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

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board") of Sino Oil and Gas Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000
Revenue	5	**314,790**	310,649
Direct costs		**(299,488)**	(287,913)
Gross profit		**15,302**	22,736
Other income	6	**42,796**	28,607
Other (losses) and gains, net	7	**(20,470)**	64,092
Selling and distribution expenses		**(1,970)**	-
Administrative expenses		**(39,728)**	(42,468)
(Loss)/Profit from operations		**(4,070)**	72,967
Finance costs	8(a)	**(158,261)**	(138,121)
Share of loss of an associate		**(99)**	(289)
Loss before income tax expense	8	**(162,430)**	(65,443)
Income tax expense	9	**(2,173)**	(2,125)
Loss for the period		**(164,603)**	(67,568)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2018

	Notes	**2018 (Unaudited) HK$'000**	2017 (Unaudited) HK$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(98,822)**	142,432
Changes in fair value of available-for-sale investments		**-**	(236)
Item that will not be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income (non-recycling)		**(4,151)**	-
Other comprehensive income for the period, after tax		**(102,973)**	142,196
Total comprehensive income for the period		**(267,576)**	74,628
(Loss) / profit attributable to:			
Owners of the Company		**(165,176)**	(69,809)
Non-controlling interests		**573**	2,241
		(164,603)	(67,568)
Total comprehensive income attributable to:			
Owners of the Company		**(269,503)**	72,022
Non-controlling interests		**1,927**	2,606
		(267,576)	74,628
Loss per share		HK$ cents	HK$ cents
- Basic and diluted	11	**(0.887)**	(0.411)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30.06.2018 (Unaudited) HK$'000	30.06.2018 (Unaudited) HK$'000	31.12.2017 (Audited) HK$'000	31.12.2017 (Audited) HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12		**2,075,757**		2,110,392
Oil and gas exploration and evaluation assets			**59,776**		57,255
Payment for leasehold land held for own use			**4,188**		4,356
Intangible assets	13		**2,311,650**		2,353,579
Goodwill			**51,208**		51,877
Interest in a joint venture			**-**		-
Interest in an associate			**58,756**		59,137
Financial assets at fair value through profit or loss			**29,688**		30,077
Financial assets at fair value through other comprehensive income			**1,258**		-
Available-for-sale investments			**-**		5,409
Deposits and prepayments	14		**90,785**		95,777
Loan receivables			**15,921**		19,211
Total non-current assets			**4,698,987**		4,787,070
Current assets					
Inventories		**60,044**		15,070	
Financial assets at fair value through profit or loss		**15,325**		21,529	
Trade, notes and other receivables, deposits and prepayments	14	**401,016**		438,570	
Short-term investment		**76,208**		77,205	
Loan receivables		**22,992**		48,029	
Amount due from a joint venture		**320**		320	
Cash and cash equivalents		**57,729**		21,766	
Total current assets		**633,634**		622,489	
Total assets			**5,332,621**		5,409,559
Current liabilities					
Trade, other payables and accruals	15	**(418,427)**		(407,832)	
Borrowings	16	**(130,400)**		(77,437)	
Convertible notes	17	**(160,442)**		(297,142)	
Financial liabilities at fair value through profit or loss	17	**(53,313)**		(37,895)	
Taxation		**(6,257)**		(6,474)	
Total current liabilities		**(768,839)**		(826,780)	
Net current liabilities			**(135,205)**		(204,291)
Total assets less current liabilities			**4,563,782**		4,582,779

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2018

	Notes	HK$'000	30.06.2018 (Unaudited) HK$'000	HK$'000	31.12.2017 (Audited) HK$'000
Non-current liabilities					
Provisions		**(6,623)**		(6,709)	
Borrowings	16	**(454,120)**		(456,451)	
Convertible notes	17	**(1,013,802)**		(940,889)	
Deferred tax		**(13,173)**		(14,235)	
Total non-current liabilities			**(1,487,718)**		(1,418,284)
NET ASSETS			**3,076,064**		3,164,495
Capital and reserves attributable to owners of the Company					
Share capital	18		**199,188**		165,388
Reserves			**2,858,294**		2,982,452
Equity attributable to owners of the Company			**3,057,482**		3,147,840
Non-controlling interests			**18,582**		16,655
TOTAL EQUITY			**3,076,064**		3,164,495

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated as an exempted company with limited liability in Bermuda on 2 November 1999 under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 9 February 2000. The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and Suite 1201-1202, 12/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong, respectively.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION

(a) Basis of preparation

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The preparation of an interim report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report is unaudited, but has been reviewed by the Company's Audit Committee.

The financial information relating to the financial year ended 31 December 2017 that is included in this interim financial report as being previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The auditor has expressed disclaimer of opinion on those financial statements in his report dated 29 March 2018. Statutory financial statements for the year ended 31 December 2017 are available from the Company's head office or at the Company's website (www.sino-oilgas.hk).

(b) Going concern assumption

As at 30 June 2018, the Group had net current liabilities of HK$135,205,000. It indicates the existence of uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

2. BASIS OF PREPARATION AND GOING CONCERN ASSUMPTION (Continued)

The Group is actively identifying any possible financing options to strengthen the liquidity of the Group. In July 2018, the Company issued 3,980,000,000 and 3,980,000,000 ordinary shares at a price of HK$0.036 and HK$0.03 respectively to two independent investors. The total net proceeds from these two subscriptions is approximately HK$262,000,000. The Group has settled the principal and interest of certain convertible notes with total amount of approximately HK$200,000,000 and also partially settled borrowings of HK$45,000,000 subsequent to the date of reporting. After the above-mentioned shares subscriptions and settlement of certain current financial obligations, the Group is in net current assets position.

In addition, the three major shareholders of the Company have confirmed that they will provide continuing and sufficient financial support to the Group when the Group faces difficulties. 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 condensed consolidated financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statement for the period ended 30 June 2018 on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, which have been prepared in accordance with all applicable HKFRSs, except for the new standards, amendments and interpretations of HKFRSs issued by HKICPA which have become effective in this period.

Details of the changes in accounting policies due to the adoption of new and revised HKFRSs are set out in note 4.

4. ADOPTION OF NEW AND REVISED HKFRSs

The HKICPA has issued a number of HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from Contracts with Customers
- Amendments to HKFRS 2, Classification and Measurement of Share-Based Payment Transactions
- Amendments to HKFRS 15, Revenue from Contracts with Customers (Clarification to HKFRS 15)
- HK(IFRIC) – Int 22, Foreign Currency Transactions and Advance Consideration
- Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Asset between an Investor and its Associate or Joint Venture

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue

4. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

from Contracts with Customers have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

(a) HKFRS 9, Financial instruments, including the amendment to HKFRS 9

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

The following table gives a summary of each line item in the condensed consolidated statement of financial position that has been impacted by HKFRS 9 as at 1 January 2018:

	Carrying amounts at 31 December 2017 under HKAS 39 HK$'000	Reclassification under HKFRS 9 HK$'000	Carrying amounts at 1 January 2018 under HKFRS 9 HK$'000
Financial assets at fair value through other comprehensive income ("FVTOCI")	-	5,409	5,409
Available-for-sale investments	5,409	(5,409)	-
Fair value reserve (non-recycling)	-	(2,188)	(2,188)
Available-for-sale investments reserve (recycling)	(2,188)	2,188	-

The classification and carrying amounts for all financial liabilities of the Group at 1 January 2018 have not been materially impacted by the initial adoption of HKFRS 9.

Impairment of financial assets

HKFRS 9 replaces the "incurred loss" impairment model in HKAS 39 with a forward-looking "expected credit loss" model. The Group applies simplified approach to recognise lifetime expected losses for all receivables. The credit losses calculated pursuant to the new requirements are not significantly different from the amounts recognised under the current practices. Therefore, the Group considered no adjustment is necessary.

(b) HKFRS 15, Revenue from Contracts with Customers, including the amendment to HKFRS 15

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is

4. ADOPTION OF NEW AND REVISED HKFRSs (Continued)

recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group. Therefore, the Group considered no adjustment is necessary.

5. REVENUE AND SEGMENT REPORTING

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

The Group has four (2017: four) reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

i) Coalbed methane:	Exploration, development and production of coalbed methane
ii) Raw and cleaned coal:	Raw coal washing and sale of raw and cleaned coal
iii) Oil and gas exploitation:	Exploitation and sale of crude oil and natural gas
iv) Financial services:	Provision of 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.

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 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[1]	44,147	267,488	-	3,155	-	314,790
Segment results[2]	15,612	5,627	6,577	4,247	(20,715)	11,348
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	(15,418)	(15,418)
Finance costs	-	(1,161)	-	-	(157,100)	(158,261)
Share of loss of an associate	(99)	-	-	-	-	(99)
Profit/(loss) before income tax expense	15,513	4,466	6,577	4,247	(193,233)	(162,430)
Income tax expense	-	(2,173)	-	-	-	(2,173)
Profit/(loss) for the period	15,513	2,293	6,577	4,247	(193,233)	(164,603)
Assets and liabilities						
At 30 June 2018						
Reportable segment assets[3]	4,549,202	274,558	342,436	41,407	125,018	5,332,621
Reportable segment liabilities[3]	307,738	60,196	-	554	1,888,069	2,256,557

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 2017, the segment information about these businesses is set out as follows:

	Coalbed methane HK$'000	Raw and cleaned coal HK$'000	Oil and gas exploitation HK$'000	Financial services HK$'000	Unallocated HK$'000	Total HK$'000
Results						
Revenue from external customers	37,769	272,000	-	880	-	310,649
Segment results[2]	12,691	11,104	7,905	(3,645)	(16,532)	11,523
Change in fair value of financial liabilities through profit or loss	-	-	-	-	61,444	61,444
Finance costs	-	(2,606)	-	-	(135,515)	(138,121)
Share of loss of an associate	(289)	-	-	-	-	(289)
Profit/(loss) before income tax expense	12,402	8,498	7,905	(3,645)	(90,603)	(65,443)
Income tax expense	-	(2,125)	-	-	-	(2,125)
Profit/(loss) for the period	12,402	6,373	7,905	(3,645)	(90,603)	(67,568)
Assets and liabilities						
At 30 June 2017						
Reportable segment assets[3]	4,453,951	267,837	320,779	50,265	123,275	5,216,107
Reportable segment liabilities[3]	230,410	85,843	16	81	1,781,924	2,098,274

5. REVENUE AND SEGMENT REPORTING (Continued)

Notes:

1. The contract assets are recognised as receivables only if the Group has an unconditional right to consideration of a contract with customer. If the Group recognises the related revenue before being unconditionally entitled to that consideration, the entitlement to consideration is recognised as contract assets. Contract liabilities are associated with consideration received from customers in advance of transferring goods promised in a contract. Contract assets and contract liabilities arising from the Company's contracts with customers as at 30 June 2018 are recorded within trade, notes and other receivables, deposits and prepayments (note 14(iv)) and trade, other payables and accruals (note 15(ii)) respectively. There have been no impairment loss recognised related to the contract assets.

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

3. Unallocated assets mainly include cash and cash equivalents in head office, short term investment, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale investments. Unallocated liabilities mainly include financial liabilities at fair value through profit or loss, borrowings and convertible notes.

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Interest income		
- bank deposits	**6**	43
- short-term investment	**5,103**	4,688
- others – note (i)	**10,432**	11,858
Total interest income on financial assets that are not at fair value through profit or loss	**15,541**	16,589
Government subsidies and grants – note (ii)	**26,774**	11,880
Others	**481**	138
	42,796	28,607

Notes:

(i) It mainly represents the interest income from the refundable deposits paid for possible acquisitions of Canada oil fields. Details please refer to note 14(iv).

(ii) It represents the regular subsidies received during the period from relevant government authority on the sales of coalbed methane for the year of 2017 (six months ended 30 June 2017: for the year of 2016) and VAT refund on the sales of coalbed methane from local tax bureau (six months ended 30 June 2017: nil). Both of them were generated from the coalbed methane segment as disclosed in note 5.

NOTES TO THE FINANCIAL STATEMENTS

7. OTHER (LOSSES) AND GAINS, NET

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Change in fair value of financial liabilities at fair value through profit or loss	**(15,418)**	61,444
Exchange loss, net	**(2,494)**	(566)
Others	**(2,558)**	3,214
	(20,470)	64,092

8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
a) Finance costs		
Amortisation of convertible notes transaction costs	**-**	7,658
Amortisation of corporate bonds transaction costs	**5,880**	5,183
Interest on borrowings	**19,962**	-
Imputed interest on convertible notes	**126,403**	133,065
Interest on corporate bonds	**17,076**	14,436
Others	**940**	2,779
	170,261	163,121
Less: interest capitalised in qualifying assets	**(12,000)**	(25,000)
	158,261	138,121
b) Employee costs (including directors' remuneration)		
Salaries, wages and other benefits	**13,320**	15,611
Contributions to defined contribution retirement plan	**267**	290
	13,587	15,901
c) Other items		
Cost of inventories sold recognised as expenses	**253,289**	253,375
Depreciation of property, plant and equipment	**27,669**	21,613
Amortisation of payments for leasehold land held for own use	**115**	106
Amortisation of intangible assets	**11,358**	10,083
Minimum lease payments under operating lease – property rentals	**7,220**	5,407

NOTES TO THE FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the group companies did not have any estimated assessable profits subject to Hong Kong profits tax for the period ended 30 June 2018 and 2017. During the period ended 30 June 2018 and 2017, the subsidiaries in the People's Republic of China ("PRC") were subject to statutory tax rate of 25%.

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

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current income tax		
- PRC enterprises income tax	**3,085**	2,963
Deferred tax for the period	**(912)**	(838)
Income tax expense	**2,173**	2,125

10. DIVIDEND

The directors have neither declared nor proposed any dividends in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

11. 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$165,176,000 (six months ended 30 June 2017: loss of HK$69,809,000) and the weighted average number of 18,611,618,000 (six months ended 30 June 2017: 16,982,953,000) ordinary shares in issue during the period.

b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2018 and 30 June 2017 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 period ended 30 June 2018 and 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group incurred the expenditure on property, plant and equipment with a cost of HK$13,190,000 (six months ended 30 June 2017: HK$62,863,000) and interest capitalised is HK$12,000,000 (six months ended 30 June 2017: HK$25,000,000).

13. INTANGIBLE ASSETS

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

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

	30.6.2018 HK$'000	31.12.2017 HK$'000
Non-current assets		
Deposits and prepayments – note (ii)	**90,785**	95,777
Current assets		
Trade receivables– note (i)	**17,470**	8,367
Notes receivable	**3,615**	18,371
Other receivables – note (iii)	**69,835**	54,418
	90,920	81,156
Utility deposits	**2,069**	2,781
Other deposits and prepayments – note (iv)	**308,027**	354,633
	310,096	357,414
	401,016	438,570

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

Notes:

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

	30.6.2018 **HK$'000**	31.12.2017 HK$'000
1 - 30 days	**9,839**	3,652
31 - 60 days	**4,686**	-
61 - 90 days	**2,617**	3,401
Over 90 days	**328**	1,314
	17,470	8,367

(ii) As at 30 June 2018, the balance included prepaid exploration costs of HK$77,747,000 (31 December 2017: HK$79,968,000) on the Group's construction in progress.

(iii) As at 30 June 2018, the balance included mainly consideration receivables of HK$24,000,000 (31 December 2017 : HK$24,000,000) on the disposal of a subsidiary.

(iv) As at 30 June 2018, the balance mainly included prepayment to a raw coal supplier of HK$1,690,000 (31 December 2017: HK$50,138,000), deposits of HK$238,776,000 (31 December 2017: HK$248,523,000) paid for possible acquisitions of Canada oil fields and interest receivables of HK$50,248,000 (31 December 2017: HK$41,737,000) in relation to these deposits. The deposits were interest bearing at 8.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE, OTHER PAYABLES AND ACCRUALS

	30.6.2018 **HK$'000**	31.12.2017 HK$'000
Trade payables	**20,094**	30,662
Other payables and accruals – note (i)	**317,820**	325,343
Receipt in advance – note (ii)	**75,210**	34,972
Amounts due to shareholders – note (iii)	**5,303**	16,855
	418,427	407,832

Notes:

(i) Other payables mainly included exploration costs payable of approximately HK$273,723,000 (31 December 2017: HK$269,828,000) in respect of oil and gas properties.

(ii) It represents the receipt in advance of HK$50,000,000 (31 December 2017: nil) from the share subscriptions in July 2018 as disclosed in the note 19(i) and the receipt in advance from sale of cleaned coal amounted to HK$ 25,210,000 (31 December 2017: HK$34,972,000).

(iii) The loans were unsecured, interest free and repayable on demand.

16. BORROWINGS

	30.6.2018 **HK$'000**	31.12.2017 HK$'000
Other borrowings - unsecured	**117,000**	77,437
Corporate bonds - unsecured	**467,520**	456,451
	584,520	533,888
On demand or within one year	**130,400**	77,437
More than one year, but not exceeding two years	**-**	10,400
More than two years, but not exceeding five years	**288,000**	257,000
More than five years	**166,120**	189,051
	584,520	533,888
Amount due within one year included in current portion	**(130,400)**	(77,437)
Non-current portion	**454,120**	456,451

NOTES TO THE FINANCIAL STATEMENTS

17.CONVERTIBLE NOTES

	Liabilities component HK'000	Derivative component HK'000	Equity component HK'000	Total HK'000
At 1 January 2017	**1,230,412**	**224,937**	**10,409**	**1,465,758**
Released upon expiry	**(167,064)**	**-**	**(10,409)**	**(177,473)**
Amortisation of transaction costs	**14,872**	**-**	**-**	**14,872**
Imputed interest expense	**264,658**	**-**	**-**	**264,658**
Interest paid	**(104,847)**	**-**	**-**	**(104,847)**
Change in fair value	**-**	**(187,042)**	**-**	**(187,042)**
At 31 December 2017 and at 1 January 2018	**1,238,031**	**37,895**	**-**	**1,275,926**
Released upon expiry	**(144,324)**	**-**	**-**	**(144,324)**
Imputed interest expense	**126,403**	**-**	**-**	**126,403**
Interest paid	**(45,866)**	**-**	**-**	**(45,866)**
Change in fair value	**-**	**15,418**	**-**	**15,418**
At 30 June 2018	**1,174,244**	**53,313**	**-**	**1,227,557**

Note: During the six months ended 30 June 2018, the Group partially settled one of the convertible notes ("the Bond") with principal amount of HK$29,000,000 and entered into an agreement with the holder of the Bond to extend the maturity date of the Bond with the remaining principal amount of HK$107,000,000 while the conversion right attached expired. Accordingly, the outstanding amount of the Bond of HK$107,000,000 was reclassified as borrowings as disclosed in the note 16 to the financial statements.

18. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Issued and fully paid		
At 1 January 2017	17,093,656	170,937
Shares repurchased	(554,865)	(5,549)
At 31 December 2017 and at 1 January 2018	16,538,791	165,388
Shares issued on placing - note	3,380,000	33,800
At 30 June 2018	19,918,791	199,188

Note: During the six months ended 30 June 2018, 3,380,000,000 ordinary shares were subscribed at HK$0.053 per share.

19. EVENTS AFTER THE REPORTING PERIOD

(i) In July 2018, the Company issued 3,980,000,000 and 3,980,000,000 ordinary shares at a price of HK$0.036 and HK$0.03 respectively to two independent investors. The total net proceeds from these two subscriptions of approximately HK$262,000,000 was mainly used for settlement of principal and interest of certain convertible notes with total amount of approximately HK$200,000,000, settlement of borrowings of HK$45,000,000 and the remaining amount was used for general working capital of the Group.

(ii) With the approval by the shareholders of the Company at the Special General Meeting held on 8 August 2018, every ten issued and unissued then existing shares of par value of HK$0.01 each in the share capital of the Company be consolidated into one consolidated share of par value of HK$0.10 each. Accordingly, the number of authorised and issued shares, exercise price of existing share options and convertible notes are adjusted. For details, please refer to the circular and the announcement issued by the Company on 19 July 2018 and 15 August 2018 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2018, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a total revenue of approximately HK$314,790,000 (2017 interim: HK$310,649,000). The turnover included the sales of coalbed methane ("CBM") in our Sanjiao CBM Project of approximately HK$44,147,000 (2017 interim: HK$37,769,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$267,488,000 (2017 interim: HK$272,000,000), and the income from the financial services business in Shaanxi Province of approximately HK$3,155,000 (2017 interim: HK$880,000).

When China's coal-to-gas policy continues to drive natural gas demand, business of Sanjiao CBM Project grows steadily. During the period, Sanjiao CBM Project recorded earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately HK$50,354,000 (2017 interim: HK$40,055,000) , which increased by approximately 26% compared with the same period last year. The government subsidies and VAT tax refund arising from the sales in 2017 were approximately HK$26,774,000 (2017 interim: government subsidies generated from the sales of 2016 were HK$11,880,000). The fundamentals of China's natural gas market remain robust, and the operation of the Sanjiao CBM Project has entered into the development stage, which is establishing a solid base for profitability. The project will continue to be the growth driver of the Group's business and provide long-term profit contribution.

During the period, the Group recorded EBITDA of approximately HK$34,973,000 (2017 interim：EBITDA HK$ 104,480,000), but net loss of approximately HK$164,603,000 (2017 interim: net loss HK$67,568,000). It was mainly because there was a loss of fair value change of financial liabilities arising from the relevant convertible notes of approximately HK$15,418,000 during the period (2017 interim: gain on fair value change HK$61,444,000) (Please refer to note 7 for details). According to the Hong Kong Financial Reporting Standards, the above fair value change was a non-cash accounting item. It had no impact on the cash flow and operations of the Group. On the other hand, the Group has redeemed some of the convertible notes and repaid certain financial obligations in July. It is expected that the finance costs will slightly decrease in the second half of the year, which will have a positive impact on the financial performance of the Group for the whole year.

The interest income amounted to approximately HK$10,432,000 (2017 interim: HK$11,858,000) disclosed in "other income", mainly derived from the refundable deposits of CAD40 million of the Group's possible acquisitions located in Alberta, Canada.

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 in July 2017 with an approved CBM production capacity of 500 million cubic meters per annum. The mining permit shall be valid for 25 years from July 2017 to July 2042. At this point, all necessary administrative approvals under the current PRC laws and regulations have been obtained for exploration, development, exploitation and production phases of Sanjiao CBM Project.

Infrastructure

As at 30 June 2018, the Sanjiao CBM Project has completed a total of 117 wells, comprising 65 multilateral horizontal wells and 52 vertical wells. Out of the total 117 wells, 86 wells were in the normal dewatering and gas producing stage, of which 85 wells had accessed to a gas collection pipeline network. It is expected that there will be 6 new wells of the project will go on-stream before the end of the year. It is anticipated that the production and sales volume of CBM will increase. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 63.2 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 68.9 kilometers of 10KV power grid and branch power line were also completed.

The Group has completed the expansion of the CBM processing station, its total CBM daily processing capacity has reached 500,000 cubic meters. During the period, to cope with the increasing production volume of Sanjiao CBM Project in future, the Group has undertaken the expansion plan of the station. Its daily processing capacity will reach 750,000 cubic meters upon completion.

Sales

During the period, Sanjiao CBM Project recorded EBITDA of approximately HK$50,354,000 (2017 interim: HK$40,055,000) , which increased by approximately 26% compared with the same period last year. The government subsidies and VAT tax refund arising from the sales in 2017 were approximately HK$26,774,000 (2017 interim: government subsidies generated from the sales of 2016 were HK$11,880,000). CBM sales amounted to HK$44,147,000 (2017 interim: HK$37,769,000), which has increased by 16.9% as compared with the same period of last year. During the period, the production and sales of CBM were approximately 47.68 million cubic meters (2017 interim: 37.90 million cubic meters) and 40.02 million cubic meters (2017 interim: 34.17 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately 84% for the period (2017 interim: approximately 90%). The production and sales decreased compared with the same period of last year mainly because of the repair and maintenance work done for the CBM processing station at the beginning of the year, so that certain amount of CBM was flared. After that, during the period, the operation of the CBM processing station and the sales of CBM have been back to normal. In terms of the composition of gas sales throughout the period, industrial piped CBM sales accounted for approximately 85.3% of total sales (2017 interim : 87.3%), while residential piped CBM sales contributed approximately 14.7%

(2017 interim: 12.7%). Same as last year, all CBM was sold by pipeline.

Raw Coal Washing Project Located in Shanxi Province

The Group acquired a 75% equity interest of a raw coal washing project company located in Qinshui Basin, Shanxi Province in mid-2015. During the period, the total sale of refined coal of the project was approximately 162,900 tonnes (2017 interim : 218,500) tonnes. The turnover of the business was approximately HK$267,488,000 (2017 interim: HK$ 272,000,000). The decline in clean coal sales was mainly due to the internal factors of the supplier and the raw coal supply was unstable at the end of last year. The supply of raw coal has been back to normal in the second quarter of 2018. The successful implementation of China's supply-side reform has made the coal industry gradually stabilized since last year. In the first half of 2018, the industry was able to maintain a steady and improving trend and the selling price of refined coal products has increased steadily. With the sale and purchase agreement entered into by both parties, the vendor will provide the Group with profit guarantee for six consecutive years. The project will continue to contribute stable income and cash flow to the Group. During the period, the Group has received part of the shortfall of the Guaranteed Profit of approximately RMB 5,000,000 for the year 2017.

Others

At the end of 2016, the Group set up a wholly-owned subsidiary, Shaanxi Zhao Yin Finance Leasing Company Limited ("Zhao Yin Finance Leasing ") in Shaanxi Province. The major purpose of the establishment of this finance leasing company is to strengthen the Group's bank-enterprise relations, possible business partnership as well as to seek for the suitable financing channels and sources for the Group's upcoming possible mergers and acquisitions and development. Further it may provide short-term investment opportunities for the Group's capital. During the period, the business recorded an income of approximately HK$3,155,000 (2017 interim: HK$880,000).

Possible Acquisition — Oilfield in Alberta, Canada

With the purpose of further enriching the Group's resources reserves, apart from actively seeking suitable oil and gas blocks in China, the Group is also exploring investment opportunities in overseas upstream businesses. The Group hence entered into two non-legally-binding memorandums of understanding ("MOUs") in June and September 2014. The acquisition targets are oil and gas fields located in Alberta Province, Canada. The Company expects that overseas acquisition activities can expand the Group's business portfolio of natural gas and oil which will contribute profit and cash flow. Further, this can augment the Group's overall risk resistance capacity when facing unstable external factors.

In December 2017, the Group and the vendor have agreed to further extend the time limit for entering into formal agreements in respect of the terms in the MOUs to 30 September 2018, and both parties are confident that the transaction can be finalized within the year. Otherwise, the Group may consider to advise the vendor to refund the relevant deposits.

Financial Review

Liquidity and Financial Resources

As at 30 June 2018, the net assets of the Group were approximately HK$3,076,000,000 (31 December 2017: HK$3,164,000,000) while its total assets were approximately HK$5,333,000,000 (31 December 2017: HK$5,410,000,000). As at 30 June 2018, the Group had external borrowings including the liability component of convertible notes of approximately HK$1,759,000,000 (31 December 2017: HK$1,772,000,000), and the gearing ratio based on total assets was approximately 32.98% (31 December 2017: 32.75%). As at 30 June 2018, the current ratio was approximately 0.82 (31 December 2017: 0.75). Information on repayment of the Group's borrowings is set out in note 16 to the financial statements as disclosed in this announcement.

In March 2018, the Company issued a total of 3,380,000,000 new shares (which represents 338,000,000 shares after share consolidation*) to an independent investor. The net proceeds from the subscription of approximately HK$178,000,000, of which approximately HK$80 million has been used for partial settlement of the principal and interest of certain convertible notes of the Company; approximately HK$90 million has been used for settling the outstanding loans of the Group, and the remaining balance as working capital of the Group.

In July 2018, the Group issued 3,980,000,000 shares (which represents 398,000,000 shares after share consolidation*) to each of the two independent investors respectively, with a total of 7,960,000,000 new shares (which represents 796,000,000 shares after share consolidation*). The net proceeds from the respective subscription were approximately HK$142,780,000 and HK$118,900,000, of which approximately HK$200,000,000 was used for partial settlement of the principal and interest of certain convertible notes of the Company; approximately HK$45,000,000 was used for settling the short-term loans of the Group, and the remaining balance as working capital of the Group.

During the period and after interim reporting period, quality shareholders have been introduced to the Company in order to raise capital and optimize shareholding structure. The cash flow situation of the Company has been improved. After settling certain financial obligations, the Group's short-term loans have been reduced, the Company's asset structure has also been improved. In addition, the operation of the Sanjiao CBM Project has entered into development stage and brought operating cash flow to the company. The overall financial position of the Group has changed from the net current liabilities position at the end of 2017 to the level of net current assets as at the date of this announcement.

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

Foreign Exchange Fluctuations

The Group is exposed to currency risk primarily through sales and purchase transactions and recognized liabilities of assets that are denominated in a currency other than the functional currency of the operations to which they relate. As at 30 June 2018, no related hedges were made by the Group. In respect to trade and other receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Employees and Remuneration Policies

As at 30 June 2018, the Group employed approximately 310 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

According to the "Natural Gas Market Report 2018" released by the International Energy Agency in July 2018, it is expected China will become the world's largest natural gas importer in 2019, and by 2023, its imported natural gas may reach 171 billion cubic meters. The increase of natural gas demand in China is expected in the future, and the entire natural gas industry will be in a prime time of growth.

As a key area for the CBM development, the General Office of the People's Government of Shanxi Province issued the "Implementation Plan for Deepening the CBM (Natural Gas) System Reform in Shanxi Province" in March of this year. It targets to build a market system with effective supervision, orderly competition and fairly accessed in order to promote a healthy, safe, efficient and sustainable development of the CBM industry and accelerate the development of the CBM industry as a pillar industry in the diversified industrial system of Shanxi Province. Against the backdrop of the rapid development of natural gas industry with state support, a favorable business environment for the CBM industry growth has been created. The Group believes that the Sanjiao CBM Project will continue to have steady development with increasing competitiveness. Its profitability will be further enhanced with excellent prospects.

Looking ahead, the Group will focus to push forward the construction and development of the Sanjiao CBM Project, and formulate a clear plan to increase productivity to support a steady growth, so as to lay a solid foundation for the expansion of the Group's business presence and sustain a long-term and healthy development. Riding on this foundation, the Group will assess appropriate oil and gas project merger and acquisition opportunities in a prudent and pragmatic manner, and hope to enhance the sustainability and stability of the returns in a balanced business portfolio. The Group can therefore maintain long-term growth momentum, and generate substantial returns for shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick and Dr. Wang Yanbin, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim report of the Company for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018.

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

Hong Kong, 30 August 2018

As at the date of this announcement, the Board comprises three Executive Directors, namely, Dr. Dai Xiaobing, Mr. King Hap Lee and Mr. Wan Tze Fan Terence; four Non-executive Directors, Mr. Chen Hua, Mr. Huang Shaowu, Mr. He Lin Feng and Ms. Chai Lin, and four Independent Non-executive Directors, namely, Mr. Wong Kwok Chuen Peter, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.