

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	5	128,140	118,884
Direct costs		(87,753)	(96,979)
Gross profit		40,387	21,905
Other income	6	30,414	39,513
Other losses, net	7	(142,347)	(4)
Selling and distribution expenses		(6,874)	(4,509)
Administrative expenses		(20,270)	(23,654)
(Loss)/profit from operations		(98,690)	33,251
Finance costs	8(a)	(121,329)	(100,982)
Share of profit of an associate		10	10
Loss before income tax expense	8	(220,009)	(67,721)
Income tax expense	9	824	649
Loss for the period		(219,185)	(67,072)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Other comprehensive income, after tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		25,495	(61,240)
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		25,495	(61,290)
Total comprehensive income for the period		(193,690)	(128,362)
Loss attributable to:			
Owners of the Company		(219,406)	(67,577)
Non-controlling interests		221	505
		(219,185)	(67,072)
Total comprehensive income attributable to:			
Owners of the Company		(194,005)	(128,693)
Non-controlling interests		315	331
		(193,690)	(128,362)
Loss per share		HK\$ cents	HK\$ cents
- Basic and diluted	11	(6.56)	(2.02)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		30.6.2021 (Unaudited)		31.12.2020 (Audited)	
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment			2,509,531		2,453,716
Oil and gas exploration and evaluation assets			75,348		74,000
Right-of-use assets			6,611		8,049
Intangible assets			2,228,068		2,218,827
Goodwill			12,152		12,048
Interest in a joint venture			-		-
Interest in an associate			59,076		58,821
Financial assets at fair value through profit or loss			-		9,221
Equity investments designated at fair value through other comprehensive income			377		377
Deposits and prepayments	12		20,209		20,035
Loans receivable			14,056		77,544
Total non-current assets			4,925,428		4,932,638
Current assets					
Inventories			35,156		10,281
Financial assets at fair value through profit or loss			9,302		24,085
Trade, notes and other receivables, deposits and prepayments	12		454,738		527,428
Short-term investment			-		70,640
Loans receivable			6,948		3,850
Amount due from a joint venture			329		324
Restricted cash at banks			11,636		984
Cash and cash equivalents			68,875		60,898
Total current assets			586,984		698,490
Total assets			5,512,412		5,631,128
Current liabilities					
Trade and other payables and accruals	13		(594,560)		(531,921)
Borrowings	14		(232,422)		(130,140)
Convertible note			(1,352,900)		(1,352,900)
Financial liabilities at fair value through profit or loss			(9)		(9)
Deferred income			(5,055)		(1,902)
Lease liabilities			(2,318)		(4,003)
Taxation			(9,259)		(9,169)
Total current liabilities			(2,196,523)		(2,030,044)
Net current liabilities			(1,609,539)		(1,331,554)
Total assets less current liabilities			3,315,889		3,601,084

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2021

		30.6.2021 (Unaudited)		31.12.2020 (Audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Provisions		(17,008)		(16,861)	
Borrowings	14	(557,168)		(651,328)	
Deferred income		(240,753)		(237,734)	
Lease liabilities		(792)		(495)	
Deferred tax liabilities		(8,432)		(9,240)	
Total non-current liabilities			(824,153)		(915,658)
NET ASSETS			2,491,736		2,685,426
Capital and reserves attributable to owners of the Company					
Share capital			334,544		334,544
Reserves			2,146,189		2,340,194
Equity attributable to owners of the Company			2,480,733		2,674,738
Non-controlling interests			11,003		10,688
TOTAL EQUITY			2,491,736		2,685,426

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 2020 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 2020 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 2021. Statutory financial statements for the year ended 31 December 2020 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 2021, the Group had net current liabilities of HK\$1,609,539,000. 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)

In respect of the issue of the Group's net current liabilities position as at 30 June 2021, the convertible note with a principal amount of HK\$1,014 million due in late September 2020, posing 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, 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 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 2021 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 2020 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 2021 for the preparation of the Group's condensed consolidated financial statements:

- Amendments to HKFRS 9, HKAS 39, Interest Rate Benchmark Reform – Phase 2
HKFRS 7, HKFRS 4 and HKFRS 16
- Amendment to HKFRS 16 Covid-19-Related Rent Concessions

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.

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 (2020: 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 2021, 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)	79,043	44,987	-	-	-	124,030
-Interest income from financial services	-	-	-	4,110	-	4,110
	<u>79,043</u>	<u>44,987</u>	<u>-</u>	<u>4,110</u>	<u>-</u>	<u>128,140</u>
Segment results ^{(i) & (ii)}	38,257	235	10,276	(1,190)	(4,268)	43,310
Change in fair value of financial asset at fair value through profit or loss	-	(24,316)	-	-	-	(24,316)
Loss on disposal of loan receivable	-	-	-	(7,932)	-	(7,932)
Impairment loss on other receivables	-	-	-	-	(109,752)	(109,752)
Finance costs	(19,807)	(199)	-	(24)	(101,299)	(121,329)
Share of profit of an associate	10	-	-	-	-	10
Profit/(loss) before income tax expense	18,460	(24,280)	10,276	(9,146)	(215,319)	(220,009)
Income tax expense	-	846	-	(22)	-	824
Profit/(loss) for the period	<u>18,460</u>	<u>(23,434)</u>	<u>10,276</u>	<u>(9,168)</u>	<u>(215,319)</u>	<u>(219,185)</u>
Assets and liabilities						
At 30 June 2021						
Reportable segment assets ⁽ⁱⁱⁱ⁾	<u>4,898,173</u>	<u>63,302</u>	<u>415,849</u>	<u>33,559</u>	<u>101,529</u>	<u>5,512,412</u>
Reportable segment liabilities ⁽ⁱⁱⁱ⁾	<u>897,760</u>	<u>34,561</u>	<u>16</u>	<u>14,146</u>	<u>2,074,193</u>	<u>3,020,676</u>

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
	<u>52,500</u>	<u>61,930</u>	<u>-</u>	<u>4,454</u>	<u>-</u>	<u>118,884</u>
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	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>
Profit/(loss) before income tax expense	23,577	1,340	9,681	2,043	(104,362)	(67,721)
Income tax expense	<u>-</u>	<u>677</u>	<u>-</u>	<u>(28)</u>	<u>-</u>	<u>649</u>
Profit/(loss) for the period	<u>23,577</u>	<u>2,017</u>	<u>9,681</u>	<u>2,015</u>	<u>(104,362)</u>	<u>(67,072)</u>
Assets and liabilities						
At 31 December 2020						
Reportable segment assets ⁽ⁱⁱⁱ⁾	<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 ⁽ⁱⁱⁱ⁾	<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>

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\$15,148,000 (six months ended 30 June 2020: HK\$24,193,000).
- (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	
	2021	2020
	HK\$'000	HK\$'000
Interest income		
- bank deposits	139	10
- short-term investment	4,150	4,589
- others (note (i))	10,577	9,688
Total interest income on financial assets measured at amortised cost	14,866	14,287
Government subsidies and grants (note (ii))	15,148	24,193
Others	400	1,033
	30,414	39,513

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	
	2021	2020
	HK\$'000	HK\$'000
Change in fair value of financial liabilities at fair value through profit or loss	-	37
Change in fair value of financial assets at fair value through profit or loss	(24,316)	-
Loss on disposal of loan receivable	(7,932)	-
Impairment loss on other receivables	(109,752)	-
Exchange loss, net	(347)	(41)
	<u>(142,347)</u>	<u>(4)</u>

8. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
a) Finance costs		
Interest expense for financial liabilities not at fair value through profit loss:		
Interest on corporate bonds	15,889	16,317
Interest on borrowings	20,391	8,648
Interest charge on convertible note	95,145	71,969
Interest on lease liabilities	167	400
Others	191	462
	<u>131,783</u>	<u>97,796</u>
Less: interest capitalised in qualifying assets	<u>(16,125)</u>	<u>(2,500)</u>
	115,658	95,296
Other finance costs:		
Amortisation of corporate bonds transaction	5,671	5,686
	<u>121,329</u>	<u>100,982</u>
b) Employee costs (including directors' remuneration)		
Salaries, wages and other benefits	11,931	11,955
Contributions to defined contribution retirement plan	364	355
	<u>12,295</u>	<u>12,310</u>

8. LOSS BEFORE INCOME TAX EXPENSE (Continued)

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
c) Other items		
Cost of inventories sold recognised as	40,783	56,254
Depreciation on property, plant and equipment	13,888	16,627
Depreciation on right-of-use assets	1,510	2,919
Amortisation on intangible assets	8,949	8,255

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 2021 and 2020. During the six months ended 30 June 2021 and 2020, 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	
	2021	2020
	HK\$'000	HK\$'000
Current income tax		
- PRC enterprises income tax	64	169
Deferred tax for the period	(888)	(818)
Income tax expense	(824)	(649)

10. DIVIDEND

The directors have neither declared nor proposed any dividends in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: 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\$219,406,000 (six months ended 30 June 2020: loss of HK\$67,577,000) and the weighted average number of 3,345,439,000 (six months ended 30 June 2020: 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 2021 and 30 June 2020 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 2021 and 30 June 2020.

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

	30.6.2021 HK\$'000	31.12.2020 HK\$'000
Non-current assets		
Deposits and prepayments	<u>20,209</u>	<u>20,035</u>
Current assets		
Trade receivables (note)	28,989	78,973
Less: impairment loss	<u>(332)</u>	<u>(329)</u>
	<u>28,657</u>	<u>78,644</u>
Notes receivable	6,848	8,324
Other receivables	211,154	134,501
Less: impairment loss	<u>(135,831)</u>	<u>(26,061)</u>
	<u>75,323</u>	<u>108,440</u>
Other deposits	362,958	346,883
Less: impairment loss	<u>(22,812)</u>	<u>(22,397)</u>
	<u>340,146</u>	<u>324,486</u>
Utility deposits	172	172
Prepayments	<u>3,592</u>	<u>7,362</u>
	<u>454,738</u>	<u>527,428</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:

	30.6.2021 HK\$'000	31.12.2020 HK\$'000
Less than one month	28,657	64,998
1 to 2 months	-	11,342
More than 3 months	<u>-</u>	<u>2,304</u>
	<u>28,657</u>	<u>78,644</u>

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	30.6.2021 HK\$'000	31.12.2020 HK\$'000
Current liabilities		
Trade payables	22,235	41,243
Other payables and accruals	551,125	468,807
Amount due to a shareholder	21,200	21,871
	<u>594,560</u>	<u>531,921</u>

14. BORROWINGS

	30.6.2021 HK\$'000	31.12.2020 HK\$'000
Bank borrowings - secured	6,948	8,883
Other borrowings - secured	309,012	290,432
Other borrowings - unsecured	6,297	14,344
Corporate bonds - unsecured	467,330	467,809
	<u>789,587</u>	<u>781,468</u>
On demand or within one year	232,422	130,140
More than one year, but not exceeding two years	183,797	211,924
More than two years, but not exceeding five years	373,371	436,404
More than five years	-	3,000
	<u>789,590</u>	<u>781,468</u>
Amount due within one year included in current liabilities	<u>(232,422)</u>	<u>(130,140)</u>
Non-current portion	<u>557,168</u>	<u>651,328</u>

MANAGEMENT DISCUSSION AND ANALYSES

BUSINESS REVIEW

During the period ended 30 June 2021, Sino Oil and Gas Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) recorded a total revenue of approximately HK\$128,140,000 (2020 interim: HK\$118,884,000), which increased by approximately 7.8% compared with the same period of last year. The turnover included the sales of coalbed methane (“CBM”) in Sanjiao CBM Project of approximately HK\$79,043,000 (2020 interim: HK\$52,500,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK\$44,987,000 (2020 interim: HK\$61,930,000), and the revenue from the financial services business in Shaanxi Province of approximately HK\$4,110,000 (2020 interim: HK\$4,454,000).

Although there is still considerable uncertainty in the domestic and global economy due to the coronavirus disease 2019 (“COVID-19”), the Sanjiao CBM Project continues to grow steadily and with the overall implementation of strict cost management in order to cope with uncertain market factors, the Group’s operations continued to improve. During the period, due to the Group’s financing costs and impairment provisions for other receivables of approximately HK\$121,329,000 and HK\$109,700,000 respectively, the Group recorded a net loss of approximately HK\$219,185,000 (2020 interim: Net loss of HK\$ 67,072,000).

During the period, the Sanjiao CBM Project recorded earnings before interest, taxes, depreciation and amortization (“EBITDA”) of approximately HK\$60,938,000 (2020 interim: HK\$53,234,000) which increased by approximately 14.5% as compared with the same period of last year. The project recorded a gas sale-to-production rate of approximately 96% for the period (2020 interim: 97%), which was stable compared with the same period of last year. The operation of the Sanjiao CBM Project is becoming more mature and stable, and we believe that it will bring longterm and substantial profit to the Group.

The interest income amounted to approximately HK\$10,577,000 (2020 Interim: HK\$9,688,000) 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 2021, the Sanjiao CBM Project has completed a total of 156 wells, comprising 104 multilateral horizontal wells and 52 vertical wells. Out of the total 156 wells, 130 wells were in the normal dewatering and gas producing stage, of which 125 wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately 90.94 kilometers, and outbound pipelines of approximately 17 kilometers were completed. Approximately total 93.54 kilometers of 10KV power grid and branch power line were also completed. The expansion of the CBM processing station has been completed and put into operation, and the total CBM daily processing capacity has reached 500,000 cubic meters.

Sales

In the first half of 2021, despite the impact of the COVID-19 pandemic, the group has still put in substantial effort in developing the Sanjiao CBM Project, and its profits have also increased. During the period, Sanjiao CBM Project recorded EBITDA of approximately HK\$60,938,000 (2020 interim: HK\$53,234,000), which increased by approximately 14.5% compared with the same period of last year. During the period, the income from government subsidies and VAT tax refund on 2020 sales were approximately HK\$15,148,000 (2020 interim: income from government subsidies and VAT tax refund on 2019 sales were approximately HK\$24,193,000). CBM sales amounted to HK\$79,043,000 (2020 interim: HK\$52,500,000), which increased by approximately 50.5% as compared with the same period of last year. During the period, the production and sales of CBM were approximately 61.90 million cubic meters (2020 interim: 47.78 million cubic meters) and 59.65 million cubic meters (2020 interim: 46.34 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately 96% (2020 interim: 97%). During the period, industrial and residential piped CBM sales accounted for approximately 97.1% (2020 interim: 79.9%) and 2.9% (2020 interim: 20.1%) 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\$44,987,000 (2020 interim: HK\$61,930,000).

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\$4,110,000 (2020 interim: HK\$4,454,000).

Financial Review

Liquidity and Financial Resources

As at 30 June 2021, the net assets of the Group were approximately HK\$2,491,000,000 (31 December 2020: HK\$2,685,000,000) while its total assets were approximately HK\$5,512,000,000 (31 December 2020: HK\$5,631,000,000). As at 30 June 2021, the Group had external borrowings including the liability component of convertible note of approximately HK\$2,142,000,000 (31 December 2020: HK\$2,134,000,000), and the gearing ratio based on total assets was approximately 38.9% (31 December 2020: 37.9%). By the end of June 2021, the current ratio was approximately 0.27 (31 December 2020: 0.34). Details of the maturity profile of the Group’s borrowings are set out in note 14 to the financial statements as disclosed in this announcement.

As of 30 June 2021, a net current liability of approximately HK\$1,609 million was recorded, in which the convertible note with a principal amount of US\$130 million (approximately HK\$1,014 million) due in late September 2020, posing great financial pressure to the Group. The Group has actively assisted the negotiation between certain potential investors with the note holder on the debt issue during the period, discussing the possibilities of acquiring the convertible note and/or further extending the maturity of the convertible note. Although no binding proposals or terms have been reached, both parties have conducted in-depth discussion on several feasible options. In addition to the growth of the Group’s CBM business, the Company will also consider other feasible financing options and debt restructuring plans. It is expected that the liquidity of the Group will be strengthened, and the overall financial position will improve gradually.

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 2021, 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 2021, 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

Since 2020, the outbreak of the COVID-19 pandemic has had a significant impact on China's economy, social and energy development. According to data from the National Bureau of Statistics, our country's natural gas production reached 192.5 billion cubic meters in 2020, a year-on-year increase of 9.8%, representing an increase of 16.326 billion cubic meters. Natural gas production has increased by more than 10 billion cubic meters for four consecutive years, and the effect of increasing reserves and improving production is distinct. Among them, the output of coalbed methane is 6.5 billion cubic meters, which is an outstanding contribution. From the first half of 2021, under the impact of the COVID-19 pandemic, the development of China's natural gas industry has been very challenging, however, the basic conditions and supporting factors that promote stable development of the natural gas sector have remained unchanged whilst the pace of sustainable and steady growth of the natural gas industry has also remained unchanged.

The economic consequences of COVID-19 for the world remain uncertain at the time of publication. In response to this uncertainty, we took deliberate steps to strengthen our finances – reinforcing liquidity, rapidly reducing spending and costs. In the past two years, the Group has been strengthening the development our CBM project and positive results have been gradually achieved. In the first half of the year, the production and sales volume of the Sanjiao CBM Project both increased steadily over the same period last year. It is expected, medium to long term, the Group will continue to focus on the development of the Sanjiao CBM Project, gradually improve its core competitiveness, and expect to further enhance its profitability.

For the year ending 2021, the Group will maintain cautious financial management measures and conduct debt management with a proactive attitude. In the meantime, the Group will be strengthening our market share in the CBM industry value chain, enhancing efficiencies through cost savings and the optimization of the operations. As a result, return of shareholders can be maximized.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2021, 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 2021.

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 2021 except for code provisions A.2.1 and E.1.2 with details set out below:

Code Provision A.2.1 stipulates that the roles of the chairman and chief executive officer should be separated and performed by different individuals. 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.

Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Dr. Dai Xiaobing, Chairman of the Board, was unable to attend the annual general meeting of the Company held on 11 June 2021 due to other business engagement. The annual general meeting was chaired and conducted by Mr. Wan Tze Fan Terence, an Executive Director of the Company.

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

Hong Kong, 27 August 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