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 2020

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 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000
Revenue	5	**118,884**	157,807
Direct costs		**(96,979)**	(133,752)
Gross profit		**21,905**	24,055
Other income	6	**39,513**	39,821
Other losses, net	7	**(4)**	(55)
Selling and distribution expenses		**(4,509)**	(4,025)
Administrative expenses		**(23,654)**	(32,642)
Profit from operations		**33,251**	27,154
Finance costs	8(a)	**(100,982)**	(92,146)
Share of profit/(loss) of an associate		**10**	(101)
Loss before income tax expense	8	**(67,721)**	(65,093)
Income tax expense	9	**649**	(1,964)
Loss for the period		**(67,072)**	(67,057)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2020

	Notes	**2020 (Unaudited) HK$'000**	2019 (Unaudited) HK$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(61,240)**	(65,917)
Item that will not be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		**(50)**	-
Other comprehensive income for the period, after tax		**(61,290)**	(65,917)
Total comprehensive income for the period		**(128,362)**	(132,974)
Loss attributable to:			
Owners of the Company		**(67,577)**	(69,462)
Non-controlling interests		**505**	2,405
		(67,072)	(67,057)
Total comprehensive income attributable to:			
Owners of the Company		**(128,693)**	(135,115)
Non-controlling interests		**331**	2,141
		(128,362)	(132,974)
Loss per share		**HK$ cents**	HK$ cents
- Basic and diluted	11	**(2.02)**	(2.08)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30.6.2020 (Unaudited) HK$'000	30.6.2020 (Unaudited) HK$'000	31.12.2019 (Audited) HK$'000	31.12.2019 (Audited) HK$'000
Non-current assets					
Property, plant and equipment			**1,968,893**		2,020,056
Oil and gas exploration and evaluation assets			**68,587**		70,870
Right-of-use assets			**9,076**		11,171
Intangible assets			**2,058,979**		2,107,856
Goodwill			**11,128**		11,347
Interest in a joint venture			**-**		-
Interest in an associate			**57,358**		57,549
Financial assets at fair value through profit or loss			**16,539**		16,237
Equity investments designated at fair value through other comprehensive income			**453**		503
Deposits and prepayments	12		**29,477**		44,152
Loans receivable			**49,465**		64,415
Total non-current assets			**4,269,955**		4,404,156
Current assets					
Inventories		**50,103**		9,906	
Financial assets at fair value through profit or loss		**14,331**		15,956	
Trade, notes and other receivables, deposits and prepayments	12	**446,004**		456,571	
Short-term investment		**65,714**		67,104	
Loans receivable		**26,541**		8,725	
Amount due from a joint venture		**323**		320	
Restricted cash at banks		**927**		10,096	
Cash and cash equivalents		**119,207**		3,728	
Total current assets		**723,150**		572,406	
Total assets			**4,993,105**		4,976,562
Current liabilities					
Trade and other payables and accruals	13	**(303,583)**		(445,918)	
Borrowings	14	**(110,236)**		(94,474)	
Convertible note	15	**(1,270,773)**		(1,198,804)	
Financial liabilities at fair value through profit or loss	15	**(9)**		(46)	
Deferred income		**(1,856)**		(1,921)	
Lease liabilities		**(3,900)**		(4,778)	
Taxation		**(8,391)**		(8,931)	
Total current liabilities		**(1,698,748)**		(1,754,872)	
Net current liabilities			**(975,598)**		(1,182,466)
Total assets less current liabilities			**3,294,357**		3,221,690

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2020

		30.6.2020 (Unaudited)		31.12.2019 (Audited)	
		HK$'000	**HK$'000**	HK$'000	HK$'000
Non-current liabilities					
Provisions		**(11,911)**		(12,146)	
Borrowings	14	**(605,013)**		(417,136)	
Deferred income		**(147,840)**		(132,691)	
Lease liabilities		**(1,591)**		(2,340)	
Deferred tax liabilities		**(9,347)**		(10,360)	
Total non-current liabilities			**(775,702)**		(574,673)
NET ASSETS			**2,518,655**		2,647,017
Capital and reserves attributable to owners of the Company					
Share capital			**334,544**		334,544
Reserves			**2,174,948**		2,303,641
Equity attributable to owners of the Company			**2,509,492**		2,638,185
Non-controlling interests			**9,163**		8,832
TOTAL EQUITY			**2,518,655**		2,647,017

NOTES TO THE CONDENSED CONSOLIDATED 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 44/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, 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 2019 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 2019 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 31 March 2020. Statutory financial statements for the year ended 31 December 2019 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 2020, the Group had net current liabilities of HK$975,598,000. It indicates the existence of uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

In respect of the issue of the Group's net current liabilities position as at 30 June 2020, the convertible note with a principal amount of HK$1,014 million due in late September 2020, posing a relatively great financial pressure to the Group. The Group has explored various plans during the period 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 proposals 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) assisting the negotiation of certain potential investors with the note holder 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.

In addition, three major shareholders and directors of the Company have confirmed that they will provide continuing and sufficient financial support to the Group when the Group faces financial difficulties. The Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statement for the period ended 30 June 2020 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 2019 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

In the current period, the Group has applied, for the first time, the following new standards and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

• Amendments to HKFRS 3	Definition of a Business
• Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform
• Amendments to HKAS 1 and HKAS 8	Definition of Material
• Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The application of the new and amendments to HKFRSs in the current period had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

During the period, the Group has four (2019: 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.

5. REVENUE AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 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 HKFRS 15[(iv)]	52,500	61,930	-	-	-	114,430
-Interest income from financial services	-	-	-	4,454	-	4,454
	52,500	61,930	-	4,454	-	118,884
Segment results[(i) & (ii)]	28,469	1,841	9,681	2,127	(8,904)	33,214
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	37	37
Finance costs	(4,902)	(501)	-	(84)	(95,495)	(100,982)
Share of profit of an associate	10	-	-	-	-	10
Profit/(loss) before income tax expense	23,577	1,340	9,681	2,043	(104,362)	(67,721)
Income tax expense	-	677	-	(28)	-	649
Profit/(loss) for the period	23,577	2,017	9,681	2,015	(104,362)	(67,072)
Assets and liabilities						
At 30 June 2020						
Reportable segment assets[(iii)]	4,228,060	149,800	354,000	99,959	161,286	4,993,105
Reportable segment liabilities[(iii)]	299,938	74,215	15	237,776	1,862,506	2,474,450

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE AND SEGMENT REPORTING (Continued)

For the six months ended 30 June 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 HKFRS 15[(iv)]	58,185	73,980	-	-	-	132,165
-Interest income from financial services	-	-	-	25,642	-	25,642
	58,185	73,980	-	25,642	-	157,807
Segment results[(i) & (ii)]	18,858	12,326	9,816	590	(14,682)	26,908
Change in fair value of financial liabilities at fair value through profit or loss	-	-	-	-	246	246
Finance costs	(3,272)	(742)	-	(164)	(87,968)	(92,146)
Share of loss of an associate	(101)	-	-	-	-	(101)
Profit/(loss) before income tax expense	15,485	11,584	9,816	426	(102,404)	(65,093)
Income tax expense	-	(1,964)	-	-	-	(1,964)
Profit/(loss) for the period	15,485	9,620	9,816	426	(102,404)	(67,057)
Assets and liabilities						
At 30 June 2019						
Reportable segment assets[(iii)]	4,366,686	142,223	350,704	38,258	76,261	4,974,132
Reportable segment liabilities[(iii)]	407,084	30,795	16	6,566	1,654,039	2,098,500

5. REVENUE AND SEGMENT REPORTING (Continued)

Notes:

(i) Unallocated results mainly include salaries, expenses relating to short-term leases and professional fees for Hong Kong head office.

(ii) The segment result of coalbed methane includes government subsidies and grants of HK$24,193,000 (six months ended 30 June 2019: HK$24,454,000).

(iii) Unallocated assets mainly include cash and cash equivalents, short-term investment, financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income. Unallocated liabilities mainly include loans from a director and a shareholder, financial liabilities at fair value through profit or loss, corporate bonds and convertible note.

(iv) The timing of revenue recognition is a point in time within the scope of HKFRS 15.

6. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Interest income		
- bank deposits	**10**	8
- short-term investment	**4,589**	4,792
- others (note (i))	**9,688**	10,287
Total interest income on financial assets measured at amortised cost	**14,287**	15,087
Government subsidies and grants (note (ii))	**24,193**	24,454
Others	**1,033**	280
	39,513	39,821

Notes:

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

(ii) It represents the regular subsidies received during the period from relevant government authority on the sales of coalbed methane and VAT refund on the sales of coalbed methane from local tax bureau. Both of them were generated from the coalbed methane segment as disclosed in note 5.

7. OTHER LOSSES, NET

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Change in fair value of financial liabilities at fair value through profit or loss	**37**	246
Exchange loss, net	**(41)**	(301)
	(4)	(55)

8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
a) Finance costs		
Interest expense for financial liabilities not at fair value through profit loss:		
Interest on corporate bonds	**16,317**	17,058
Interest on borrowings	**8,648**	3,538
Imputed interest on convertible note	**71,969**	62,319
Interest on lease liabilities	**400**	954
Others	**462**	13
	97,796	83,882
Less: interest capitalised in qualifying assets	**(2,500)**	(2,250)
	95,296	81,632
Other finance costs:		
Amortisation of convertible note transaction cost	**-**	4,417
Amortisation of corporate bonds transaction cost	**5,686**	6,097
	5,686	10,514
	100,982	92,146
b) Employee costs (including directors' remuneration)		
Salaries, wages and other benefits	**11,955**	15,001
Contributions to defined contribution retirement plan	**355**	371
	12,310	15,372

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. LOSS BEFORE INCOME TAX EXPENSE (Continued)

	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
c) Other items		
Cost of inventories sold recognised as expenses	**56,254**	57,489
Depreciation on property, plant and equipment	**16,627**	17,409
Depreciation on right-of-use assets	**2,919**	3,045
Amortisation on intangible assets	**8,255**	9,279

9. INCOME TAX EXPENSE

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 the six months ended 30 June 2020 and 2019. During the six months ended 30 June 2020 and 2019, 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	
	2020	2019
	HK$'000	HK$'000
Current income tax		
- PRC enterprises income tax	**169**	1,964
Deferred tax for the period	**(818)**	-
Income tax expense	**(649)**	1,964

10. DIVIDEND

The directors have neither declared nor proposed any dividends in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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$67,577,000 (six months ended 30 June 2019: loss of HK$69,462,000) and the weighted average number of 3,345,439,000 (six months ended 30 June 2019: 3,345,439,000) ordinary shares in issue during the period.

b) Diluted loss per share

Diluted loss per share for the six months ended 30 June 2020 and 30 June 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 period ended 30 June 2020 and 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	30.6.2020 HK$'000	31.12.2019 HK$'000
Non-current assets		
Deposits and prepayments	**29,477**	44,152
Current assets		
Trade receivables (note)	**22,343**	29,306
Less: impairment loss	**(304)**	(310)
	22,039	28,996
Notes receivable	**13,213**	5,761
Other receivables	**88,718**	86,916
Less: impairment loss	**(25,903)**	(25,940)
	62,815	60,976
Other deposits	**315,144**	322,609
Less: impairment loss	**(12,873)**	(13,591)
	302,271	309,018
Utility deposits	**172**	172
Prepayments	**45,494**	51,648
	446,004	456,571

Note:

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

	30.6.2020 HK$'000	31.12.2019 HK$'000
Current or within 30 days	**22,039**	28,996

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	30.6.2020 **HK$'000**	31.12.2019 HK$'000
Current liabilities		
Trade payables	**17,937**	11,385
Other payables and accruals – note (i)	**235,193**	403,515
Receipt in advance	**36,083**	16,648
Amounts due to shareholders – note (ii)	**14,370**	14,370
	303,583	445,918

Notes:

(i) It mainly includes exploration costs payable of approximately HK$109,506,000 (31 December 2019: HK$232,425,000) in respect of oil and gas properties.

(ii) The loans are unsecured, interest free and repayable on demand.

14. BORROWINGS

	30.6.2020 **HK$'000**	31.12.2019 HK$'000
Bank borrowings - secured	**229,756**	2,797
Other borrowings - unsecured	**20,970**	44,677
Corporate bonds - unsecured	**464,523**	464,136
	715,249	511,610
On demand or within one year	**110,236**	94,474
More than one year, but not exceeding two years	**146,566**	16,000
More than two years, but not exceeding five years	**426,445**	331,700
More than five years	**32,002**	69,436
	715,249	511,610
Amount due within one year included in current liabilities	**(110,236)**	(94,474)
Non-current portion	**605,013**	417,136

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. CONVERTIBLE NOTE

	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	6,625	-	6,625
Imputed interest expense	114,732	-	114,732
Interest paid	(40,820)	-	(40,820)
Change in fair value	-	(211)	(211)
At 31 December 2019 and at 1 January 2020	1,198,804	46	1,198,850
Imputed interest expense	71,969	-	71,969
Change in fair value	-	(37)	(37)
At 30 June 2020	1,270,773	9	1,270,782

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period ended 30 June 2020, Sino Oil and Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a total revenue of approximately HK$ 118,884,000 (2019 interim: HK$157,807,000), which decreased by approximately 24.7% compared with the same period of last year. The turnover included the sales of coalbed methane ("CBM") in Sanjiao CBM Project of approximately HK$52,500,000 (2019 interim: HK$58,185,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$61,930,000 (2019 interim: HK$73,980,000), and the revenue from the financial services business in Shaanxi Province of approximately HK$4,454,000 (2019 interim: HK$1,908,000).

Although the Group's turnover dropped due to the outbreak of new coronavirus ("COVID-19") for the six months ended 30 June 2020, the overall operation of the Group remained stable attributable to proper cost control. During the period, the Group administrative expenses decreased significantly by approximately 27.5%. The Group recorded earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately HK$58,143,000 (2019 interim: HK$56,786,000) which increased by approximately 2% compared with the same period of last year. During the period, the Group recorded a net loss of approximately HK$67,072,000 (2019 interim: net loss HK$67,057,000), which was approximately the same as the period of last year.

During the period, the Sanjiao CBM Project continued to develop steadily, and strict cost management has been implemented to cope with market uncertainties. Sanjiao CBM Project recorded EBITDA of approximately HK$53,234,000 (2019 interim: HK$46,185,000) which increased by approximately 15.3% as compared with the same period of last year. The project recorded a gas sale-to-production rate of approximately 97% for the period (2019 interim: 97%). The Sanjiao CBM Project has entered into the development stage, and we believe that it will bring long-term and substantial profit to the Group.

The interest income amounted to approximately HK$9,688,000 (2019 Interim: HK$10,287,000) 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. 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 30 June 2020, the Sanjiao CBM Project has completed a total of 123 wells, comprising 71 multilateral horizontal wells and 52 vertical wells. Out of the total 123 wells, 95 wells were in the normal dewatering and gas producing stage, of which 101 wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 69.6 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 74.5 kilometers of 10KV power grid and branch power line were also completed.

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

Sales

In the first half of 2020, the production and sales volume of Sanjiao CBM Project decreased slightly due to the impact of the COVID-19 pandemic. However, attributable to the improvement in cost control, there was increment in the overall profit. During the period, Sanjiao CBM Project recorded EBITDA of approximately HK$53,234,000 (2019 interim: HK$46,185,000), which increased by approximately 15.3% compared with the same period of last year. During the period, the income from government subsidies and VAT tax refund were approximately HK$24,193,000 (2019 interim: HK$24,454,000). CBM sales amounted to HK$52,500,000 (2019 interim: HK$58,185,000), which decreased by approximately 9.8% as compared with the same period of last year. During the period, the production and sales of CBM were approximately 47.78 million cubic meters (2019 interim: 51.29 million cubic meters) and 46.34 million cubic meters (2019 interim: 49.76 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately 97% for the period (2019 interim: 97%). For the period, industrial and residential piped CBM sales accounted for approximately 79.9% (2019 interim: 82.6%) and 20.1% (2019 interim: 17.4%) of the total sales respectively.

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 period, due to the COVID-19, the revenue from the raw coal washing business decreased, which was approximately HK$61,930,000 (2019 interim: HK$73,980,000). At present, the business has gradually returned to normal, and the turnover is expected to rebound in the second half of the year.

Others

At the end of 2016, the Group set up a wholly-owned subsidiary, Shaanxi Zhao Yin Finance Leasing Company Limited ("Zhao Yin Finance Leasing") in Shaanxi Province. The major purpose of the establishment of this finance leasing company is to strengthen the Group's bank-enterprise relations so as to create cooperation channels; as well as to seek for appropriate financing channels and sources for the Group's upcoming possible development. Further it also provides short-term investment opportunities for the Group's capital. During the period, the business recorded revenue of approximately HK$4,454,000 (2019 interim: HK$1,908,000).

Financial Review

Liquidity and Financial Resources

As at 30 June 2020, the net assets of the Group were approximately HK$2,519,000,000 (31 December 2019: HK$2,647,000,000) while its total assets were approximately HK$4,993,000,000 (31 December 2019: HK$4,977,000,000). As at 30 June 2020, the Group had external borrowings including the liability component of convertible note of approximately HK$1,986,000,000 (31 December 2019: HK$1,710,000,000), and the gearing ratio based on total assets was approximately 39.78% (31 December 2019: 34.36%). By the end of June 2020, the current ratio was approximately 0.43 (31 December 2019: 0.33). Information on repayment of the Group's borrowings is set out in note 14 to the financial statements as disclosed in this announcement.

In April 2020, the Group was granted a five-year term loan of RMB 300,000,000 by Kunlun Trust Co., Ltd. As of June 30 2020, the Group has made a drawdown of total of RMB 200,000,000 with an annual interest rate of 11%. The funds are solely used for the development of the Sanjiao CBM Project.

In respect of the issue of the Group's net current liabilities position as at 30 June 2020, the convertible note with a principal amount of HK$1,014 million due in late September 2020, posing a relatively great financial pressure to the Group. The Group has explored various plans during the period 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 proposals 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) assisting the negotiation of certain potential investors who are interested with the note holder in acquiring the convertible notes; 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, 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 30 June 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 30 June 2020, the Group employed approximately 300 employees. The remuneration policy of the Group is based on the prevailing remuneration level in the market and the performance of respective companies and individual employees.

PROSPECTS

In the first half of 2020, the global economy was affected by the COVID-19 pandemic. However, due to the effective control of the coronavirus outbreak in China, its economy has taken the lead to recover. In the second quarter of this year, China is the only large economy with positive growth globally. The China economy is expected to recover in the second half of the year. According to data from the National Bureau of Statistics, China's apparent natural gas consumption in the first half of 2020 was about 160.7 billion cubic meters, an increase of 5.74% compared to the same period of last year. The market expects that during the "14th Five-Year Plan" period, China's energy transformation and supply-side reforms will continue to move forward. Thereby, the demand for clean energy, with natural gas as the one of the key roles, is going strong and the prospect of natural gas industry will be very promising.

In the current increasingly complex economic and political environment, the Group will endeavor to have a steady growth of revenue while implementing strict cost control to maintain stable profits and further strengthen its business foundation. In the first half of 2020, although the Group's CBM project was affected by the pandemic, the volume of sales has remained stable and the profitability has been improved mainly attributable to the effective cost control. In the long run, the Group believes that the Sanjiao CBM Project will continue to have steady growth with increasing competitiveness. Its earnings will hence be further enhanced with good prospects.

Looking ahead, the Group will maintain a prudent financial management strategy 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 as 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.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2020, 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 Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua, 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 2020.

CORPORATE GOVERNANCE

The Company 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 2020.

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

Hong Kong, 28 August 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. Cai Yanling; and three Independent Non-executive Directors, namely, Professor Wong Lung Tak Patrick, Dr. Wang Yanbin and Dr. Dang Weihua.