Sino Oil and Gas (00702.HK) Announces Annual Results 2017

Business Overview

Hong Kong, 29 March 2018 – Leading oil and gas explorer and developer Sino Oil and Gas Holdings Limited (the “Company”, Hong Kong stock code:702) today announced the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017. During the year, the Group recorded a total revenue of approximately HK$ 497,935,000 (2016: HK$333,553,000), which has increased by nearly 49% as compared with that of last year. The turnover included the sales of Coalbed Methane (“CBM”) in our Sanjiao CBM Project of approximately HK$76,663,000 (2016: HK$57,467,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$417,637,000 (2016: HK$276,086,000), and the income from the financial services business in Shaanxi Province of approximately HK$3,635,000 (2016: nil). During the year, the Group recorded earnings before interest, taxes, depreciation and amortization (“EBITDA”) of approximately HK$237,819,000 (2016: EBITDA HK$121,613,000) which included other gains from fair value changes of approximately HK$230,317,000 (2016: HK$ 55,514,000).

During the year, the operation of Sanjiao CBM Project has improved and CBM sales has increased by approximately 33% as compared with that of last year. In 2017, the Group actively expanded its sales channels of CBM, coupled with the substantial increase in demand for natural gas in China, the gas sale-to-production rate has rebounded to approximately 90% (2016: 72%). In the meantime, government subsidy and VAT tax refund of approximately HK$29,447,000 (2016: HK$22,942,000) for sales of CBM for the year 2016 has been received and recorded as “other income” during the year. The Group believes that with the concerted efforts of the team, Sanjiao CBM Project will generate long-term and substantial returns.

During the year, the Group recorded a net loss of approximately HK$159,561,000 (2016: net loss HK$94,069,000). It was mainly attributable to the increase in the finance costs incurred arising from the convertible notes and borrowings during the year. The finance costs during the year were approximately HK$ 322,173,000 (2016: HK$152,962,000). According to the Hong Kong Financial Reporting Standards, part of the finance costs were non-cash items, such as imputed interest on convertible notes and amortization of transaction costs, and the finance costs actually affecting the cash
flow of the year was approximately HK$ 129,306,000 (2016: HK$104,237,000). Meanwhile, at the end of last year, due to the temporary suspension of raw coal supply from the supplier of raw coal washing project, the financial performance of the project declined, and resulting in a recognition of an impairment loss of goodwill of approximately HK$ 46,705,000. The impairment has no impact on the cash flow of the project.

**CBM Business**

During the year, Sanjiao CBM Project recorded EBITDA of approximately HK$66,460,000 (2016: HK$47,806,000), which has increased by 39% as compared with that of last year. CBM sales amounted to HK$76,663,000 (2016: HK$57,467,000), which has increased by33% as compared with that of last year. During the year, the production and sales of CBM were approximately 81.22 million cubic meters (2016: 69.5 million cubic meters) and72.62million cubic meters (2016: 50.02 million cubic meters) respectively, resulting in a gas sale-to-production rate of approximately90% for the year (2016: approximately 72%). In terms of the composition of gas sales throughout the period, industrial piped CBM sales accounted for approximately 90% of total sales (2016 : 83.7%), while residential piped CBM sales contributed approximately10% (2016: 15%). During the year, there was no compressed natural gas sales (2016: 1.3%).

As at 31 December 2017, the Sanjiao CBM Project has completed a total of 117 wells, comprising65 multilateral horizontal wells and 52vertical wells. Out of the total 117 wells, 85 wells were in the normal dewatering and gas producing stage, of which 85wells had accessed to a gas collection pipeline network. A ground pipeline network of approximately 18 kilometers, inter-well pipelines of approximately58.5kilometers, 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.

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

**Raw Coal Washing Business**
With the deepening of China’s supply-side reforms, the de-capacity of coal industry has achieved remarkable results and the coal market sustains a good momentum in 2017. The price of refined coal increased as compared with that of last year, thus, the turnover of the project has grown substantially. During the year, the coal washing operation recorded a turnover of approximately HK$ 417,637,000 (2016: HK$ 276,086,000) which has increased by approximately 51% as compared with that of last year. The total sale of refined coal of the project was approximately 340,000 tonnes (2016: 325,000 tonnes). However, at the end of last year, due to its internal factors, the project supplier has temporarily suspended the supply of raw coal, resulting a decline in the financial performance and recognized an impairment loss of goodwill amounted to approximately HK$46,705,000.

China’s coal industry is gradually recovering, and the Group expects that the project operation will fully return to normal within the second quarter of 2018. Pursuant to the sale and purchase agreement entered into by both parties, the vendor will provide the Group with profit guarantee for six consecutive years. During the year ended 31 December 2017, the Group has received in full the shortfall of the Guaranteed Profit of approximately RMB 14,811,000 for the year ended 31 December 2016. The project has already contributed stable income and cash flow to the Group.

Financial Services Business

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. During the year, Zhao Yin Finance Leasing granted a total of RMB 60 million short-term leasing loans with the annual interest rate of 10% to two independent third parties. During the year, the business has recorded an income of approximately HK$3,635,000 (2016: nil).

Prospects

Regarding the future development strategy of the Group, Dr. Dai Xiaobing, Chairman of the Group said, “The Group will continue to promote the development of Sanjiao, formulate a clear plan, and make every effort to build the Group's first benchmark project. At the same time, the Group will continue to actively look for M&A opportunities that have reasonable and potential returns in order to hasten the Group's business development and strive to achieve a better performance while
maintaining long-term growth momentum and creating substantial returns for the shareholders.
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