For Immediate Release

Sino Oil and Gas (00702.HK) Announces Annual Results 2018

Business Overview

Hong Kong, 29 March 2019 – 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 2018. During the year, the Group recorded a total revenue of approximately HK$ 427,867,000 (2017: HK$497,935,000). The slight decrease in turnover was mainly attributable to the Group’s change of certain part of the coal washing business model, which affected the calculation of turnover, while the actual profit of this business remained stable. The turnover included the sales of coalbed methane (“CBM”) in our Sanjiao CBM Project of approximately HK$89,406,000 (2017: HK$76,663,000), the sales derived from raw coal washing project located in Qinshui Basin, Shanxi Province of approximately HK$331,488,000 (2017: HK$417,637,000), and the income from the financial services business in Shaanxi Province of approximately HK$6,973,000 (2017: HK$3,635,000).

The operation of the Sanjiao CBM Project continued to develop steadily. During the year, the CBM sales has increased by approximately 16.6% as compared with that of last year. In the meantime, government subsidy and part of VAT tax refund of approximately HK$25,866,000 (2017: HK$29,447,000) for sales of CBM for the year 2017 were received and recorded as “other income” during the year. The Sanjiao CBM Project has entered into the development stage, and the Group believes that it will bring long-term and substantial profits.

For the financial year of 2018, the Group recorded a net loss of approximately HK$385,885,000 (2017: net loss HK$159,561,000). It was mainly attributable to the heavy finance costs incurred and impairment losses on goodwill and intangible assets arising from the coal washing business.

The finance costs incurred during the year were approximately HK$ 324,547,000 (2017: HK$322,173,000). According to the Hong Kong Financial Reporting Standards, part of the finance costs were non-cash items, such as imputed interest on convertible notes and amortization of transaction costs, and the finance costs actually affecting the cash flow of the year were approximately HK$ 110,084,000 (2017: HK$128,755,000). In addition, during the year, the Group recorded an impairment
loss on goodwill of approximately HK$39,244,000 (2017: HK$46,705,000) and an impairment loss on intangible assets of approximately HK$45,734,000 (2017: Nil) arising from the coal washing business.

Other than the above, according to Hong Kong Financial Reporting Standard 9 which became effective on 1 January 2018, the Group recognised expected credit loss for short-term investments, loans receivable, other receivables and deposits approximately HK$31,769,000 (2017: Nil). On the other hand, the gain from the change in fair value of the financial liabilities arising from the relevant convertible notes was approximately HK$37,638,000 (2017: HK$187,042,000 (Please refer to note 5 to the financial statements disclosed in the announcement)). According to the Hong Kong Financial Reporting Standards, the above fair value change and impairment loss were non-cash accounting treatments. It had no impact on the cash flow and operation of the Group.

**CBM Business**

During the year, CBM sales amounted to HK$89,406,000 (2017: HK$76,663,000), which has increased by approximately 16.6% as compared with that of last year. During the year, the production and sales of CBM were approximately 97.42 million cubic meters (2017: 81.22 million cubic meters) and 78.10 million cubic meters (2017: 72.62 million cubic meters) respectively, resulting in a gas sale-to-production rate of nearly 80% for the year (2017: approximately 90%). The decrease in the sale-to-production rate was mainly due to some major maintenance work for the sales pipelines during the year, which made some of the CBM to be flared. The maintenance work was completed during the year and the sales of CBM have resumed 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 : 90%), while residential piped CBM sales contributed approximately 14.7% (2017: 10%).

As at 31 December 2018, the Sanjiao CBM Project has completed a total of 118 wells, comprising 66 multilateral horizontal wells and 52 vertical wells. Out of the total 118 wells, 90 wells were in the normal dewatering and gas producing stage, of which 90 wells had accessed to a gas collection pipeline network. 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 71.4 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 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.

**Raw Coal Washing Business**

The Group owned a 75% equity interest of a raw coal washing project company located in Qinshui Basin, Shanxi Province. In the year of 2018, the Chinese domestic market of coal was stable. During the year, the raw coal supplier has early terminated the favorable supplier agreement. Though the operating team has been actively seeking alternative suppliers, the raw coal supply to some extent was affected. Therefore, the project team sought to develop direct processing business in order to diversify the risk of a single business model. This development has affected on the computation of the turnover amount, resulting in a decline in turnover, while the actual profit remained stable. During the year, the revenue from the raw coal washing business was approximately HK$331,488,000 (2017: HK$417,637,000). Among the mix of the turnover during the year, the raw coal washing business accounted for approximately 97.7%, and the raw coal processing business accounted for approximately 2.3%.

The Group was required to make an impairment loss of approximately HK$45,734,000 (2017: Nil) for the relevant intangible assets associated with the terminated favourable supplier agreement. Further, due to the very same reason, the performance of the project was affected adversely, the Group is required to make an impairment loss of approximately HK$39,244,000 (2017: HK$46,705,000) for the relevant goodwill arising from the impact of the termination of the favourable supplier agreement. These impairment losses were non-cash accounting items and did not affect project operations and cash flow.

**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. 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 the suitable financing channels and sources for the Group’s upcoming possible mergers and acquisitions (“M&A”) and development. Further it
also provides short-term investment opportunities for the Group’s capital. During the year, the business recorded an income of approximately HK$6,973,000 (2017: HK$3,635,000).

Prospects

Regarding the future development strategy of the Group, Dr. Dai Xiaobing, Chairman of the Group said, “Looking ahead, on the one hand the Group will make its greatest effort to ease the financial burden of the short term funding as soon as possible, and on the other hand the Group will allocate its resources to push forward the development of the Sanjiao CBM Project. We will 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 the possibility of diversified business development in a prudent and pragmatic manner, and hope to enhance the sustainability and stability of the business portfolio returns, diversified business risk, maintain long-term growth momentum, and generate substantial returns for shareholders.”