中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 603)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- The Group's total revenue increased by 23% to HK$9,410 million, in which sales and distribution of natural gas increased by 25%, representing 90% of total revenue;
- Earnings per share for profit attributable to owners of the Company for the year increased by 16% to 5.665 HK cents from 4.865 HK cents; and
- Natural gas sales and transmission volume increased by 15% to 4,695 million cubic meters.

ANNUAL RESULTS

The board (the "**Board**") of Directors (the "**Directors**") of China Oil And Gas Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2018 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	3	**9,410,131**	7,651,280
Cost of sales		**(8,045,299)**	(6,435,083)
Gross profit		**1,364,832**	1,216,197
Other income		**30,069**	30,262
Other gains, net		**18,936**	22,901
Selling and distribution costs		**(57,270)**	(50,507)
Administrative expenses		**(364,847)**	(307,497)
Reversal of impairment losses on oil and gas properties under property, plant and equipment		**—**	4,402
Operating profit	4	**991,720**	915,758
Finance income		**146,818**	101,741
Finance costs		**(206,712)**	(203,677)
Share of losses of investments accounted for using the equity method		**(3,300)**	(2,356)
Profit before taxation		**928,526**	811,466
Taxation	5	**(250,301)**	(188,527)
Profit for the year		**678,225**	622,939
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(539,424)**	482,811
Change in value of available-for-sale financial assets		**—**	40,296
Change in value of debt investments at fair value through other comprehensive income		**(51,267)**	—
Item that will not be reclassified to profit or loss			
Change in value of equity investments at fair value through other comprehensive income		**(4,830)**	—
Other comprehensive (loss)/income for the year, net of tax		**(595,521)**	523,107
Total comprehensive income for the year		**82,704**	1,146,046

	Note	2018 HK$'000	2017 HK$'000
Profit attributable to:			
Owners of the Company		**281,904**	250,467
Non-controlling interests		**396,321**	372,472
		678,225	622,939
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(55,158)**	642,756
Non-controlling interests		**137,862**	503,290
		82,704	1,146,046
Earnings per share for profit attributable to owners of the Company for the year	7		
— Basic (HK cents)		**5.665**	4.865
— Diluted (HK cents)		**5.641**	4.858

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**7,924,722**	7,725,219
Exploration and evaluation assets		**182,981**	215,189
Land use rights		**415,234**	456,458
Intangible assets		**974,526**	1,035,324
Investments accounted for using the equity method		**312,754**	321,167
Financial assets at fair value through other comprehensive income		**439,120**	—
Available-for-sale financial assets		**—**	596,360
Other non-current assets		**1,063,841**	956,763
Deferred tax assets		**7,646**	4,796
		11,320,824	11,311,276
Current assets			
Inventories		**282,777**	244,438
Contract assets, deposits, trade and other receivables	8	**1,751,116**	1,596,734
Financial assets at fair value through profit or loss		**—**	48,842
Current tax recoverable		**6,024**	6,333
Time deposits with maturity over three months		**158,679**	48,531
Cash and cash equivalents		**2,508,223**	2,290,447
		4,706,819	4,235,325
Total assets		**16,027,643**	15,546,601

	Note	2018 HK$'000	2017 HK$'000
Liabilities			
Current liabilities			
Trade and other payables	9	**1,415,917**	1,431,733
Contract liabilities/receipt in advance		**1,470,128**	1,584,003
Short-term borrowings		**1,455,839**	689,258
Current tax payable		**269,369**	215,042
		4,611,253	3,920,036
Non-current liabilities			
Senior notes		**5,029,991**	4,970,240
Long-term borrowings		**63,642**	60,000
Deferred tax liabilities		**270,019**	260,359
Assets retirement obligation		**140,678**	130,311
		5,504,330	5,420,910
Total liabilities		**10,115,583**	9,340,946
Equity			
Equity attributable to owners of the Company			
Share capital		**58,391**	58,257
Reserves		**3,137,516**	3,286,289
		3,195,907	3,344,546
Non-controlling interests		**2,716,153**	2,861,109
Total equity		**5,912,060**	6,205,655
Total equity and liabilities		**16,027,643**	15,546,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

China Oil And Gas Group Limited (the "**Company**") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Suite 2805, 28th Floor, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. Its subsidiaries are principally engaging in investment in energy related business in various regions in the People's Republic of China ("**PRC**") and West Central Alberta, Canada, including but not limited to 1) piped city gas business, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas ("**CNG**") and liquefied natural gas ("**LNG**"); and 3) development, production and sale of oil and gas and other upstream energy resources. The Company and its subsidiaries are collectively referred to the "Group".

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) *Changes in accounting policy and disclosures*

The Group has adopted the following new standards, interpretation and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Investment Properties
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers

Other than the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" as disclosed below, the adoption of above interpretation and amendments to standards did not have material impacts on the preparation of the consolidated financial statements.

HKFRS 15 "Revenue from Contract with Customers"

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, the Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus certain comparative figures may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales and distribution of natural gas and other related products

- Gas pipeline construction and connection

- Exploitation and production of crude oil and natural gas

The effects of the adoption of HKFRS 15 are further explained as follows:

(i) Accounting for sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas

The Group's contracts with customers for the sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas generally include one performance obligation. The Group has concluded that revenue from the above activities should be recognised at the point in time when control of the asset is transferred to the customer, generally on when customers consume the gas or upon delivery of equipment, crude oil, CNG and LNG gas. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

(ii) Accounting for gas pipeline construction and connection

In prior years, the Group accounted for gas pipeline construction and connection when the outcome of the construction contract for connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas pipeline connection are recognised using the percentage of completion method, measured by using the output method. When the outcome of a construction contract for gas pipeline connection cannot be estimated reliably, revenue recognised only to the extent of contract cost incurred that is probable to be recoverable.

Under HKFRS 15, the Group's performance creates or enhances an asset that the customer controls. The Group recognises revenue as the performance obligation is satisfied over time in accordance with the output method for measuring progress. Upon the adoption of HKFRS 15, the cost incurred to fulfil the gas pipeline construction and connection contracts is recognised as incurred.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The contract assets will be reclassified as receivables when the progress billings are issued or services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

For the year ended 31 December 2018, the Group has concluded that the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

(iii) Presentation of assets and liabilities related to contracts with customers

The Group has also changed the terminology and classification of certain amounts in the consolidated statement of financial position upon adoption of the terminology and classification of HKFRS 15:

Contract assets recognised in relation to the gas pipeline construction and connection which were previously presented as part of trade and other receivables amounting to HK$21,208,000 were classified as contract assets as of 1 January 2018;

Receipt in advance in relation to the sales and distribution of natural gas and other related products as well as the gas pipeline construction and connection, is renamed as contract liabilities.

HKFRS 9 "Financial Instruments"

HKFRS 9 "Financial Instruments" replaces the provision of HKAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1 January 2018 resulted in the changes in the accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The following table summarised the impact, net of tax, of transition of HKFRS 9 on the opening balance of retained profits as of 1 January 2018 as follows:-

	Other reserves *HK$'000*	**Retained profits** *HK$'000*
At 1 January 2018	1,547,729	2,368,497
Reclassification of debt investments from financial assets at fair value through profit or loss ("**FVPL**") to financial assets at fair value through other comprehensive income ("**FVOCI**") *(Note (i))*	4,790	(4,790)
Provision of expected credit losses in loan to and interest receivables from an associate *(Note (ii))*	—	(17,000)
Loss on modification of senior notes in prior year *(Note (iii))*	—	(54,512)
	1,552,519	2,292,195

(i) Classification and measurement

On 1 January 2018, the management has assessed which business models apply the financial assets held by the Group and has classified its financial instruments into appropriate HKFRS 9 categories.

Under HKFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "**SPPI criterion**").

The new classification and measurement of the Group's financial assets are as follows:

- Debt investments previously classified as financial assets at FVPL was held for trading purpose. On 1 January 2018, management has re-assessed the business model for the debt investments, and the Group elected to present in other comprehensive income for the fair value changes of all debt investments previously classified as available-for-sale financial assets and financial assets at FVPL under HKAS 39, as management considered that all debt investments are held within a business model with the objective by both collecting contractual cash flows that meet the SPPI criterion and selling financial assets. At the date of initial application of HKFRS 9, HK$48,842,000 and HK$459,627,000 were reclassified from financial assets at FVPL and available-for-sale financial assets to debt investments at FVOCI respectively; HK$4,790,000, represented the accumulated fair value gains of debt investments previously classified as financial assets at FVPL under HKAS 39, was reclassified from retained profits to other reserves.

- The Group has irrevocably elected to classify all its equity investments previously classified as available-for-sale at financial assets at FVOCI, since these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. The Equity investments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, As a result, equity investments previously classified as available-for-sales financial assets under HKAS 39 amounted to HK$136,733,000 were reclassified to equity investments at FVOCI at 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original *HK$'000*	New *HK$'000*	Difference *HK$'000*
Non-current financial assets					
Debt investments	Available-for-sale	FVOCI	459,627	459,627	—
Equity investments	Available-for-sale	FVOCI	136,733	136,733	—
Other non-current assets (excluding prepayment)	Amortised cost	Amortised cost	688,289	675,289	(13,000) *(Note a)*
Current financial assets					
Contracts assets, deposits, trade and other receivables (excluding prepayment and other tax recoverables)	Amortised cost	Amortised cost	1,838,162	1,834,162	(4,000) *(Note a)*
Debt investments	FVPL	FVOCI	48,842	48,842	—
Time deposits with maturity over three months	Amortised cost	Amortised cost	48,531	48,531	—
Cash and cash equivalents	Amortised cost	Amortised cost	2,290,447	2,290,447	—
Non-current financial liabilities					
Senior notes	Amortised cost	Amortised cost	4,970,240	5,024,752	54,512 *(Note b)*
Long-term borrowings	Amortised cost	Amortised cost	60,000	60,000	—
Current financial liabilities					
Trade and other payables (excluding other tax payables and salaries payables)	Amortised cost	Amortised cost	1,404,899	1,404,899	—
Short-term borrowings	Amortised cost	Amortised cost	689,258	689,258	—

Notes:

(a) The difference is the result of applying the new expected credit loss model. Please refer to Note (ii) for details.

(b) The difference is arising from the adjustment for the loss on modification of senior notes. Please see Note (iii) for details.

(ii) Impairment

The Group has the following types of assets that are subject to HKFRS 9's new expected credit loss model:-

- Contract assets and trade receivables
- Loan and interest receivables from an associate
- Deposits and other receivables
- Debt investments carried at FVOCI
- Cash and cash equivalents
- Time deposits with maturity over three months

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained profits and equity is disclosed in the consolidated statement of changes in equity.

Contract assets and trade receivables

The Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The identified impairment loss was immaterial.

Loan and interest receivables from an associate

The loan and interest receivables from an associate are considered to be low risk of default, and therefore the impairment provision is determined at 12 month expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of HK$17,000,000 on 1 January 2018 (2017: Nil).

The loss allowance for the loan and interest receivables from an associate have not increased during the current reporting period.

Deposits and other receivables

Deposits and other receivables at amortised cost are considered to be low risk, and therefore the loss allowance is determined as 12 months expected credit losses. The resulted increase of loss allowance for deposits and other receivables on 1 January 2018 was immaterial. The Group assessed for their impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

While debt investments carried at FVOCI, time deposits with maturity over three months and cash and cash equivalents are also subject to impairment requirements of HKFRS 9, the identified impairment loss was immaterial as the counterparties are of high credit quality with no history of default.

(iii) Modification of financial liabilities

In prior years, the Group did not recognise a gain or loss immdediately in profit or loss at the date of modification of a financial liability in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". Instead, the difference between the original and modified cash flows was amortised over the remaining term of the modified liability by re-calculating the effective interest rate.

Upon adoption of HKFRS 9, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

HKFRS 9 is required to be applied retrospectively, and therefore modification gains and losses arising from financial liabilities that are still recognised at the date of initial application would need to be calculated and approximately HK$54,512,000 is adjusted in retained profits on 1 January 2018 in relation to modification of senior notes.

(b) New standards, amendments to standards and interpretation not yet adopted

The following are new standards, amendments to standards and interpretation that have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted.

		Effective for accounting periods beginning on or after
Annual Improvements Project (Amendments)	Annual Improvements 2015–2017 Cycle	1 January 2019
HKAS 1 (Amendments)	Amendments to Definition of Material	1 January 2020
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019

3 Revenue and segment information

The Group's principal activities are the sales and distribution of natural gas, crude oil and other related products and provision of construction and connection services of gas pipelines in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

	2018	2017
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**8,475,905**	6,773,775
Gas pipeline connection and construction services income	**517,422**	524,680
Revenue from exploitation and production of crude oil and natural gas	**416,804**	352,825
	9,410,131	7,651,280

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas, gas pipeline construction and connection; and exploitation and production of crude oil and natural gas.

The Group has presented the following three reportable segments for the year ended 31 December 2018:

— sales and distribution of natural gas and other related products

— gas pipeline construction and connection

— exploitation and production of crude oil and natural gas

No operating segments have been aggregated to form the above reportable segments.

The executive directors assess the performance of the business segments based on profit before taxation without allocation of other gains, net, finance income, finance costs, share of losses of investments accounted for using the equity method, reversal of impairment losses on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, and other unallocated corporate expenses, which is consistent with these in the consolidated financial statements. Meanwhile, the Group does not allocate assets and liabilities to its segments and report the sales from external customers by geographical market, as the executive directors do not use these information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and liabilities for each reportable segment and a measure of sales by geographical market.

Information regarding the Group's reportable segments as provided to the executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

For the year ended 31 December 2018:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Segment revenue				
Recognised at a point in time	**8,475,905**	**—**	**416,804**	**8,892,709**
Recognised over time	**—**	**517,422**	**—**	**517,422**
Sales to external customers	**8,475,905**	**517,422**	**416,804**	**9,410,131**
Segment results	**774,131**	**258,020**	**60,057**	**1,092,208**
Finance income				**146,818**
Other gains, net				**18,936**
Finance costs				**(206,712)**
Written off of exploration and evaluation assets	**—**	**—**	**(5,651)**	**(5,651)**
Share of losses of investments accounted for using the equity method				**(3,300)**
Unallocated corporate expenses				**(113,773)**
Profit before taxation				**928,526**
Taxation				**(250,301)**
Profit for the year				**678,225**

For the year ended 31 December 2017:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	6,773,775	524,680	352,825	7,651,280
Segment results	664,093	242,982	76,842	983,917
Finance income				101,741
Other gains, net				22,901
Finance costs				(203,677)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	—	—	4,402	4,402
Written off of exploration and evaluation assets	—	—	(2,357)	(2,357)
Share of losses of investments accounted for using the equity method				(2,356)
Unallocated corporate expenses				(93,105)
Profit before taxation				811,466
Taxation				(188,527)
Profit for the year				622,939

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2018 and 2017.

Analysis of the Group's assets by geographical market for the years ended 31 December 2018 and 2017 is set out below:

	2018		2017	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**145,069**	**—**	137,351	—
Mainland China	**12,692,966**	**835,760**	12,018,750	1,020,397
Canada	**2,430,088**	**321,559**	2,419,335	232,466
Total	**15,268,123**	**1,157,319**	14,575,436	1,252,863
Unallocated				
Investments accounted for using the equity method	**312,754**		321,167	
Deferred tax assets	**7,646**		4,796	
Financial assets through other comprehensive income	**439,120**		—	
Available-for-sale financial assets	**—**		596,360	
Financial assets at fair value through profit and loss	**—**		48,842	
Total assets	**16,027,643**		15,546,601	

4 Operating profit

Operating profit has been arrived after charging/(crediting) the following items:

	2018	2017
	HK$'000	*HK$'000*
Employee benefit expenses	**384,358**	333,359
Minimum lease payments under operating leases for leasehold land and buildings	**13,600**	13,494
Cost of inventories recognised as expense		
— Purchase of inventories	**6,982,544**	5,415,724
— Change of inventories during the year	**38,340**	53,863
Auditor's remuneration	**2,300**	2,300
Depreciation and depletion of property, plant and equipment	**470,165**	428,491
Amortisation of land use rights	**8,769**	8,503
Amortisation of intangible assets	**3,192**	2,521
Losses on disposals of property, plant and equipment	**872**	1,652
Net exchange gains	**(527)**	(28)
Write off of exploration and evaluation assets	**5,651**	2,357

5 Taxation

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year (2017: Nil).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008 onwards at 10% (2017: 10%). Certain entities of the Group with Hong Kong business and directly owns at least 25% of the capital of the PRC subsidiaries are entitled to the lower withholding tax rate at 5% (2017: 5%).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in Mainland China are subject to the PRC corporate income tax rate at 25% (2017: 25%). Certain subsidiaries are entitled to tax concessions and tax relief whereby the profits of those subsidiaries are taxed at a preferential income tax rate of 15% (2017: 15%).

Canada income tax has been provided at the rate of 27% on the estimated assessable profit for the year (2017: 27%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 12% (2017: 12%) and 15% (2017: 15%) respectively.

Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**224,985**	163,592
Under provision in prior years	**3,743**	3,957
	228,728	167,549
Deferred tax	**21,573**	20,978
Taxation	**250,301**	188,527

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2018 (2017: Nil).

6 Dividend

	2018	2017
	HK$'000	*HK$'000*
Proposed final dividend of HK cents 0.40 (2017: HK cents 0.35) per ordinary share	**23,356**	20,390

A final dividend relating to the year ended 31 December 2017 amounted to HK$20,390,000 was fully paid on 6 July 2018.

The Board proposed a final dividend of HK cents 0.40 (2017: HK cents 0.35) per ordinary share for the year ended 31 December 2018 on 27 March 2019 amounting to a total of approximately HK$23,356,000. This proposed final dividend is not reflected as a dividend payable as of 31 December 2018, but will be recorded as a distribution of contributed surplus for the year ending 31 December 2019.

7 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$281,904,000 (2017: HK$250,467,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,976,719,000 shares (2017: 5,148,640,000 shares).

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the share award scheme during the year. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and future service cost.

	2018 ***HK$'000***	2017 *HK$'000*
Profit attributable to owners of the Company	**281,904**	250,467
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year (thousands)	**4,976,719**	5,148,640
Adjustment for share options and awarded shares (thousands)	**20,933**	7,595
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**4,997,652**	5,156,235

8 Contract assets, deposits, trade and other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The Group has assessed that the expected credit losses for these financial assets are not material. Thus no loss allowance provision was recognised as at the statement of financial position date.

The Group allows an average credit period ranging from 60 to 90 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

As at 31 December 2018, included in contract assets, deposits, trade and other receivables is the balance of trade receivables amounting to HK$625,352,000 (2017: HK$ 784,363,000).

The ageing analysis of trade receivables based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 3 months	**552,984**	730,625
3 to 6 months	**43,421**	30,363
Over 6 months	**28,947**	23,375
Total	**625,352**	784,363

9 Trade and other payables

As at 31 December 2018, included in trade and other payables is the balance of trade payables amounting to HK$505,977,000 (2017: HK$447,956,000).

The ageing analysis of trade payables based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Up to 3 months	**402,076**	358,365
3 to 6 months	**40,910**	40,316
Over 6 months	**62,991**	49,275
Total	**505,977**	447,956

BUSINESS REVIEW

In 2018, the Chinese government continued to promote air pollution prevention and control and the demand for clean natural gas energy continued to grow with the domestic consumption of natural gas in 2018 reaching 280.3 billion cubic meters, representing a year-on-year increase of 18%. The Group gave full play to its market and business advantages, vigorously promoted the construction of key branch pipelines, accelerated the development of statutory regional markets, achieved steady growth in gas sales volume, and continued to optimise assets and business structure.

For the financial year ended 31 December 2018, the Group's operational and financial performance was satisfactory on the whole. Total revenue increased by 23% to HK$9,410 million (2017: HK$7,651 million). Gross profit increased to HK$1,365 million (2017: HK$1,216 million), representing a year-on-year increase of 12%. The Group's profit before taxation was HK$929 million (2017: HK$811 million), representing a year-on-year increase of 14%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the year ended 31 December 2018, the Group recorded sales and distribution of natural gas income of HK$8,476 million (2017: HK$6,774 million), representing a 25% increase and accounting for 90% of total revenue. During the year, the Group's total gas sales and transmission volume increased by 15% to 4,695 million cubic meters (2017: 4,076 million cubic meters).

Gas sales volume for industrial and commercial users increased 12%, residential users gas sales volume increased 13% and gas stations increased by 16%, with each representing 64%, 24% and 12% of the total gas sales volume respectively (2017: 65%, 24% and 11%).

Development of new users

During the year, the Group connected 108,347 new residential users and 1,386 new industrial and commercial users. Total connections for residential users and industrial and commercial users were 1,343,844 (2017: 1,235,497) and 11,812 (2017: 10,426) respectively, which were increased by 9% and 13% as compared to 2017, respectively. With local government's advance to carry forward the green development and its industrial transformation and upgrading continuously, the number of new users is expected to maintain a stable growth in the future. Industrial and commercial users have higher demand for natural gas compared to residential users, making their development a priority task for the Group. In light of the increasing number of users, the Group will continue to improve service quality and will optimise safety management systems to provide stable, safe, clean and high quality supply of energy for all end-users.

New project expansion

In 2018, besides the improvement of city natural gas networks in existing statutory areas, the Group made efforts to develop new markets by acquiring gas concession rights. During the year, the Group successively obtained regional gas concession rights for 4 projects in Jiuhu Town and Taizi Town (Zouping County, Shandong Province), Futian Town (Shangli County, Jiangxi Province), and modern industrial development zone in Luyanghu, Weinan City, Shaanxi Province.

As at 31 December 2018, the Group had established a total of 138 natural gas project companies in 16 provinces and autonomous regions, with 71 gas concession rights in the PRC and the total length of natural gas pipelines constructed was approximately 12,510 km.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

In 2018, international crude oil price recovered from 2017, and the Group realised average crude oil price increased by CAD6.66 per barrel to CAD66.92 per barrel. Throughout the year, the average daily production was 5,383 barrels of oil equivalent and the average operating netback was CAD25.24 per barrel of oil equivalent in 2018 (2017: 4,849 barrels of oil equivalent per day, CAD23.23 per barrel of oil equivalent), representing an increase of 11% and 9% respectively. According to the reserve report prepared by GLJ Petroleum Consultants for the year ended 31 December 2018, the Group has proved plus probable reserves of 39 million barrels of oil equivalent (2017: 35 million barrels of oil equivalent), representing a year-on-year increase of 12%.

Rating agencies	**Ratings**
Moody's	Ba2 (Stable)
Standard & Poor	BB (Positive)

The Group was rated "BB" by Standard & Poor with a positive rating outlook, and was rated "Ba2" by Moody's, reflecting the Company's healthy financial position and promising operational prospects.

BUSINESS PROSPECTS

On 19 March 2019, the Seventh Meeting of the Central Committee for Deepening Overall Reform deliberated and adopted the *Implementation Opinions on Reform of Operation Mechanism of Oil and Gas Pipeline Network*. In the meeting, it was stressed that to reform the operation mechanism of oil and natural gas pipeline network, we should expand openness to a high level, set up oil and gas pipeline network companies with state-owned capital holding and diversified investment subjects, and promote the development of multi-subject and multi-channel supply of upstream oil and gas resources, with the market pattern of the midstream unified pipeline network which can efficiently collect and transport the downstream sales market developed by strength competition. With separate transportation and distribution and fair and open pipeline network, more resources supply schemes and natural gas supply will be provided in the upstream market. Through their own strengths, city gas companies will obtain a variety of gas sources in the future to get rid of the restriction on gas sources at present.

In terms of demand, the annual apparent consumption of natural gas in 2018 reached 280.3 billion cubic meters, with a year-on-year increase of 18%. According to the *13th Five-Year Plan for National Energy Development*, by 2020, the proportion of natural gas in primary energy consumption will rise from 8% to 10%, and there will be great development potential and space for the natural gas market in China. In 2018, the Chinese government also continued to promote the development of the clean energy natural gas, by successively issuing such guiding documents as the *Three-year Action Plan for Winning the Blue Sky War, the Regulations on Fair and Open Supervision of Oil and Gas Pipeline Network Facilities, and the Notice on Rationalizing the Price of Residential Gas Stations*, to further standardize the development and operation of the industry, which shows the State's emphasis on energy reform and the determination to promote the prevention and control of air pollution, and further increased the demand for natural gas in the domestic market.

In terms of supply, the eastern line of the China-Russia natural gas pipeline is expected to start to supply natural gas to China by the end of 2019, and then gradually increase the supply to a final level of 38 billion cubic meters per year. At the same time, it is expected that an additional 30 billion cubic meters of natural gas will be supplied each year after the western line of the China-Russia natural gas pipeline is put into operation in the future. In terms of liquefied natural gas (LNG) supply, China‘s LNG import volume increased by 16 million tons in 2018, up by 40% year on year, and the global LNG supply is expected to increase by 35 million tons in 2019, which will be fully absorbed by Asia and Europe. With the accelerated growth of domestic self-produced gas production, the import volume of pipeline gas and LNG is gradually increasing, and the successive operation of several LNG receiving terminals will effectively promote the development of the natural gas industry.

In 2019, the Group will fully grasp the development opportunities of the domestic natural gas market, intensify our cooperation with our partners to develop the market, actively control the procurement cost, accelerate the expansion of the terminal business, and enhance the market share of the terminals to embrace the opportunities and challenges brought by the reform of the natural gas market. With the tenet of "creating value for customers, creating career development for employees, and creating returns for shareholders" in mind, the Group will strive to build itself into an influential clean energy company.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and its notes and other sections in the annual report for the year ended 31 December 2018.

FINANCIAL REVIEW

Driven by the Chinese government's environmental policies, the demand for clean energy has continued to grow in mainland China. Leveraging its strong sales network and gas source advantages, the Group has seized those favourable opportunities to achieve rapid business growth. During the year of 2018, the Group recorded a total revenue of HK$9,410 million (2017: HK$7,651 million), representing an increase of 23%. Gross profit amounted to HK$1,365 million (2017: HK$1,216 million), representing an increase of 12% comparing to last year. The Group's profit for the year was HK$678 million (2017: HK$623 million), representing an increase of 9% from 2017. Profit attributable to the owners of the Company recorded an 13% growth to HK$282 million in 2018.

The Group's principal activities are divided into three segments.

(1) Sales and distribution of natural gas and other related products ("**Sales and distribution of natural gas**")

    The Group's natural gas sales and transmission volume increased by 15% to 4,695 million cubic meters in 2018. Sales and distribution of natural gas continued to be the Group's principal source of revenue and constituted 90% of the total revenue in 2018 (2017: 89%). Revenue related to this segment showed a significant increase of 25% to HK$8,476 million (2017: HK$6,774 million) and segment results increased by 17% to HK$774 million (2017: HK$664 million), whereas segment profit ratio was 9% (2017: 10%).

(2) Gas pipeline construction and connection ("**Connection**")

    Revenue related to gas pipeline construction and connection business constituted around 5% of our total revenue in 2018 and amounted to HK$517 million (2017: HK$525 million).

(3) Exploitation and production of crude oil and natural gas ("**Exploitation and production**")

    Revenue related to exploitation and production amounted to HK$417 million (2017: HK$353 million) in 2018, with a growth of 18%. Crude oil prices recovered more in 2018, with West Texas Intermediate (WTI) averaging US$64.78 per barrel as compared to US$50.93 per barrel in 2017. The Group realized crude oil price of CAD66.92 per barrel in 2018 as compared to CAD60.26 per barrel in 2017, with an increase of 11%.

The Group's sales and distribution cost increased by 12% to HK$57 million in 2018 from HK$51 million in 2017; administrative expenses increased by 19% from HK$307 million in 2017 to HK$365 million in 2018. Both costs together represented approximately 4% of total revenue in 2018, whereas this was approximately 5% in 2017.

Finance cost were HK$207 million (2017: HK$204 million), which was relatively stable as compared to the Group's total debt in 2018 and 2017.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

It is the Group's policy to adopt conservative financial strategies by using the cash flow generated from operations as the principal source of fund to finance its capital expenditures. As at 31 December 2018, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) was HK$6,549 million (2017: HK$5,719 million). Total available credit facility amounted to HK$4,563 million as of 31 December 2018 (2017: HK$5,081 million) with an utilisation rate of 33% (2017: 13%).

As at 31 December 2018, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$2,667 million (2017: HK$2,339 million). Total assets increased by 3% to HK$16,028 million (2017: HK$15,547 million), among which current assets were HK$4,707 million (2017: HK$4,235 million). Total liabilities of the Group were HK$10,116 million (2017: HK$9,341 million), and among which current liabilities were HK$4,611 million (2017: HK$3,920 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets, was 41% (2017: 37%). The current ratio (current assets divided by current liabilities) of the Group was 1.02 times (2017: 1.08 times).

The Group's financial and liquidity ratios remained stable, and hence the Group is well prepared for its development in the future.

EMPLOYEES AND REMUNERATION POLICY

At the end of 2018, the Group employed a total of 3,595 (2017: 3,600) full-time employees, most of whom were stationed in the PRC. Total staff cost for the year amounted to HK$384 million (2017: HK$333 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consist of basic salary, cash bonus and share-based incentives.

PLEDGE OF ASSETS

No assets of the Group have been pledged for the outstanding borrowings as at 31 December 2018.

CONTINGENT LIABILITY

The Group had no material contingent liability as at 31 December 2018.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group is responsible for the financial risk management, and its treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

The Group conducts its business primarily in Renminbi. The Group's certain bank deposits are denominated in Hong Kong dollars, Renminbi and United Stated dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi, United Stated dollars and Canadian dollars.

Other than those disclosed, the Group does not have any material exposures to foreign exchange fluctuations. The Group does not have a foreign currency hedging policy. However, the Group monitors its foreign currency exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting a significant foreign currency hedging policy in the future.

LITIGATION

As at 31 December 2018, the Group had no significant litigation.

CAPITAL STRUCTURE

As at 31 December 2018, the issued share capital of the Company was approximately HK$58,391,238 divided into 5,839,123,834 shares with a nominal value of HK$0.01 each.

DISTRIBUTION OUT OF CONTRIBUTED SURPLUS ACCOUNT

The Board resolved to propose to the shareholders of the Company at the forthcoming annual general meeting of the Company, which is to be held on Wednesday, 29 May 2019 ("**2019 AGM**"), a distribution of HK cent 0.40 (2017: HK cent 0.35) per share out of the contributed surplus account of the Company to be paid on Monday, 24 June 2019 to those shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2019. The proposed distribution will amount to approximately HK$23,356,000 (2017: HK$20,390,000).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Thursday, 23 May 2019 to Wednesday, 29 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all transfers of shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 22 May 2019.

For determining the entitlement of the shareholders to the proposed distribution, the register of members of the Company will be closed from Thursday, 6 June 2019 to Monday, 10 June 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed distribution, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration not later than 4:30 p.m. on Wednesday, 5 June 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, the Company, through the trustee of the restricted share award scheme adopted by the Company on 4 November 2011 (the "**Restricted Share Award Scheme**"), purchased from the market 53,640,000 shares for the purpose of the Restricted Share Award Scheme. Save as aforesaid, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code throughout the year.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2018, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviations as explained below.

Code provision A.2.1 of the CG Code provides that the responsibilities between chairman and chief executive officer should be divided. Mr. Xu Tie-liang is the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Code provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors are not appointed for a specific term, but they are subject to retirement from office by rotation at least once every three years in accordance with the By-Laws of the Company (the "**By-Laws**").

Code provision D.1.4 of the CG Code requires that the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors (except for Mr. Xu Tie-liang). However, the Directors shall be subject to retirement by rotation in accordance with the By-Laws. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Save as aforesaid and in the opinion of the Directors, the Company has met all the other relevant code provisions as set out in the CG Code during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and to review the risk management and the internal control systems. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2018 and is of the opinion that such financial statements complied with the applicable accounting standards, the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all our staff for their dedication and hard work and to our shareholders for their continuous support.

By Order of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

Hong Kong, 27 March 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Ms. Guan Yijun and Mr. Liu Chunsun; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Wang Guangtian and Mr. Yang Jie.

* *For identification purpose only*