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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 2016

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 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	**2016 (unaudited) HK$'000**	2015 (unaudited) HK$'000
Turnover	5	**78,381**	5,963
Direct costs		**(68,465)**	(6,865)
Gross profit / (loss)		**9,916**	(902)
Other revenue	6	**44,151**	45,892
Other gains, net		**1,551**	2,037
Administrative expenses		**(33,387)**	(28,553)
Profit from operations		**22,231**	18,474
Finance costs	7(a)	**(14,419)**	(3,676)
Share of loss of a joint venture	13	**-**	(597)
Share of loss of an associate	14	**(363)**	(325)
Profit before income tax expense	7	**7,449**	13,876
Income tax expense	8	**(1,752)**	-
Profit for the period		**5,697**	13,876
Other comprehensive income, after tax			
Item that may be reclassified to profit and loss:			
Exchange difference on translating foreign operation		**(12,529)**	(20,636)
Total comprehensive income for the period		**(6,832)**	(6,760)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2016

	Notes	2016 (unaudited) HK$'000	2015 (unaudited) HK$'000
Profit attributable to:			
- Owners of the Company		**4,395**	13,876
- Non-controlling interests		**1,302**	-
		5,697	13,876
Total comprehensive income attributable to:			
- Owners of the Company		**(8,111)**	(6,760)
- Non-controlling interests		**1,279**	-
		(6,832)	(6,760)
		HK$ (cents)	HK$ (cents)
Earnings per share			
– Basic	10	**0.0250**	0.0773
– Diluted	10	**0.0250**	0.0736

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	**30.6.2016 (Unaudited) HK$'000**	31.12.2015 (audited) HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	**1,820,873**	1,699,730
Payment for leasehold land held for own use		**4,707**	4,812
Intangible assets	12	**2,331,000**	2,341,404
Goodwill		**99,896**	99,896
Interest in a joint venture	13	**-**	-
Interest in an associate	14	**59,755**	60,118
Financial assets at fair value through profit or loss		**22,417**	22,417
Deposits and prepayments	15	**87,129**	21,235
Loan receivables		**1,704**	2,092
		4,427,481	4,251,704
Current assets			
Inventories		**17,471**	10,981
Trade, notes and other receivables, deposits and prepayments	15	**364,815**	289,122
Short-term investment		**75,045**	76,729
Loan receivables		**670**	1,267
Amount due from a joint venture	13	**320**	320
Cash and cash equivalents		**55,448**	35,564
		513,769	413,983
Total assets		**4,941,250**	4,665,687
Current liabilities			
Other payables and accruals	16	**(149,361)**	(237,575)
Borrowings	17	**(144,429)**	(186,155)
Convertible notes	18	**(98,861)**	(192,029)
Taxation		**(9,524)**	(7,072)
		(402,175)	(622,831)
Net current assets / (liabilities)		**111,594**	(208,848)
Total assets less current liabilities		**4,539,075**	4,042,856
Non-current liabilities			
Provisions		**(2,356)**	(2,409)
Borrowings	17	**(705,840)**	(416,366)
Convertible notes	18	**(312,305)**	(93,221)
Deferred tax		**(27,555)**	(27,555)
		(1,048,056)	(539,551)
NET ASSETS		**3,491,019**	3,503,305

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2016

	Notes	**30.6.2016 (Unaudited) HK$'000**	31.12.2015 (audited) HK$'000
Capital and reserves attributable to owners of the Company			
Share capital	19	**172,796**	176,036
Reserves		**3,302,276**	3,312,601
Equity attributable to the owners of the Company		**3,475,072**	3,488,637
Non-controlling interests		**15,947**	14,668
TOTAL EQUITY		**3,491,019**	3,503,305

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company with limited liability in Bermuda on 2 November 1999 under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 9 February 2000. The registered office and principal place of business of the Company are located at 26 Burnaby 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 2015 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 2015 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 2015 are available from the Company’s head office or at the Company’s website (www.sino-oilgas.hk). The auditor has expressed an unqualified opinion on those financial statements in his report dated 30 March 2016.

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 2015 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 2016. The adoption of these new and revised HKFRSs has no material impact on the Group's financial statements.

The Group has already commenced an assessment of the impact of adopting the above standards and amendments to existing standards to the Group. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and 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 three (2015: three) 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.

iii) Raw and cleaned coal: Raw coal washing and sale of raw and cleaned coal.

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 2016

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Raw and cleaned coal HK$'000	Unallocated – note (i) HK$'000	Total HK$'000
Results					
Revenue from external customers	3,999	30,435	43,947	-	78,381
Segments results – note (ii)	(1,933)	4,808	4,988	14,368	22,231
Finance costs	(1)	(83)	(69)	(14,266)	(14,419)
Share of loss of a joint venture	-	-	-	-	-
Share of loss of an associate	-	(363)	-	-	(363)
Profit / (loss) before income tax expense	(1,934)	4,362	4,919	102	7,449
Income tax expense	-	-	(1,752)	-	(1,752)
Profit / (loss) for the period	(1,934)	4,362	3,167	102	5,697
Assets and liabilities - at 30 June 2016					
Reportable segment assets - note (iii)	324,918	4,300,676	207,099	108,557	4,941,250
Reportable segment liabilities - note (iv)	22,173	701,119	22,818	704,121	1,450,231

5. TURNOVER AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 2015

	Oil and gas exploitation HK$'000	Coalbed methane HK$'000	Raw and cleaned coal HK$'000	Unallocated – note (i) HK$'000	Total HK$'000
Results					
Revenue from external customers	5,963	-	-	-	5,963
Segments results – note (ii)	(2,701)	33,705	-	(12,530)	18,474
Finance costs	(49)	-	-	(3,627)	(3,676)
Share of loss of a joint venture	(597)	-	-	-	(597)
Share of loss of an associate	-	(325)	-	-	(325)
Profit / (loss) before income tax expense	(3,347)	33,380		(16,157)	13,876
Income tax expense	-	-	-	-	-
Profit / (loss) for the period	(3,347)	33,380	-	(16,157)	13,876
Assets and liabilities - at 31 December 2015					
Reportable segment assets - note (iii)	283,436	4,073,699	214,998	93,554	4,665,687
Reportable segment liabilities - note (iv)	54,613	435,297	149,329	523,143	1,162,382

Notes:

(i) Unallocated results before finance costs mainly include the interest income from short-term investment and other interest income (note 6), salaries, rental expense and professional fees for Hong Kong head office.

(ii) Included in the segment result of coalbed methane segment are revenue of HK$30,435,000 (six months ended 30 June 2015: HK$42,268,000) from the sales of coalbed methane generated from the Sanjiao CBM Project and government subsidies of HK$9,592,000 (six months ended 30 June 2015: HK$nil).

(iii) Unallocated segment assets mainly include cash and cash equivalents and short-term investment.

(iv) Unallocated segment liabilities mainly include convertible notes and unsecured borrowings.

6. OTHER REVENUE

	Six months ended 30 June 2016 HK$'000	Six months ended 30 June 2015 HK$'000
Interest income		
- bank deposits	**100**	148
- short-term investment	**4,938**	3,266
- other interest - note	**29,390**	-
Total interest income on financial assets that are not financial assets at fair value through profit or loss	**34,428**	3,414
Income from sale of coalbed methane	-	42,268
Government subsidies	**9,592**	-
Others	**131**	210
	44,151	45,892

Note: It represents the interest income on the deposits paid for possible acquisitions of Canada oil fields as disclosed in note 15 (iv).

7. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June 2016 HK$'000	Six months ended 30 June 2015 HK$'000
a) Finance costs		
Interest on borrowings wholly repayable within five years	**15,968**	12,488
Imputed interest expense on convertible notes – note 18	**24,967**	15,762
Amortisation of transaction costs on issue of convertible notes – note 18	**2,781**	1,504
Interest on corporate bonds	**9,829**	1,863
Amortisation of transaction cost on corporate bonds	**3,524**	672
Interest on promissory note	-	1,092
Others	**2,335**	794
	59,404	34,175
Less: interest capitalised (included in property, plant and equipment) – note 11	**(44,985)**	(30,499)
	14,419	3,676

7. PROFIT BEFORE INCOME TAX EXPENSE (Continued)

Profit before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**18,755**	16,239
Contributions to defined contribution retirement plan	**808**	819
	19,563	17,058
c) Other items		
Depreciation of property, plant and equipment	**19,204**	1,214
Amortisation of intangible assets	**9,498**	215
Minimum lease payments under operating leases		
- property rentals	**2,670**	2,486
- plant and equipment	**1,485**	-

8. INCOME TAX 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 for the period ended 30 June 2016 and 2015. During the period ended 30 June 2016 and 2015, the subsidiaries in the People's Republic of China ("PRC") were subject to statutory tax rate of 25%.

The amount of income tax expense, charged to the condensed consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2016	2015
	HK$'000	HK$'000
Current income tax		
- PRC enterprises income tax	**1,752**	-

9. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

10. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$4,395,000 (six months ended 30 June 2015: HK$13,876,000) and the weighted average of 17,545,260,000 ordinary shares (six months ended 30 June 2015: 17,949,146,000 ordinary shares) in issue during the period.

b) Diluted earnings per share

Diluted earnings per share for the period ended 30 June 2016 is the same as the basic earnings per share. The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options and convertible notes as the exercise price of those share options and convertible notes is higher than the average market price for shares.

For the period ended 30 June 2015, the calculation of the diluted earnings per share attributable to the owners of the Company was based on the following data:

	2015 HK$'000
Profit for the purposes of basic earnings per share	13,876
Effect of dilutive potential ordinary shares :	
- Imputed interest on convertible notes	15,762
Amortisation of convertible notes transaction costs	1,503
Less: interest capitalised as gas exploration and evaluation and assets	(17,266)
Profit for the purposes of diluted earnings per share	13,876

	2015 '000
Weighted average number of ordinary shares in issue during the period	17,949,146
Effect of dilutive potential ordinary shares:	
- Convertible notes	898,204
Weighted average number of ordinary shares in issue during the period for the purposes of diluted earnings per share	18,847,350

The computation of diluted earnings 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.

NOTES TO THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the group incurred the expenditure on property, plant and equipment with a cost of HK$132,828,000. (six months ended 30 June 2015: HK$103,000) and interest capitalised is HK$44,985,000. (six months ended 30 June 2015: interest capitalised as the gas exploration and evaluation assets was HK$30,499,000).

As at 30 June 2016, certain oil and gas properties with a carrying amount of HK$1,199,500,000 (31 December 2015: HK$1,235,200,000) are pledged to secure the group's secured interest-bearing borrowings as set out in note 17.

12. INTANGIBLE ASSETS

The intangible assets represent mainly an operation rights in respect of coalbed methane project in PRC and a favourable supplier agreement in respect of raw and cleaned coal project in PRC.

13. INTEREST IN A JOINT VENTURE

	30.6.2016	31.12.2015
	HK$'000	HK$'000
Share of net assets		
As at 1 January	**-**	587
Share of loss for the period / year	**-**	(587)
Amount due from a joint venture	**320**	320
	320	320

14. INTEREST IN AN ASSOCIATE

	30.6.2016	31.12.2015
	HK$'000	HK$'000
As at 1 January	**60,118**	62,448
Share of loss for the period / year	**(363)**	(1,203)
Exchange difference	**-**	(1,127)
	59,755	60,118

NOTES TO THE FINANCIAL STATEMENTS

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

	30.6.2016 HK$'000	31.12.2015 HK$'000
Non-current assets		
Deposits and prepayments – note (ii) & (iii)	**87,129**	21,235
Current assets		
Trade receivables – note (i)	**52,135**	27,857
Notes receivable	**4,696**	18,374
Other receivables	**56,806**	7,836
	113,637	54,067
Utility deposits	**744**	747
Other deposits and prepayments – note (iv)	**250,434**	234,308
	251,178	235,055
	364,815	289,122

Notes:

(i) Trade receivables are expected to be recovered within one year. All trade receivables are not impaired and related to customers which have good business track records with the Group. Ageing analysis of trade receivables is as follows:

	30.6.2016 HK$'000	31.12.2015 HK$'000
1 – 30 days	**9,396**	23,371
31 – 60 days	**3,814**	699
61 – 90 days	**6,393**	64
Over 90 days	**32,532**	3,723
	52,135	27,857

15. TRADE, NOTES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(ii) Prepayments include prepaid costs of HK$69,133,000 (31 December 2015: HK$11,455,000) on construction in progress in respect of Sanjiao CBM Project.

(iii) The balance includes a guarantee deposit of HK$17,996,000 (31 December 2015: HK$9,780,000) paid to secure the Group's secured interest-bearing borrowings as set out in note 17.

(iv) The balance includes deposits of HK$238,904,000 (31 December 2015: HK$223,892,000) 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 ("Deposit 1") 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 ("Deposit 2") 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. On 30 April 2015 and 31 December 2015, the Group and the Vendor have agreed in writing to further extend the time limit for entering into formal agreements in respect of MOUs and the exclusive periods as set out in the MOUs respectively to 31 December 2015 and 30 September 2016 respectively. Save and except for the aforesaid extension of the time limit for entering into formal agreements and the exclusive periods, all other terms of the MOUs shall remain unchanged. Up to the date of this announcement, the Group is still performing the due diligence review.

On 30 June 2016, after negotiation with the Vendor, the Company and the Vendor entered into a supplemental memorandum of understanding to amend and supplement certain terms of the MOU 1 and MOU 2 that interest on the Deposit 1 and Deposit 2 shall accrue at the rate of 8.5% per annum with reference to the existing cost of capital to the Company. Interests were accrued from 1 December 2014 with respect to the Deposit 1 and from 1 April 2015 with respect to the Deposit 2 respectively.

16. OTHER PAYABLES AND ACCRUALS

	30.6.2016 HK$'000	31.12.2015 HK$'000
Other payables and accruals – note	**149,361**	227,432
Amounts due to a shareholder	**-**	10,143
	149,361	237,575

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

17. BORROWINGS

	30.6.2016 HK$'000	31.12.2015 HK$'000
Secured interest-bearing borrowings - note	**571,879**	214,794
Other borrowings - unsecured	**-**	66,825
Promissory note	**-**	101,431
Corporate bonds	**278,390**	219,471
	850,269	602,521
Secured	**571,879**	214,794
Unsecured	**278,390**	387,727
	850,269	602,521
On demand or within one year	**144,429**	186,155
More than one year, but not exceeding two years	**113,792**	170,045
More than two year, but not exceeding five years	**313,658**	34,349
More than five years	**278,390**	211,972
	850,269	602,521
Less: Amount due within one year included in current liabilities	**(144,429)**	(186,155)
Non- current portion	**705,840**	416,366

Note: The secured interest-bearing borrowings are secured by certain assets of the Group as set out in notes 11 and 15 and by personal guarantees of Dr. Dai Xiaobing and his spouse, all the trade receivable from sales of Sanjiao CBM Project, certain number of shares of the Company and a corporate guarantee by the Company.

18. CONVERTIBLE NOTES

	Liability component HK$'000	Equity component HK$'000
At 1 January 2015	**160,750**	**15,913**
Issue of convertible notes during the year	**87,191**	**10,409**
Amortisation of transaction costs	**3,432**	-
Imputed interest expense	**40,888**	-
Interest paid	**(7,011)**	-
At 31 December 2015 and 1 January 2016	**285,250**	**26,322**
Issue of convertible notes during the period	**295,133**	**53,681**
Redemption of convertible notes	**(192,760)**	**(15,913)**
Amortisation of transaction costs – note 7(a)	**2,781**	-
Imputed interest expense – note 7(a)	**24,967**	-
Interest paid	**(4,205)**	-
At 30 June 2016	**411,166**	**64,090**

19. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000
Issued and fully paid		
At 1 January 2015	17,953,931	179,539
Shares repurchased and cancelled	(350,330)	(3,503)
At 31 December 2015 and at 1 January 2016	17,603,601	176,036
Shares repurchased - note	(324,080)	(3,240)
At 30 June 2016	17,279,521	172,796

Note: During the six months ended 30 June 2016, the Company repurchased a total of 324,080,000 shares of the Company at an aggregate consideration of approximately HK$59,134,000. Out of 324,080,000 shares repurchased, 314,875,000 shares were cancelled during the period while the remaining 9,205,000 shares were cancelled on 29 July 2016.

NOTES TO THE FINANCIAL STATEMENTS

20. EVENT AFTER REPORTING PERIOD

There has been no significant event since 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2016, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a net profit of approximately HK$5,697,000 (2015 interim: HK$13,876,000), which has decreased by 59% as compared with that of the same period in last year, mainly due to the gas selling price adjustment for industrial users of the Sanjiao coalbed methane project ("Sanjiao CBM Project") in November 2015. Meanwhile, as Sanjiao CBM Project has entered in development phase from exploration, the CBM sales has been recognised as the turnover of principal activities, the financing cost, construction related amortization and depreciation expenses increased during the period.

In addition, the Group recorded a turnover of approximately HK$78,381,000 (2015 interim: HK$5,963,000), which has increased substantially compared with that of the same period in last year. The turnover included the revenue from oil exploitation operations in Shaanxi Province; the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province; and the sales of coalbed methane ("CBM") respectively. By the end of 2015, the overall development plan of Sanjiao CBM Project ("ODP") was approved by the National Development and Reform Commission ("NDRC") and the project has stepped into large scale development stage. Thereby, the CBM sales has been officially recognized as turnover of principal activities since December 2015. The government subsidy of approximately HK$9,592,000 (2015 interim: nil) on the sales of CBM for the year 2015 has been received and recorded as "other revenue" during the period.

The interest income amounted to approximately HK$29,390,000 (2015 interim: nil) disclosed in "other revenue", derived from the refundable deposit of CAD 40 million of the Group's possible acquisition located in Alberta, Canada at an annual interest rate of 8.5%. During the period, after negotiation with the vendor of the possible acquisition projects, despite the refundable deposit is mainly used for the due diligence and exploration wells drilling for the possible acquisition, for the interests of shareholders and the Company, interest expenses will be charged against the vendor retrospectively commencing from the date of the first extension of the memorandums of understanding with reference to the Group's existing financing cost (note 15(iv) to the financial statements as disclosed in this announcement).

NATURAL GAS AND OIL EXPLOITATION

COALBED METHANE EXPLOITATION—SANJIAO BLOCKL IN THE ORDOS 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, utilization and production of the CBM field in the Sanjiao block, located in the Ordos Basin in Shanxi and Shaanxi provinces. The Group has a 70% interest in the PSC. The PSC covers a block in the Ordos Basin in Shanxi and Shaanxi provinces, with a total site area of 383 square kilometers. According to a competent person's updated report provided to the Company by end of 2015, the proved and probable CBM reserves of Sanjiao block amounts to approximately 8.301 billion cubic meters and the net present value at 10% discount of the future revenue of the reserve is approximately HK$11.498 billion.

In November 2015, the NDRC has granted the "National Development and Reform Commission: re Shanxi Sanjiao, Qikou CBM blocks, Foreign Cooperation Project, Overall Development Plan Approval"《國家發展改革委關於山西三交 — 磧口區塊煤層氣對外合作項目總體開發方案的批覆》.The approval of ODP represents Sanjiao CBM Project officially entering into the large scale development and production phase with an annual production capacity of 500 million cubic meters. Upon entering into the development stage, both the PRC and foreign parties will jointly invest into the project proportionately according to PSC, and will substantially increase the productivity and sales of CBM.

In addition, Sanjiao CBM Project has been nominated as the key CBM project in both 2015 and 2016, issued by the Office of the Shanxi People's Governments. It implies that the Government of Shanxi Province highly recognizes the result of the exploration work done on the CBM field by the Group.

INFRASTRUCTURE

As at 30 June 2016, the Sanjiao CBM Project has completed a total of 99 wells, comprising 46 multilateral horizontal wells and 53 vertical wells. Out of the total 99 wells, 82 wells were in the normal dewatering stage, of which 60 wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 42 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 59.7 kilometers of 10KV power grid and branch power line were also completed.

During the period, the Group has undertaken the expansion of the CBM processing station with daily processing capacity of up to 500,000 cubic meters. As at 30 June 2016, the total CBM daily processing capacity is 270,000 cubic meters. In order to cope with the increasing CBM production in Sanjiao, the Group will continue to expand the CBM processing capacity of the station.

During the period, the Group has started the low productivity wells rework programme. After the joint technology examination and economic assessment conducted by local and foreign experts, 18 wells with the great potential value have been selected. With cautious implementation schedule, the Group prepares operation plans, optimises the drainage system and improves the single well productivity. As of 30 June 2016, significant progress has been obtained through the rework of low productivity wells, including the dewatering quantitative management, dewatering recovery of low productivity wells, blockage relief by nitrogen and fracturing reform etc. Steady increase of the single well productivity has been noted in a number of transformed wells. The low productivity wells rework programme is expected to be completed by this year and to contribute additional productivity.

In addition, the Group owns a 30% equity interest of Shanxi Guo Liang CBM Development Limited. It 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 first phase design of the LNG station, with a daily processing capacity of 300,000 cubic meters has been completed through public tender. The 120,000 square meters land use rights has also been obtained at the same time. The major government approval procedures, including environmental assessment and the professional qualification of four gas types (四氣從業資格) were ready. The Group constructs the project in order to expand the sales channels of Sanjiao CBM Project which is an important strategic plan for forming a complete industrial chain and actively taking the initiatives in the gas market in Shanxi Province.

SALES

With reference to 《關於"十三五"期間煤層氣（瓦斯） 開發利用補貼標準的通知》 ("Notice re Period of '13th Five-Year Plan': Subsidies Granted to Development of Coalbed Methane") issued by the Chinese Ministry of Finance on 14 February 2016, the subsidy from central government for CBM production during the "13th Five-Year Plan" (from January 2016), has been increased from RMB0.2 per cubic meter to RMB0.3 per cubic meter so as to boost the development of CBM industry. The Group believes that the state policy will have direct positive impact on the development of the Group's Sanjiao CBM Project as well as the entire industry in the long run.

The Group's Sanjiao CBM Project is currently using three designated CBM pipelines in the Sanjiao block and its surrounding areas, built by the Shanxi provincial government as its major sales channels. These pipelines are all constructed and invested by third parties. All three pipelines are currently operational.

During the period, the Sanjiao CBM Project recorded the CBM sales amount to approximately HK$30,435,000 (2015 interim: HK$42,268,000) and CBM production of approximately 32.49 million cubic meters (2015 interim: 27.9 million cubic meters) and CBM sales of approximately 26.52 million cubic meters (2015 interim: 27.38 million cubic meters), resulting in a gas sale-to-production rate of approximately 81.6% for the period (2015 interim: 98.1%). The decrease of sales was mainly due to reduction of the gas selling price for industrial users of the Sanjiao CBM Project by approximately 20% since November 2015. Meanwhile, as Orion is negotiating with an existing customer for renewal of sales contract, the CBM sales dropped during the period and some of produced gas was flared, the sales-to-production rate declined accordingly. The Company has been speeding up the contract renewal process and the sales performance is expected to be improved in the second half of this year. In terms of the composition of gas sales throughout this time, industrial piped CBM sales accounted for approximately 80.4% of total sales (2015 interim: 89.7%), while residential piped CBM sales contributed approximately 19.6% (2015 interim: 10.3%). Same as last year, all CBM was sold by pipeline.

Although the Sanjiao CBM Project has recorded operating profit during the period, it is inevitably affected by the slowing down of economy and price volatility of natural gas in China. After entering into the large scale development phase, with the continuous increase of the gas production capacity, the Group believes that the project will bring promising and long-term profit.

OILFIELDS LOCATED IN SHAANXI PROVINCE---LIULUOYU, YANJIAWAN AND JINZHUANG

In order to optimise the Group's resources allocation so as to focus on the development of Sanjiao CBM Project and also due to the fact that continuous drop of domestic oil price in Shannxi Province, the Group has slowed down the crude oil business development.

For the period ended 30 June 2016, three oilfields in Liuluoyu, Yanjiawan and Jinzhuang, located at the Ordos Basin in Shaanxi Province, yielded an aggregate crude oil output of approximately 1,930 tonnes (2015 interim: 1,900 tonnes).

RAW COAL WASHING PROJECT LOCATED IN SHANXI PROVINCE

The Group acquired a 75% equity interest of a raw coal washing project company located in Qinshui Basin, Shanxi Province in May 2015. The raw coal supplier of the project is a sizable state-owned coal enterprise in Qinshui basin and thereby the raw materials supply is stable. The project has been officially launched on 1 July 2015. It has already entered into stable production phase and also gradually developed sales channels. During the period, the project recorded a total sale of refined coal approximately 93,500 tonnes. The Group expects this project will bring a steady income and cash flow.

Through in-depth cooperation with the local sizable coal enterprises with further understanding to local geological environment, the Group is actively seeking to diversify the business model and cooperation projects, continuously to improve the CBM development business model and inject new momentum for the Group's growth. In January 2016, the Group entered into a non-legally binding Strategic Cooperation Framework Agreement ("Framework Agreement") with Shanxi Guxian Lanhua Baoxin Coal Company Limited (山西古縣蘭花寶欣煤業有限公司) ("Lanhua Baoxin"), pursuant to which the Company and Lanhua Baoxin, intend to establish a project management team for the development of CBM projects located in the coal mine block of Lanhua Baoxin Qinshui Basin and eastern edge of Ordos Basin. These are the regions with the richest CBM reserve in China, and also the most representative CBM production bases in China. This Framework Agreement has landmark significance to the Group, which benchmarked the Group's official entrance into the CBM market of Qinshui Basin.

POSSIBLE ACQUISTION—OILFIELD IN ALBERTA, CANADA

With the purpose of further enriching the Group's resources reserves, apart from actively seeking suitable oil and gas blocks in China, the Group is also exploring investment opportunities in overseas upstream businesses. The Group hence entered into two non-legally-binding memorandums of understanding ("MOUs") in June and September 2014. The acquisition targets are oil and gas fields located in Alberta Province, Canada.

According to the MOUs, the Group is now conducting due diligence review on the resources and financial aspect of the target groups. The Vendor has collected seismic data so as to identify areas where oil and gas may have accumulated; and has drilled exploratory wells to evaluate if the site can produce enough oil or gas to make it economically viable to develop. On 31 December 2015, the Group and the Vendor have agreed to further extend the time limit for entering into formal agreements in respect of the terms in the MOUs to 30 September 2016. Meanwhile, during the period, after negotiation with the vendor, taking into account of the interests of shareholders and the Company, interest is charged at the rate of 8.5% per annum against the vendor on the refundable deposits on MOUs (i.e. CAD40 millions) retrospectively commencing from the date of the first extension of the MOUs, with reference to the existing cost of capital to the Company (note 15(iv) to the financial statements as disclosed in this announcement).

The management is actively preparing for these possible acquisitions. The Company expects that acquiring overseas assets will further diversify the Group's global resources allocation, balance the development of the gas and oil business portfolio. This will strengthen its capacity of operations and establish its position as an international oil and gas explorer and developer. The shareholders' value can therefore be enhanced.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2016, the net assets of the Group were approximately HK$3,491,000,000 (31 December 2015: HK$3,503,000,000) while its total assets were approximately HK$4,941,000,000 (31 December 2015: HK$4,666,000,000). As of 30 June 2015, the Group had external borrowings including the liability component of convertible notes of approximately HK$1,261,435,000 (31 December 2015: HK$887,771,000), and the gearing ratio based on total assets was approximately 25.53% (31 December 2015: 19.02%). Information on repayment of the Group's collateral assets and borrowings is set out in note 11 and 17 to the financial statements as disclosed in this announcement. By the end of June 2016, the current ratio was approximately 1.27 (31 December 2015: 0.66). As at 30 June 2016, the gearing ratio was still at a reasonable level and the liquidity position is expected to improve gradually following the further introduction of funds in the second half of 2016. The Group's overall financial situation will become more healthy and stable.

In February 2016, CCB International Overseas Limited subscribed the Group's convertible bonds in the aggregate principal amount of HK$200,000,000 due in 2018. 70% of the proceeds has been used for settlement of the construction and operation costs payable in respect of the Group's Sanjiao CBM Project, the remaining of which has been used for development of oil and gas business and for repayment of certain financial obligations.

In mid May 2016, Central China International Investment Company Limited, Central China Blue Ocean Investment Management Co., Ltd. , President Securities (Hong Kong) Limited subscribed the Group 's convertible bonds in the aggregate principal amount of up to HK$160,000,000 due 2018. 65% of the proceeds has been used for repayment of certain financial obligations and substantial of the remaining of which has been used for the working capital of the Sanjiao CBM Project.

By the end of May 2016, Crescent Spring Investment Holdings Limited, a wholly-owned subsidiary of China Huarong International Holdings Limited, and the Group entered into the subscription agreement to subscribe in cash for convertible bonds in the aggregate principal amount of US$130,000,000 (approximately HK$1,010,100,000 equivalents) due 2019. It was approved by special general meeting in July. The proceeds will be mainly used for the Sanjiao CBM Project, including exploration, drilling, exploitation, production and repayment of certain financial obligations. The Group is now actively fulfilling the requirements of the conditions precedent for drawdown of the subscription monies and expects to be completed by September 2016.

The above financing sources, can provide Orion with the capital at lower cost and higher flexibility to support the sizable development of Sanjiao CBM Project. With sufficient funding, the overall financial position of the Group will be further strengthened, 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.

FOREIGN EXCHANGE FLUNCTUTAION

The Group is exposed to currency risk primarily through sales and purchase transactions and recognized liabilities of assets that are denominated in a currency other than the functional currency of the operations to which they relate. As of 30 June 2016, no related hedges were made by the Group. In respect to 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 of 30 June 2016, the Group employed approximately 380 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

In recent years, the global energy structure gradually transits to low-carbon fuels. Natural gas has become the fastest growing and the cleanest fossil fuel. With both technology and productivity improvement, including CBM, shale gas and other renewable energy sources, have made a significant contribution to energy reform.

According to BP Statistical Review of World Energy 2016, China is the largest energy consumption and production country in the world and plays a pivotal role in restructuring the mix of the global energy supply. In the last decade, China energy structure continues to improve with continuous optimization of energy consumption structure, the proportion of coal and other fossil energy consumption declined while the energy consumption of clean energy such as natural gas increases gradually.

As an important unconventional gas resources, CBM is an important strategic supplement to conventional natural gas. In 2016, China has issued a series of supportive policies to accelerate the development of CBM and increase its efforts to clear up obstacles. Subsidy policy in place and the introduction of incentives have provided a favourable policy environment for the development of CBM industry, showing that the development of CBM has already accelerated.

In February 2016, the Chinese Ministry of Finance announced the subsidy from central government for CBM production under the "13th Five-Year Plan" increases by 50%. In April 2016, the Ministry of Land and Resources announced that in the next two years, part of the CBM exploration and exploitation approval and registration will be processed by the Department of Land and Resources of Shanxi Province, entrusted by the Ministry of Land and Resources. Sanjiao CBM Project will directly benefit from the policy.

Sanjiao CBM Project is the core asset of the Group. The ODP for the project was duly approved by the NDRC in the last quarter of 2015 and became the first approved sino-foreign cooperation CBM project with PetroChina. Accordingly, the Group has commenced the sizeable development and production which targeting to build an annual CBM production capacity of 500 million cubic meters. The works of which include large-scale drilling works, expansion of CBM processing stations, laying and improvement of pipelines for gas collection and transmission in the region and developing additional sales channels.

Although 2016 is still a year full of challenges for the international oil and gas sector, international oil price remains at low level due to oversupply and our industry finds itself in a position not seen for some 30 years. This industry downturn however provides the Group with a good opportunity for overseas mergers and acquisitions. We will continue to consolidate the existing resources, balance domestic and foreign oil and gas resources, expand to the overseas oil and gas market. The Group can therefore achieve a more diversified, comprehensive and balanced business model.

The development strategy of the Group is to, based on its core business of natural gas and oil exploration and development, strengthen its competitiveness, optimise its resources allocation and enhance investment returns. At the same time, we will attempt to expand into downstream businesses relying on the Group’s upstream businesses as appropriate. On this basis, we will implement active but cautious financial strategies, and seek opportunities for mergers and acquisitions as well as integration of high-quality oil and gas assets globally, targeting to become a professional international oil and gas player.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2016, the Company repurchased a total of 324,080,000 shares on The Stock Exchange of Hong Kong Limited for enhancing its per share's net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are as follows:

Month of repurchase during the six months ended 30 June 2016	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Total consideration (excluding expenses) HK$'000
March	43,930,000	0.190	0.183	8,312
April	32,995,000	0.190	0.183	6,170
June	247,155,000	0.190	0.175	44,652
Total:	324,080,000			59,134

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the six months ended 30 June 2016.

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 2016.

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 2016.

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

Hong Kong, 24 August 2016

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. He Lin Feng, and four Independent Non-executive Directors, namely, Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.