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 2020

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- Natural gas sales volume was 4,350 million cubic metres, increased by 7%;
- Gross profit increased by 12% to HK$1,680 million;
- Sales and distribution of natural gas and other related products' segment results was increased by 20%.

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 2020 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Revenue	3	**10,432,777**	10,260,654
Cost of sales		**(8,753,637)**	(8,755,230)
Gross profit		**1,679,140**	1,505,424
Other income		**22,980**	36,557
Other (losses)/gains, net		**(14,403)**	22,194
Selling and distribution costs		**(81,119)**	(66,727)
Administrative expenses		**(334,081)**	(359,625)
Impairment on oil and gas properties under property, plant and equipment		**(625,633)**	(30,395)
Operating profit	4	**646,884**	1,107,428
Finance income		**304,068**	151,491
Finance costs		**(301,034)**	(281,773)
Share of losses of investments accounted for using the equity method, net		**(19,002)**	(3,636)
Profit before taxation		**630,916**	973,510
Taxation	5	**(115,601)**	(194,391)
Profit for the year		**515,315**	779,119
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		**582,458**	(76,700)
Change in value of debt investments at fair value through other comprehensive income		**(64,506)**	31,358
Item that will not be reclassified to profit or loss			
Change in value of equity investments at fair value through other comprehensive income		**(14,885)**	(19,025)
Other comprehensive income/(loss) for the year, net of tax		**503,067**	(64,367)
Total comprehensive income for the year		**1,018,382**	714,752

	Note	**2020**	2019
		HK$'000	*HK$'000*
Profit attributable to:			
Owners of the Company		**28,757**	330,984
Non-controlling interests		**486,558**	448,135
		515,315	779,119
Total comprehensive income for the year attributable to:			
Owners of the Company		**303,595**	309,104
Non-controlling interests		**714,787**	405,648
		1,018,382	714,752
Earnings per share for profit attributable to owners of the Company for the year	7		
— Basic *(HK cents)*		**0.583**	6.642
— Diluted *(HK cents)*		**0.583**	6.642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**9,008,993**	8,068,912
Right-of-use assets		**589,057**	499,190
Exploration and evaluation assets		**128,444**	153,063
Intangible assets		**1,024,062**	970,166
Investments accounted for using the equity method		**429,356**	378,823
Financial assets at fair value through other comprehensive income		**633,995**	693,942
Other non-current assets		**1,201,201**	1,195,673
Deferred tax assets		**5,810**	8,968
		13,020,918	11,968,737
Current assets			
Inventories		**328,386**	262,850
Contract assets, deposits, trade and other receivables	8	**2,151,734**	1,777,940
Current tax recoverable		**6,293**	6,168
Time deposits with maturity over three months		**836,570**	295,590
Cash and cash equivalents		**2,926,434**	2,521,199
		6,249,417	4,863,747
Total assets		**19,270,335**	16,832,484
Liabilities			
Current liabilities			
Trade and other payables	9	**1,286,205**	1,289,056
Contract liabilities		**2,306,032**	1,571,197
Short-term borrowings		**1,341,941**	1,408,814
Current tax payable		**196,968**	236,649
Lease liabilities		**18,116**	12,761
		5,149,262	4,518,477

	Note	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Senior notes		**5,410,227**	5,411,161
Long-term borrowings		**996,470**	26,466
Lease liabilities		**58,444**	48,113
Deferred tax liabilities		**123,615**	237,408
Assets retirement obligation		**186,103**	147,844
		6,774,859	5,870,992
Total liabilities		**11,924,121**	10,389,469
Equity			
Equity attributable to owners of the Company			
Share capital		**57,670**	57,670
Reserves		**3,720,464**	3,400,614
		3,778,134	3,458,284
Non-controlling interests		**3,568,080**	2,984,731
Total equity		**7,346,214**	6,443,015
Total equity and liabilities		**19,270,335**	16,832,484

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The 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.

(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 2020 and have not been early adopted.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contract: Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	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:

	2020	2019
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**9,385,246**	9,254,902
Gas pipeline connection and construction services income	**765,633**	566,807
Revenue from exploitation and production of crude oil and natural gas	**281,898**	438,945
	10,432,777	10,260,654

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 2020:

— 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 (losses)/gains, net, interest income, finance costs, share of losses of investments accounted for using the equity method, impairment losses on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, reversal of impairment loss of 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 this 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 2020 and 2019 is set out below.

For the year ended 31 December 2020:

	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	**9,385,246**	**—**	**281,898**	**9,667,144**
Recognised over time	**—**	**765,633**	**—**	**765,633**
Sales to external customers	**9,385,246**	**765,633**	**281,898**	**10,432,777**
Segment results	**1,085,473**	**317,325**	**18,334**	**1,421,132**
Interest income				**304,068**
Other losses, net				**(14,403)**
Finance costs				**(301,034)**
Reversal of impairment loss of loan and interest receivables from an associate				**5,800**
Impairment on oil and gas properties under property, plant and equipment *(Note)*	**—**	**—**	**(625,633)**	**(625,633)**
Written off of exploration and evaluation assets	**—**	**—**	**(26,379)**	**(26,379)**
Share of losses of investments accounted for using the equity method, net				**(19,002)**
Unallocated corporate expenses				**(113,633)**
Profit before taxation				**630,916**
Taxation				**(115,601)**
Profit for the year				**515,315**

Note:

For the year ended 31 December 2020, impairment on oil and gas properties under property, plant and equipment of HK$625,633,000 (2019: HK$30,395,000) has been provided. The recoverable amount of oil and gas properties is determined at the value-in-use using a discounted cash flow method and is assessed at the cash generating units ("**CGUs**") level within the segment of "exploitation and production of crude oil and natural gas". The key assumptions for the calculation are those regarding the discount rates and expected changes in future oil prices which are made reference to West Texas Intermediate ("**WTI**") prices. The expected future oil prices for the next five years ranged from US$48.0 to US$59.0 per barrel (2019: US$61.0 to US$69.5 per barrel). The Group used a pre-tax discount rates ranging from 10% to 20% (2019: 8% to 20%) to discount future cash flows from the Group's CGU(s).

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	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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)	(30,395)
Written off of exploration and evaluation assets	—	—	(19,377)	(19,377)
Share of losses of investments accounted for using the equity method, net				(3,636)
Unallocated corporate expenses				(110,982)
Profit before taxation				973,510
Taxation				(194,391)
Profit for the year				779,119

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2020 and 2019.

Analysis of the Group's assets by geographical market for the years ended 31 December 2020 and 2019 is set out below:

	2020		2019	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**103,866**	**5,084**	139,269	—
Mainland China	**16,258,012**	**1,581,462**	13,111,217	844,715
Canada	**1,839,296**	**85,018**	2,500,265	217,642
Total	**18,201,174**	**1,671,564**	15,750,751	1,062,357
Unallocated				
Investments accounted for using the equity method	**429,356**		378,823	
Deferred tax assets	**5,810**		8,968	
Financial assets at fair value through other comprehensive income	**633,995**		693,942	
Total assets	**19,270,335**		16,832,484	

4 Operating profit

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

	2020	2019
	HK$'000	*HK$'000*
Employee benefit expenses	**345,544**	389,246
Cost of inventories recognised as expense	**7,470,908**	7,562,031
Auditor's remuneration		
— Audit services	**2,369**	2,620
— Non-audit services	**—**	1,400
Depreciation and depletion of property, plant and equipment	**412,946**	488,964
Depreciation and right-of-use assets	**23,208**	27,457
Amortisation of intangible assets	**6,858**	2,912
Short term lease expenses	**1,328**	2,502
Losses on disposals of property, plant and equipment	**3,624**	2,393
(Reversal of)/impairment loss of loan and interest receivables from an associate	**(5,800)**	3,830
Net exchange losses	**4,731**	100
Write off of exploration and evaluation assets	**26,379**	19,377

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 (2019: 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% (2019: 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% (2019: 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% (2019: 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% (2019: 15%).

Canada income tax has been provided for at the rate of 24% on the estimated assessable profits for the year (2019: 26.5%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 9% (2019: 11.5%) and 15% (2019: 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.

	2020	2019
	HK$'000	*HK$'000*
Current tax	**224,872**	232,790
Deferred tax	**(109,271)**	(38,399)
Taxation	**115,601**	194,391

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2020 (2019: Nil).

6 Dividend

The Board has decided not to propose final dividend for the year ended 31 December 2020 (2019: Nil).

7 Earnings per share

Basic

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$28,757,000 (2019: HK$330,984,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,931,915,000 shares (2019: 4,983,413,000 shares).

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.

	2020	2019
	HK$'000	*HK$'000*
Profit attributable to owners of the Company	**28,757**	330,984
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year *(thousands)*	**4,931,915**	4,983,413
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**4,931,915**	4,983,413

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2020 (2019: same) 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 2020 (2019: same).

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 2020, included in contract assets, deposits, trade and other receivables is the balance of trade receivables amounting to HK$630,005,000 (2019: HK$487,627,000).

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

	2020	2019
	HK$'000	*HK$'000*
Up to 3 months	**549,472**	440,707
3 to 6 months	**27,799**	26,583
Over 6 months	**52,734**	20,337
Total	**630,005**	487,627

9 Trade and other payables

As at 31 December 2020, included in trade and other payables is the balance of trade payables amounting to HK$448,525,000 (2019: HK$492,869,000).

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

	2020	2019
	HK$'000	*HK$'000*
Up to 3 months	**357,221**	391,660
3 to 6 months	**37,632**	39,850
Over 6 months	**53,672**	61,359
Total	**448,525**	492,869

ANNUAL RESULTS

The year 2020 was an extraordinary year. In the face of the rampant Covid-19 pandemic, the complex geopolitical situation and the global economic downturn, the Group has risen to the occasion and forged ahead with unity. Under the strong leadership of the Group's management, the Group made decisive decisions and then implemented them in a sound manner to turn crises into opportunities, and all the staff overcame various difficulties and performed efficiently and dedicatedly. The Group took active actions in strategic planning, operation management and market development, reducing costs, securing gas sources, expanding non-gas businesses, improving systems, innovating management and nurturing talents, and taking multiple diversified measures to achieve both quantitative and qualitative improvements.

The Group had achieved encouraging results through its concerted efforts and hard work. For the financial year ended 31 December 2020, the Group had a turnover of HK$10,430 million (2019: HK$10,260 million), an increase of 2% year-on-year; Its gross profit reached HK$1,680 million (2019: HK$1,510 million), an increase of 11% year-on-year; and the Group's total gas sales increased by 7% to 4,350 million cubic metres (2019: 4,080 million cubic metres).

As the upstream assets in Canada were valued in accordance with international oil price trends and the reserves report was prepared as of 31 December 2020, when the international oil prices were still weak, the oil and gas assets in Canada recorded a one-off non-cash impairment of HK$626 million for the year. It is expected that when oil prices rebound, there will be a possibility of reversal of the impairment. Due to the impairment, the operating profit slumped 42% year-on-year to HK$647 million, and the profit fell 34% year-on-year to HK$520 million. Sales and distribution of natural gas and other related products' segment results was increased by 20%.

BUSINESS REVIEW

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the year ended 31 December 2020, the Group recorded sales and distribution of natural gas income of HK$9,385 million (2019: HK$9,255 million), representing a 1% increase and accounting for 90% of total revenue. During the year, the Group's total gas sales and transmission volume increased by 7% to 4,350 million cubic metres (2019: 4,080 million cubic metres).

Gas sales volume for industrial and commercial users increased by 6%, residential users gas sales volume increased by 10% and gas stations increased by 3%, with each representing 65%, 25% and 10% of the total gas sales volume respectively (2019: 65%, 25% and 10%).

Development of new users

During the year, the Group developed 136,680 residential users and 1,595 industrial and commercial users. Total connections for residential users and industrial and commercial users were 1,603,096 (2019: 1,466,416) and 14,319 (2019: 12,724) respectively, which were increased by 9% and 13% as compared to 2019, 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 optimise safety management systems to provide stable, safe, clean and high quality supply of energy for all end-users.

New projects expansion

As at 31 December 2020, the Group had established 131 natural gas project companies in 16 provinces, cities and autonomous regions in the PRC, with 74 concession rights.

During the year, the Group managed to land four concession right projects, namely Zhangye Economic and Technological Development Zone in Gansu Province, and Jishan County, Wanrong County and Ruicheng County in Yuncheng City, Shanxi Province.

During the year, the Group added five new projects, namely Futian Town, Pingxiang City, Jiangxi Province; Penggao Town, Pingxiang City, Jiangxi Province; Daozhen Shale Gas, Guizhou Province; Zhijin Coalbed Methane, Guizhou Province; and Wuchuan State Power Investment Gas Supply Project, Guizhou Province.

The Group established a joint venture, Chongqing Natural Gas Storage and Transportation Company Limited* (重慶天然氣儲運有限公司), with PetroChina Company Limited (中國石油天然氣股份有限公司), Chongqing Gas Group Corporation Ltd (重慶燃氣集團股份有限公司), Chongqing Shale Gas Industry Investment Fund Co., Ltd (重慶頁岩氣產業投資基金有限責任公司) and Chongqing Kaiyuan Petroleum and Natural Gas Co., Ltd (重慶凱源石油天然氣有限責任公司) to engage in the construction, operation and leasing of underground natural gas storage facilities, project management services, natural gas storage technology development and consulting services, oil and gas storage, and natural gas sales.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

In 2020, international crude oil price plummeted, and the Group realised average crude oil price decreased by CAD23.22 per barrel to CAD43.66 per barrel (2019: CAD66.88 per barrel). Throughout the year, the average daily production was 5,169 barrels of oil equivalent per day and the average capital netback was CAD15.75 per barrel of oil equivalent in 2020 (2019: 5,625 barrels of oil equivalent per day, CAD25.92 per barrel of oil equivalent), representing a decrease of 8% and 39% respectively. According to the reserve report prepared by GLJ Petroleum Consultants for the year ended 31 December 2020, the Group has proved plus probable reserves of 41.1 million barrels of oil equivalent (2019: 41.69 million barrels of oil equivalent), representing a year-on-year decrease of 1%.

As the reserves report was prepared as at 31 December 2020, when the international oil price was still weak, the oil and gas assets in Canada recorded a one-off non-cash impairment of HK$626 million this year. It is expected that the oil price will rebound and there will be a possible reversal of impairment.

CREDIT RATINGS

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

The Group was rated “BB” by Standard & Poor with a positive rating outlook, and was rated “Ba2” by Moody’s, and the rating outlook improved from negative to stable, reflecting the Company’s healthy financial position and promising operational prospects.

BUSINESS PROSPECTS

Looking back into 2020, the natural gas industry in China achieved a growth in the face of adversity amidst the pandemic crisis and world economic turmoil. Domestic natural gas production continued to grow, reaching 188.8 billion cubic metres per annum, an increase of over 10 billion cubic metres for the fourth consecutive year; apparent consumption of natural gas was approximately 325.9 billion cubic metres, an increase of approximately 7% year-on-year; and imports of natural gas reached approximately 139,200 million cubic metres, an increase of approximately 5% year-on-year. In 2020, China fully opened up its oil and gas exploration and mining market. According to Opinions of the Ministry of Natural Resources on Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation) (關於推進礦產資源管理改革若干事項的意見(試行)), qualified domestic and foreign companies may obtain oil and gas mining titles in accordance with the relevant regulations. The full liberalisation of market access will break new ground in the field of oil and gas exploration and mining, with foreign-invested and private companies expected to enter the upstream market as the market barriers disappeared. In 2020, National Oil and Gas Pipeline Network Group (國家石油天然氣管網集團) took over the pipeline assets and personnel of the three major oil companies and officially commenced its operations. The operation of National Oil and Gas Pipeline Network Group is of great significance to the reform of the oil and gas system and the pipeline network operation mechanism, and will promote the formation of an "X+1+X" oil and gas market system with more players and supply channels of oil and gas resources upstream, efficient gathering and transmission by a unified pipeline network mid-stream, and fully competitive consumer market downstream. At the same time, National Oil and Gas Pipeline Network Group coordinates and deploys, operates and manages the country's major oil and gas pipeline infrastructure in a unified manner, so that pipeline transmission prices can be determined more accurately, facilitating the liberalisation of non-residential gas prices and leading to an improved residential gas pricing mechanism.

Looking ahead into 2021, with the Covid-19 vaccine rolled out, the global economy is expected to recover from its trough, commodity prices, including oil prices, are expected to rebound in oscillation, and major economies are expected to continue to implement easing economic policies. In terms of the domestic macro economy, China's economy will keep the momentum of stable growth in the long term and there is ample room for growth in natural gas demand. The development of a new pattern with a large domestic circulation as the mainstay and a dual domestic and international circulation to promote each other will inevitably place higher demands on energy security and will further promote the construction and development of an integrated natural gas supply, storage and sales system. In terms of the business environment, the Central Government has continued to deepen the reform of the "Decentralisation, Regulation and Services" and the implementation of the "Business Environment Optimisation Ordinance" has got off to a good start, with the business environment for private enterprises improved continuously. The natural gas industry is set to embrace several favourable developments domestic policy-wise. China has pledged to achieve carbon neutrality by 2060 with carbon emissions peaked out by 2030. As a clean energy source, natural gas will have even greater scope for development and play an active role in the transformation of national energy consumption pattern. In the 14th Five-Year Plan and the 2035 Vision, the State has clearly set out its plans to revitalise the countryside, including the goal of improving rural gas supply and other infrastructure facilities. The implementation of "gas-powered villages" and the promotion of "coal to gas transition" will bring up diversified markets and broad growth prospects for gas companies.

In 2021, China Oil And Gas Group will be celebrating its 20th anniversary. As the years go by, the Group will continue to maintain its original commitment. The Group will adhere to its mission of developing clean energy and creating a better life together, keeping in mind the objectives of creating value for customers, creating platforms for employees and creating returns for shareholders, and will work hard with one heart and soul to build on its strengths and create further glory.

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 2020.

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 2020, the Group recorded a total revenue of HK$10,433 million (2019: HK$10,261 million), representing an increase of 2%. Gross profit amounted to HK$1,680 million (2019: HK$1,505 million), representing an increase of 12% comparing to last year. Profit for the year decreased by 34% to HK$515 million (2019: HK$779 million) as a results of a one-off non-cash impairment of HK$626 million on oil and gas assets in Canada during the year. Sales and distribution of natural gas and other related products' segment results was increased by 20%.

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 7% to 4,350 million cubic metres, and transmission volume was decreased by 17% to 867 million cubic metres in 2020. Sales and distribution of natural gas continued to be the Group's principal source of revenue and constituted around 90% of the total revenue (2019: 90%). Revenue related to this segment showed an increase of 1% to HK$9,385 million (2019: HK$9,255 million) and segment results increased by 20% to HK$1,085 million (2019: HK$908 million), whereas segment profit ratio was 12% (2019: 10%).

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

Revenue related to Connection business constituted around 7% (2019: 6%) of our total revenue in 2020 and amounted to HK$766 million (2019: HK$567 million), increased by 35%.

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

Revenue related to Exploitation and production amounted to HK$282 million (2019: HK$439 million) in 2020, with a decline of 36%. Crude oil prices plummeted in 2020, while West Texas Intermediate (WTI) averaging US$39.41 per barrel as compared to US$57.04 per barrel in 2019. The Group realised crude oil price of CAD43.66 per barrel in 2020, which declined 35% as compared to that of CAD66.88 per barrel in 2019.

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 2020, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) was HK$7,749 million (2019: HK$6,846 million). Total available credit facility amounted to HK$5,263 million as at 31 December 2020 (2019: HK$3,748 million) with an utilisation rate of 27% (2019: 25%).

As at 31 December 2020, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$3,763 million (2019: HK$2,817 million). Total assets increased by 15% to HK$19,270 million (2019: HK$16,832 million), among which current assets were HK$6,249 million (2019: HK$4,864 million). Total liabilities of the Group were HK$11,924 million (2019: HK$10,389 million), and among which current liabilities were HK$5,149 million (2019: HK$4,518 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets, was 40% (2019: 41%). The current ratio (current assets divided by current liabilities) of the Group was 1.21 times (2019: 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 2020, the Group employed a total of 4,443 (2019: 3,693) full-time employees, most of whom were stationed in the PRC. Total staff cost for the year amounted to HK$346 million (2019: HK$389 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

As at 31 December 2020, the senior notes are guaranteed by certain subsidiaries of the Group.

Save as disclosed above, no assets of the Group have been pledged for the outstanding borrowings.

CONTINGENT LIABILITY

The Group had no material contingent liability as at 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders to attend and vote at the forthcoming annual general meeting of the Company to be held on Monday, 17 May 2021 ("**2021 AGM**"), the register of members of the Company will be closed from Tuesday, 11 May 2021 to Monday, 17 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2021 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 Monday, 10 May 2021.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

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 2020, 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 Tieliang 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 were not appointed for a specific term during the year ended 31 December 2020, but they are subject to retirement from office by rotation at least once every three years in accordance with the Bye-Laws. Nevertheless, the aforesaid deviation from CG Code provision A.4.1 was rectified with effect from 1 January 2021.

Code provision D.1.4 of the CG Code requires 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 Tieliang). However, the Directors shall be subject to retirement by rotation in accordance with the Bye-Laws. Nevertheless, the aforesaid deviation from CG Code provision D.1.4 was rectified with effect from 1 January 2021. 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 the aforesaid and in the opinion of the Directors, the Company has met the relevant code provisions as set out in the CG Code during the year ended 31 December 2020.

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 2020 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 2020 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, 23 March 2021

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*