,441	38,899
Government subsidies – note (ii)	6,757	-
Sub-lease income	1,665	852
Others	935	2,142
	76,385	42,472

Notes:

(i) It represents trial sales of coalbed methane generated from the Group's coalbed methane business in Sanjiao block, located in the Erdos Basin in Shanxi and Shaanxi Provinces ("Sanjiao CBM Project").

(ii) It represents the regular subsidies from relevant government authority on the trial sales of coalbed methane from the Sanjiao CBM Project for the years from 2012 to 2013.

5. OTHER LOSSES, NET

	2014 HK$'000	2013 HK$'000
Loss on extinguishment of financial liabilities – note	-	(25,247)
Loss on disposal / write off of property, plant and equipment	(692)	(7)
Change in fair value of warrant liability	1,527	-
Deposits and other receivables written off	(3,642)	(534)
Exchange losses, net	(33)	(48)
Gain on disposal of subsidiaries	1,714	-
	(1,126)	(25,836)

5. OTHER LOSSES, NET (CONTINUED)

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

6. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

	2014 HK$'000	2013 HK$'000
a) Finance costs		
Amortisation of convertible notes transaction costs (note 19)	2,811	1,874
Amortisation of warrant liability transaction costs (note 17)	2,000	-
Interest on borrowings wholly repayable within five years	38,172	49,932
Imputed interest on convertible notes (note 19)	26,690	21,775
Imputed interest on other loan (note 17)	6,134	-
Interest on late payment charged by a subcontractor	-	52,536
Others	717	590
	76,524	126,707
Less: interest capitalised as gas exploration and evaluation assets (note 11)	(76,195)	(126,682)
	329	25
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	35,327	36,097
Contributions to defined contribution retirement plan	1,587	1,726
	36,914	37,823
c) Other items		
Auditor's remuneration	1,550	1,450
Depreciation of property, plant and equipment	3,798	3,516
Amortisation of intangible assets #	549	823
Minimum lease payments under operating lease – property rentals	6,291	5,878

Included in "direct costs" in the consolidated statement of profit or loss and other comprehensive income

7. INCOME TAX CREDIT / (EXPENSE)

No provision for Hong Kong profits tax has been made as the group companies did not have any estimated assessable profits subject to Hong Kong profits tax during the years ended 31 December 2014 and 2013. During the years 2014 and 2013, the subsidiaries in the People's Republic of China ("PRC") were subject to statutory tax rate of 25%.

The amount of income tax credited / (charged) to the consolidated statement of profit or loss and other comprehensive income represents:

	2014 HK$'000	2013 HK$'000
Current income tax		
- PRC enterprises income tax	-	-
Deferred tax for the year	1,701	(2,820)
Income tax credit / (expense)	1,701	(2,820)

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2014 (2013: Nil).

9. EARNING/(LOSS) PER SHARE

a) Basic earning/(loss) per share

The calculation of basic earning/(loss) per share is based on the profit/(loss) attributable to owners of the Company of HK$10,420,000 (2013: loss of HK$61,332,000) and the weighted average number of 16,386,807,000 (2013: 13,142,713,000) ordinary shares in issue during the year.

9. EARNING/(LOSS) PER SHARE (CONTINUED)

b) Diluted earning/(loss) per share

The calculation of the diluted earning/(loss) per share attributable to the owners of the Company is based on the following data:

	2014 HK$'000	2013 HK$'000
Profit/(loss) for the purposes of basic earning/(loss) per share	10,420	(61,332)
Effect of dilutive potential ordinary shares :		
- Imputed interest on convertible notes	26,690	-
- Amortisation of convertible notes transaction costs	2,811	-
Less: interest capitalised as gas exploration and evaluation assets	(29,501)	-
Profit/(loss) for the purposes of diluted earning/(loss) per share	10,420	(61,332)

	2014 '000	2013 '000
Weighted average number of ordinary shares in issue during the year	16,386,807	13,142,713
Effect of dilutive potential ordinary shares:		
- Convertible notes	898,204	-
Weighted average number of ordinary shares in issue during the year for the purposes of diluted earning/(loss) per share	17,285,011	13,142,713

For the year ended 31 December 2014, the computation of diluted earning per share does not assume the exercise of the Company's outstanding share options and warrants as the exercise price of those share options and warrants is higher than the average market price for shares.

For the year ended 31 December 2013, the computation of diluted loss per share does not assume the conversion of the Company's outstanding share options, warrants and convertible notes since their exercise would have an anti-dilutive effect on the basic loss per share.

10. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two (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:

Oil and gas exploitation:	Exploitation and sale of crude oil and natural gas
Coalbed methane:	Exploration, development and production of coalbed methane

There are no sales or trading transactions between the business segments. Corporate revenue and expenses are not allocated to the operating segments as they are not included in the measurement of the segments' results used by the chief operating decision-maker in the assessment of segment performance.

10. SEGMENT REPORTING (CONTINUED)

a) Business segments

Segment information about these businesses is set out as follows:

For the year ended 31 December 2014

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Unallocated HK$'000	Total HK$'000
Results				
Revenue from external customers	16,540	-	-	16,540
Segment results (i)&(ii)	(7,300)	51,614	(32,427)	11,887
Finance costs	(229)	-	(100)	(329)
Gain on disposal of subsidiaries	-	-	1,714	1,714
Deposits and other receivable written off	-	(3,642)	-	(3,642)
Share of loss of a joint venture	(628)	-	-	(628)
Share of loss of an associate	-	(283)	-	(283)
Profit / (loss) before income tax expense	(8,157)	47,689	(30,813)	8,719
Income tax credit	1,701	-	-	1,701
Profit / (loss) for the year	(6,456)	47,689	(30,813)	10,420
Assets and liabilities				
Reportable segment assets (iii)	734,579	3,868,464	96,136	4,699,179
Reportable segment liabilities(iii)	20,644	434,270	190,276	645,190
Other segment information				
Depreciation and amortisation	1,917	1,989	441	4,347
Capital expenditure incurred during the year	23	180,046	2,622	182,691

10. SEGMENT REPORTING (CONTINUED)

a) Business segments

Segment information about these businesses is set out as follows:

For the year ended 31 December 2013

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

Notes:

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

(ii) Included in the segment result of coalbed methane segment is revenue of HK$63,441,000 (2013: HK$38,899,000) from the trial sales of coalbed methane generated from the Sanjiao CBM Project and government subsidies of HK$6,757,000 (2013: Nil).

(iii) Unallocated assets mainly include cash and cash equivalents and short term investment and unallocated liabilities mainly include convertible notes and warrant liability.

10. SEGMENT REPORTING (CONTINUED)

b) Geographical information and major customers

The following table provides an analysis of the Group's revenue from an external customer and non-current assets other than deposits paid and interest in a joint venture and interest in an associate ("specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	3,733	1,594
The PRC	16,540	21,598	4,208,835	4,079,185
	16,540	21,598	4,212,568	4,080,779

During the year, revenues from the Group's sole customer were HK$16,540,000 (2013: HK$21,598,000), being 100% (2013: 100%) of the Group's total revenue from the oil and gas exploitation segment.

11. GAS EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2013	3,272,934
Additions*	168,608
Interest capitalised (note 6(a))	126,682
Exchange adjustments	34,251
At 31 December 2013	3,602,475
Additions*	103,851
Interest capitalised (note 6(a))	76,195
Exchange adjustments	(33,473)
At 31 December 2014	3,749,048

* The amount included adjustment for an increase in provision for environmental restoration and decommission costs of HK$551,000 (2013: decrease in provision of HK$253,000).

As at 31 December 2014 and 2013, the major components of gas exploration and evaluation assets were exploration right, exploratory drilling and trenching costs. The directors have assessed the gas exploration and evaluation assets for impairment in accordance with the criteria under HKFRS 6 and by reference to the progress in the implementation of the Sanjiao CBM Project during the year, and the valuation report prepared by Asset Appraisal Limited, an independent firm of professional valuer, which possesses the relevant professional qualifications and experience. The directors concluded that there are no facts or circumstances which may indicate that the carrying amount of gas exploration and evaluation assets has exceeded the recoverable amount as at the end of reporting period.

12. INTEREST IN AN ASSOCIATE

	2014 HK$'000	2013 HK$'000
As at 1 January	62,731	63,354
Share of loss for the year	(283)	(623)
As at 31 December	62,448	62,731

In the opinion of the directors of the Company, this associate is not material to the Group, and the financial information in respect of the Group's associate is set out below:

	2014 HK$'000	2013 HK$'000
Loss for the year	943	2,063
Other comprehensive income	-	13
Total comprehensive income	943	2,076

13. LOAN RECEIVABLES

During the year ended 31 December 2014, the Group advanced a loan to an independent third party of HK$3,670,000. The loan is secured by certain motor vehicles and equipment, interest bearing at 8% per annum and repayable within 5 years.

The loan receivables are presented in the consolidated statement of financial position as follows:

	2014 HK$'000	2013 HK$'000
Current assets	637	-
Non-current assets	2,880	-
	3,517	-

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

	2014 HK$'000	2013 HK$'000
Non-current assets		
Deposits and prepayments – note (i)	19,240	20,402
Current assets		
Trade receivables	4,811	5,046
Notes receivable	3,123	-
Other receivables – note (ii)	14,997	61,387
	22,931	66,433
Utility deposits	887	502
Other deposits and prepayments – note (iii)	271,804	7,294
	272,691	7,796
	295,622	74,229

Notes:

(i) The balance includes a guarantee deposit of HK$9,489,000 (2013: HK$9,728,000) paid to secure the Group's borrowings as set out in note 18(ii) and prepaid exploration costs of HK$9,751,000 (2013: HK$10,674,000) on the Group's gas evaluation and exploration assets.

(ii) As at 31 December 2014, the balance included consideration receivables of HK$600,000 (2013: nil) on the disposal of a subsidiary, Genesis Energy (Hong Kong) Limited.

(iii) The balance includes deposit of HK$267,588,000 (2013: nil) paid for possible acquisitions of Canada oil fields as disclosed in the Company's announcement dated 30 June 2014 and 1 September 2014 respectively. On 30 June 2014, a wholly-owned subsidiary of the Company has entered into first non-legally binding memorandum of understanding ("MOU 1") with Jade Million Co Ltd, (the "Vendor") in relation to a possible acquisition of the interests of certain oil and gas blocks in Canada ("Target 1"). According to the MOU 1, the Group paid a refundable deposit of Canadian Dollars ("CAD") 30 million which is interest-free to the Vendor in July 2014. On 1 September 2014, the Group has entered into another memorandum of understanding ("MOU 2") with Vendor and paying a refundable deposit of CAD 10 million which is interest bearing at 4.5% per annum in relation to a possible acquisition of the interests of certain oil and gas blocks (other than Target 1) in Canada ("Target 2"). In both MOU 1 and MOU 2, the Vendor has pledged the interests of Target 1 and Target 2 to the Group as return. Up to the date of this result announcement, the Group is still performing the due diligence review, and the valid dates of MOU 1 and MOU 2 are up to 30 June 2015 and 30 April 2015 respectively.

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

	2014 HK$'000	2013 HK$'000
30 days	736	5,046
31 - 60 days	639	-
61 - 90 days	845	-
Over 90 days	2,591	-
	4,811	5,046

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

The average credit period granted to customers is 0-30 days from the invoice date.

All trade receivables are less than 180 days past due, not impaired and related to one customer which has a good track record with the Company. Based on past experience, management estimated that the carrying amount will be fully recovered.

The Group recognised impairment loss on individual assessment based on the accounting policy of the Group.

15. SHORT-TERM INVESTMENT

	2014 HK$'000	2013 HK$'000
Short-term investment	80,330	-

On 10 July 2014, the Group entered into a subscription agreement with a PRC company ("Investee"), an independent third party, to acquire bonds with term of 15 months, bearing interest at 8.5% per annum amounted to RMB64,300,000. The bonds are guaranteed by an Investee's related company.

16. OTHER PAYABLES AND ACCRUALS

	2014 HK$'000	2013 HK$'000
Other payables and accruals – note (i)	135,680	184,213
Amounts due to shareholders – note (ii)	24,350	15,355
	160,030	199,568

Notes:

(i) Other payables include exploration costs payable of approximately HK$104,328,000 (2013: HK$149,955,000) in respect of gas exploration and evaluation assets and oil and gas properties.

(ii) As at 31 December 2014, the amount represented a loan from a shareholder denominated in CAD of HK$24,350,000. The loan was unsecured, interest free and repayable on demand. The amounts as at 31 December 2013 included a loan denominated in RMB of HK$3,842,000 from a shareholder. The loan was unsecured, bearing interest at 8% per annum and was settled in January 2014. Another loan from a shareholder amounted to HK$7,500,000 was guaranteed by two of the directors of the Company, unsecured, bearing interest at 8% per annum and was settled in February 2014. The remaining balance was unsecured, interest free and repayable on demand.

17. WARRANT LIABILITY

On 17 March 2014, the Company entered into a facility agreement with a wholly-owned subsidiary of China Orient Asset Management Corporation (the "Lender") to obtain a facility of HK$100,000,000 with interest rate at 8% per annum and to issue the warrant ("Warrants") with the right to subscribe the shares of the Company at a nominal amount of HK$50,000,000 at an initial subscription price of HK$0.2714 per share. The expiry date of the facility and Warrants is 24 March 2015. The Company shall pay the Lender an additional fee not exceeding HK$750,000 for any unexercised subscription rights of the Warrants on the date of expiry of the warrant. The loan was fully repaid on 31 July 2014.

The fair value of the Warrants was determined at the date of issuance, and measured based on binomial option pricing model. The residual amount, representing the value of the loan which measured at amortised cost. The Company classified this Warrants as financial liabilities at fair value through profit or loss.

As at 31 December 2014, the Warrants have neither been exercised nor transferred.

18. BORROWINGS – SECURED

	2014 HK$'000	2013 HK$'000
Secured interest-bearing borrowings		
On demand or within one year	124,930	145,932
More than one year, but not exceeding two years	124,930	128,080
More than two years, but not exceeding five years	62,465	208,130
	312,325	482,142
Amount due within one year included in current liabilities	(124,930)	(145,932)
Non-current portion	187,395	336,210

As at 31 December 2014, the Group obtained borrowings from one (2013: two) parties as follows:

(i) On 19 September 2011, Orion Energy International Inc. ("OEI"), an indirect wholly owned subsidiary of the Group, entered into a financing agreement ("Agreement 1") with Minsheng Financial Leasing Co., Ltd (民生金融租賃股份有限公司) ("Minsheng"), an independent third party, pursuant to which Minsheng advanced RMB50,000,000 (equivalent to HK$61,596,000) under certain conditions to OEI to be repaid by instalment over three years. In the opinion of the directors, the financing arrangement was in substance a secured borrowing. As at 31 December 2013, this borrowing was secured by certain gas exploration and evaluation assets of OEI with a carrying amount of HK$60,108,000 (note 11) and a personal guarantee from the Company's shareholders, Mr. Dai Xiaobing and Mr. King Hap Lee who were also directors of the Company. The borrowing was fully repaid in October 2014.

(ii) On 23 December 2011, OEI entered into another financing agreement ("Agreement 2") with CDB Leasing Co., Ltd (國銀金融租賃有限公司) ("CDB Leasing"), an independent third party, pursuant to which CDB Leasing granted a facility of RMB1,000,000,000 to OEI to be repaid by instalment over five years, of which RMB200,000,000 was to finance the exploration phase and RMB800,000,000 to be drawn after obtaining the approval of the ODP in respect of the Sanjiao CBM Project. In 2012, a revised agreement was signed between OEI and CDB Leasing, pursuant to which OEI can draw loans to the extent of RMB400,000,000 and RMB600,000,000 during exploration stage and production stage of the Sanjiao CBM Project respectively. As at 31 December 2014, loans due to CDB Leasing, net of repayment, amounted to RMB250,000,000 (equivalent to HK$312,325,000) (2013: RMB350,000,000 (equivalent to HK$448,280,000)).

18. BORROWINGS –SECURED (CONTINUED)

The facility is secured by certain gas exploration and evaluation assets with a carrying amount of HK$593,571,000 (2013: HK$615,917,000) (note 11), a guarantee deposit of HK$9,489,000 (2013: HK$9,728,000), all accounts receivable from sales generated from the Sanjiao CBM Project, all the shares of OEI held by Power Great Limited, a wholly-owned subsidiary of the Company, 2,296,000,000 shares of the Company held by certain directors and shareholders of the Company, personal guarantees of Dr. Dai Xiaobing and his spouse and a corporate guarantee by the Company.

In the opinion of the directors, the financing arrangement is in substance a secured borrowing.

(iii) During 2012, the Group entered into a loan agreement ("Agreement 3") with Beijing Bank for loan facilities of RMB1,069,000 (equivalent to HK$1,330,000). The loans were fully repaid in 2013.

The borrowings under Agreement 1 and Agreement 2 carry interest at effective floating rates ranging from 8.5% to 11.7% (2013: from 8.9% to 11.7%) during the year.

19. CONVERTIBLE NOTES

	2014		2013	
	Liability component HK$'000	Equity component HK$'000	Liability component HK$'000	Equity component HK$'000
At 1 January	134,920	15,913	-	-
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 cost (note 6 (a))	2,811	-	1,874	-
Imputed interest expense (note 6 (a))	26,690	-	21,775	-
Interest paid	(3,671)	-	(2,190)	-
At 31 December	160,750	15,913	134,920	15,913

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

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

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

20. EVENTS AFTER THE REPORTING PERIOD

On 19 January 2015, the Company has appointed a placing agent for arranging subscribers for the issue of bonds up to an aggregate amount of HK$300,000,000 (the “Bonds”). The Bonds bear interest of 7% per annum, are unsecured and transferrable and with maturity dates of 84 months immediately following the respective dates of issue of the Bond.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2014, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a turnover of HK$16,540,000 (2013: HK$21,598,000), while posting an 80.5% increase in trial sales of coalbed methane ("CBM") together with related government subsidies amounting to HK$70,198,000 (2013: HK$38,899,000) as disclosed under the item of "other revenue".

The CBM operation moved rapidly into profitability as sales increased upon the completion of complementary facilities, including the CBM processing station and sales pipelines, in phases. The achievement of profitability was also attributable to the increase in CBM sales price in 2013 and subsequently the 13.9% increase in CBM price for industrial users during the year. In the absence of any one-off expenses (2013: HK$25,247,000) for this year, as well as a 11.9% reduction in administrative expenses owing to enhanced internal cost controls, the Group registered a profit for the year of HK$10,420,000 (loss in 2013: HK$61,332,000).

Natural Gas and Oil Exploitation

Coalbed Methane Exploitation—Sanjiao Block in the Erdos Basin

Project Overview

Through its wholly-owned subsidiary Orion Energy International Inc. ("Orion"), the Group entered into a production sharing contract ("PSC") with China National Petroleum Corporation ("PetroChina"), its partner in the PRC, for exploration, exploitation and production at a CBM field in the Sanjiao block, located in the Erdos Basin in Shanxi and Shaanxi provinces. The Group has a 70% interest in the PSC. 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 ("NDRC") – National Energy Administration ("NEA") granted a reply to the application of the overall development plan ("ODP") for the development of Sanjiao CBM project. This signifies a milestone in the project's commercial production process. On 28 July 2014, the report on environmental effects from Sanjiao CBM project was further approved by Shanxi Provincial Department of Environmental Protection. The report on environmental effects is a core assessment report which is the most crucial and emblematic part of the ODP. Pursuant to the "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. The Group has completed all necessary assessment reports and has been granted all required governmental approvals, pending the final approval of the ODP.

Infrastructure

As at the end 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, 63 wells were in the normal dewatering stage, of which 52 wells had access to the gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 39 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 49 kilometers of 10KV power grid and branch power line were also completed.

Adopting the multi-lateral horizontal well-drilling system designed by US oil service professionals, one multi-lateral horizontal well was added during the year with dewatering and gas extraction currently underway. With constant enhancement to dewatering and gas extraction technologies, the Group was able to maintain a stable preliminary production capacity so as to prepare for steady growth in production over the long term, thus helping to achieve a favorable sales-to-production rate.

In 2012, the Group completed the construction of a CBM processing station with daily processing capacity of 150,000 cubic meters. The Company has been expanding the capacity of the station during the period in order to cope with increasing 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 processor and aluminum manufacturer, with an annual designed gas transmission capacity of 350 million cubic meters; and (3) the CBM pipeline from Sanjiao to Luliang for gas supply to Xiaoyi and central Shanxi. All three pipelines are currently operational.

In addition, in December 2012 the Group acquired a 30% equity interest in a Sino-foreign joint venture. In order to broaden sales channels in the future, this joint venture is in the process of setting up a liquefied natural gas ("LNG") station 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 station, with a daily processing capacity of 300,000 cubic meters, was completed in early March 2015 and will be constructed in line with the schedule of ODP approval. Tendering of related works is currently in process. Upon completion, the LNG station will broaden the Sanjiao project's sales channels.

Sales

According to a "Notice Regarding Adjustment of Natural Gas Price for Non-Residential Users" issued by NDRC in the second half of 2014, the Group and PetroChina have jointly decided to increase the gas selling price for industrial users of the Sanjiao CBM project. The gas selling price was increased by RMB0.25 per cubic meter with retrospective effect from 1 September 2014 as agreed with the buyer. This 13.9% price adjustment had an immediate and significant positive impact on the revenue and earnings of the Sanjiao project.

In addition, during the year, the Ministry of Finance has released subsidies on CBM sales from Sanjiao project in 2012 and 2013 on the basis of RMB0.2 per cubic meter in accordance with the state policy. It is expected that government subsidies on 2014 sales will be received around the third quarter of 2015.

During the year, the Sanjiao project recorded CBM production of approximately 47.28 million cubic meters (2013: 45.45 million cubic meters) and CBM sales of approximately 44.26 million cubic meters (2013: 30.45 million cubic meters), resulting in a gas sale-to-production rate of 93.6% (2013: 67.0%) for the full year. In terms of the composition of gas sales during the year, industrial piped CBM sales accounted for 89.7% of total sales, while residential piped CBM sales contributed 10.2% and CNG sales 0.1%. Total piped CBM sales accounted for 99.9% of total gas sales during the year.

The Sanjiao project posted an operating profit during the year. With the positive impact of both sales and price increases, the project's long-term outlook for profitability is promising.

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 is thus proceeding somewhat more slowly than previously.

During the year under review, the two oilfields in Liuluoyu and Yanjiawan in the Erdos Basin, Shaanxi Province, yielded an aggregate crude oil output of approximately 2,449 tonnes (2013: 3,500 tonnes). The Jinzhuang oilfield in the hinterland of the Erdos highland, Shaanxi Province, has an area of 62 square kilometers and yielded a crude oil output of approximately 2,208 tonnes (2013: 2,600 tonnes). As the Sanjiao project is proceeding smoothly into profitability, the Group is actively planning to reallocate resources with a view to driving more solid development of the oilfields in Shaanxi Province.

Possible Acquisition—Oilfields in Alberta, Canada

In order to increase resources reserves, the Group is actively seeking appropriate oil and gas blocks in China, while exploring investment opportunities in overseas upstream businesses. The Group hence entered into two non-legally-binding memorandums of understanding ("MOU") in June and September 2014. The acquisition targets are oilfields located in Alberta Province, Canada. The Group is currently undertaking geological evaluation of the target area. The vendor is required to engage a professional geology consultancy firm to issue a geology research report on the correlation of oil-bearing horizons, reservoir dynamic testing, research on fractured reservoirs, formational pressure, research on formation temperature and drive type of reservoir of the oil field in Canada. The Group is also conducting a due diligence review of the assets, indebtedness, operation and financial aspects of the target blocks. Oil and gas resources in North America are abundant and the local markets are sophisticated. Despite the current drop in international oil prices, which will increase the Group's bargaining power in negotiations towards the acquisition of oil and gas businesses, the Group believes that, as oil prices begin to recover from their trough, the operation of high-quality oil and gas businesses in North America or other overseas countries will contribute to the asset base and profitability of the Group in the long term. Such investments will also help balance the Group's geographical risk exposure.

FINANCIAL REVIEW

Capital Structure

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 have been fully utilised for operations of the Group's existing oil and gas projects and working capital.

In July 2014, the Group entered into subscription agreements with no less than six subscribers for the allotment and issue of 2,900 million new 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 operations of the Group's existing oil and gas projects, repayment of loan and payment for the necessary deposit for the possible acquisition of the Canadian oilfield.

Subsequently in January 2015, the Group appointed a placing agent for the issue of bonds up to an aggregate amount of HK$300,000,000. The bonds bear an interest rate of 7% per annum, are unsecured and transferrable and with maturity dates of 84 months immediately following the respective dates of issue of the bonds. The net proceeds from the bonds issue will be used as general working capital and/or for settlement of loans.

Apart from the above financing sources, the Group's subsidiary, Orion, may utilise the remaining loan facility of RMB600 million provided by CDB Leasing Co., Ltd. as and when needed upon approval of the ODP. With sufficient funding, 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 its financing needs for developing various oil and gas projects.

Liquidity and Financial Resources

As at 31 December 2014, the net assets of the Group were HK$4,054,000,000 (31 December 2013: HK$3,447,000,000) while its total assets were HK$4,699,000,000 (31 December 2013: HK$4,275,000,000). As at 31 December 2014, the Group had external borrowings including the liability component of convertible notes of HK$473,075,000 (31 December 2013: HK$617,062,000), and the gearing ratio based on total assets was 10.06% (31 December 2013: 14.43%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings is set out in note 18 to the financial statements as disclosed in this announcement. At 31 December 2014, the current ratio was 1.42 (31 December 2013: 0.35). With a significant improvement in the gearing ratio and liquidity position, the Group's overall financial position has strengthened.

Foreign Exchange Fluctuations

The Group is exposed to currency risk primarily through sales and purchase transactions and recognised liabilities of assets that are denominated in a currency other than the functional currency of the operations to which they relate. At 31 December 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.

Employees and Remuneration Policies

As at 31 December 2014, the Group employed approximately 356 employees. The remuneration policy of the Group is based on the prevailing remuneration level in the market and the performance of respective companies and individual employees.

PROSPECTS

Natural gas and oil exploitation is the focus of the Group's ongoing development. 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.

Liaison work in respect of ODP approval has proceeded further. Following the grant of approval of the report on environmental effects by Shanxi Provincial Department of Environmental Protection, the application work has substantially completed. The project has already moved forward into trial commercial operations with operating profit recorded. In line with the schedule of ODP approval by NDRC, the Group will continue to engage in the active development of ground facilities, while the capacity of the CBM processing station is being expanded to cope with increased gas sales. The Group has also employed foreign advanced well-drilling technologies to seek to further explore the recoverable gas reserves of the Sanjiao block.

The "12th Five-Year Plan" has outlined China's target to achieve CBM production of 20 billion cubic meters by 2015. However, in view of the slower-than-expected CBM production growth against a backdrop of suppressed gas prices, meeting this target will prove to be a challenging task. Being a major energy consumer in the world, China's natural gas demand is currently 32% met by imports. To provide impetus for domestic CBM production, China has moved forward a price reform for the natural gas sector, to be implemented in three years from 2013, with the ultimate goal of opening up the sector. 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 Sanjiao CBM project is a major growth driver for the Group. Management is confident that the project will bring satisfactory long-term returns for shareholders. The Group is also pursuing investment opportunities in mid- and lower-stream businesses, as well as in mergers and acquisitions of overseas oil and gas assets, in order to drive the Group's business momentum forward.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the announcement of the Group's annual results for the year ended 31 December 2014 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the announcement of annual results.

CORPORATE GOVERNANCE

The Company complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2014.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited financial statements for the year ended 31 December 2014.

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

Hong Kong, 20 March 2015

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; four Non-executive Directors, Mr. Chen Hua, Mr. Huang Shaowu, Mr. He Lin Feng 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.