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)

FURTHER INFORMATION IN RESPECT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the announcement and annual report of the results of China Oil And Gas Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2023 published on 26 April 2024 and 29 April 2024.

The board (the "**Board**") of directors (the "**Directors**") of the Company hereby provide further information on the prior year adjustments ("**PYA**") as follows:

(i) The PYA was made by the reason that in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2023, the management noted certain material misstatements in prior years. The management has corrected these misstatements to the consolidated financial statements as at 1 January 2022 and 31 December 2022 and for the year then ended.

Revenue and cost recognition

The adjustments were caused by correction of erroneous entries in overtime recognition of the gas pipeline connection and constructions services income, as well as parameters in computation of construction costs.

The PYA corrected the following major financial statement items in relation to the gas pipeline construction and connections services:

(a) Revenue recognition:

As disclosed in Note 3(s)(ii) to the consolidated financial statements for the year ended 31 December 2022, the Group satisfies the performance obligation of gas pipeline construction and connection services over time, by measuring the progress using output method on the basis of direct measurements of the value the customer of the promised goods or services transferred.

The erroneous entries are mainly due to misinterpretation, and hence, calculation errors that certain construction income previously recognized as revenue using the output method were not considered and excluded from subsequent measurement of revenue for the same contracts. In other words, the revenue was recognized more than once and overstated over the years and this particularly happens in cross-year and multiple years construction contracts of the Group.

(b) Cost recognition:

During the process of re-assessing the contract progress of the projects, the Group also re-assessed the consumption status of its inventories and became aware that the amount of inventories was overstated as at 31 December 2022 as it was noted that certain inventories were already consumed during the construction process before the year end; whereas the amount of inventories was understated as at 1 January 2022 as it was noted that inventories that were dedicated to certain projects were not yet consumed as of that date.

The abovementioned errors were identified mainly from gas pipeline connection and constructions projects that were in a relatively smaller scale as compared with other projects of the Group and with a relatively less significant contract sum from a thorough checking of the projects performed by the Group during the year ended 31 December 2023, when the management carried out year end project review and noted that the accumulated revenue amount recognised and the accumulated costs incurred for certain projects were not consistent with the historical average gross profit margin which triggered a prompt and detailed review on the projects initiated by the management. It was noted that the Group has an enormous number of gas pipeline connection and construction projects in a smaller scale as compared with the Group's other projects, which resulted in the abovementioned errors not being identified and rectified in a timely manner. However, upon discovery of these errors, the management took prompt actions accordingly and extended the scope and extent of the project review in order to ensure accurate revenue and cost recognition.

As a result of the above, adjustments have been made to respective balance sheet and income statement items to rectify the revenue overstatement of the projects. Corresponding tax impact has also been adjusted.

Interest capitalisation adjustments

The error was mainly caused by misunderstanding of the accounting policy for qualifying assets of the interest capitalisation. For the above prior year adjustments and restatement, the Group has enhanced its accounting manual and will provide trainings to the relevant personnels in order to refrain from the occurrence of same type of errors in the future.

According to paragraph 8 of Hong Kong Accounting Standard 23 Borrowing Costs ("**HKAS 23**"), an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them. According to paragraph 18 of HKAS 23, expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities.

According to the Group's accounting policy on borrowing costs disclosed in Note 40(m) to the consolidated financial statements for the year ended 31 December 2023, general borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred. The Group's disclosed accounting policy in respect of borrowing costs is consistent with the relevant requirements under HKAS 23.

However, prior to recognition of the PYA, in determining the amount of expenditures on qualifying assets (which are property, plant and equipment in this case), the Group inadvertently excluded construction cost payables which were unsettled at the end of the relevant reporting period and included interest previously capitalized into qualifying assets. It means that the expenditures did not result in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. The PYA corrected the error by excluding the amount of those expenditures from the calculation of borrowing costs eligible for capitalization as well as the corresponding capitalized interest pertaining to those inflated portion of qualifying assets in previous years and their rollover effects, thereby decreasing the carrying amount of property, plant and equipment, depreciation charges of property, plant and equipment (included in cost of sales) and increasing the finance costs charged to profit or loss as well as increasing the related deferred tax assets.

(ii) The Company's Auditor considers that the position of the circumstances and reasons leading to each of the PYA submitted with this response is consistent with their understanding.

(iii) The reasons of not identifying the errors constituting the PYA by the management during the preparation and review of the 2022 Results and the interim results for the six months ended 30 June 2023 are covered in section (i) above.

The 2022 Results were prepared by management of the Group to their best knowledge. During the preparation and review of the 2022 Results and the interim results for the six months ended 30 June 2023, the Board (including the audit committee of the Company) were of the opinion that the accounting policies and practices and the assumptions made in preparation of the relevant financial statements are in compliance with relevant accounting standards and in line with the usual accounting policies and practices used in preparation of previous financial statements.

(iv) The Company has discussed the matters related to the PYA and material misstatements in the 2022 Results with the Company's Auditor, and re-visited the accounting policies and procedures in the course of preparation of the PYA to finalise the 2023 Results and the PYA on the previous financial statements. Accordingly, the audit committee of the Company is satisfied that the PYA have been properly made and addressed all material misstatements in the 2022 Results.

Further, the Company's Auditor considers that the PYA have been made in accordance with HKAS 8, primarily due to the considerations set out below:

(1) Discussed with management on their assessment on the PYA, including the nature, the amount of the correction, and the circumstances and reasons leading to the existence of the PYA;

(2) Communicated and obtained the view from the audit committee on the PYA, the status of the correction of the errors and the related measures for improvement in connection with the root cause on the PYA;

(3) Obtained the schedules of the PYA prepared by the Company and assessed the prior year adjustments proposed by the management are appropriate in accordance with relevant accounting standards, including HKFRS 15 Revenue from Contracts with Customers and HKAS 23 Borrowing Costs;

(4) Understood the financial reporting process and tested material adjustments prepared by the Company.

Based on the above, nothing has come to the Company's Auditor's attention that could cause the Company's Auditor to believe that there's other material misstatement in the restated financial statements for the year ended 31 December 2022 set forth in the Company's results announcement for the year ended 31 December 2023 and considers that the financial statements have been properly prepared in accordance with Hong Kong Financial Reporting Standards.

By Order of the Board
China Oil And Gas Group Limited
Chan Yuen Ying, Stella
Company Secretary

Hong Kong, 27 June 2024

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 Ms. Liu Zhihong, Mr. Wang Guangtian and Mr. Yang Jie.

* *For identification purpose only*