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 2019

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 2019, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in Hong Kong Dollars)

	Notes	2019 HK$'000	2018 HK$'000
Revenue	3 & 10	476,614	427,867
Direct cost		(417,228)	(393,815)
Gross profit		59,386	34,052
Other income	4	73,193	56,972
Other losses, net	5	(16,480)	(57,939)
Selling and distribution expenses		(8,912)	(2,485)
Administrative expenses		(71,541)	(88,801)
Profit/(loss) from operations		35,646	(58,201)
Finance costs	6(a)	(258,321)	(324,547)
Share of profit/(loss) of an associate		25	(178)
Loss before income tax expense	6	(222,650)	(382,926)
Income tax expense	7	(4,992)	(2,959)
Loss for the year		(227,642)	(385,885)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2019
(Expressed in Hong Kong Dollars)

	Notes	2019 HK$'000	2018 HK$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(133,494)	(291,292)
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		(453)	(4,453)
Other comprehensive income for the year, after tax		(133,947)	(295,745)
Total comprehensive income for the year		(361,589)	(681,630)
Loss attributable to:			
Owners of the Company		(230,952)	(376,922)
Non-controlling interests		3,310	(8,963)
		(277,642)	(385,885)
Total comprehensive income attributable to:			
Owners of the Company		(364,712)	(671,007)
Non-controlling interests		3,123	(10,623)
		(361,589)	(681,630)
		HK$cents	HK$cents
Loss per share			
- Basic and diluted	9	(6.90)	(15.64)

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Hong Kong Dollars)

	Notes	2019 HK$'000	2019 HK$'000	2018 HK$'000	2018 HK$'000
Non-current assets					
Property, plant and equipment			2,020,056		2,026,855
Oil and gas exploration and evaluation assets			70,870		61,600
Right-of-use assets			11,171		-
Payment for leasehold land held for own use			-		3,915
Intangible assets			2,107,856		2,174,607
Goodwill			11,347		11,596
Interest in a joint venture			-		-
Interest in an associate			57,549		57,977
Financial assets at fair value through profit or loss			16,237		38,301
Equity investments designated at fair value through other comprehensive income			503		956
Deposits and prepayments	11		44,152		52,365
Loans receivable			64,415		13,470
Total non-current assets			4,404,156		4,441,642
Current assets					
Inventories		9,906		11,950	
Financial assets at fair value through profit or loss		15,956		19,399	
Trade, notes and other receivables, deposits and prepayments	11	456,571		365,106	
Short-term investment		67,104		69,216	
Loans receivable		8,725		18,290	
Amount due from a joint venture		320		320	
Restricted cash at banks		10,096		-	
Cash and cash equivalents		3,728		36,949	
Total current assets		572,406		521,230	
Total assets			4,976,562		4,962,872
Current liabilities					
Trade and other payables and accruals	12	(445,918)		(331,682)	
Borrowings	13	(94,474)		(16,956)	
Convertible notes	14	(1,198,804)		(1,118,267)	
Financial liabilities at fair value through profit or loss	14	(46)		(257)	
Deferred income		(1,921)		-	
Lease liabilities		(4,778)		-	
Taxation		(8,931)		(6,062)	
Total current liabilities		(1,754,872)		(1,473,224)	
Net current liabilities			(1,182,466)		(951,994)
Total assets less current liabilities			3,221,690		3,489,648

Consolidated Statement of Financial Position (Continued)

At 31 December 2019
(Expressed in Hong Kong Dollars)

			2019		2018
		HK$'000	HK$'000	HK$'000	HK$'000
Non-current liabilities					
Provisions		(12,146)		(8,594)	
Borrowings	13	(417,136)		(460,167)	
Deferred income		(132,691)		-	
Lease liabilities		(2,340)		-	
Deferred tax liabilities		(10,360)		(12,281)	
Total non-current liabilities			(574,673)		(481,042)
NET ASSETS			2,647,017		3,008,606
Capital and reserves attributable to owners of the Company					
Share capital			334,544		334,544
Reserves			2,303,641		2,668,353
Equity attributable to owners of the Company			2,638,185		3,002,897
Non-controlling interests			8,832		5,709
TOTAL EQUITY			2,647,017		3,008,606

1. GOING CONCERN ASSUMPTION

The Group had net current liabilities of HK$1,182,466,000 as at 31 December 2019. The convertible note with principal amount together with related interests of HK$1,196,520,000 (2018: HK$1,237,265,000) was matured in September 2019. The Group failed to redeem the convertible note upon its maturity. As at 31 December 2019, these overdue convertible note and related interests of HK$ 1,196,520,000 and the default interest (included in other payables and accruals) of HK$56,831,000 became immediately repayable. In addition to the convertible note, the Group had current borrowings of HK$94,474,000, trade and other payables and accruals (excluded default interest) of HK$389,087,000 as at 31 December 2019 while the Group only maintained its cash and cash equivalents of HK$3,728,000.

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 prepared a cash flow forecast of the Group. In preparing the cash flow forecast, 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 in the cash flow forecast, 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 financial 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. During the year, one of the directors and a shareholder have provided loans totaling of HK$10,000,000 to the Company for meeting the daily financial needs and obligations which arise.

(b) The Group has been actively negotiating with the convertible note holder to renew or extend the maturity date of the convertible note or enter into other possible note restructuring measures. Subsequent to the reporting date, the Company has entered into a deed of convertible note amendment pursuant to which the note holder agreed to extend the maturity date to 29 September 2020 conditionally.

(c) The Group is also actively identifying any other possible financing options and debt restructuring exercises to strengthen the liquidity 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, it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2019 on a going concern basis.

Notwithstanding the above, material uncertainty exists as to whether the directors 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 financial 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 non-current liabilities as current assets and current liabilities, respectively.

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

Adoption of new / revised HKFRSs – effective 1 January 2019

HKFRS 16	Leases
HK(IFRIC)-Int# 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS+ 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Hong Kong (International Financial Reporting Interpretations Committee) – Interpretations
+Hong Kong Accounting Standards

The impact of the adoption of HKFRS 16 Leases have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

Adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

New definition of leases

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and (b) the right to direct the use of the identified asset.

Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under HKFRS 16, for all leases (irrespective of they are operating leases or finance leases and except for short-term leases and leases of low-value assets), the Group is required to: (a) recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; (b) recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income; and (c) separately present the total amount of cash paid into a principal portion and interest within financing activities and operating activities in the consolidated statement of cash flows. Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

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

Adoption of new / revised HKFRSs – effective 1 January 2019 - Continued

Transitions

The Group has applied HKFRS 16 using modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019. As a result, the comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as at 1 January 2019.

The Group has elected to recognise the right-of-use assets as at 1 January 2019 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Leasehold land and land use rights are reclassified and recognised as right-of-use assets under HKFRS 16. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets as at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application and accounted for those leases as short-term leases; (iii) excluded the initial direct costs from the measurement of the right-of-use asset at 1 January 2019; and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

Impact to the consolidated financial statements

As mentioned above, the Group has applied HKFRS 16 using modified retrospective approach from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from HKFRS 16 are therefore recognised in the opening balances on 1 January 2019.

The following tables summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	Increase/(decrease) **HK$'000**
Assets	
Increase in right-of-use assets	17,631
Decrease in payments for leasehold land held for own use	(3,915)
Decrease in prepayments	(1,995)
Increase in total assets	11,721
Liabilities	
Lease liabilities (current)	(4,446)
Lease liabilities (non-current)	(7,275)
Increase in total liabilities	(11,721)

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

Adoption of new / revised HKFRSs – effective 1 January 2019 - Continued

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Operating lease commitment disclosed as at 31 December 2018	17,983
Less: exemption for short-term leases	(4,301)
Less: future interest expense	(1,961)
Total lease liabilities as at 1 January 2019	11,721

Impact to the consolidated financial statements - Continued

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 12.00%.

3. REVENUE

The revenue of the Group are derived from (i) exploration, development and production of coalbed methane ("CBM"), (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:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15 are disaggregated by products:		
Coalbed methane	120,900	89,406
Raw and cleaned coal	350,353	331,488
	471,253	420,894
Revenue from other sources:		
Interest income from financial services	5,361	6,973
	476,614	427,867

Disaggregation by the timing of revenue recognition and by geographic markets is disclosed in notes 10(a) and 10(b)(i) respectively.

4. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Interest income		
- bank deposits	26	41
- short-term investment	9,487	9,922
- others – note (i)	23,145	20,573
Total interest income on financial assets measured at amortised cost	32,658	30,536
Government subsidies and grants – note (ii)	39,111	25,866
Others	1,424	570
	73,193	56,972

Notes:

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

(ii) It mainly represents the regular subsidies received during the year from relevant government authority on the sales of CBM and VAT refund on the sales of CBM from local tax bureau. Both of them were generated from the Sanjiao CBM Project.

5. OTHER LOSSES, NET

	2019 HK$'000	2018 HK$'000
Change in fair value of financial assets at fair value through profit or loss	(9,043)	29,131
Change in fair value of financial liabilities at fair value through profit or loss – note 14	211	37,638
Impairment loss on goodwill	-	(39,244)
Impairment loss on intangible assets	-	(45,734)
Written off of property, plant and equipment	(329)	(163)
Written off of other receivables	(47)	-
Gain on disposal of property, plant and equipment	-	59
Exchange losses, net	(2,850)	(8,033)
Expected credit losses on financial assets measured at amortised cost recognised*	(4,422)	(31,769)
Others	-	176
	(16,480)	(57,939)

*The following table shows the charges for ECLs on financial assets measured at amortised cost for the year recognised in the consolidated statement of comprehensive income:

	2019 HK$'000	2018 HK$'000
Charge for the year:		
Loans receivable	677	-
Other receivables	341	24,754
Other deposits	2,766	5,279
Short-term investment	638	1,736
	4,422	31,769

6. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

		2019 HK$'000	2018 HK$'000
a)	**Finance costs**		
	Interest expense on financial liabilities not at fair value through profit or loss:		
	Interest on corporate bonds	33,496	34,238
	Interest on borrowings	94,229	28,366
	Imputed interest on convertible notes (note 14)	114,732	246,837
	Interest on lease liabilities	1,268	-
	Others	1,005	1,131
		244,730	310,572
	Less: interest capitalised in qualifying assets*	(5,003)	(6,784)
		239,727	303,788
	Other finance costs:		
	Amortisation of convertible notes transaction costs (note 14)	6,625	8,833
	Amortisation of corporate bonds transaction costs	11,969	11,926
		18,594	20,759
		258,321	324,547

* Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 15.24% (2018: 18%) to expenditure on qualifying assets.

		2019 HK$'000	2018 HK$'000
b)	**Employee costs (including directors' remuneration)**		
	Salaries, wages and other benefits	41,776	42,045
	Contributions to defined contribution retirement plan	2,263	759
		44,039	42,804
c)	**Other items**		
	Auditor's remuneration	1,600	1,700
	Cost of inventories sold recognised as expenses#	323,109	308,918
	Depreciation on property, plant and equipment	36,211	34,401
	Amortisation on payments for leasehold land held for own use	-	240
	Amortisation of intangible assets#	20,099	23,373
	Minimum lease payments under operating lease – property rentals	-	9,508

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 2019 and 2018.

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 People's Republic of China ("PRC") are subject to the Enterprise Income Tax ("EIT"). Under the Law of the PRC 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:

	2019 HK$'000	2018 HK$'000
Current income tax		
- PRC EIT		
- Tax for the year	(5,642)	(3,400)
- Under-provision in respect of prior years	(1,032)	(878)
	(6,674)	(4,278)
Deferred tax for the year	1,682	1,319
Income tax expense	(4,992)	(2,959)

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

9. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$230,952,000 (2018: loss of HK$376,922,000) and the weighted average number of 3,345,439,000 ordinary shares (2018: 2,410,333,000 ordinary shares) in issue during the year.

b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2019 and 2018 is the same as the basic loss per share as 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 2019 and 2018.

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 (2018: four) operating and 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

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

10. SEGMENT REPORTING (CONTINUED)

a) Business segments

For the year ended 31 December 2019, 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	120,900	350,353	-	-	-	471,253
Interest income from financial services	-	-	-	5,361	-	5,361
	120,900	350,353	-	5,361	-	476,614
Segment results[1&2]	32,759	18,180	19,885	3,034	(24,958)	48,900
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	211	211
Change in fair value of financial assets at fair value through profit or loss	-	(9,043)	-	-	-	(9,043)
Expected credit loss on financial assets measured at amortised cost recognised	(341)	-	(2,766)	(677)	(638)	(4,422)
Finance costs	-	(1,714)	-	(93)	(256,514)	(258,321)
Share of profit of an associate	25	-	-	-	-	25
Profit/(loss) before income tax expense	32,443	7,423	17,119	2,264	(281,899)	(222,650)
Income tax expense	-	(4,019)	-	(973)	-	(4,992)
Profit/(loss) for the year	32,443	3,404	17,119	1,291	(281,899)	(227,642)
Assets and liabilities						
Reportable segment assets[3]	4,241,366	139,469	362,870	75,294	157,563	4,976,562
Reportable segment liabilities[3]	465,479	63,819	16	5,830	1,794,401	2,329,545
Other segment information						
Depreciation and amortisation	55,389	6,195	-	101	796	62,481
Capital expenditure incurred during the year	64,821	7,185	-	-	9	72,015
Timing of revenue recognition within the scope of HKFRS 15:						
- a point in time	120,900	350,353	-	-	-	471,253
- over time	-	-	-	-	-	-
	120,900	350,353	-	-	-	471,253

10. SEGMENT REPORTING (CONTINUED)

a) Business segments - Continued

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 recognised	(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)
Profit/(loss) before income tax expense	4,956	(43,762)	13,926	10,693	(368,739)	(382,926)
Income tax expense	-	(2,164)	-	(795)	-	(2,959)
Profit/(loss) 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	17	101	61,505
Timing of revenue recognition within the scope of HKFRS 15:						
- a point in time	89,406	331,488	-	-	-	420,894
- over time	-	-	-	-	-	-
	89,406	331,488	-	-	-	420,894

10. SEGMENT REPORTING (CONTINUED)

a) Business segments - Continued

Notes:

1. Unallocated results mainly include salaries, expense relating to short-term leases, rental expense and professional fees for Hong Kong head office.

2. The segment result of coalbed methane included government subsidies and grants of HK$38,886,000 (2018: HK$25,866,000).

3. Unallocated assets mainly include cash and cash equivalents, short term investment and equity investments designated at fair value through other comprehensive income and unallocated liabilities mainly include 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").

i) Revenue from external customers

The following is an analysis of the Group's revenue by geographical location of the customers:

	2019 HK$'000	2018 HK$'000
Hong Kong (place of domicile)	-	-
The PRC	476,614	427,867
	476,614	427,867

ii) Specified non-current assets

The information of the Group's non-current assets by geographical location of the assets is detailed below:

	2019 HK$'000	2018 HK$'000
Hong Kong (place of domicile)	2,419	3,118
The PRC	4,224,432	4,309,794
Canada	70,870	61,600
	4,297,721	4,374,512

10. SEGMENT REPORTING (CONTINUED)

c) Information about major customers

During the year ended 31 December 2019, there were three customers (2018: five customers) contributed to 10% or more revenue to the Group's total revenue.

	Segment	2019 HK$'000	2018 HK$'000
Customer A	Raw and cleaned coal	126,328	N/A
Customer B	Coalbed methane	120,900	89,406
Customer C	Raw and cleaned coal	70,160	29,054
Customer D	Raw and cleaned coal	N/A	82,023
Customer E	Raw and cleaned coal	N/A	65,410
Customer F	Raw and cleaned coal	N/A	41,190

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

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

	2019 HK$'000	2018 HK$'000
Non-current assets		
Deposits and prepayments	44,152	52,365
Current assets		
Trade receivables - note	29,306	22,012
Less: impairment loss	(310)	(316)
	28,996	21,696
Notes receivable	5,761	2,401
Other receivables	86,916	54,753
Less: impairment loss	(25,940)	(26,014)
	60,976	28,739
Other deposits	322,609	290,581
Less: impairment loss	(13,591)	(10,337)
	309,018	280,244
Utility deposits	172	2,453
Prepayments	51,648	29,573
	456,571	365,106

Note:

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

	2019 HK$'000	2018 HK$'000
Current or within 30 days	28,996	21,696

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

	2019 HK$'000	2018 HK$'000
Current Liabilities		
Trade payables - note	11,385	-
Other payables and accruals	403,515	326,367
Receipt in advance	16,648	-
Amounts due to shareholders	14,370	5,315
	445,918	331,682

Notes:

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

	2019 HK$’000	2018 HK$’000
Within 30 days	11,385	-

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

13. BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank borrowings - secured	2,797	-
Other borrowings - unsecured	44,677	3,556
Corporate bonds - unsecured	464,136	473,567
	511,610	477,123
On demand or within one year	94,474	16,956
More than one year, but not exceeding two years	16,000	6,000
More than two years, but not exceeding five years	331,700	361,200
More than five years	69,436	92,967
	511,610	477,123
Amount due within one year included in current liabilities	(94,474)	(16,956)
Non-current portion	417,136	460,167

The range of effective interest rates on the Group’s borrowings for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
Bank borrowings – secured	6.53%	-
Other borrowings – unsecured	12.00% - 30.00%	30.00%
Corporate bonds – unsecured	5.00% - 8.00%	5.00% - 8.00%

14. CONVERTIBLE NOTES

The convertible notes recognised in the consolidated statement of financial position are calculated as follows:

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
At 1 January 2018	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
Amortisation of transaction costs – note 6(a)	6,625	-	6,625
Imputed interest expense – note 6(a)	114,732	-	114,732
Interest paid	(40,820)	-	(40,820)
Change in fair value – note 5	-	(211)	(211)
At 31 December 2019	1,198,804	46	1,198,850

The imputed interest expense on the convertible note was charged at the rate of 22.85% (2018: 18.96% - 22.85%) using the effective interest method.

15. EVENTS AFTER REPORTING PERIOD

(a) In view of the outbreak of Coronavirus Disease 2019 ("COVID-19") in the PRC, it had impacts on the overall economy in the PRC. The Group will closely monitor the development and situation of COVID-19, continuing to assess its impacts on the financial position and operating results of the Group and take necessary action to mitigate the business risk in the PRC. Up to the date of this report, COVID-19 has not resulted in material impact to the Group.

(b) Subsequent to the year end, the Company and the holder of the convertible note have conditionally agreed to extend the maturity date of the convertible note to 29 September 2020. Details are disclosed in the Company's announcement dated 23 March 2020.

EXTRACTS 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 2019 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 2019, 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 financial statements, the Group had net current liabilities of HK$1,182,466,000 as at 31 December 2019. The convertible note with principal amount together with related interests of HK$1,196,520,000 (2018: HK$1,237,265,000) was matured in September 2019. The Group failed to redeem the convertible upon its maturity. As at 31 December 2019, these overdue convertible note and related interests of HK$1,196,520,000 and the default interest (included in other payables and accruals) of HK$56,831,000 became immediately repayable. In addition to the convertible note, the Group had current borrowings of HK$94,474,000, trade and other payables and accruals (excluded default interest) of HK$389,087,000 as at 31 December 2019 while the Group only maintained its cash and cash equivalents of HK$3,728,000.

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 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 financial 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 2019. 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 and to 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 non-current liabilities as current assets and current liabilities, respectively.

We disclaimed our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 due to the same limitation of scope of work as mentioned above. Such scope limitations remained unresolved in our audit of the consolidated financial statements of the Group for the year ended 31 December 2019. Our audit opinion is also modified because of the possible effects of the unresolved matters on the comparability of the current period's figures and the corresponding figures in the consolidated financial statements of the Group for the year ended 31 December 2019."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2019, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a total revenue of approximately HK$476,614,000 (2018: HK$427,867,000), which has increased by approximately 11.39% as compared with that of last year. The turnover included the sales of coalbed methane ("CBM") in our Sanjiao CBM Project of approximately HK$120,900,000 (2018: HK$89,406,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$350,353,000 (2018: HK$331,488,000), and the income from the financial services business in Shaanxi Province of approximately HK$5,361,000 (2018: HK$6,973,000).

For the financial year of 2019, the Group recorded a net loss of approximately HK$227,642,000 (2018: net loss HK$385,885,000), which significantly decreased by approximately41% compared with that of last year. The decrease of loss was mainly attributable to the significant growth in earning in the operation of the Sanjiao CBM Project and the successful control of cost during the year. During the year, the Group recorded earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately HK$98,152,000.

During the year, the Sanjiao CBM Project recorded CBM sales revenue approximately HK$120,900,000 and EBITDA approximately HK$87,918,000, which increased by approximately 35.23% and 53.86% respectively as compared with that of last year while the sale-to-production rate has reached 97.70%. The sales volume of CBM in 2019 successfully exceeded 100 million cubic meters, approximately 100.87 million cubic meters (2018: 78.10 million cubic meters) with a significant increase of nearly 30% as compared with last year. Further, the raw coal washing operation also continued to have a steady performance during the year.

In addition, the Group's settlement of part of its financial liabilities, resulting in a significant drop in financial costs; meanwhile, the Group implemented strict cost management during the year and achieved reduction in administrative expenses by approximately 19.4% as compared with last year. Unlike last year, there was no significant expected credit losses and impairment loss incurred.

The interest income amounted to approximately HK$32,658,000 (2018: HK$30,536,000) included 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, which shall be valid for 25 years. Accordingly, all necessary administrative approvals under the current PRC laws and regulations have been granted for exploration, development, exploitation and production of Sanjiao CBM Project.

Infrastructure

As at 31 December 2019, the Sanjiao CBM Project has completed a total of 122 wells, comprising 70 multilateral horizontal wells and 52 vertical wells. Out of the total 122 wells, 91 wells were in the normal dewatering and gas producing stage, of which 92 wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 64.9 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 built.

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

Sales

During the year, Sanjiao CBM Project recorded EBITDA of approximately HK$87,918,000 (2018: HK$57,141,000) with an increase of approximately 53.86% compared with last year. The CBM sales revenue amounted to approximately HK$120,900,000 (2018: HK$89,406,000) with an increase of approximately 35.23% compared with last year. The production and sales volume of CBM were approximately 103.22 million cubic meters (2018: 97.42 million cubic meters) and 100.87 million cubic meters (2018: 78.10 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately 97.7% (2018: 80%), which has significantly improved as compared with last year. For the year, industrial and residential piped CBM sales accounted for approximately 84.1% (2018: 85.3%) and approximately 15.9% (2018: 14.7%) of total sales respectively, which was similar to that of last year.

In addition, government subsidy and part of VAT tax refund of approximately HK$38,886,000 (2018: HK$25,866,000) for sales of CBM were received and included in "other income" during the year. The operation of Sanjiao CBM Project continued to have a steady growth, and the Group believes that the project will bring sustained and stable profits.

Raw Coal Washing Project Located in Shanxi Province

The Group owned a 75% equity interest of a raw coal washing project located in Qinshui Basin, Shanxi Province. During the year, the performance of the business was stable. The revenue from the raw coal washing business was approximately HK$350,353,000 (2018: HK$331,488,000). Among the mix of the turnover during the period, the raw coal washing business accounted for approximately 96% of the revenue, and the raw coal processing business accounted for approximately 4%.

Others

The Group owned a finance leasing company, Shaanxi Zhao Yin Finance Leasing Company Limited in Shaanxi Province. The major purpose of the establishment of this finance leasing company is to seek for proper financing options for the Group's business development. Further it also provides short-term investment opportunities for the Group. During the year, it recorded a gross income of approximately HK$5,361,000 (2018 : HK$6,973,000).

Financial Review

Liquidity and Financial Resources

As at 31 December 2019, the net assets of the Group were approximately HK$2,647,000,000 (31 December 2018: HK$3,009,000,000) while its total assets were approximately HK$4,977,000,000 (31 December 2018: HK$4,963,000,000). As at 31 December 2019, the Group had external borrowings including the liability component of convertible notes of approximately HK$1,710,000,000 (31 December 2018: HK$1,595,000,000), and the gearing ratio based on total assets was approximately 34.36% (31 December 2018: 32.14%). Information on repayment of the Group's borrowings is set out in note13 to the financial statements as disclosed in this announcement. As at 31 December 2019, the current ratio was approximately 0.33 (31 December 2018: 0.35).

In respect of the issue of the Group's net current liabilities position as at 31 December 2019, the convertible note with a principal amount of HK$1,014 million due in September 2019 and unredeemed, posing a relatively great financial pressure to the Group. The Group has explored various plans during the year in order to reduce the financial burden of the Group. The management has actively engaged in the discussion of the above issue with the note holder. Although no binding plans or terms have been reached, both parties have conducted in-depth discussion on several feasible options. The options include but are not limited to, (i) negotiating with other potential investors who are interested in acquiring the convertible notes; (ii) exploring the possibilities with the note holder to amend terms of the convertible note so as to extend its maturity.

Following the said discussions, the Company and the note holder have agreed to enter into the Deed of Amendment on 23 March 2020 for the extension of the maturity date, which shall be extended from 28 September 2019 to 29 September 2020. The Directors considered that the extension would ease the immediate financial burden of the Group and enable the management of the Company to have more time to discuss with the note holder on certain proposed settlement arrangements for the convertible note as well as to negotiate with other potential investors who may be interested in acquiring the convertible note.

Riding on the steady growth of the Group's existing operations, in addition to the support of the above measures, the Company will also consider other possible financing options and debt restructuring exercises to strengthen the liquidity of the Group. Hence, the overall financial position will gradually improve.

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 2019, 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 2019, the Group employed approximately 312 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

The trade war between China and the United States has been heating up since 2019, while the new coronavirus disease emerged in China by the end of last year. These have brought huge uncertainty to Chinese economy. Although the coronavirus outbreak in China is about to be under control and social and economic activities will gradually resume normal, it is expected that China's macro economy will experience swift downturn in 2020, and natural gas consumption growth will also slow down. However, according to the National Bureau of Statistics, natural gas production of 2019 in China was 173.6 billion cubic meters with an increase of 9.8% year-on-year; natural gas consumption reached 302.2 billion cubic meters with an increase of 8.4% year-on-year. The overall trend of increasing in natural gas demand is expected to remain unchanged, and the sector still has huge potential of development. For the Group's CBM project, the sales volume of 2019 also increased significantly as compared to last year with an increase of nearly30%. In the long run, the Group believes that the Sanjiao CBM Project will continue to have steady growth with increasing competitiveness. Its profitability will hence be further enhanced with good prospects.

Looking ahead, on the one hand the Group will put into its greatest effort to release the short term financial burden as soon as possible, and on the other hand the Group will focus its resources to speed up the development of the Sanjiao CBM Project. We will formulate a solid plan to increase productivity of the CBM project so as to lay a solid foundation for the Group’s expansion of its business and sustain a long-term and healthy development. Riding on this foundation, the Group will assess the feasibility of diversified business development in a prudent and pragmatic manner, and hope to enhance the sustainability and stability of the business returns and business risk. As a result, the Group can maintain a long-term momentum of growth, and generate substantial returns for shareholders in the future.

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 2019.

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 2019 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 ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2019 except for code provisions E.1.2 and A.5.1 with details set out below:

Code provision E.1.2 requires the chairman of the board to attend the annual general meeting. Dr. Dai Xiaobing, chairman of the Board, was unable to attend the annual general meeting of the Company held on 31 May 2019 due to other business engagement. The annual general meeting was chaired and conducted by Mr. Wan Tze Fan Terence, an executive director of the Company.

Upon the resignation of Mr. Wong Kwok Chuen Peter as independent non-executive director, member of Audit Committee, Remuneration Committee and Nomination Committee on 31 December 2018, the Company had yet to meet the following requirements of the Listing Rules of having independent non-executive directors representing at least one-third of the Board under Rule 3.10A; the Audit Committee comprising a minimum of three members under Rule 3.21; and the Remuneration Committee and Nomination Committee comprising a majority of independent non-executive directors under Rule 3.25 and code provision A.5.1 of the CG Code respectively.

On 29 March 2019, Dr. Dang Weihua, an independent non-executive director of the Company, was appointed as member of Audit Committee, Remuneration Committee and Nomination Committee and on 30 March 2019, Mr. He Lin Feng resigned as non-executive director of the Company. Since then, the Company has fully complied with all the requirements set out under the Listing Rules as mentioned above.

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 2019.

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

Hong Kong, 31 March 2020

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