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 2019

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- The Group's total revenue increased by 9% to HK$10,261 million;
- Profit for the year increased by 15% to HK $779 million; profit attributable to owners of the Company for the year increased by 17% to HK$331 million; and
- Natural gas sales and transmission volume increased by 10% to 5,124 million cubic meters.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019**	2018
		HK$'000	*HK$'000*
Revenue	3	**10,260,654**	9,410,131
Cost of sales		**(8,755,230)**	(8,045,299)
Gross profit		**1,505,424**	1,364,832
Other income		**36,557**	30,069
Other gains, net		**22,194**	18,936
Selling and distribution costs		**(66,727)**	(57,270)
Administrative expenses		**(359,625)**	(364,847)
Impairment on oil and gas properties under property, plant and equipment		**(30,395)**	—
Operating profit	4	**1,107,428**	991,720
Finance income		**151,491**	146,818
Finance costs		**(281,773)**	(206,712)
Share of losses of investments accounted for using the equity method, net		**(3,636)**	(3,300)
Profit before taxation		**973,510**	928,526
Taxation	5	**(194,391)**	(250,301)
Profit for the year		**779,119**	678,225
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(76,700)**	(539,424)
Change in value of debt investments at fair value through other comprehensive income		**31,358**	(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		**(19,025)**	(4,830)
Other comprehensive loss for the year, net of tax		**(64,367)**	(595,521)
Total comprehensive income for the year		**714,752**	82,704

	Note	**2019** *HK$'000*	2018 *HK$'000*
Profit attributable to:			
Owners of the Company		**330,984**	281,904
Non-controlling interests		**448,135**	396,321
		779,119	678,225
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**309,104**	(55,158)
Non-controlling interests		**405,648**	137,862
		714,752	82,704
Earnings per share for profit attributable to owners of the Company for the year	7		
— Basic (HK cents)		**6.642**	5.664
— Diluted (HK cents)		**6.642**	5.641

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**8,068,912**	7,924,722
Right-of-use assets		**499,190**	—
Exploration and evaluation assets		**153,063**	182,981
Land use rights		**—**	415,234
Intangible assets		**970,166**	974,526
Investments accounted for using the equity method		**378,823**	312,754
Financial assets at fair value through other comprehensive income		**693,942**	439,120
Other non-current assets		**1,195,673**	1,063,841
Deferred tax assets		**8,968**	7,646
		11,968,737	11,320,824
Current assets			
Inventories		**262,850**	282,777
Contract assets, deposits, trade and other receivables	8	**1,777,940**	1,751,116
Current tax recoverable		**6,168**	6,024
Time deposits with maturity over three months		**295,590**	158,679
Cash and cash equivalents		**2,521,199**	2,508,223
		4,863,747	4,706,819
Total assets		**16,832,484**	16,027,643

	Note	2019 HK$'000	2018 HK$'000
Liabilities			
Current liabilities			
Trade and other payables	9	**1,289,056**	1,415,917
Contract liabilities		**1,571,197**	1,470,128
Short-term borrowings		**1,408,814**	1,455,839
Current tax payable		**236,649**	269,369
Lease liabilities		**12,761**	—
		4,518,477	4,611,253
Non-current liabilities			
Senior notes		**5,411,161**	5,029,991
Long-term borrowings		**26,466**	63,642
Lease liabilities		**48,113**	—
Deferred tax liabilities		**237,408**	270,019
Assets retirement obligation		**147,844**	140,678
		5,870,992	5,504,330
Total liabilities		**10,389,469**	10,115,583
Equity			
Equity attributable to owners of the Company			
Share capital		**57,670**	58,391
Reserves		**3,400,614**	3,137,516
		3,458,284	3,195,907
Non-controlling interests		**2,984,731**	2,716,153
Total equity		**6,443,015**	5,912,060
Total equity and liabilities		**16,832,484**	16,027,643

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 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 standard, 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 2019:

Annual Improvements Project (Amendments)	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed as below. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

HKFRS 16 "Leases"

As indicated above, the Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.8%.

(i) Measurement of lease liabilities

	2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	**87,313**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**70,244**
Less: short-term leases recognised on a straight-line basis as expense	**(2,488)**
Lease liability recognised as at 1 January 2019	**67,756**
Of which are:	
Current lease liabilities	**13,665**
Non-current lease liabilities	**54,091**
	67,756

(ii) Measurement of right-of-use assets

All the right-of-use assets were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. For land use rights previously presented as a separate item on consolidated statement of financial position are grouped as part of right-of-use assets with effect from 1 January 2019.

(iii) Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included.

Statement of consolidated financial position (Extract)	**31 December 2018 As previously reported** *HK$'000*	**HKFRS 16** *HK$'000*	**1 January 2019** *HK$'000*
ASSETS			
Non-current assets			
Right-of-use assets	—	478,780	478,780
Land of use rights	415,234	(415,234)	—
Deferred tax assets	7,646	1,051	8,697
LIABILITIES			
Current liabilities			
Lease liabilities	—	13,665	13,665
Non-current liabilities			
Lease liabilities	—	54,091	54,091
EQUITY			
Retained profits	2,576,972	(1,617)	2,575,355
Non-controlling interests	2,716,153	(1,542)	2,714,611

(iv) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Using single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 "Determining whether an Arrangement contains a Lease".

(v) Impact on segment disclosures

The segment assets located in Hong Kong, Mainland China, and Canada has increased by HK$1,805,000, HK$51,464,000, and HK$1,985,000 at 31 December 2019 respectively as a result of the change in accounting policy.

(b) New standard and amendments to standards not yet adopted

The following are new standard and amendments to standards that have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted.

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Amendments to Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of Business	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will apply the above new standard and amendments to standards when they become effective. The directors of the Company assess that the adoption of the new standard and amendments to standards is not expected to have any significant impact on the results and the financial position of the Group.

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:

	2019	2018
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**9,254,902**	8,475,905
Gas pipeline connection and construction services income	**566,807**	517,422
Revenue from exploitation and production of crude oil and natural gas	**438,945**	416,804
	10,260,654	9,410,131

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 2019:

— 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, interest income, finance costs, share of losses of investments accounted for using the equity method, impairment on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, impairment on loan and interest receivables from an associate 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 2019 and 2018 is set out below.

For the year ended 31 December 2019:

	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	**9,254,902**	**—**	**438,945**	**9,693,847**
Recognised over time	**—**	**566,807**	**—**	**566,807**
Sales to external customers	**9,254,902**	**566,807**	**438,945**	**10,260,654**
Segment results	**908,005**	**263,972**	**77,841**	**1,249,818**
Interest income				**151,491**
Other gains, net				**22,194**
Finance costs				**(281,773)**
Impairment on loan and interest receivables from an associate				**(3,830)**
Impairment on oil and gas properties under property, plant and equipment				**(30,395)**
Written off of exploration and evaluation assets	**—**	**—**	**(19,377)**	**(19,377)**
Share of losses of investments accounted for using the equity method				**(3,636)**
Unallocated corporate expenses				**(110,982)**
Profit before taxation				**973,510**
Taxation				**(194,391)**
Profit for the year				**779,119**

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
Interest 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

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2019 and 2018.

Analysis of the Group's assets by geographical market for the years ended 31 December 2019 and 2018 is set out below:

	2019		2018	
		Additions to non-current		Additions to non-current
	Total assets	**assets**	Total assets	assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**139,269**	**—**	145,069	—
Mainland China	**13,111,217**	**844,715**	12,692,966	835,760
Canada	**2,500,265**	**217,642**	2,430,088	321,559
Total	**15,750,751**	**1,062,357**	15,268,123	1,157,319
Unallocated				
Investments accounted for using the equity method	**378,823**		312,754	
Deferred tax assets	**8,968**		7,646	
Financial assets at fair value through other comprehensive income	**693,942**		439,120	
Total assets	**16,832,484**		16,027,643	

4 Operating profit

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

	2019	2018
	HK$'000	*HK$'000*
Employee benefit expenses	**389,246**	384,358
Minimum lease payments under leases for leasehold land and buildings	**—**	13,600
Cost of inventories recognised as expense		
— Purchase of inventories	**7,581,958**	6,982,544
— Change of inventories during the year	**(19,927)**	38,340
Auditor's remuneration	**2,620**	2,300
Depreciation and depletion of property, plant and equipment	**488,964**	470,165
Depreciation of right-of-use assets	**27,457**	—
Amortisation of land use rights	**—**	8,769
Amortisation of intangible assets	**2,912**	3,192
Short-term lease expenses	**2,502**	—
Losses on disposal of property, plant and equipment	**2,393**	872
Impairment loss on loan and interest receivables from an associate	**3,830**	—
Net exchange losses/(gains)	**100**	(527)
Write off of exploration and evaluation assets	**19,377**	5,651

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 (2018: 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 2018 onwards at 10% (2018: 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% (2018: 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% (2018: 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% (2018: 15%).

Canada income tax has been provided for at the rate of 26.5% on the estimated assessable profits for the year (2018: 27%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 11.5% (2018: 12%) and 15% (2018: 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.

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**225,987**	224,985
Under-provision in prior years	**6,803**	3,743
	232,790	228,728
Deferred tax	**(38,399)**	21,573
Taxation	**194,391**	250,301

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2019 (2018: Nil).

6 Dividend

	2019	2018
	HK$'000	*HK$'000*
No final dividend proposed (2018: HK cents 0.4 per ordinary share)	**—**	23,356

The Board has decided not to propose final dividend for the year ended 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$330,984,000 (2018: HK$281,904,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,983,413,000 shares (2018: 4,976,719,000 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.

	2019 ***HK$'000***	2018 *HK$'000*
Profit attributable to owners of the Company	**330,984**	281,904
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year (thousands)	**4,983,413**	4,976,719
Adjustment for share options and awarded shares (thousands)	**—**	20,933
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**4,983,413**	4,997,652

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2019 as the outstanding share options did not have dilutive effect because the exercise price per share option was higher than the average share price of the Company for the year ended 31 December 2019.

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 2019, included in contract assets, deposits, trade and other receivables is the balance of trade receivables amounting to HK$487,627,000 (2018: HK$625,352,000).

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

	2019	2018
	HK$'000	HK$'000
Up to 3 months	**440,707**	552,984
3 to 6 months	**26,583**	43,421
Over 6 months	**20,337**	28,947
Total	**487,627**	625,352

9 Trade and other payables

As at 31 December 2019, included in trade and other payables is the balance of trade payables amounting to HK$492,869,000 (2018: HK$505,977,000).

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

	2019	2018
	HK$'000	*HK$'000*
Up to 3 months	**391,660**	402,076
3 to 6 months	**39,850**	40,910
Over 6 months	**61,359**	62,991
Total	**492,869**	505,977

10 Subsequent events

Since January 2020, there have been numerous confirmed cases of Coronavirus ("**COVID-19**") in Mainland China and other countries. The COVID-19 outbreak is considered a non-adjusting subsequent event and its related financial impact has not been reflected in the financial statements of the Group as at and for the year ended 31 December 2019.

Following the COVID-19 outbreak, a series of precautionary and control measures have been and continued to be implemented in Mainland China. It will inevitably and unfavorably affect commercial and industrial gas sales in the short term to some extent. The impact of the COVID-19 on the economy of Mainland China for the whole of 2020 is still uncertain. While it is expected that when the epidemic is over, the Group's businesses will return to normal within a relatively short period of time.

Further, the Group measures its investments in debt and equity securities at fair value through other comprehensive income. As at 31 December 2019, the total fair value of the investments in debt and equity securities amounted to HK$693,942,000. In 2020, fair value of the investments in debt and equity securities may be subject to fluctuation due to the COVID-19 outbreak, the impact of which is still under assessment.

Apart from the disclosed above, the outbreak is expected to affect the financial results of the Group and the macro-economic environment in Mainland China, Canada and Hong Kong as a whole, the effect of which cannot be estimated as of the date of the report.

Management will continue to assess the impact on the Group‘s operation and financial performance and closely monitor the Group‘s exposure to the risks and uncertainties in connection with COVID-19.

ANNUAL RESULTS

Despite the ongoing China-U.S. trade tensions, increased risks in global economy and economic stagnation, changes in policies and intense market competition, in 2019, China's demand for domestic consumption of natural gas reached 304.8 billion cubic meters, with a year-on-year increase of 9%. Conforming to the trend of reform of the national oil and gas system, the Group adjusted its positioning, adopted visionary strategies and seized opportunities for high-quality development. Management of the Group actively developed markets and resources, stabilized price differences, controlled operating risks, strengthened staff training and improved management. In line with the objectives of creating value for customers, creating future for employees and creating returns for shareholders, the Group has completed its business targets and achieved encouraging results through the hard work and solidarity of all employees of the Group.

The Group's total revenue was increased by 9% to HK$10,261 million. Thanks to the steady increase in sales and distribution of natural gas, gross profit increased by 10% to HK$1,505 million. Profit attributable to owners of the Company for the year recorded an increase of 17% to HK$331 million from HK$282 million in 2018.

BUSINESS REVIEW

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the year ended 31 December 2019, the Group recorded sales and distribution of natural gas income of HK$9,255 million (2018: HK$8,476 million), representing a 9% growth and accounting for 90% of total revenue. During the year, the Group's total gas sales volume increased by 10% to 4,079 million cubic meters (2018: 3,725 million cubic meters). Gas sales volume for industrial and commercial users increased by 12%, residential users gas sales volume increased by 11% and gas stations decreased by 5%, with each representing 65%, 25% and 10% of the total gas sales volume (2018: 64%, 24% and 12%), respectively. The gas transmission volume was 1,045 million cubic meters, representing a 11% increase.

Development of new users

During the year, the Group connected 122,572 new residential users, and 912 new industrial and commercial users. Total connections for residential users were 1,466,416 (2018: 1,343,844), representing a year-on-year increase of 9% over 2018. Total connections for industrial and commercial users were 12,724 (2018: 11,812), representing a year-on-year increase of 8% over 2018. In light of the increasing number of users, the Group will continue to expand natural gas sales and provide services for more natural gas end-users, laying a solid foundation for the Group's future natural gas sales.

As of 31 December 2019, the Group had established a total of 141 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 13,023 KM.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

In 2019, international crude oil price remained stable, and the Group realised average crude oil price remained at CAD66.88 per barrel (2018: CAD66.92 per barrel). Throughout the year, the average daily production was 5,625 barrels of oil equivalent and the average operating netback was CAD25.92 per barrel of oil equivalent (2018: 5,383 barrels of oil equivalent per day, CAD25.24 per barrel of oil equivalent), representing an increase of 5% and 3% respectively. According to the reserve report prepared by GLJ Petroleum Consultants for the year ended 31 December 2019, the Group has proved plus probable reserves of 41.69 million barrels of oil equivalent (2018: 39 million barrels of oil equivalent), representing a year-on-year increase of 7%.

Credit Ratings

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

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

BUSINESS PROSPECTS

Opportunities and challenges

Opportunities

In 2019, China's natural gas market ushered in major opportunities and changes. After years of efforts, the China-Russia east-route natural gas pipeline has been officially connected, an additional of 30 billion cubic meters of pipeline natural gas will be delivered to China every year. The upstream oil and gas sectors were fully opened up, and qualified domestic and foreign enterprises could enter China's oil and gas exploration and exploitation market. The National Oil and Gas Pipeline Network Company was formally established to realize the separation of pipeline & network and the separation of transportation & marketing. The "trade war" between China and the United States broke the ice and reached a phase-one agreement, improving the international business environment for Chinese enterprises. The "Regulation on Optimizing the Business Environment", the "Foreign Investment Law", and the "Foreign Enterprises Implementation Regulations" are implemented by the Chinese Government on 1 January 2020, which have significant meanings to further optimize the business environment of foreign and private enterprises. In 2019, China's primary energy consumption was about 4.79 billion tons of standard coal, with a year-on-year increase of 3.2%. The transformation of clean energy, conservation and emission reduction are undertaking massive responsibility. The future for the development of natural gas integrated projects is splendid in order to promote "coal-to-gas" and "connect natural gas to every town". Even though the pandemic brings harsh challenges to the economy, the Chinese Government adopted strong measures to control the situation within a short amount of time, which help to keep the economy stable and functionable. The strategy of preventing and controlling pollution and the fundamentals of the Chinese economy have not been changed. Its economy is growing continuously. In 2020, the revolution of China's oil and gas industry will enter into the implementation stage with policies being applied. Recently, NDRC suggested that natural gas price as "viewing marketization of the natural gas industry as a revolution" and other positive policies, as the whole nation of China getting back on production and work, the target for the demand for domestic consumption of natural gas to reach 330 billion cubic meters can be achieved.

Challenges

Since the spreading of COVID-19 in early 2020, the global economy has faced major impacts, especially on the supply and demand sides of societies. In addition to the decline in international oil prices and capital markets, the epidemic has increased the uncertainty of the world economy, which will hinder the improvement of domestic economic situation. The Group's upstream and downstream customers have all been affected to a certain extent, and that would cause difficulties in the Group's operating activities and the realisation of the annual targets. In the past eighteen years, despite various difficulties and challenges, the Group has adhered to the mission of "developing clean energy and ensuring the sustainable development of mankind', and has been making continuous progress with the hard work all the staff has put in. It has been proven that the management team of the Group is indomitable. The Group will give full play to the advantages of the industry and resources, review the situation, optimize the strategic layout, seize opportunities, actively explore the market, optimize management, and continuously improve the quality of the workforce. We will provide customers with sufficient clean energy supply and quality services, and work hard to achieve the 2020 business goals.

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 2019.

FINANCIAL REVIEW

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 2019, the Group recorded a total revenue of HK$10,261 million (2018: HK$9,410 million), representing an increase of 9%. Gross profit amounted to HK$1,505 million (2018: HK$1,365 million), representing an increase of 10% comparing to last year. The Group's profit for the year was HK$779 million (2018: HK$678 million), representing an increase of 15% as compared to 2018. Profit attributable to the owners of the Company recorded a 17% growth to HK$331 million in 2019.

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 were increased by 10% to 4,079 million cubic meters, and transmission volume was increased by 11% to 1,045 million cubic meters in 2019. Sales and distribution of natural gas continued to be the Group's principal source of revenue and constituted 90% of the total revenue (2018: 90%). Revenue related to this segment showed an increase of 9% to HK$9,255 million (2018: HK$8,476 million) and segment results increased by 17% to HK$908 million (2018: HK$774 million), whereas segment profit ratio was 10% (2018: 9%).

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

Revenue related to Connection business constituted around 5.5% (2018: 5.5%) of our total revenue in 2019 and amounted to HK$567 million (2018: HK$517 million).

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

Revenue related to Exploitation and production amounted to HK$439 million (2018: HK$417 million) in 2019, with a growth of 5%. Crude oil prices remained stable in 2019, while West Texas Intermediate (WTI) averaging US$57.04 per barrel as compared to US$64.78 per barrel in 2018. The Group realized crude oil price of CAD66.88 per barrel in 2019, which was in line with that of CAD66.92 per barrel in 2018.

The Group's sales and distribution cost increased by 18% to HK$67 million in 2019 from HK$57 million in 2018; administrative expenses decreased by 1% from HK$365 million in 2018 to HK$360 million in 2019. Both costs together represented approximately 4% of total revenue and represented a growth of 1%.

Finance cost was HK$282 million (2018: HK$207 million). During 2019, the Company has successfully redeemed an aggregate principal amount of US$300 million at the redemption price of 101.25%, which incurred a one-off expense of HK$50 million in financial cost.

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 2019, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) was HK$6,846 million (2018: HK$6,549 million). Total available credit facility amounted to HK$3,748 million as at 31 December 2019 (2018: HK$4,563 million) with an utilisation rate of 25% (2018: 33%).

As at 31 December 2019, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$2,817 million (2018: HK$2,667 million). Total assets increased by 5% to HK$16,832 million (2018: HK$16,028 million), among which current assets were HK$4,864 million (2018: HK$4,707 million). Total liabilities of the Group were HK$10,389 million (2018: HK$10,116 million), and among which current liabilities were HK$4,518 million (2018: HK$4,611 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets, was 41% (2018: 41%). The current ratio (current assets divided by current liabilities) of the Group was 1.08 times (2018: 1.02 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 2019, the Group employed a total of 3,693 (2018: 3,595) full-time employees, most of whom were stationed in the PRC. Total staff cost for the year amounted to HK$389 million (2018: HK$384 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 2019.

CONTINGENT LIABILITY

The Group had no material contingent liability as at 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 16 June 2020 ("**2020 AGM**"), the register of members of the Company will be closed from Wednesday, 10 June 2020 to Tuesday, 16 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 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 Tuesday, 9 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2019, the Company repurchased 72,080,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.241 to HK$0.300 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Lowest	Aggregate purchase consideration (excluding expenses)
		HKD	*HKD*	*HKD*
September 2019	28,220,000	0.280	0.241	7,201,760.00
October 2019	12,420,000	0.295	0.275	3,579,100.00
November 2019	31,440,000	0.300	0.260	8,925,800.00
	72,080,000			19,706,660.00

In addition, during the year, the Company, through the trustee of the Restricted Share Award Scheme, purchased from the market 540,000 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 2019, 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 Bye-Laws of the Company (the "**Bye-Laws**").

Code provision D.1.4 of the CG Code requires that directors should clearly understand delegation arrangements in place, therefore 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 Bye-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 2019.

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 2019 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.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 2020

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*