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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 2021

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- The gas sales and transmission volume was 5,899 million cubic meters, increased by 13%;
- The turnover increased 37% to HK\$14.342 billion; and
- Segment results of the sales and distribution of natural gas and other related products increased by 21%.

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 2021 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Revenue	3	14,341,948	10,432,777
Cost of sales		<u>(12,207,367)</u>	<u>(8,753,637)</u>
Gross profit		2,134,581	1,679,140
Other income		68,484	22,980
Other gains/(losses), net		4,500	(14,403)
Selling and distribution costs		(74,435)	(81,119)
Administrative expenses		(499,834)	(334,081)
Reversal of/(provision for) impairment on oil and gas properties under property, plant and equipment		<u>565,595</u>	<u>(625,633)</u>
Operating profit	4	2,198,891	646,884
Finance income		127,828	304,068
Finance costs		(343,881)	(301,034)
Share of profits/(losses) of investments accounted for using the equity method, net		<u>7,722</u>	<u>(19,002)</u>
Profit before taxation		1,990,560	630,916
Taxation	5	<u>(476,626)</u>	<u>(115,601)</u>
Profit for the year		<u>1,513,934</u>	<u>515,315</u>
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		251,827	582,458
Change in value of debt investments at fair value through other comprehensive income		(76,047)	(64,506)
<i>Item that will not be reclassified to profit or loss</i>			
Change in value of equity investments at fair value through other comprehensive income		<u>17,480</u>	<u>(14,885)</u>
Other comprehensive income for the year, net of tax		<u>193,260</u>	<u>503,067</u>
Total comprehensive income for the year		<u>1,707,194</u>	<u>1,018,382</u>

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit attributable to:			
Owners of the Company		904,182	28,757
Non-controlling interests		609,752	486,558
		<u>1,513,934</u>	<u>515,315</u>
 Total comprehensive income for the year attributable to:			
Owners of the Company		968,284	303,595
Non-controlling interests		738,910	714,787
		<u>1,707,194</u>	<u>1,018,382</u>
 Earnings per share for profit attributable to owners of the Company for the year	 7		
— Basic (<i>HK cents</i>)		18.0	0.583
— Diluted (<i>HK cents</i>)		18.0	0.583

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		10,738,279	9,008,993
Right-of-use assets		663,945	589,057
Exploration and evaluation assets		115,027	128,444
Intangible assets		1,038,669	1,024,062
Investments accounted for using the equity method		1,758,418	429,356
Financial assets at fair value through other comprehensive income		289,795	633,995
Other non-current assets		1,183,053	1,201,201
Deferred tax assets		4,821	5,810
		<u>15,792,007</u>	<u>13,020,918</u>
Current assets			
Inventories		408,231	328,386
Contract assets, deposits, trade and other receivables	8	2,675,790	2,151,734
Current tax recoverable		6,334	6,293
Time deposits with maturity over three months		979,660	836,570
Cash and cash equivalents		2,786,609	2,926,434
		<u>6,856,624</u>	<u>6,249,417</u>
Total assets		<u><u>22,648,631</u></u>	<u><u>19,270,335</u></u>
Liabilities			
Current liabilities			
Trade and other payables	9	1,414,388	1,286,205
Contract liabilities		2,917,409	2,306,032
Short-term borrowings		1,345,142	1,341,941
Current tax payable		189,624	196,968
Lease liabilities		16,219	18,116
		<u>5,882,782</u>	<u>5,149,262</u>

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Senior notes		5,645,120	5,410,227
Long-term borrowings		1,729,667	996,470
Lease liabilities		58,747	58,444
Deferred tax liabilities		315,331	123,615
Assets retirement obligation		197,974	186,103
		<u>7,946,839</u>	<u>6,774,859</u>
Total liabilities		<u>13,829,621</u>	<u>11,924,121</u>
Equity			
Equity attributable to owners of the Company			
Share capital		57,670	57,670
Reserves		4,733,762	3,720,464
		<u>4,791,432</u>	<u>3,778,134</u>
Non-controlling interests		4,027,578	3,568,080
		<u>8,819,010</u>	<u>7,346,214</u>
Total equity		<u>8,819,010</u>	<u>7,346,214</u>
Total equity and liabilities		<u>22,648,631</u>	<u>19,270,335</u>

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**”); 3) development, production and sale of oil and gas and other upstream production and sales of coal gasification and other related products; and 4) 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 2021:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

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 2021 and have not been early adopted.

		Effective for accounting year beginning on or after
HKFRS 16 (Amendment)	Covid-19-Related Rent Concessions beyond 2021	1 April 2021
Annual Improvements Project (Amendments)	Annual Improvements to HKFRSs 2018–2020	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments	1 January 2022
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendment)	Amendments to HKFRS 17	1 January 2023
HK Int 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (2020))	1 January 2023

		Effective for accounting year beginning on or after
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendment)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendment)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
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, provision of construction and connection services of gas pipelines and production and sales at coal gasification and other related products in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Sales and distribution of natural gas and other related products	12,258,436	9,385,246
Gas pipeline connection and construction services income	971,430	765,633
Exploitation and production of crude oil and natural gas	510,674	281,898
Production and sales of coal gasification and other related products	601,408	—
	<u>14,341,948</u>	<u>10,432,777</u>

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; production and sales of coal gasification and other related products and exploitation and production of crude oil and natural gas.

The Group has presented the following four reportable segments for the year ended 31 December 2021:

- sales and distribution of natural gas and other related products
- gas pipeline construction and connection
- exploitation and production of crude oil and natural gas
- production and sales of coal gasification and other related products

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/(losses), net, interest income, finance costs, share of profit/(losses) of investments accounted for using the equity method, reversal of/(provision for) impairment 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 2021 and 2020 is set out below.

For the year ended 31 December 2021:

	Sales and distribution of natural gas and other related products <i>HK\$'000</i>	Gas pipeline construction and connection <i>HK\$'000</i>	Exploitation and production of crude oil and natural gas <i>HK\$'000</i>	Production and sales of coal gasification and other related products <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment revenue and results					
Segment revenue					
Recognised at a point in time	12,258,436	—	510,674	601,408	13,370,518
Recognised over time	—	971,430	—	—	971,430
	<u>12,258,436</u>	<u>971,430</u>	<u>510,674</u>	<u>601,408</u>	<u>14,341,948</u>
Sales to external customers	12,258,436	971,430	510,674	601,408	14,341,948
	<u>12,258,436</u>	<u>971,430</u>	<u>510,674</u>	<u>601,408</u>	<u>14,341,948</u>
Segment results	<u>1,317,145</u>	<u>389,432</u>	<u>64,457</u>	<u>21,282</u>	1,792,316
Finance income					127,828
Other gains, net					4,500
Finance costs					(343,881)
Reversal of impairment loss of loan and interest receivables from an associate					5,981
Reversal of impairment on oil and gas properties under property, plant and equipment	—	—	565,595	—	565,595
Written off of exploration and evaluation assets	—	—	(4,025)	—	(4,025)
Share of profits of investments accounted for using the equity method, net					7,722
Unallocated corporate expenses					<u>(165,476)</u>
Profit before taxation					1,990,560
Taxation					<u>(476,626)</u>
Profit for the year					<u>1,513,934</u>

For the year ended 31 December 2020:

	Sales and distribution of natural gas and other related products <i>HK\$'000</i>	Gas pipeline construction and connection <i>HK\$'000</i>	Exploitation and production of crude oil and natural gas <i>HK\$'000</i>	Group <i>HK\$'000</i>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Sales to external customers	9,385,246	765,633	281,898	10,432,777
	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	<u>1,085,473</u>	<u>317,325</u>	<u>18,334</u>	1,421,132
Finance 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 (<i>Note</i>)	—	—	(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				<hr/> (113,633)
Profit before taxation				630,916
Taxation				<hr/> (115,601)
Profit for the year				<hr/> <u>515,315</u>

Note:

For the year ended 31 December 2021, reversal of/(provision for) impairment on oil and gas properties under property, plant and equipment of HK\$565,595,000 (2020: impairment of HK\$625,633,000) has been made. 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\$67.2 to US\$71.4 per barrel (2020: US\$48.0 to US\$59.0 per barrel). The Group used a pre-tax discount rates ranging from 10% to 20% (2020: 10% to 20%) to discount future cash flows from the Group’s CGU(s).

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2021 and 2020.

Analysis of the Group's assets by geographical market for the years ended 31 December 2021 and 2020 is set out below:

	2021		2020	
	Total assets	Additions to non-current assets	Total assets	Additions to non-current assets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	377,531	—	103,866	5,084
Mainland China	17,725,626	1,663,037	16,258,012	1,581,462
Canada	2,492,440	87,478	1,839,296	85,018
Total	20,595,597	1,750,515	18,201,174	1,671,564
Unallocated				
Investments accounted for using the equity method	1,758,418		429,356	
Deferred tax assets	4,821		5,810	
Financial assets at fair value through other comprehensive income	289,795		633,995	
Total assets	22,648,631		19,270,335	

4 Operating profit

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Employee benefit expenses	515,335	345,544
Cost of inventories recognised as expense	10,286,009	7,470,908
Auditor's remuneration		
— Audit services	3,019	2,369
— Non-audit services	1,100	—
Depreciation and depletion of property, plant and equipment	560,612	412,946
Depreciation and right-of-use assets	19,365	23,208
Amortisation of intangible assets	9,407	6,858
Short term lease expenses	1,519	1,328
Losses on disposals of property, plant and equipment	5,746	3,624
Reversal of impairment loss of loan and interest receivables from an associate	(5,981)	(5,800)
Net exchange (gains)/losses	(3,450)	4,731
Written off of exploration and evaluation assets	<u>4,025</u>	<u>26,379</u>

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 (2020: 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% (2020: 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% (2020: 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% (2020: 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% (2020: 15%).

Canada income tax has been provided for at the rate of 23% on the estimated assessable profits for the year (2020: 24%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 8% (2020: 9%) and 15% (2020: 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.

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	283,770	224,872
Deferred tax	192,856	(109,271)
	<hr/>	<hr/>
Taxation	<u>476,626</u>	<u>115,601</u>

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2021 (2020: Nil).

6 Dividend

The Board has decided not to propose final dividend for the year ended 31 December 2021 (2020: 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\$904,182,000 (2020: HK\$28,757,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 5,031,735,000 shares (2020: 4,931,915,000 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.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit attributable to owners of the Company	<u>904,182</u>	<u>28,757</u>
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year (<i>thousands</i>)	<u>5,031,735</u>	<u>4,931,915</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	<u><u>5,031,735</u></u>	<u><u>4,931,915</u></u>

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2021 (2020: 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 2021 (2020: 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 2021, included in contract assets, deposits, trade and other receivables is the balance of trade receivables amounting to HK\$915,839,000 (2020: HK\$630,005,000).

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Up to 3 months	797,736	549,472
3 to 6 months	50,551	27,799
Over 6 months	67,552	52,734
	<hr/>	<hr/>
Total	915,839	630,005
	<hr/> <hr/>	<hr/> <hr/>

9 Trade and other payables

As at 31 December 2021, included in trade and other payables is the balance of trade payables amounting to HK\$656,799,000 (2020: HK\$448,525,000).

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Up to 3 months	523,098	357,221
3 to 6 months	55,107	37,632
Over 6 months	78,594	53,672
	<hr/>	<hr/>
Total	656,799	448,525
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2021, the Group made concerted efforts to be pragmatic and progressive, and achieved good results. At the same time, the Group has seized the opportunity to make progress in stability and implemented major strategic acquisitions, opening up new space for future development.

During the year, all works progressed steadily. The Group strengthened cooperation with upstream enterprises, actively expanded gas sources, coordinated internal resource planning, optimized operational systems, enhanced functional management, improved risk management, organized the construction of key projects, ensured a stable supply of natural gas and made every effort to meet customer demand. While strengthening the main business, the Group actively developed value-added businesses such as energy equipment, coal chemical industry and insurance to diversify its operations, improve its efficiency and enhance its risk-resilience. The Group has successfully acquired 22.16% interest of Shandong Shengli Co., Ltd. (“**Shandong Shengli**”) (00407.SZ), an A-share listed company, and become its single largest shareholders. The successful acquisition of Shandong Shengli has increased the Group’s market share, broadened the scope of the gas business, integrated quality resources, enabled the Group to acquire two capital platforms, namely Hong Kong stock and A-share, and enhanced its core competitiveness.

During 2021, the Group’s natural gas sales volume and upstream oil prices both increased, with a total revenue of HK\$14.342 billion (2020: HK\$10.433 billion), a year-on-year increase of 37%. The Group recorded profit for the year attributable to owners of the Company of HK\$904 million (2020: HK\$28.8 million), a year-on-year increase of 3,017%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distribution of natural gas

The Group’s natural gas sales volume recorded to be 4,852 million cubic meters for 2021 (2020: 4,350 million cubic meters), increased by 12% compared with the same period last year. Transmission volume was 1,047 million cubic meters, recorded a 21% rise as compared to the same period last year.

Consumption of residential users increased by 1% from last year’s 1,105 million cubic meters to 1,112 million cubic meters; industrial and commercial users recorded 3,313 million cubic meters (2020: 2,823 million cubic meters), increased by 17% compared with the same period last year; gas consumption of gas stations recorded an increase from last year’s 418 million cubic meters to current year’s 427 million cubic meters. Each of the above categories representing 23%, 68% and 9% of the total gas sales volume (2020: 25%, 65% and 10%), respectively.

Development of new users

For 2021, the Group connected 162,145 (2020: 136,680) new residential users, representing a year-on-year increase of 10% and the accumulated development of residential users were 1,765,241. Total connections for new industrial and commercial users were 1,283 (2020: 1,595) and the accumulated development of industrial and commercial users were 15,602.

New project expansion

It has established 128 natural gas project companies in 16 provinces, municipalities and autonomous regions in the PRC, with 71 concession rights. While promoting organic growth from existing projects, the Group also conducted thorough inspections on the areas surrounding the natural gas pipelines and the coastal areas in the first half of 2021. During the year, the Group successfully obtained the exclusive concession right for Jixian Industrial Cluster in Linfen, Shanxi Province, and secured the “Shaopu — Zhuzang” Branch Pipeline Project in Guizhou Province. The Group successfully completed acquisition of 22.16% interest in Shandong Shengli (000407.SZ) in the second half of 2021.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

The Group continued the business of exploitation and production of light oil and natural gas in Canada. The Group’s production in the first half of 2021 was 4,936 barrels of oil equivalent per day (“**boe/d**”), a decrease of 4.5% from 5,169 boe/d in the comparable period of 2020.

Reference crude oil prices were 72.4% higher in 2021, with West Texas Intermediate averaging US\$67.96 per barrel compared with US\$39.41 per barrel in 2020. The Group realized a crude oil price of CAD78.51 per barrel in 2021 compared to CAD43.66 per barrel in 2020 with a year-on-year increase of 79.8%. The Group achieved the average operating netback of CAD35.15 per barrel of oil equivalent, representing an increase of 123.2% as compared with CAD15.75 per barrel of oil equivalent for the same period last year.

CREDIT RATINGS

Rating agencies

Standard & Poor
Moody’s

Ratings

BB (Stable)
Ba2 (Stable)

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

BUSINESS PROSPECT

In 2021, the global economic recovery was greatly challenged by the pandemic, and the world is characterized by instability and uncertainty. Despite this, China’s economy has shown strong resilience and the China’s natural gas industry has developed steadily. In 2021, China has produced 205.3 billion cubic meters of natural gas, an increase of 8.2% over 2020 and 18.8% over 2019, with a two-year average growth rate of 9.0% and an average daily production of 620 million cubic meters. In 2021, the domestic apparent consumption of natural gas rose 12.7% year on year to 372.6 billion cubic meters, presenting an increase significantly larger than that of raw coal and crude oil. In 2021, China has imported 121.36 million tons of natural gas, an increase of 19.9% over the previous year. Domestic natural gas production and consumption continued to grow, with urban gas consumption accounting for the highest percentage of natural gas consumption.

The development of the natural gas industry is supported by national policies. Promoting the use of natural gas conforms to the requirements of energy conservation, emission reduction and sustainable development. China has issued a series of policies to promote the development of the natural gas industry and deepen the reform of the oil and gas system. In the context of a global transition to green and low-carbon economy, natural gas has comparative advantage and can serve as a transitional energy source for the low-carbon transformation of the energy structure. Under the guidance of the goal of carbon neutrality and carbon peaking, the proportion of natural gas, as an important tool to mitigate the growth of carbon emissions, in the primary energy consumption in China will continue to increase, and the natural gas industry will usher in new growth momentum. China’s urbanization level continues to increase, which will further stimulate the growth of natural gas consumption and provide a broader market and broader space for development for gas companies.

In 2021, the Group has generated impressive results. The development and success of the Group relies on the hard work of all staff, the valuable trust of our customers, and the support of our partners and shareholders. Looking ahead, the Group will implement the objectives of “create value for our customers, create platforms for our employees, and create returns for our shareholders”, continue to keep abreast of the socio-economic situation, take the path of high-quality development, improve quality and efficiency, optimize management, enhance competitiveness, actively innovate, forge ahead, and reward the society with excellent performance.

FINANCIAL REVIEW

For the year ended 31 December 2021, the Group recorded revenue of HK\$14,342 million, representing an increase of 37.5% from HK\$10,433 million for the year ended 31 December 2020.

The total revenue combined by four segments, namely (1) sales and distribution of natural gas and other related product, (2) gas pipeline construction and connection, (3) exploitation and production of crude oil and natural gas and (4) production and sales of coal gasification and other related products, amounted to HK\$12,258 million, HK\$971 million, HK\$511 million and HK\$601 million respectively (2020: HK\$9,385 million, HK\$766 million, HK\$282 million and Nil respectively).

The Group's overall gross profit amounted to HK\$2,135 million (2020: HK\$1,679 million), representing an increase of 27.2%, which is due to the Group's effective optimization of cost structure; Profit for the period attributable to the owners of the Company was HK\$904 million, represented an increase of 3,017%, mainly attributable to the provision made for the upstream business in Canada due to a drop in price of crude oil last year and a reversal made due to the increase in price of raw oil.

Administrative expenses were HK\$500 million (2020: HK\$334 million), an increase of 49.7% as compared to the same period last year, the proportion of administrative expenses to revenue was slightly increased to 3.5% (2020: 3.2%) with selling and distribution costs recorded a decrease of 8%.

Finance costs (net of capitalization) increase slightly from last year's HK\$301 million to HK\$344 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) for the year ended 31 December 2021 was 5.63% (2020: 5.26%).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to expand business and acquire projects. As at 31 December 2021, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK\$8,720 million (2020: HK\$7,749 million).

As at 31 December 2021, the Group had cash and cash equivalents and time deposits with maturity over three months of HK\$3,766 million (2020: HK\$3,763 million). Total assets were HK\$22,649 million (2020: HK\$19,270 million), in which current assets were HK\$6,857 million (2020: HK\$6,249 million). Total liabilities of the Group were HK\$13,830 million (2020: HK\$11,924 million), in which current liabilities were HK\$5,883 million (2020: HK\$5,149 million). The Group's net debt-to-assets ratio, measured on the basis of total indebtedness net of cash and term deposits, divided by total assets was 21.9% (2020: 20.7%). The Group's financial and liquidity remain stable, and well prepared for the development in 2022.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group employed a total of 4,704 (2020: 4,443) full-time employees, most of whom were stationed in the PRC. Total staff cost for the year amounted to HK\$515 million (2020: HK\$346 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consists of basic salary, cash bonus and share-based incentives.

PLEDGE OF ASSETS

As at 31 December 2021, senior notes issued by the Company were guaranteed by certain subsidiaries of the Company.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 31 December 2021.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The financial risk management of the Group is the responsibility of the Group's 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 States dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi, Canadian dollars and United States 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 2021, the Group has no material litigation.

CAPITAL STRUCTURE

As at 31 December 2021, the issued share capital of the Company was HK\$57,670,438 divided into 5,767,043,834 shares of the Company with a nominal value of HK\$0.01 each.

MATERIAL EVENTS DURING AND AFTER REPORTING PERIOD

In June 2021, the Group successfully issued senior notes due 2026 (“**2026 Notes**”) with a par value of US\$400 million at a low cost of 4.7%, which is the lowest interest rate for the issuance of 5-year bonds among the same-rated utilities.

On 2 July 2021, the Company announced that it has informed the trustee and holders of the 4.625% senior notes due 2022 (“**2022 Notes**”) that all of the outstanding 2022 Notes in the principal amount of US\$350 million would be redeemed in full on 2 August 2021 (the “**Redemption Date**”) at a redemption price equal to 101.156% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the Redemption Date. The redemption was satisfied by using a portion of the net proceeds from the 2026 Notes.

On 15 July 2021, China Oil and Gas Investment Group Co., Ltd. (“**China Oil and Gas Investment**”), a wholly-owned subsidiary of the Group, entered into the share transfer agreements with Jining Qilu Testing Technology Co., Ltd (濟南齊魯檢測技術有限公司) and Shandong Nova Ltd.*, Bio-engineering Co., Ltd.* (山東諾華生物工程有限公司) and Mr. Wang An for the acquisition of an aggregate of 47,675,503 shares of Shandong Shengli, representing approximately 5.42% of the then issued shares of Shandong Shengli, at a total consideration of RMB246,504,504.87 (the “**First Shares Acquisition**”). The First Shares Acquisition was completed on 17 August 2021. For further details, please refer to the announcement of the Company dated 15 July 2021.

On 10 August 2021, China Oil and Gas Investment has entered into agreements to acquire a further aggregate of 103,624,719 shares of Shandong Shengli, representing approximately 11.77% of the existing issued shares of Shandong Shengli, at a total consideration of RMB541,957,280.37 (the “**Second Shares Acquisition**”). Inclusive of the shares of Shandong Shengli acquired under the First Shares Acquisition, China Oil and Gas Investment has acquired an aggregate of 151,300,222 shares of Shandong Shengli, representing an approximate 17.19% of the existing issued shares of Shandong Shengli, at a total consideration of RMB788,461,785.24.

The Second Shares Acquisition in aggregate with the First Shares Acquisition constituted a major transaction of the Company, and the Second Shares Acquisition is therefore subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). A special general meeting of the Company was held on 27 October 2021 and the shareholders of the Company approved the Second Shares Acquisition. The Second Shares Acquisition has been completed on 17 November 2021.

For further details, please refer to the circular of the Company dated 11 October 2021.

On 18 October 2021, China Oil and Gas Investment has received the notification from the Second Intermediate People’s Court of Beijing that China Oil and Gas Investment has successfully won two auctions with the highest bid price, with a total of 43,726,997 shares of Shandong Shengli, representing approximately 4.97% of the then existing issued shares of Shandong Shengli, and the total bidding price of RMB187,169,037.96. Together with the First Shares Acquisition and the Second Shares Acquisition, China Oil and Gas Investment has acquired a total of 195,027,219 shares of Shandong Shengli, representing approximately 22.16% of total issued shares of Shandong Shengli at the total consideration of RMB975,630,823.29. The Group become the single largest shareholder of Shandong Shengli since then. For details, please refer to the announcement of the Company dated 18 October 2021.

On 25 March 2022, the company successfully drawdown a syndicated loan of an amount of USD290 million for the purpose of early redemption the Company’s 2023 US\$ senior notes.

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2021 (2020: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the eligibility of the shareholders of the Company to attend and vote at the forthcoming annual general meeting of the Company to be held on Wednesday, 25 May 2022 (“**2022 AGM**”), the register of members of the Company will be closed from Thursday, 19 May 2022 to Wednesday, 25 May 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2022 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, 18 May 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2021, other than those purchased by its trustee for the restricted share award scheme adopted by the Board on 4 November 2011.

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**”) as set out in Appendix 10 to 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 all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group’s businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the year ended 31 December 2021. 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 2021, 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.

Save as the aforesaid and in the opinion of the Directors, the Company has met all relevant code provisions as set out in the CG Code during the year ended 31 December 2021.

AUDIT COMMITTEE

The Company established the audit committee of the Company (the “**Audit Committee**”) in 1998 with written terms of reference in compliance with the CG Code, which is currently made available on the Stock Exchange’s website and the Company’s website.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; to approve the remuneration and terms of engagement of the external auditor, to provide recommendations for any questions regarding the resignation or dismissal of such auditor; to review the interim and annual reports, and financial statements of the Group; to oversee 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 internal control system.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Wenhua (as chairman), Mr. Wang Guangtian and Mr. Yang Jie. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2021 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 2021 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, 29 March 2022

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

* *for identification purposes only*