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 2018

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 2018, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(Expressed in Hong Kong Dollars)

	Notes	2018 HK$'000	2017 HK$'000
Revenue	3 & 10	427,867	497,935
Direct cost		(393,815)	(487,540)
Gross profit		34,052	10,395
Other income	4	56,972	60,878
Other (losses)/gains, net	5	(57,939)	181,371
Selling and distribution expenses		(2,485)	(3,833)
Administrative expenses		(88,801)	(84,246)
(Loss)/profit from operations		(58,201)	164,565
Finance costs	6(a)	(324,547)	(322,173)
Share of loss of an associate		(178)	(418)
Loss before income tax expense	6	(382,926)	(158,026)
Income tax expense	7	(2,959)	(1,535)
Loss for the year		(385,885)	(159,561)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2018
(Expressed in Hong Kong Dollars)

	Notes	2018 HK$'000	2017 HK$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(291,292)	332,498
Changes in fair value of available-for-sale investments		-	(1,928)
Item that will not be reclassified to profit or loss:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		(4,453)	-
Other comprehensive income for the year, after tax		(295,745)	330,570
Total comprehensive income for the year		(681,630)	171,009
Loss attributable to:			
Owners of the Company		(376,922)	(160,367)
Non-controlling interests		(8,963)	806
		(385,885)	(159,561)
Total comprehensive income attributable to:			
Owners of the Company		(671,007)	169,866
Non-controlling interests		(10,623)	1,143
		(681,630)	171,009
		HK cents	HK cents (restated)
Loss per share			
- Basic and diluted	9	(15.64)	(9.55)

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Hong Kong Dollars)

	Notes	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Non-current assets					
Property, plant and equipment			2,026,855		2,110,392
Oil and gas exploration and evaluation assets			61,600		57,255
Payment for leasehold land held for own use			3,915		4,356
Intangible assets			2,174,607		2,353,579
Goodwill			11,596		51,877
Interest in a joint venture			-		-
Interest in an associate			57,977		59,137
Financial assets at fair value through profit or loss			38,301		30,077
Equity investments designated at fair value through other comprehensive income			956		-
Available-for-sale investments			-		5,409
Deposits and prepayments	11		52,365		95,777
Loans receivable			13,470		19,211
Total non-current assets			4,441,642		4,787,070
Current assets					
Inventories		11,950		15,070	
Financial assets at fair value through profit or loss		19,399		21,529	
Trade, notes and other receivables, deposits and prepayments	11	365,106		438,570	
Short-term investment		69,216		77,205	
Loans receivable		18,290		48,029	
Amount due from a joint venture		320		320	
Cash and cash equivalents		36,949		21,766	
Total current assets		521,230		622,489	
Total assets			4,962,872		5,409,559
Current liabilities					
Trade and other payables and accruals	12	(331,682)		(407,832)	
Borrowings	13	(16,956)		(77,437)	
Convertible notes	14	(1,118,267)		(297,142)	
Financial liabilities at fair value through profit or loss	14	(257)		(37,895)	
Taxation		(6,062)		(6,474)	
Total current liabilities		(1,473,224)		(826,780)	
Net current liabilities			(951,994)		(204,291)
Total assets less current liabilities			3,489,648		4,582,779

Consolidated Statement of Financial Position (Continued)

At 31 December 2018
(Expressed in Hong Kong Dollars)

	Note	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Non-current liabilities					
Provisions		(8,594)		(6,709)	
Borrowings	13	(460,167)		(456,451)	
Convertible notes	14	-		(940,889)	
Deferred tax liabilities		(12,281)		(14,235)	
Total non-current liabilities			(481,042)		(1,418,284)
NET ASSETS			3,008,606		3,164,495
Capital and reserves attributable to owners of the Company					
Share capital			334,544		165,388
Reserves			2,668,353		2,982,452
Equity attributable to owners of the Company			3,002,897		3,147,840
Non-controlling interests			5,709		16,655
TOTAL EQUITY			3,008,606		3,164,495

1. GOING CONCERN ASSUMPTION

As at 31 December 2018, the Group had net current liabilities of HK$951,994,000. As at that date, the Group had total borrowings amounting to HK$477,123,000, trade and other payables and accruals of HK$331,682,000 and convertible note with principal amount and interests of HK$1,237,265,000. Out of which, borrowings of HK$16,956,000, trade and other payables and accruals of HK$331,682,000 and convertible notes with principal amount and interests of HK$1,237,265,000 would be due for repayment within twelve months from the date of the consolidated financial statements in accordance with the repayment dates of the respective agreements, while the Group only maintained its cash and cash equivalents of HK$36,949,000.

The above conditions indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have given careful consideration to its operating needs, the future liquidity of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding debts and be able to finance its future working capital and other financial requirements.

Certain measures have been and are being taken to mitigate the liquidity pressure and to improve the financial position of the Group, which include, but are not limited to, the following:

(a) Three shareholders and directors of the Company have confirmed that they will provide continuing and sufficient support to the Group when the Group face difficulties in repaying the overdue principal and interests in relation to the above-mentioned borrowings and convertible note and to finance its operations for at least twelve months from the end of the reporting period.

(b) The Group is actively identifying any other possible financing options and debt restructuring exercises to strengthen the liquidity of the Group.

The Directors have prepared a cash flow forecast of the Group. The Directors are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the consolidated financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2018 on a going concern basis.

Notwithstanding the above, material uncertainty exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the continuing and sufficient support from the three shareholders and directors of the Company to the Group to meet its operating and financing needs in foreseeable future.

The consolidated financial statements do not include any adjustments that may be necessary should the going concern basis of preparation be determined to be inappropriate. These would include any adjustments to write down the Group's assets to their net realisable amounts, to provide for any liabilities which may arise and to reclassify non-current assets and liabilities as current.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

a) Adoption of new / revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these amendments has no material impact on the Group's consolidated financial statements except for HKFRS 9 and HKFRS 15. The impacts of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarized in below.

A HKFRS 9 - Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, accumulated losses and NCI as of 1 January 2018 as follows (increase/(decrease)):

	HK$'000
Accumulated losses	
Accumulated losses as at 31 December 2017	**(1,329,366)**
Increase in expected credit losses ("ECLs") in trade receivables	(249)
Increase in ECLs in other receivables and deposits	(6,444)
Increase in ECLs in short-term investment	(2,733)
Restated accumulated losses as at 1 January 2018	**(1,338,792)**
Non-controlling interests ("NCI")	
Non-controlling interests as at 31 December 2017	**16,655**
Increase in ECLs in trade receivables	(83)
Increase in ECLs in other receivables	(240)
Restated non-controlling interests as at 1 January 2018	**16,332**
Available-for-sale investments reserve	
Reserves balances at 31 December 2017	(2,188)
Reclassify to Fair value reserve (non-recycling)	2,188
Restated reserves balance as at 1 January 2018	**-**
Fair value reserve (non-recycling)	
Reserves balances at 31 December 2017	**-**
Reclassify from available-for-sale investments reserve	(2,188)
Restated reserves balance as at 1 January 2018	**(2,188)**

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

a) Adoption of new / revised HKFRSs – effective 1 January 2018 - Continued

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of not a financial asset at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

a) Adoption of new / revised HKFRSs – effective 1 January 2018 - Continued

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

The classification and measurement requirements of HKFRS 9 did not have a significant impact to the Group.

As of 1 January 2018, listed equity investments were reclassified from available-for-sale investments to equity investments at fair value through other comprehensive income. The Group intends to hold them for long-term strategic purposes. These listed equity investments with a fair value loss of HK$2,188,000 were reclassified from available-for-sale investments reserve on 1 January 2018 to the fair value reserve (non-recycling).

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

a) Adoption of new / revised HKFRSs – effective 1 January 2018 - Continued

A HKFRS 9 - Financial Instruments

(ii) Impairment of financial assets

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group's debt investment at FVOCI are considered to have low credit risk since the issuers' credit rating are high.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due; unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade and notes receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Applying the ECL model results in the recognition of ECL of HK$332,000 on 1 January 2018. During the year ended 31 December 2018, no additional ECL for trade receivables is provided based on the provision matrix.

In respect of notes receivable, they represented bank acceptance bills which were issued by banks located in the People's Republic of China (the "PRC") with high credit-rating or with good reputation. There was no recent history of default and the

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

a) Adoption of new / revised HKFRSs – effective 1 January 2018 - Continued

management has assessed that the ECL was not material as of 1 January 2018 and for the year ended 31 December 2018.

(b) Impairment of other financial assets measured at amortised cost

Other financial assets at amortised cost of the Group include short-term investments, loan receivables, amount due from a joint venture, other receivables and deposits. Applying the ECL model result in the recognition of ECLs of short-term investment and other receivables and deposits of HK$2,733,000 and HK$6,684,000 respectively on 1 January 2018 and a further ECLs of short-term investment and other receivables and deposits of HK$1,736,000 and HK$30,033,000 respectively for the year ended 31 December 2018. Details are set out in note 11.

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
- The designation of equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

a) Adoption of new / revised HKFRSs – effective 1 January 2018 - Continued

B HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15, if any, as an adjustment to the opening balance of accumulated losses at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The transition to HKFRS 15 had no impact on the opening balance of accumulated losses and NCI and no impact on adopting HKFRS 15 to the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of comprehensive income for the year ended 31 December 2018. There was no impact on the Groups' consolidated statement of cash flow for the year ended 31 December 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

(i) Sales of coalbed methane ("CBM")

Revenue from sales of CBM through pipelines is recognised when the coalbed methane passes through the built-in gas metre which is taken to be the point in time when the customer obtained control of the CBM delivered and the Group satisfies the performance obligation. Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from an asset

(ii) Sales of raw and cleaned coal

Revenue from sales of raw and cleaned coal is recognised when the raw and/or cleaned coal is delivered to customer's designated location and the customer accepts and takes control of the raw and/or cleaned coal. There is generally one performance obligation and the consideration includes no variable element.

Receipt in advance related to consideration received for the sales of raw and/or cleaned coal are included in "Trade, other payables and accruals".

(iii) Other income

Interest income, which mainly includes interest income from financial services and bank interest income, is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
HKFRS 16	Leases1
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 3	Definition of Business[3]
Amendments to HKAS 1 and HKAS8	Definition of Material[2]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for transaction that occurs on or after 1 January 2020
[4] The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred / removed. Early application of the amendments continue to be permitted.

3. REVENUE

The revenue of the Group are derived from (i) exploration, development and production of coalbed methane, (ii) raw coal washing and sale of raw and cleaned coal and (iii) provision for financial services.

Revenue from contracts with customers within the scope of HKFRS 15 are disaggregated as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15 are disaggregated by products:		
Coalbed methane	89,406	76,663
Raw and cleaned coal	331,488	417,637
	420,894	494,300
Revenue from other sources:		
Interest income from financial services	6,973	3,635
	427,867	497,935

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

Disaggregation by the timing of revenue recognition and by geographic markets is disclosed in note 10.

3. REVENUE (CONTINUED)

The following table provides information about trade receivables after ECL and contract liabilities from contracts with customers.

	31 December 2018 HK$'000	**1 January 2018 HK$'000**
Receivables (note 11)	21,696	8,035
Receipt in advance	-	34,972

Upon initial adoption of HKFRS15, receipts in advance represent contract liabilities. The Group continue to include it under "Trade, other payables and accruals".

Receipt in advance related to the consideration received from customers for the sales of raw and cleaned coal. The sales contracts with customers are generally satisfied within one year. The balance as of 1 January 2018 has been recognised as revenue during the year ended 31 December 2018.

4. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income		
- bank deposits	41	81
- short-term investment	9,922	9,638
- others – note (i)	20,573	20,424
Total interest income on financial assets that are not at fair value through profit or loss	30,536	30,143
Government subsidies and grants – note (ii)	25,866	29,447
Others	570	1,288
	56,972	60,878

Notes:

(i) It represents the interest income from the refundable deposits paid for possible acquisitions of Canada oil fields.

(ii) It represents the regular subsidies received during the year from relevant government authority on the sales of coalbed methane for the year of 2017 (2017: for the year of 2016) and VAT refund from July to December 2017 (2017: from December 2015 to June 2017) on the sales of coalbed methane from local tax bureau. Both of them were generated from the Sanjiao CBM Project.

5. OTHER (LOSSES)/GAINS, NET

	2018 HK$'000	2017 HK$'000
Change in fair value of financial assets at fair value through profit or loss	29,131	43,275
Change in fair value of financial liabilities at fair value through profit or loss – note 14	37,638	187,042
Impairment loss on goodwill – note (i)	(39,244)	(46,705)
Impairment loss on other receivables	-	(377)
Impairment loss on loans receivable	-	(4,612)
Impairment loss on intangible assets – note (ii)	(45,734)	-
Written off of property, plant and equipment	(163)	(35)
Gain on disposal of property, plant and equipment	59	28
Loss on disposal of available-for-sale investments	-	(1,606)
Reclassification from equity to profit or loss on disposal of available-for-sale investments	-	(260)
Exchange (losses)/gains, net	(8,033)	1,556
Expected credit losses on financial assets measured at amortised cost	(31,769)	-
Others	176	3,065
	(57,939)	181,371

Notes:

(i) During the year ended 31 December 2017, the revenue stream of the raw and cleaned coal cash generating unit ("Raw and cleaned coal CGU") was slower than expected. Hence, the directors of the Company considered that this circumstance led to recognition of impairment loss of this CGU. The recoverable amount of the Raw and cleaned coal CGU is determined based on either fair value less costs to disposal or value in use calculations ("VIU") whichever is higher. The recoverable amount of the Raw and cleaned coal CGU has been determined from VIU based on cash flow projections from formally approved budgets covering an eight-year period, which is the remaining contractual period of the coal washing leased factory. Management considered that the budgets should cover the remaining contractual period of the coal washing leased factory as it reflects the development and production plan of this CGU.

The performance of the Raw and cleaned coal CGU was affected adversely during the year ended 31 December 2018 after the early termination of the favourable supplier agreement (note (ii) below). Hence, the directors of the Company considered that these circumstances led to a further recognition of impairment loss of the CGU.

As at the end of the reporting period, the carrying amounts of the assets (excluded intangible assets in note (ii) below) and liabilities belonging to the Raw and cleaned coal CGU were amounting to RMB60,253,000 while the recoverable amount of the Raw and cleaned coal CGU, as determined by an independent professional firm of valuers, using value in use calculations was RMB27,192,000, which was RMB33,061,000 less than the respective carrying amounts. As such, the directors of the Company determined an impairment loss of RMB33,061,000 (equivalent to HK$39,244,000) (2017: RMB40,507,000 (equivalent to HK$46,705,000)), which was fully allocated to goodwill and was recognised in the consolidated statement of comprehensive income.

(ii) During the year ended 31 December 2018, the favourable supplier agreement in the raw and cleaned coal has been early terminated by the supplier. The management of the Group considers that the favourable supplier agreement had no value upon termination and full impairment loss was made and an impairment loss of approximately RMB38,530,000 (equivalent to HK$45,734,000) was provided for the year ended 31 December 2018.

6. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

		2018 HK$'000	2017 HK$'000
a)	**Finance costs**		
	Interest expense for financial liabilities measured at amortised costs:		
	Interest on corporate bonds	34,238	31,123
	Interest on borrowings	28,366	3,582
	Imputed interest on convertible notes (note 14)	246,837	264,658
	Others	1,131	5,077
		310,572	304,440
	Other finance costs:		
	Amortisation of convertible notes transaction costs (note 14)	8,833	14,872
	Amortisation of corporate bonds transaction costs	11,926	10,822
		331,331	330,134
	Less: interest capitalised in qualifying assets*	(6,784)	(7,961)
		324,547	322,173

* Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 18.0% (2017: 17.7%) to expenditure on qualifying assets.

Loss before income tax expense is arrived at after charging:

		2018 HK$'000	2017 HK$'000
b)	**Employee costs (including directors' remuneration)**		
	Salaries, wages and other benefits	43,160	41,122
	Contributions to defined contribution retirement plan	1,345	770
		44,505	41,892
c)	**Other items**		
	Auditor's remuneration	1,700	1,700
	Cost of inventories sold recognised as expenses#	308,918	375,368
	Depreciation of property, plant and equipment	34,401	53,188
	Amortisation of payments for leasehold land held for own use	240	233
	Amortisation of intangible assets#	23,373	20,251
	Minimum lease payments under operating lease – property rentals	8,980	12,257

Included in "direct costs" in the consolidated statement of comprehensive income.

7. INCOME TAX EXPENSE

Pursuant to the rules and regulations of Bermuda, Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax under such jurisdictions for the year ended 31 December 2018 and 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong profits tax has been made as the group companies which have estimated assessable profits subject to Hong Kong profits tax had estimated tax losses available to offset against the estimated assessable profits for both years.

Profits of the subsidiaries established in the PRC are subject to the Enterprise Income Tax ("EIT"). Under the Law of the People's Republic of China and Implementation Regulation on EIT, the tax rate of the PRC subsidiaries is 25% for both years.

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

	2018 HK$'000	2017 HK$'000
Current income tax		
- PRC enterprises income tax		
- Tax for the year	(4,278)	(2,330)
- Under-provision in respect of prior years	-	(914)
	(4,278)	(3,244)
Deferred tax for the year	1,319	1,709
Income tax expense	(2,959)	(1,535)

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

9. LOSS PER SHARE

During the year ended 31 December 2018, the Group has conducted a share consolidation. In determining the weighted average number of ordinary shares in issue for the year ended 31 December 2018, the Share Consolidation has been regarded as completed since 1 January 2017. Loss per share for the year ended 31 December 2017 was restated accordingly.

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$376,922,000 (2017: loss of HK$160,367,000) and the weighted average number of 2,410,333,000 (2017: 1,679,488,000) ordinary shares in issue during the year.

b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2018 and 2017 is the same as the basic loss per share of the Company's outstanding share options and convertible notes, where applicable, had an anti-dilutive effect on the basic loss per share for the years ended 31 December 2018 and 2017.

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 four (2017: four) 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:

Coalbed methane:	Exploration, development and production of coalbed methane
Raw and cleaned coal:	Raw coal washing and sale of raw and cleaned coal
Oil and gas exploitation:	Exploitation and sale of crude oil and natural gas
Financial services:	Provision for financial services

During the year ended 31 December 2017, the Group had a new business unit, Financial services, which was engaged in the provision of financial services in the PRC. The directors believe that the information about this segment is useful to the users of the consolidated financial statements and separately disclosed.

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.

Oil and gas exploitation segment for the years ended 2017 and 2018 represented the Canada Farm-in Project and possible acquisition for Canada oil fields.

10. SEGMENT REPORTING (CONTINUED)

a) Business segments

For the year ended 31 December 2018, the segment information about these businesses is set out as follows:

	Coalbed methane HK$'000	Raw and cleaned coal HK$'000	Oil and gas exploitation HK$'000	Financial Services HK$'000	Unallocated HK$'000	Total HK$'000
Results						
Revenue from external customers within the scope of HKFRS15	89,406	331,488	-	-	-	420,894
Interest income from financial services	-	-	-	6,973	-	6,973
	89,406	331,488	-	6,973	-	427,867
Segment results[1&2]	5,888	13,211	19,205	11,874	(58,401)	(8,223)
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	37,638	37,638
Change in fair value of financial assets at fair value through profit or loss	-	29,131	-	-	-	29,131
Impairment loss on intangible assets	-	(45,734)	-	-	-	(45,734)
Impairment loss on goodwill	-	(39,244)	-	-	-	(39,244)
Expected credit loss on financial assets measured at amortised cost	(754)	-	(5,279)	-	(25,736)	(31,769)
Finance costs	-	(1,126)	-	(1,181)	(322,240)	(324,547)
Share of loss of an associate	(178)		-	-	-	(178)
(Loss)/profit before income tax expense	4,956	(43,762)	13,926	10,693	(368,739)	(382,926)
Income tax expense	-	(2,164)	-	(795)	-	(2,959)
(Loss)/profit for the year	4,956	(45,926)	13,926	9,898	(368,739)	(385,885)
Assets and liabilities						
Reportable segment assets[3]	4,356,810	151,097	324,110	34,225	96,630	4,962,872
Reportable segment liabilities[3]	305,688	14,848	15	1,137	1,632,578	1,954,266
Other segment information						
Depreciation and amortisation	51,253	5,687	-	105	969	58,014
Capital expenditure incurred during the year	51,675	1,040	8,672	-	118	61,505
Timing of revenue recognition within the scope of HKFRS 15:						
- a point of time	89,406	331,488	-	-	-	420,894
- over time	-	-	-	-	-	-
	89,406	331,488	-	-	-	420,894

10. SEGMENT REPORTING (CONTINUED)

a) Business segments - Continued

For the year ended 31 December 2017, the segment information about these businesses is set out as follows:

	Coalbed methane HK$'000	Raw and cleaned coal HK$'000	Oil and gas exploitation HK$'000	Financial Services HK$'000	Unallocated HK$'000	Total HK$'000
Results						
Revenue from external customers	76,663	417,637	-	3,635	-	497,935
Segment results[1&2]	1,324	9,050	17,377	1,588	(41,791)	(12,452)
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	187,042	187,042
Change in fair value of financial assets at fair value through profit or loss	-	43,275	-	-	-	43,275
Impairment loss on goodwill	-	(46,705)	-	-	-	(46,705)
Impairment loss on trade and other receivables	-	-	-	(4,612)	(377)	(4,989)
Loss on disposal of available-for-sales investments	-	-	-	-	(1,606)	(1,606)
Finance costs	-	(4,255)	-	-	(317,918)	(322,173)
Share of loss of an associate	(418)		-	-	-	(418)
(Loss)/profit before income tax expense	906	1,365	17,377	(3,024)	(174,650)	(158,026)
Income tax expense	-	(1,535)	-	-	-	(1,535)
(Loss)/profit for the year	906	(170)	17,377	(3,024)	(174,650)	(159,561)
Assets and liabilities						
Reportable segment assets[3]	4,605,341	260,378	345,831	74,089	123,920	5,409,559
Reportable segment liabilities[3]	320,346	88,080	16	531	1,836,091	2,245,064
Other segment information						
Depreciation and amortisation	65,554	7,125	-	98	895	73,672
Capital expenditure incurred during the year	129,116	11,270	12,424	-	375	153,185

10. SEGMENT REPORTING (CONTINUED)

a) Business segments - Continued

1. Unallocated results mainly include salaries, rental expense and professional fees for Hong Kong head office.

2. The 2018 segment result of coalbed methane included government subsidies and grants of HK$25,866,000 (2017: HK$29,447,000).

3. Unallocated assets mainly include cash and cash equivalents, short term investment, equity investments at fair value through other comprehensive income and available-for-sale investments and unallocated liabilities mainly include short-term loans, convertible notes, corporate bonds and financial liabilities at fair value through profit or loss.

b) Geographical information

The following table provides an analysis of the Group's revenue from an external customer and non-current assets other than financial instruments ("specified non-current assets").

a) Revenue from external customers

	2018	2017
	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-
The PRC	427,867	497,935
	427,867	497,935

b) Specified non-current assets

	2018	2017
	HK$'000	HK$'000
Hong Kong (place of domicile)	3,118	3,972
The PRC	4,309,794	4,652,415
Canada	61,600	57,255
	4,374,512	4,713,642

10. SEGMENT REPORTING (CONTINUED)

c) Information about major customers

During the year ended 31 December 2018 and 2017, there were five customers contributed to 10% or more revenue to the Group's total revenue.

	Segment	2018 HK$'000	2017 HK$'000
Customer A	Coalbed methane	89,406	76,663
Customer B	Raw and cleaned coal	82,023	N/A
Customer C	Raw and cleaned coal	65,410	60,604
Customer D	Raw and cleaned coal	41,190	N/A
Customer E	Raw and cleaned coal	29,054	124,108
Customer F	Raw and cleaned coal	N/A	96,232
Customer G	Raw and cleaned coal	N/A	78,496

N/A: Transactions during the year did not exceed 10% of the Group's revenue

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

	31 December 2018 HK$'000	1 January 2018 HK$'000 (note (i))	31 December 2017 HK$'000
Non-current assets			
Deposits and prepayments	52,365	95,777	95,777
Current assets			
Trade receivables	22,012	8,367	8,367
Less: impairment loss	(316)	(332)	-
	21,696	8,035	8,367
Notes receivable	2,401	18,371	18,371
Other receivables	54,573	54,810	54,810
Less: impairment loss	(26,014)	(1,352)	(392)
	28,559	53,458	54,418
Other deposits	290,581	293,808	293,808
Less: impairment loss	(10,337)	(5,724)	-
	280,244	288,084	293,808
Utility deposits	2,453	2,781	2,781
Prepayments	29,753	60,825	60,825
	365,106	431,554	438,570

Notes:

(i) Upon initial adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables, other receivables and other deposits.

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

(ii) The ageing analysis of trade receivables, net of loss allowance, based on invoice date at the end of reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Current or within 30 days	21,696	3,652
31 - 60 days	-	-
61 - 90 days	-	3,401
Over 90 days	-	1,314
	21,696	8,367

The average credit period granted to customers is 0-30 days from the invoice date. The Group does not hold any collateral as security.

12. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Current Liabilities		
Trade payables - note (i)	-	30,662
Other payables and accruals - note (ii)	326,367	325,343
Receipt in advance	-	34,972
Amounts due to shareholders	5,315	16,855
	331,682	407,832

Notes:

(i) The amount mainly represented raw coal costs payable to a major raw coal supplier.

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

	2018 HK$'000	2017 HK$'000
61 - 90 days	-	30,662

The average credit period granted by suppliers is 0-30 days from the invoice date.

(ii) The amounts mainly include exploration costs payable of approximately HK$256,881,000 (2017: HK$269,828,000) in respect of oil and gas properties.

13. BORROWINGS

	2018 HK$'000	2017 HK$'000
Other borrowings - unsecured	3,556	77,437
Corporate bonds - unsecured	473,567	456,451
	477,123	533,888
On demand or within one year	16,956	77,437
More than one year, but not exceeding two years	6,000	10,400
More than two years, but not exceeding five years	361,200	257,000
More than five years	92,967	189,051
	477,123	533,888
Amount due within one year included in current liabilities	(16,956)	(77,437)
Non-current portion	460,167	456,451

The range of effective interest rates on the Group's borrowings for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
Other borrowings - unsecured	30.0%	15.0%-30.0%
Corporate bonds - unsecured	5.0%-8.0%	5.0%-8.0%

14. CONVERTIBLE NOTES

	Liability component HK$'000	Derivative component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2017	1,230,412	224,937	10,409	1,465,758
Released upon expiry	(167,064)	-	(10,409)	(177,473)
Amortisation of transaction costs – note 6(a)	14,872	-	-	14,872
Imputed interest expense – note 6(a)	264,658	-	-	264,658
Interest paid	(104,847)	-	-	(104,847)
Change in fair value – note 5	-	(187,042)	-	(187,042)
At 31 December 2017	1,238,031	37,895	-	1,275,926
Released upon expiry	(309,136)	-	-	(309,136)
Amortisation of transaction costs – note 6(a)	8,833	-	-	8,833
Imputed interest expense – note 6(a)	246,837	-	-	246,837
Interest paid	(66,298)	-	-	(66,298)
Change in fair value – note 5	-	(37,638)	-	(37,638)
At 31 December 2018	1,118,267	257	-	1,118,524

The imputed interest expense on the convertible notes was charged at the rate of 18.96% - 22.85% (2017: 18.96% - 22.85%) using the effective interest method.

EXTRACT OF THE INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s annual audited consolidated financial statements for the year ended 31 December 2018 which has included a disclaimer of opinion:

“Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Sino Oil and Gas Holdings Limited (the “Company”) and its subsidiaries (together the “Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the “Basis for Disclaimer of Opinion” section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Scope Limitation Relating to the Going Concern Basis of Preparing the Consolidated Financial Statements

As set out in Note 3(b)(ii) to the consolidated financial statements, the Group had net current liabilities of HK$951,994,000 as at 31 December 2018. As at that date, the Group had total borrowings amounting of HK$477,123,000, trade and other payables and accruals of HK$331,682,000 and convertible note with principal amount and interests of HK$1,237,265,000. Out of which borrowings of HK$16,956,000, trade and other payables and accruals of HK$331,682,000 and convertible note with principal amount and interests of HK$1,237,265,000 would be due for repayment within twelve months from the date of the consolidated financial statements in accordance with the repayment dates of the respective agreements, while the Group only maintained its cash and cash equivalents of HK$36,949,000.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern, and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As detailed in Note 3(b)(ii) to the consolidated financial statements, in view of the above circumstances, the directors have prepared a cash flow forecast of the Group which takes into account of the major assumption that three shareholders and directors would be able to provide continuing and sufficient support to the Group to meet its operating needs and financial obligations. The directors consider the Group will have sufficient working capital to meet its operating and financing needs as and when they fall due within the twelve months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The appropriateness of the preparation of the consolidated financial statements on the going concern basis largely depends on whether the above-mentioned major assumption taken into account by the directors in the going concern assessment are achievable.

However, we were unable to verify the financial position of the three shareholders and directors who are individuals and providing financial support to the Group to enable us assess whether they have sufficient financial capability to provide their aforementioned financial support to the Group. There were no other satisfactory audit procedures that we could adopt to assess whether the Group had sufficient resources to meet its operating and financing needs for the foreseeable future. Accordingly, we were unable to satisfy ourselves regarding the Group’s ability to continue as a going concern and to conclude on the appropriateness of the director’s use of going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements do not include any adjustments that may be necessary should the going concern basis of preparation be determined to be inappropriate. These would include any adjustments to write down the Group’s assets to their net realisable amounts, to provide for any liabilities which may arise and to reclassify non-current assets and liabilities as current”.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2018, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a total revenue of approximately HK$427,867,000(2017: HK$497,935,000). The slight decrease in turnover was mainly attributable to the Group's change of certain part of the coal washing business model, which affected the calculation of turnover, while the actual profit of this business remained stable. The turnover included the sales of coalbed methane ("CBM") in our Sanjiao CBM Project of approximately HK$89,406,000 (2017: HK$76,663,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$331,488,000 (2017: HK$417,637,000), and the income from the financial services business in Shaanxi Province of approximately HK$6,973,000(2017: HK$3,635,000).

The operation of the Sanjiao CBM Project continued to develop steadily. During the year, the CBM sales has increased by approximately 16.6% as compared with that of last year. In the meantime, government subsidy and part of VAT tax refund of approximately HK$25,866,000 (2017: HK$29,447,000) for sales of CBM for the year 2017 were received and recorded as "other income" during the year. The Sanjiao CBM Project has entered into the development stage, and the Group believes that it will bring long-term and substantial profits.

For the financial year of 2018, the Group recorded a net loss of approximately HK$385,885,000 (2017: net loss HK$159,561,000). It was mainly attributable to the heavy finance costs incurred and impairment losses on goodwill and intangible assets arising from the coal washing business.

The finance costs incurred during the year were approximately HK$ 324,547,000 (2017: HK$322,173,000). According to the Hong Kong Financial Reporting Standards, part of the finance costs were non-cash items, such as imputed interest on convertible notes and amortization of transaction costs, and the finance costs actually affecting the cash flow of the year were approximately HK$110,084,000 (2017: HK$128,755,000). In addition, during the year, the Group recorded an impairment loss on goodwill of approximately HK$39,244,000(2017: HK$46,705,000) and an impairment loss on intangible assets of approximately HK$45,734,000 (2017: Nil) arising from the coal washing business.

Other than the above, according to Hong Kong Financial Reporting Standard 9 which became effective on 1 January 2018, the Group recognised expected credit loss for short-term investments, loans receivable, other receivables and deposits approximately HK$31,769,000 (2017: Nil). On the other hand, the gain from the change in fair value of the financial liabilities arising from the relevant convertible notes was approximately HK$37,638,000 (2017: HK$187,042,000 (Please refer to note 5 to the financial statements disclosed in the announcement)). According to the Hong Kong Financial Reporting Standards, the above fair value change and impairment loss were non-cash accounting treatments. It had no impact on the cash flow and operation of the Group.

The interest income amounted to approximately HK$30,536,000(2017: HK$30,143,000) disclosed in "other income", mainly derived from the refundable deposits of CAD40 million of the Group's possible acquisitions located in Alberta, Canada and short-term investment.

Natural Gas and Oil Exploitation

Coalbed Methane Exploitation—Sanjiao Block 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 the end of 2015, the proved and probable CBM reserves of Sanjiao CBM Project amounted to approximately 8.301 billion cubic meters and the net present value at 10% discount of the future revenue of the reserve was approximately HK$11.498 billion.

Following the approval of its overall development plan by the National Development and Reform Commission ("NDRC") in 2015, Sanjiao CBM Project was granted a mining permit by the Ministry of Land and Resources of the PRC with an approved CBM production capacity of 500 million cubic meters per annum in July 2017. The mining permit shall be valid for 25 years from July 2017 to July 2042. At this point, all necessary administrative approvals under the current PRC laws and regulations have been obtained for exploration, development, exploitation and production phases of Sanjiao CBM Project.

Infrastructure

As at 31 December 2018, the Sanjiao CBM Project has completed a total of 118 wells, comprising 66 multilateral horizontal wells and 52 vertical wells. Out of the total 118 wells, 90 wells were in the normal dewatering and gas producing stage, of which 90 wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 63.2 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 71.4 kilometers of 10KV power grid and branch power line were also completed.

To cope with the increasing production volume of Sanjiao CBM Project, the Group has undertaken the expansion of the station. Its daily processing capacity will reach 750,000 cubic meters upon completion. The total CBM daily processing capacity of the CBM processing station is 500,000 cubic meters now.

Sales

During the year, CBM sales amounted to HK$89,406,000 (2017: HK$76,663,000), which has increased by approximately 16.6% as compared with that of last year. During the year, the production and sales of CBM were approximately 97.42 million cubic meters (2017: 81.22 million cubic meters) and 78.10 million cubic meters (2017: 72.62 million cubic meters) respectively, resulting in a gas sale-to-production rate of nearly 80% for the year (2017: approximately 90%). The decrease in the sale-to-production rate was mainly due to some major maintenance work for the sales pipelines during the year, which made some of the CBM to be flared. The maintenance work was completed during the year and the sales of CBM have resumed normal. In terms of the composition of gas sales throughout the period, industrial piped CBM sales accounted for approximately 85.3% of total sales (2017 : 90%), while residential piped CBM sales contributed approximately14.7% (2017: 10%).

Raw Coal Washing Project Located in Shanxi Province

The Group owned a 75% equity interest of a raw coal washing project company located in Qinshui Basin, Shanxi Province. In the year of 2018, the Chinese domestic market of coal was stable. During the year, the raw coal supplier has early terminated the favorable supplier agreement. Though the operating team has been actively seeking alternative suppliers, the raw coal supply to some extent was affected. Therefore, the project team sought to develop direct processing business in order to diversify the risk of a single business model. This development has affected on the computation of the turnover amount, resulting in a decline in turnover, while the actual profit remained stable. During the year, the revenue from the raw coal washing business was approximately HK$331,488,000 (2017: HK$417,637,000). Among the mix of the turnover during the year, the raw coal washing business accounted for approximately 97.7%, and the raw coal processing business accounted for approximately 2.3%.

The Group was required to make an impairment loss of approximately HK$45,734,000 (2017: Nil) for the relevant intangible assets associated with the terminated favourable supplier agreement. Further, due to the very same reason, the performance of the project was affected adversely, the Group is required to make an impairment loss of approximately HK$39,244,000 (2017: HK$46,705,000) for the relevant goodwill arising from the impact of the termination of the favourable supplier agreement. These impairment losses were non-cash accounting items and did not affect project operations and cash flow.

Others

At the end of 2016, the Group set up a wholly-owned subsidiary, Shaanxi Zhao Yin Finance Leasing Company Limited ("Zhao Yin Finance Leasing ") in Shaanxi Province. The major purpose of the establishment of this finance leasing company is to strengthen the Group's bank-enterprise relations so as to create cooperation channels; as well as to seek for the suitable financing channels and sources for the Group’s upcoming possible mergers and acquisitions (“M&A”) and development. Further it also provides short-term investment opportunities for the Group’s capital. During the year, the business recorded an income of approximately HK$6,973,000 (2017: HK$3,635,000).

Possible Acquisition — 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. The Company expects that overseas acquisition activities can expand the Group’s business portfolio of natural gas and oil which will contribute profit and cash flow. Further, this can augment the Group’s overall risk resistance capacity when facing unstable external factors.

In January 2019, 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 31 July 2019. Meanwhile, the Group and the vendor have commenced discussion on the possible refund of the relevant deposits.

Financial Review

Liquidity and Financial Resources

As at 31 December 2018, the net assets of the Group were approximately HK$3,009,000,000 (31 December 2017: HK$3,164,000,000) while its total assets were approximately HK$4,963,000,000 (31 December 2017: HK$5,410,000,000). As at 31 December 2018, the Group had external borrowings including the liability component of convertible notes of approximately HK$1,595,000,000 (31 December 2017: HK$1,772,000,000), and the gearing ratio based on total assets was approximately 32.14% (31 December 2017: 32.75%). By the end of December 2018, the current ratio was approximately 0.35 (31 December 2017: 0.75). Information on repayment of the Group's borrowings is set out in note 13 to the financial statements as disclosed in this announcement.

During the year, the Company has redeemed convertible notes with an aggregate principal amount of HK$296,000,000.

In March 2018, the Company issued a total of 3,380,000,000 new shares (which represents 338,000,000 shares after the share consolidation*) to an independent investor. The net proceeds from the subscription of approximately HK$178,000,000, of which approximately 95% has been used for partial settlement of the principal and interest of certain convertible notes of the Company and outstanding loans of the Group; and the remaining balance has been used as working capital of the Group.

In July 2018, the Company issued 3,980,000,000 shares (which represents 398,000,000 shares after the share consolidation*) to each of the two independent investors respectively, with a total of 7,960,000,000 new shares (which represents 769,000,000 shares after the share consolidation*). The net proceeds from the respective subscription were HK$ 142,780,000 and HK$ 118,900,000, of which approximately 93% has been used for partial settlement of the principal and interest of certain convertible notes of the Company and the outstanding loans of the Group; and the remaining balance has been used as working capital of the Group.

In October 2018, the Company issued a total of 557,560,000 new shares to two independent investors. The net proceeds from the subscription of approximately HK$93,170,000, of which approximately 95% is used for the repayment of the interest of certain convertible notes of the Company and outstanding loans of the Group, and the remaining balance has been used as working capital of the Group.

During the year, the Company has introduced quality shareholders so as to raise capital and optimize shareholding structure. The cash flow situation of the Company has been improved. After settling certain financial obligations, the Group's short-term liabilities have been reduced. In addition, the operation of the Sanjiao CBM Project has entered into development stage and brought operating cash flow to the Group. As a result, the Company's position of assets and liabilities has been improved accordingly.

Having considered the issue of the Group's net current liabilities as at 31 December 2018, among which the convertible note with a principal amount of HK$1,014 million to fall due in September 2019, is posing a relatively great financial pressure to the Group. At present, in addition to the financial support provided by the three shareholders and directors to the Group, the Company is also actively considering settling the convertible note by way of, including but not limited to, (i) exploring the possibilities with the convertible note holder and/or certain potential investors to have full or partial conversion of the convertible note; (ii) exploring the possibilities with the convertible note holder to amend terms of the convertible note so as to extend its maturity; (iii) discussing with existing shareholders who may consider acquiring the convertible note from the Convertible Note holder and having full/partial conversion of the convertible note; and/or advance to the Company; and/or (iv) approaching different financial institutions for medium to long term debt and/or equity financing.

Riding on the growing business of the Group and the support of the above measures, it is expected that the Group's financial pressure will gradually be eased and the overall financial position will continue to improve.

**With the approval by the shareholders of the Company at the Special General Meeting held on 8 August 2018, every ten issued and unissued existing shares of par value of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of par value of HK$0.10 each. . For details, please refer to the circular issued by the Company on 19 July 2018.*

Foreign Exchange Fluctuations

The Group is exposed to currency risk primarily through sales and purchase transactions and recognized liabilities and assets that are denominated in a currency other than the functional currency of the operations to which they relate. As at 31 December 2018, 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 at 31 December 2018, the Group employed approximately 332 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 2018, China's natural gas market flourished and consumption continued to grow rapidly. According to the preliminary accounting of the National Bureau of Statistics, natural gas consumption increased by 17.7% in 2018. The 2019 Global Energy Market Outlook released by the International Energy Agency in February 2019 is expected that China will surpass Japan to become the largest importer of LNG in 2019, and by 2040, its net imports will be close to the level of European Union. The increase of natural gas demand in China is expected in the future, and the entire natural gas industry will be in a prime time of development.

Unconventional natural gas is an essential component to achieve the goal of matching China's natural gas consumption growth prospects. As one type of the unconventional natural gas, CBM has become an important carrier to promote energy production and consumption revolution. With the realization of the scale of CBM development, the economics benefits of CBM exploitation will become increasingly apparent. In 2018, the General Office of the People’s Government of Shanxi Province issued and actively implemented the “Implementation Plan for Deepening the CBM (Natural Gas) System Reform in Shanxi Province” to accelerate the development of the CBM industry as a pillar industry in the diversified industrial system of Shanxi Province. Against the backdrop of the rapid development of natural gas industry with state support, a favorable business environment for the CBM industry growth has been created. The Group believes that the Sanjiao CBM Project will continue to have steady development with increasing competitiveness. Its profitability will hence be further enhanced.

Looking ahead, on the one hand the Group will make its greatest effort to ease the financial burden of the short term funding as soon as possible, and on the other hand the Group will allocate its resources to push forward the development of the Sanjiao CBM Project. We will formulate a clear plan to increase productivity to support a steady growth, so as to lay a solid foundation for the expansion of the Group’s business presence and sustain a long-term and healthy development. Riding on this foundation, the Group will assess the possibility of diversified business development in a prudent and pragmatic manner, and hope to enhance the sustainability and stability of the business portfolio returns, diversified business risk, maintain long-term growth momentum, and generate substantial returns for shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year ended 31 December 2018.

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 2018 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 2018.

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 2018.

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

Hong Kong, 29 March 2019

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, namely, Mr. Chen Hua, Mr. Huang Shaowu, Mr. He Lin Feng and Ms. Chai Lin, and three Independent Non-executive Directors, namely, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.