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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, together with the comparative figures for the last year as follows:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Expressed in Hong Kong Dollars)

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	3 & 10	325,371	476,614
Direct cost		(285,830)	(417,228)
Gross profit		39,541	59,386
Other income	4	56,930	73,193
Other gains/(losses), net	5	5,297	(16,480)
Selling and distribution expenses		(10,098)	(8,912)
Administrative expenses		(63,142)	(71,541)
Profit from operations		28,528	35,646
Finance costs	6(a)	(209,616)	(258,321)
Share of profit of an associate		18	25
Loss before income tax expense	6	(181,070)	(222,650)
Income tax expense	7	(1,809)	(4,992)
Loss for the year		(182,879)	(227,642)

Consolidated Statement of Comprehensive Income (Continued)

For the year ended 31 December 2020
(Expressed in Hong Kong Dollars)

	Notes	2020 HK\$'000	2019 HK\$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		221,414	(133,494)
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		<u>(126)</u>	<u>(453)</u>
Other comprehensive income for the year, after tax		<u>221,288</u>	<u>(133,947)</u>
Total comprehensive income for the year		<u>38,409</u>	<u>(361,589)</u>
Loss attributable to:			
Owners of the Company		(184,117)	(230,952)
Non-controlling interests		<u>1,238</u>	<u>3,310</u>
		<u>(182,879)</u>	<u>(227,642)</u>
Total comprehensive income attributable to:			
Owners of the Company		36,553	(364,712)
Non-controlling interests		<u>1,856</u>	<u>3,123</u>
		<u>38,409</u>	<u>(361,589)</u>
		<u>HK cents</u>	<u>HK cents</u>
Loss per share			
- Basic and diluted	9	<u>(5.50)</u>	<u>(6.90)</u>

Consolidated Statement of Financial Position

At 31 December 2020

(Expressed in Hong Kong Dollars)

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		2,453,716	2,020,056
Oil and gas exploration and evaluation assets		74,000	70,870
Right-of-use assets		8,049	11,171
Intangible assets		2,218,827	2,107,856
Goodwill		12,048	11,347
Interest in a joint venture		-	-
Interest in an associate		58,821	57,549
Financial assets at fair value through profit or loss		9,221	16,237
Equity investments designated at fair value through other comprehensive income		377	503
Deposits and prepayments	11	20,035	44,152
Loans receivable		77,544	64,415
Total non-current assets		4,932,638	4,404,156
Current assets			
Inventories		10,281	9,906
Financial assets at fair value through profit or loss		24,085	15,956
Trade, notes and other receivables, deposits and prepayments	11	527,428	456,571
Short-term investment		70,640	67,104
Loans receivable		3,850	8,725
Amount due from a joint venture		324	320
Restricted cash at banks		984	10,096
Cash and cash equivalents		60,898	3,728
Total current assets		698,490	572,406
Total assets		5,631,128	4,976,562
Current liabilities			
Trade and other payables and accruals	12	(531,921)	(445,918)
Borrowings	13	(130,140)	(94,474)
Convertible note	14	(1,352,900)	(1,198,804)
Financial liabilities at fair value through profit or loss	14	(9)	(46)
Deferred income		(1,902)	(1,921)
Lease liabilities		(4,003)	(4,778)
Taxation		(9,169)	(8,931)
Total current liabilities		(2,030,044)	(1,754,872)
Net current liabilities		(1,331,554)	(1,182,466)
Total assets less current liabilities		3,601,084	3,221,690

Consolidated Statement of Financial Position (Continued)

At 31 December 2020

(Expressed in Hong Kong Dollars)

		2020		2019
		HK\$'000	HK\$'000	HK\$'000
Non-current liabilities				
Provisions		(16,861)		(12,146)
Borrowings	13	(651,328)		(417,136)
Deferred income		(237,734)		(132,691)
Lease liabilities		(495)		(2,340)
Deferred tax liabilities		(9,240)		(10,360)
Total non-current liabilities		<u>(915,658)</u>		<u>(574,673)</u>
NET ASSETS		<u>2,685,426</u>		<u>2,647,017</u>
Capital and reserves attributable to owners of the Company				
Share capital		334,544		334,544
Reserves		2,340,194		2,303,641
Equity attributable to owners of the Company		2,674,738		2,638,185
Non-controlling interests		10,688		8,832
TOTAL EQUITY		<u>2,685,426</u>		<u>2,647,017</u>

1. GOING CONCERN ASSUMPTION

The Group incurred a loss of HK\$182,879,000 for the year ended 31 December 2020, and as of that date, had net current liabilities of HK\$1,331,554,000. The convertible note with principal amount together with related interests of HK\$1,329,692,000 was matured without redemption in September 2020. As at 31 December 2020, these overdue convertible note and related interest totaling HK\$1,352,900,000 and related default interest (included in other payables and accruals) of HK\$62,101,000 were outstanding and became immediately repayable. In addition, the Group had current borrowings of HK\$130,140,000, trade and other payables and accruals (excluded the default interest) of HK\$469,820,000 as at 31 December 2020 while the Group only maintained its cash and cash equivalents of HK\$60,898,000.

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) Two individuals, one is a shareholder and director of the Company and the other individual is an ex-shareholder and ex-director of the Company, (collectively the "Funding Providers") have confirmed that they will provide sufficient financial support to the Group to repay the overdue principal and interest (including the default interest) in relation to the Group's current borrowings, trade and other payables and accruals and convertible note and to finance its operations to repay the overdue principal and interest (including the default interest) in relation to the above-mentioned borrowings and convertible note and to finance its operations for at least twelve months from the date of approval of the consolidated financial statements.
- (b) The Group has been actively negotiating with the convertible note holder to renew or extend the maturity date of the convertible note or to enter into other possible note restructuring measures.
- (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 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 approval of the consolidated financial statements. Accordingly, it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2020 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 Funding Providers 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 2020

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS ⁺ 1 and HKAS ⁺ 8	Definition of material
Amendments to HKFRS 9, HKAS ⁺ 39 and HKFRS 7	Interest Rate Benchmark Reform

⁺Hong Kong Accounting Standards

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group’s accounting policies.

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:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15 are disaggregated by products:		
Coalbed methane	109,918	120,900
Raw and cleaned coal	207,660	350,353
	<u>317,578</u>	<u>471,253</u>
Revenue from other sources:		
Interest income from financial services	<u>7,793</u>	<u>5,361</u>
	<u>325,371</u>	<u>476,614</u>

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

	2020 HK\$'000	2019 HK\$'000
Interest income on financial assets measured at amortised cost – note (i)	30,243	32,658
Government subsidies and grants – note (ii)	24,430	39,111
Others	<u>2,257</u>	<u>1,424</u>
	<u>56,930</u>	<u>73,193</u>

Notes:

- (i) It mainly represents the interest income from short-term investment and 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 Sanjiao CBM Project.

5. OTHER GAINS/(LOSSES), NET

	2020 HK\$'000	2019 HK\$'000
Change in fair value of financial assets at fair value through profit or loss	15,853	(9,043)
Change in fair value of financial liabilities at fair value through profit or loss (note 14)	37	211
Written off of property, plant and equipment	-	(329)
Written off of other receivables	(344)	(47)
Exchange gains / (losses), net	913	(2,850)
Expected credit losses on financial assets measured at amortised cost recognised*	(10,916)	(4,422)
Loss on lease modification	(205)	-
Loss on disposal of a subsidiary	(41)	-
	<u>5,297</u>	<u>(16,480)</u>

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

	2020 HK\$'000	2019 HK\$'000
Charge for the year:		
Loans receivable	1,923	677
Other receivables	-	341
Other deposits	8,235	2,766
Short-term investment	758	638
	<u>10,916</u>	<u>4,422</u>

6. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	2020 HK\$'000	2019 HK\$'000
a) Finance costs		
Interest expense on financial liabilities not at fair value through profit or loss	213,086	244,730
Interest capitalised in qualifying assets*	<u>(16,247)</u>	<u>(5,003)</u>
	<u>196,839</u>	<u>239,727</u>
Other finance costs:		
Amortisation of convertible notes transaction costs (note 14)	-	6,625
Amortisation of corporate bonds transaction costs	11,372	11,969
Amortisation of borrowings transaction costs	<u>1,405</u>	<u>-</u>
	<u>12,777</u>	<u>18,594</u>
	<u>209,616</u>	<u>258,321</u>
b) Employee costs (including directors' remuneration)		
Salaries, wages and other benefits	45,960	41,776
Contributions to defined contribution retirement plan	<u>1,249</u>	<u>2,263</u>
	<u>47,209</u>	<u>44,039</u>
c) Other items		
Auditor's remuneration	1,450	1,600
Cost of inventories sold recognised as expenses#	194,371	323,109
Depreciation on property, plant and equipment	31,604	36,211
Amortisation of intangible assets#	17,899	20,099
Amortisation on deferred income#	<u>(1,902)</u>	<u>(1,921)</u>

* Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 14.17% (2019: 15.24%) to expenditure on qualifying assets. All borrowing costs capitalised during the year arose on the specific borrowing pool of approximate HK\$15,702,000 (2019: Nil) are fully capitalised.

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 2020 and 2019.

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:

	2020 HK\$'000	2019 HK\$'000
Current income tax		
- PRC EIT		
- Tax for the year	(3,288)	(5,642)
- Under-provision in respect of prior years	<u>(187)</u>	<u>(1,032)</u>
	(3,475)	(6,674)
Deferred tax for the year	<u>1,666</u>	<u>1,682</u>
Income tax expense	<u>(1,809)</u>	<u>(4,992)</u>

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: 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\$184,117,000 (2019: loss of HK\$230,952,000) and the weighted average number of 3,345,439,000 ordinary shares (2019: 3,345,439,000 ordinary shares) in issue during the year.

b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2020 and 2019 is the same as the basic loss per share as the Company’s outstanding share options and convertible note, where applicable, had an anti-dilutive effect on the basic loss per share for the years ended 31 December 2020 and 2019.

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 (2019: 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 2020, 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	109,918	207,660	-	-	-	317,578
- Interest income from financial services	-	-	-	7,793	-	7,793
	<u>109,918</u>	<u>207,660</u>	<u>-</u>	<u>7,793</u>	<u>-</u>	<u>325,371</u>
Segment results ^{1, 2 & 3}	24,070	6,543	19,635	6,601	(33,295)	23,554
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	37	37
Change in fair value of financial assets at fair value through profit or loss	-	15,853	-	-	-	15,853
Expected credit loss on financial assets measured at amortised cost recognised	-	-	(8,235)	(1,923)	(758)	(10,916)
Finance costs	(19,572)	(885)	-	(216)	(188,943)	(209,616)
Share of profit of an associate	18	-	-	-	-	18
Profit/(loss) before income tax expense	4,516	21,511	11,400	4,462	(222,959)	(181,070)
Income tax expense	-	216	-	(2,025)	-	(1,809)
Profit/(loss) for the year	<u>4,516</u>	<u>21,727</u>	<u>11,400</u>	<u>2,437</u>	<u>(222,959)</u>	<u>(182,879)</u>
Assets and liabilities						
Reportable segment assets ⁴	<u>4,848,414</u>	<u>132,686</u>	<u>397,950</u>	<u>97,176</u>	<u>154,902</u>	<u>5,631,128</u>
Reportable segment liabilities ⁴	<u>889,013</u>	<u>59,086</u>	<u>16</u>	<u>15,393</u>	<u>1,982,194</u>	<u>2,945,702</u>
Other segment information						
Depreciation and amortisation	<u>47,165</u>	<u>219</u>	<u>-</u>	<u>83</u>	<u>135</u>	<u>47,602</u>
Capital expenditure incurred during the year	<u>307,206</u>	<u>-</u>	<u>1,285</u>	<u>-</u>	<u>20</u>	<u>308,511</u>
Timing of revenue recognition within the scope of HKFRS 15:						
- a point in time	109,918	207,660	-	-	-	317,578
- over time	-	-	-	-	-	-
	<u>109,918</u>	<u>207,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,578</u>

10. SEGMENT REPORTING (CONTINUED)

a) Business segments - Continued

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
	<u>120,900</u>	<u>350,353</u>	<u>-</u>	<u>5,361</u>	<u>-</u>	<u>476,614</u>
Segment results ^{1, 2 & 3}	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	<u>32,443</u>	<u>7,423</u>	<u>17,119</u>	<u>2,264</u>	<u>(281,899)</u>	<u>(222,650)</u>
Income tax expense	<u>-</u>	<u>(4,019)</u>	<u>-</u>	<u>(973)</u>	<u>-</u>	<u>(4,992)</u>
Profit/(loss) for the year	<u>32,443</u>	<u>3,404</u>	<u>17,119</u>	<u>1,291</u>	<u>(281,899)</u>	<u>(227,642)</u>
Assets and liabilities						
Reportable segment assets ⁴	<u>4,241,366</u>	<u>139,469</u>	<u>362,870</u>	<u>75,294</u>	<u>157,563</u>	<u>4,976,562</u>
Reportable segment liabilities ⁴	<u>465,479</u>	<u>63,819</u>	<u>16</u>	<u>5,830</u>	<u>1,794,401</u>	<u>2,329,545</u>
Other segment information						
Depreciation and amortisation	<u>55,389</u>	<u>6,195</u>	<u>-</u>	<u>101</u>	<u>796</u>	<u>62,481</u>
Capital expenditure incurred during the year	<u>66,627</u>	<u>7,185</u>	<u>6,689</u>	<u>-</u>	<u>9</u>	<u>80,510</u>
Timing of revenue recognition within the scope of HKFRS 15:						
- a point in time	120,900	350,353	-	-	-	471,253
- over time	-	-	-	-	-	-
	<u>120,900</u>	<u>350,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,253</u>

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\$24,430,000 (2019: HK\$38,886,000).
3. The segment results of oil and gas exploitation included interest income from Refundable Deposit of HK\$19,686,000 (2019: HK\$20,080,000).
4. 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 loan from a director and a shareholder, corporate bonds, convertible note 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:

	2020 HK\$'000	2019 HK\$'000
Hong Kong (place of domicile)	-	-
The PRC	<u>325,371</u>	<u>476,614</u>
	<u>325,371</u>	<u>476,614</u>

ii) Specified non-current assets

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

	2020 HK\$'000	2019 HK\$'000
Hong Kong (place of domicile)	2,284	2,419
The PRC	4,769,212	4,224,432
Canada	<u>74,000</u>	<u>70,870</u>
	<u>4,845,496</u>	<u>4,297,721</u>

10. SEGMENT REPORTING (CONTINUED)

c) Information about major customers

During the year ended 31 December 2020, there were two customers (2019: three customers) contributed to 10% or more revenue to the Group's total revenue.

	Segment	2020 HK\$'000	2019 HK\$'000
Customer A	Raw and cleaned coal	160,466	126,328
Customer B	Coalbed methane	109,918	120,900
Customer C	Raw and cleaned coal	N/A	70,160

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

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

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Deposits and prepayments	<u>20,035</u>	<u>44,152</u>
Current assets		
Trade receivables - note	78,973	29,306
Less: impairment loss	<u>(329)</u>	<u>(310)</u>
	78,644	28,996
Notes receivable	8,324	5,761
Other receivables	134,501	86,916
Less: impairment loss	<u>(26,061)</u>	<u>(25,940)</u>
	108,440	60,976
Other deposits	346,883	322,609
Less: impairment loss	<u>(22,397)</u>	<u>(13,591)</u>
	324,486	309,018
Utility deposits	172	172
Prepayments	<u>7,362</u>	<u>51,648</u>
	<u>527,428</u>	<u>456,571</u>

Note:

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

	2020 HK\$'000	2019 HK\$'000
Less than one month	64,998	28,996
1 to 2 months	11,342	-
More than 3 months	<u>2,304</u>	<u>-</u>
	<u>78,644</u>	<u>28,996</u>

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

	2020 HK\$'000	2019 HK\$'000
Current Liabilities		
Trade payables - note	41,243	11,385
Other payables and accruals	468,807	403,515
Receipt in advance	-	16,648
Amounts due to shareholders	<u>21,871</u>	<u>14,370</u>
	<u>531,921</u>	<u>445,918</u>

Note:

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

	2020 HK\$'000	2019 HK\$'000
Within 30 days	<u>41,243</u>	<u>11,385</u>

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

13. BANK AND OTHER BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank borrowings - secured	8,883	2,797
Other borrowings - secured	290,432	-
Other borrowings - unsecured	14,344	44,677
Corporate bonds - unsecured	<u>467,809</u>	<u>464,136</u>
	<u>781,468</u>	<u>511,610</u>
On demand or within one year	130,140	94,474
More than one year, but not exceeding two years	171,000	16,000
More than two years, but not exceeding five years	477,128	331,700
More than five years	<u>3,200</u>	<u>69,436</u>
	781,468	511,610
Amount due within one year included in current liabilities	<u>(130,140)</u>	<u>(94,474)</u>
Non-current portion	<u>651,328</u>	<u>417,136</u>

The range of effective interest rates on the Group's borrowings for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
Bank borrowings – secured	7.13%	6.53%
Other borrowings – unsecured	11.00% - 18.00%	12.00% - 30.00%
Corporate bonds – unsecured	<u>5.00% - 8.00%</u>	<u>5.00% - 8.00%</u>

14. CONVERTIBLE NOTE

The convertible note 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 2019	1,118,267	257	1,118,524
Amortisation of transaction costs (note 6(a))	6,625	-	6,625
Interest charge (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	<u>1,198,804</u>	<u>46</u>	<u>1,198,850</u>
Interest charge (note 6(a))	154,096	-	154,096
Change in fair value (note 5)	-	(37)	(37)
At 31 December 2020	<u><u>1,352,900</u></u>	<u><u>9</u></u>	<u><u>1,352,909</u></u>

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 2020 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 2020, 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 incurred a loss of HK\$182,879,000 for the year ended 31 December 2020, and as of that date, had net current liabilities of HK\$1,331,554,000. The convertible note with principal amount together with related interests of HK\$1,329,692,000 was matured without redemption in September 2020. As at 31 December 2020, these overdue convertible note and related interest totaling HK\$1,352,900,000 and related default interest (included in other payables and accruals) of HK\$62,101,000 were outstanding and became immediately repayable. In addition, the Group had current borrowings of HK\$130,140,000, trade and other payables and accruals (excluded the default interest) of HK\$469,820,000 as at 31 December 2020 while the Group only maintained its cash and cash equivalents of HK\$60,898,000.

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 two individuals, one individual is a shareholder and director of the Company and the other individual is an ex-shareholder and ex-director of the Company (collectively the “Funding Providers”), would be able to provide sufficient financial support to the Group to meet its operating needs and financial obligations in order to enable the Group to continue as a going concern for twelve months from the date of approval of the consolidated financial statements. 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 2020. 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 is achievable.

However, we were unable to verify the financial position of the Funding Providers 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 conclude whether it is appropriate for the directors to prepare the Company's consolidated financial statements on a going concern basis.

EXTRACTS OF THE INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 2019 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 2020. 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 2020."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2020, Sino Oil and Gas Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) recorded a total revenue of approximately HK\$325,371,000 (2019: HK\$476,614,000). The turnover included the sales of coalbed methane (“CBM”) in our Sanjiao CBM Project of approximately HK\$109,918,000 (2019: HK\$120,900,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK\$207,660,000 (2019: HK\$350,353,000), and the revenue from the financial services business in Shaanxi Province of approximately HK\$7,793,000 (2019: HK\$5,361,000).

The Group's turnover has dropped for the year due to the outbreak of Coronavirus Disease 2019 (“COVID-19”) for the year. However, as a result of our proper cost control and the recover from the COVID-19 pandemic in the second half of the year, the overall operation of the Group has remained stable for the year. During the year, the Group adopted stringent cost control, and administrative expenses has decreased by approximately 11.7%. For the financial year of 2020, the Group recorded a net loss of approximately HK\$182,879,000 (2019: net loss HK\$227,642,000), which was decreased significantly by nearly 20% compared with last year. During the year, the Group recorded earnings before interest, taxes, depreciation and amortization (“EBITDA”) of approximately HK\$82,874,000 (2019: HK\$98,152,000).

During the year, due to the impact of the COVID-19 pandemic, the sales and production volume of Sanjiao CBM Project has declined. We however, managed to adopt strict cost control measures in order to deal with uncertain market conditions, and the overall operation of the project has remained in a stable condition. Sanjiao CBM Project recorded EBITDA of approximately HK\$71,235,000 (2019: HK\$87,918,000). During the year, the project recorded a gas sale-to-production rate of approximately 94.7% (2019: 97.7%). Sanjiao CBM Project has entered into the development stage, and drilling and exploitation are undergoing in an orderly manner. We believe that the project will bring long-term and substantial profit to the Group.

The interest income amounted to approximately HK\$30,243,000 (2019: HK\$32,658,000) 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 has 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. 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 the 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 2020, Sanjiao CBM Project has completed a total of 140 wells, including 18 newly added wells compared with last year, and comprising 88 multilateral horizontal wells and 52 vertical wells. Out of the total 140 wells, 102 wells are in the normal dewatering and gas producing stage, of which 102 wells have accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 87.7 kilometers, and outbound pipelines of approximately 17 kilometers have been completed. Approximately total 87.5 kilometers of 10KV power grid and branch power line have also been installed.

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\$71,235,000 (2019: HK\$87,918,000). The CBM sales revenue amounted to approximately HK\$109,918,000 (2019: HK\$120,900,000). The production and sales volume of CBM were approximately 101.75 million cubic meters (2019: 103.22 million cubic meters) and 96.37 million cubic meters (2019: 100.87 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately 94.7% (2019: 97.7%). For the year, industrial and residential piped CBM sales accounted for approximately 88.15% (2019: 84.1%) and approximately 11.85% (2019: 15.9%) of total sales respectively, which was similar to that of last year.

In addition, the government subsidy and part of VAT tax refund of approximately HK\$24,430,000 (2019: HK\$38,886,000) for sales of CBM were received and disclosed 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, due to the COVID-19 pandemic, the revenue from the raw coal washing business decreased, which was approximately HK\$207,660,000 (2019: HK\$350,353,000). The business has resumed to normal by the fourth quarter of last year.

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 revenue of approximately HK\$7,793,000 (2019 : HK\$5,361,000).

Financial Review

Liquidity and Financial Resources

As at 31 December 2020, the net assets of the Group were approximately HK\$2,685,000,000 (31 December 2019: HK\$2,647,000,000) while its total assets were approximately HK\$5,631,000,000 (31 December 2019: HK\$4,977,000,000). As at 31 December 2020, the Group had external borrowings including the liability component of convertible note of approximately HK\$2,134,368,000 (31 December 2019: HK\$1,710,000,000), and the gearing ratio based on total assets was approximately 37.9% (31 December 2019: 34.36%). Information on repayment of the Group's borrowings is set out in note 13 to the financial statements as disclosed in this announcement. By the end of December 2020, the current ratio was approximately 0.34 (31 December 2019: 0.33).

In April 2020, the Group was granted a five-year term loan of RMB300,000,000 by Kunlun Trust Co., Ltd. As of 31 December 2020, the Group has made a drawdown in aggregate of RMB250,000,000 with an annual interest rate of 11%. The fund is solely used for the development of Sanjiao CBM Project.

In respect of the issue of the Group's net current liabilities position as at 31 December 2020, the convertible note with a principal amount of USD130 million (equivalent to approximately HK\$1,014 million) which was already matured with redemption in September 2020, posed 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 negotiation with the note holder on the above issue. Although no binding proposals or terms have been reached, the management have conducted in-depth discussion on several feasible options with potential investors and the note holder. The options include but are not limited to, (i) liaising the negotiation between the note holder and certain potential investors who are interested in acquiring the convertible note; and (ii) exploring the possibilities with the note holder to further extend the maturity of the convertible note.

Riding on the growth of the business of the Group and 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. It is expected that the Group's financial pressure will gradually be eased and the overall financial situation will 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 2020, 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 2020, the Group employed approximately 299 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

Last year, COVID-19 pandemic had severely blow on global economy. Fortunately, due to the effective control of the pandemic in China, the economy has taken the lead in recovering. In 2020, its GDP increased by 2.3% compared with 2019. Meanwhile, during the "14th Five-Year Plan", China plans to continue to promote the clean and efficient use of coal, and develop new energy. This is targeting to reduce carbon emissions by 18%, and to create a road map for achieving carbon neutrality. The Group expects that the demand for clean energy, in particular for natural gas, is going strong and the prospect of natural gas industry will still be very promising.

In 2020, the Group focused on an orderly development of the CBM project and added 18 multilateral horizontal wells, which is expected to increase more than 40 million cubic meters of CBM production capacity to Sanjiao CBM Project. The Group plans to accelerate the development in the coming 2-3 years so as to achieve 500 million cubic meters of production capacity. As a result, the Group believes that Sanjiao CBM Project will continue to have steady growth with increasing competitiveness in the long run. Its profitability will hence be further enhanced with good prospects.

Looking ahead, despite the current increasingly complicated economic and political environment, the Group will press forward the development of Sanjiao CBM Project in order to accelerate the growth of revenue. The Group will maintain cautious financial management measures and conduct debt management with a proactive attitude. At the same time, the Group will further improve operating effectiveness and efficiency, monitor costs, and strengthen risk management so that we are capable to have prompt response to the unforeseeable market changes. The Group will always prepare for the future development and to ensure reasonable 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 2020.

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 2020 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 2020 except for code provision A.2.1 relating to separate roles of Chairman and Chief Executive Officer with details set out below:

Mr. King Hap Lee was re-designated from Executive Director and Chief Executive Officer to Non-executive director of the Company and Dr. Dai Xiaobing, Executive Director and Chairman of the Board, was appointed to act as Chief Executive Officer of the Company concurrently with effect from 14 September 2020. The Board believes that having the same individual in both roles as Chairman of the Board and Chief Executive Officer helps to ensure consistent leadership so that the overall strategy of the Group can be implemented more efficiently and effectively. The Board also believes that the balance of power and authority will not be impaired and is adequately ensured by the current Board which comprises experienced and high caliber individuals with one third of them being independent non-executive directors.

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 2020.

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

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises two Executive Directors, namely, Dr. Dai Xiaobing and Mr. Wan Tze Fan Terence; four Non-executive Directors, namely, Mr. King Hap Lee, Mr. Huang Shaowu, Ms. Cai Yanling and Mr. Tsang Hing Bun; and three Independent Non-executive Directors, namely, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.