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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 2022

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- The gas sales and transmission volume was 6,497 million cubic meters, increased by 10%;
- The turnover increased 21% to HK\$17,421 million; and
- Gross profit was HK\$2,246 million, increased by 5%; profit attributable to shareholders of the Company was HK\$919 million, increased by 2%.

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 2022 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	3	17,420,512	14,341,948
Cost of sales		(15,174,805)	(12,207,367)
Gross profit		2,245,707	2,134,581
Other income		42,065	68,484
Other gains, net		42,315	4,500
Selling and distribution costs		(81,323)	(74,435)
Administrative expenses		(519,312)	(499,834)
Reversal of impairment on oil and gas properties under property, plant and equipment		118,251	565,595
Operating profit	4	1,847,703	2,198,891
Finance income		247,024	127,828
Finance costs		(325,712)	(343,881)
Share of profits of investments accounted for using the equity method, net		59,734	7,722
Profit before taxation		1,828,749	1,990,560
Taxation	5	(422,663)	(476,626)
Profit for the year		1,406,086	1,513,934
Other comprehensive (loss)/income:			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(955,550)	251,827
Change in value of debt investments at fair value through other comprehensive income		(31,549)	(76,047)
<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		7,377	17,480
Other comprehensive (loss)/income for the year, net of tax		(979,722)	193,260
Total comprehensive income for the year		426,364	1,707,194

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit attributable to:			
Owners of the Company		918,875	904,182
Non-controlling interests		487,211	609,752
		<u>1,406,086</u>	<u>1,513,934</u>
 Total comprehensive income for the year attributable to:			
Owners of the Company		233,414	968,284
Non-controlling interests		192,950	738,910
		<u>426,364</u>	<u>1,707,194</u>
 Earnings per share for profit attributable to owners of the Company for the year	 7		
— Basic (<i>HK cents</i>)		18.7	18.0
— Diluted (<i>HK cents</i>)		18.7	18.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		10,856,439	10,738,279
Right-of-use assets		546,568	663,945
Exploration and evaluation assets		107,069	115,027
Intangible assets		1,042,460	1,038,669
Investments accounted for using the equity method		1,698,560	1,758,418
Financial assets at fair value through other comprehensive income		232,288	289,795
Other non-current assets		1,456,592	1,183,053
Deferred tax assets		647	4,821
		<u>15,940,623</u>	<u>15,792,007</u>
Current assets			
Inventories		600,240	408,231
Contract assets, deposits, trade and other receivables	8	2,449,643	2,675,790
Current tax recoverable		5,972	6,334
Time deposits with maturity over three months		621,500	979,660
Cash and cash equivalents		3,329,715	2,786,609
		<u>7,007,070</u>	<u>6,856,624</u>
Total assets		<u>22,947,693</u>	<u>22,648,631</u>
Liabilities			
Current liabilities			
Trade and other payables	9	1,784,790	1,414,388
Contract liabilities		2,892,691	2,917,409
Senior notes		669,728	—
Short-term borrowings		3,859,986	1,345,142
Current tax payable		293,270	189,624
Lease liabilities		10,986	16,219
		<u>9,511,451</u>	<u>5,882,782</u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current liabilities			
Senior notes		2,995,751	5,645,120
Long-term borrowings		875,727	1,729,667
Lease liabilities		40,646	58,747
Deferred tax liabilities		402,531	315,331
Assets retirement obligation		141,737	197,974
		<u>4,456,392</u>	<u>7,946,839</u>
Total liabilities		<u>13,967,843</u>	<u>13,829,621</u>
Equity			
Equity attributable to owners of the Company			
Share capital		56,368	57,670
Reserves		4,918,577	4,733,762
		<u>4,974,945</u>	<u>4,791,432</u>
Non-controlling interests		4,004,905	4,027,578
		<u>8,979,850</u>	<u>8,819,010</u>
Total equity		<u>8,979,850</u>	<u>8,819,010</u>
Total equity and liabilities		<u>22,947,693</u>	<u>22,648,631</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-derived clean energy and other related products; and 4) comprehensive energy and customer value-added services. 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.

2.1 *Going Concern*

As at 31 December 2022, the Group had a net current liabilities position of HK\$2,504,381,000, which included current borrowings of short-term borrowings amounting to HK\$3,859,986,000 and current portion of long-term senior notes amounting to HK\$669,728,000 and contract liabilities of HK\$2,892,691,000. The Group's contract liabilities mainly represents payments received in advance on pre-paid I/C cards that are related to sales of natural gas not yet delivered of HK\$2,209,534,000 which are not expected to be settled in cash under normal business circumstances.

The Group short-term borrowings included a syndicated borrowing of HK\$2,225,516,000 which will mature on 31 December 2023 and there is an option to extend the maturity date for another twelve months.

In view of such circumstances, the directors of the Company communicated with the agent of the syndicated borrowing and given their communication with the lenders, the directors consider that the Group will be able to extend the maturity date to beyond 31 December 2023 upon submitting the application for extension 180 days before 31 December 2023. Accordingly, taking into account the successful extension of the syndicated borrowing, the anticipated cash flows generated from the Group's operations and the continued availability of the Group's undrawn banking facilities, the directors believe that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(a) *Changes in accounting policies and disclosures*

HKFRS 16 (Amendment)	COVID-19-Related Rent Concessions beyond 30 June 2021
Annual Improvements Project (Amendments)	Annual Improvements to HKFRSs 2018–2020
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

(b) *New and amended standards and interpretation not yet adopted by the Group*

HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendment)	Amendments to HKFRS 17	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Income Taxes	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	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 2024
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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 derived clean energy 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:

	2022	2021
	HK\$'000	HK\$'000
Sales and distribution of natural gas and other related products	14,616,792	12,258,436
Gas pipeline connection and construction services income	1,083,599	971,430
Exploitation and production of crude oil and natural gas	726,721	510,674
Production and sales of coal-derived clean energy and other related products	993,400	601,408
	<u>17,420,512</u>	<u>14,341,948</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 derived clean energy 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 2022:

- 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-derived clean energy 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, net, interest income, finance costs, share of profits of investments accounted for using the equity method, reversal of impairment on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, provision for/(reversal of provision for) 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 2022 and 2021 is set out below.

For the year ended 31 December 2022:

	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-derived clean energy 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	14,616,792	—	726,721	993,400	16,336,913
Recognised over time	—	1,083,599	—	—	1,083,599
	<u>14,616,792</u>	<u>1,083,599</u>	<u>726,721</u>	<u>993,400</u>	<u>17,420,512</u>
Sales to external customers	14,616,792	1,083,599	726,721	993,400	17,420,512
	<u>14,616,792</u>	<u>1,083,599</u>	<u>726,721</u>	<u>993,400</u>	<u>17,420,512</u>
Segment results	<u>1,140,255</u>	<u>462,959</u>	<u>402,424</u>	<u>5,663</u>	2,011,301
Finance income					247,024
Other gains, net					42,315
Finance costs					(325,712)
Provision for impairment loss of loan and interest receivables from an associate					(11,709)
Reversal of impairment on oil and gas properties under property, plant and equipment	—	—	118,251	—	118,251
Written off of exploration and evaluation assets	—	—	(3,665)	—	(3,665)
Share of profits of investments accounted for using the equity method, net					59,734
Unallocated corporate expenses					<u>(308,790)</u>
Profit before taxation					1,828,749
Taxation					<u>(422,663)</u>
Profit for the year					<u>1,406,086</u>

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- derived clean energy 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>

Note:

For the year ended 31 December 2022, reversal of impairment on oil and gas properties under property, plant and equipment of HK\$118,251,000 (2021: HK\$565,595,000) 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\$72.5 to US\$75.0 per barrel (2021: US\$67.2 to US\$72.8 per barrel). The Group used a pre-tax discount rates ranging from 15% to 35% (2021: 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 2022 and 2021.

Analysis of the Group’s assets by geographical market for the years ended 31 December 2022 and 2021 is set out below:

	2022		2021	
	Total assets	Additions to non-current assets	Total assets	Additions to non-current assets
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Hong Kong	994,899	33,904	377,531	—
Mainland China	17,604,950	1,483,449	17,725,626	1,663,037
Canada	2,416,355	287,053	2,492,440	87,478
Total	21,016,204	1,804,406	20,595,597	1,750,515
Unallocated				
Investments accounted for using the equity method	1,698,560		1,758,418	
Deferred tax assets	647		4,821	
Financial assets at fair value through other comprehensive income	232,282		289,795	
Total assets	22,947,693		22,648,631	

4 Operating profit

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Employee benefit expenses	531,403	515,335
Cost of inventories recognised as expense	12,786,391	10,286,009
Auditor's remuneration		
— Audit services	3,150	3,019
— Non-audit services	—	1,100
Depreciation and depletion of property, plant and equipment	731,258	560,612
Depreciation of right-of-use assets	23,194	19,365
Amortisation of intangible assets	9,761	9,407
Short term lease expenses	3,516	1,519
(Gain)/loss on disposals of property, plant and equipment	(47,697)	5,746
Provision for/(reversal of provision for) impairment loss of loan and interest receivables from an associate	11,709	(5,981)
Net exchange losses/(gains)	10,725	(3,450)
Written off of exploration and evaluation assets	3,665	4,025

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 (2021: 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% (2021: 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% (2021: 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% (2021: 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% (2021: 15%).

Canada income tax has been provided for at the rate of 27% on the estimated assessable profits for the year (2021: 23%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 12% (2021: 8%) and 15% (2021: 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax	335,981	283,770
Deferred tax	86,682	192,856
	<hr/>	<hr/>
Taxation	<u>422,663</u>	<u>476,626</u>

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2022 (2021: Nil).

6 Dividend

The Board has decided not to propose final dividend for the year ended 31 December 2022 (2021: 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\$918,875,000 (2021: HK\$904,182,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,901,495,000 shares (2021: 5,031,735,000 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit attributable to owners of the Company	<u>918,875</u>	<u>904,182</u>
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year (<i>thousands</i>)	<u>4,901,495</u>	<u>5,031,735</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	<u><u>4,901,495</u></u>	<u><u>5,031,735</u></u>

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2022 (2021: 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 2022 (2021: 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 2022, included in contract assets, deposits, trade and other receivables is the balance of trade receivables amounting to HK\$997,993,000 (2021: HK\$915,839,000).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Up to 3 months	876,250	797,736
3 to 6 months	52,522	50,551
Over 6 months	69,161	67,552
	<hr/>	<hr/>
Total	<u>997,933</u>	<u>915,839</u>

9 Trade and other payables

As at 31 December 2022, included in trade and other payables is the balance of trade payables amounting to HK\$768,287,000 (2021: HK\$656,799,000).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Up to 3 months	489,795	523,098
3 to 6 months	137,186	55,107
Over 6 months	141,306	78,594
	<hr/>	<hr/>
Total	<u>768,287</u>	<u>656,799</u>

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

The domestic COVID-19 prevention and control has entered a new stage in 2022. The international environment was complicated and changing, and the energy market went through frequent fluctuation. The supply/demand of international natural gas was balanced but tight, and the supply structure was substantially adjusted. The global demand for natural gas declined slightly, the domestic production recorded stable growth, and external dependence was declining in phases. Due to production cycle coupled with decreasing Russia's natural gas supply, the international natural gas price went up significantly. Despite high natural gas price and overall slowing down of domestic and international consumption growth, the domestic natural gas production kept relatively high growth. In 2022, China produced over 217 billion cubic metres of natural gas with 366.3 billion cubic meters of apparent consumption of natural gas. And the import volume dropped by 9.9% to 109.25 million cubic metres.

While ensuring epidemic prevention and control, gas sources, safe production and stable operation, the Group sought opportunities out of the crisis, generated momentum out of difficulties, responded actively against changes, and managed to attain hard-won results and breakthroughs. The Group organized the formulation of strategic implementation plans according to medium and long-term strategic development goals. The Group vigorously promoted the construction of the Group's strategic performance management and control system, optimized the organizational structure, innovated the management mechanism, guaranteed resource support, and built a risk control system. In order to achieve the strategic objectives, the Group built a platform, defined the path, improved the environment, and provided impetus to ensure the realization of the Group's strategic objectives. While promoting the development strategy of resource acquisition, market development and non-gas business, the strategy was implemented in an orderly manner through the five strategic measures of strengthening the enterprise with talents, organizational support, quality and efficiency improvement, cost improvement and cultural leadership.

The establishment of Network Security and Informatization Leading Group provided organizational guarantee for informatization. During the year, the construction of the Group's medium and long-term digital planning was completed, and the blueprint of the Group's informatization construction in the next three years was defined; the Group also completed the bidding and procurement of the financial sharing platform and digital transformation to advance the progress of smart gas project, completed the optimization of human resources system, and started the construction of the Group's information security system.

During the year, the Group's natural gas sales and transmission volume and upstream oil prices both increased, with a total revenue of HK\$17,421 million (2021: HK\$14,342 million), a year-on-year increase of 21%. The Group recorded profit for the Period attributable to owners of the Company of HK\$919 million (2021: HK\$904 million), a year-on-year increase of 2%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distribution of natural gas

The Group's natural gas sales volume recorded to be 5,052 million cubic meters for 2022 (2021: 4,852 million cubic meters), increased by 4% compared with the same period last year. Transmission volume was 1,445 million cubic meters, recorded a 38% rise as compared to the same period last year.

Consumption of residential users increased by 2% from last year's 1,112 million cubic meters to 1,132 million cubic meters; industrial and commercial users recorded 3,495 million cubic meters (2021: 3,313 million cubic meters), increased by 5% compared with the same period last year; gas consumption of gas stations recorded a decrease from last year's 427 million cubic meters to current year's 425 million cubic meters. Each of the above categories representing 23%, 68% and 9% of the total gas sales volume (2021: 22%, 69% and 8%), respectively.

Development of new users

For 2022, the Group connected 148,300 (2021: 162,145) new residential users and the accumulated development of residential users were 1,913,541. Total connections for new industrial and commercial users were 1,094 (2021: 1,283) and the accumulated development of industrial and commercial users were 16,696.

New project expansion

It has established 126 natural gas project companies in 13 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. During the year, the Group successfully acquired three projects, namely the urban gas project in Qichun County, Hubei Province, the urban gas concession right project in Xining Comprehensive Bonded Zone, Qinghai Province and the right of gas supply to Qinghai Taifeng Advance Lithium Energy Technology Company (青海泰豐先行鋰能科公司) in Nanchuan Industrial Park.

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 2022 was 5,492 barrels of oil equivalent per day (“boe/d”), an increase of 11.3% from 4,936 boe/d in the comparable period of 2021.

Reference crude oil prices were 38.7% higher in 2022, with West Texas Intermediate averaging US\$94.23 per barrel compared with US\$67.96 per barrel in 2021. The Group realized a crude oil price of CAD117.32 per barrel in 2022 compared to CAD78.51 per barrel in 2021 with a year-on-year increase of 49.4%. The Group achieved the average operating netback of CAD48.67 per barrel of oil equivalent, representing an increase of 38.5% as compared with CAD35.15 per barrel of oil equivalent for the same period last year.

BUSINESS PROSPECTS

In 2022, China's economy encountered multiple short-term challenges. In response, the PRC government introduced policies, including the “Outline of Strategic Planning for Expanding Domestic Demand”. China will continue to implement proactive fiscal policy and sound monetary policy, intensify macro policy control, boost market confidence, and promote the overall improvement of economic performance to achieve effective quality improvement and reasonable growth in 2023.

With respect to the development of the natural gas industry, as the National Energy Administration put forward in the “Guiding Opinions on Energy Work in 2022”, the supply security should be reinforced; the production of natural gas will be increased to 214 billion cubic metres; and production should be increased steadily. Moreover, driven by the goal of carbon peaking and carbon neutrality, the percentage of clean energy in the energy consumption structure will continue to rise.

The year of 2023 is essential for the Group to promote the implementation of strategy and give full play to mechanism effectiveness. The beginning is decisive, requiring our best efforts. The overall idea of this year's work is to, taking high-quality development as the core, comprehensively promote business development, commit to the construction of fine management system, accelerate the construction of big data, and pay attention to the management process, to realize the rapid growth of the Company's benefits. To build a new pattern of high-quality development of the Group based on fine management and value creation, upholding the mission of “Developing clean energy, Creating better life”, the Group will seize the opportunities brought by the goal of carbon peaking and carbon neutrality, capitalise on its resource advantages, optimise its strategic layout, continuously improve its management and staff capabilities, strengthen its risk management, and spare no efforts in providing customers with stable natural gas supply, quality products and caring services.

The Group will continuously build up the its integrated energy service development strategy of upstream and downstream integration and complementation by clean energy and others. In the upstream sector, the Group will promote the strategic distribution of resources, ensure adequate resources by means of unconventional gas and LNG resources and interconnection, optimize resource costs, and create value for customers. In the downstream sector, we will make great efforts to build the existing core area, and utilize comprehensive energy-related technologies to continue the development of new markets within the existing business area, as well as the national new urban areas, industrial transfer parks, parks for enterprises withdrawing from urban areas, emerging industrial parks, etc., to obtain the right of management; we will intensify internal market development and continue to increase the sales volume of gas; we will improve customer service quality and technical level to vigorously develop customer value and expand value-added business; we will vigorously promote the development of the energy equipment industry, and develop new technology products and new energy equipment products in the gas industry on the basis of the original products. Through self-development, reorganization, financial investment cooperation and other ways, the Group will expand its upper, middle, and downstream business.

According to the national carbon peaking and carbon neutrality objective, combined with the strategic development layout and actions of advanced enterprises in the industry, the Group will conduct in-depth research and survey in terms of medium and long-term business development. In the light of our general tendency, we will continue to optimize the core positioning of the Group's medium-and long-term business development; start the layout of new businesses such as comprehensive energy services and new energy; study and carry out the construction of the Group's ecological system, and promote the Group's new business strategy through ecological partners. The Group and its project companies are vigorously promoting the development of ESG-related green industries such as photovoltaic, hydrogen energy utilization, charging resistance and wastewater utilization through various forms of cooperation and development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2022, the Group recorded revenue of HK\$17,421 million, representing an increase of 21.5% from HK\$14,342 million for the year ended 31 December 2021.

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 derived clean energy and other related products, amounted to HK\$14,617 million, HK\$108,4 million, HK\$727 million and HK\$993 million respectively (2021: HK\$12,258 million, HK\$971 million, HK\$511 million and HK\$601 million).

The Group's overall gross profit amounted to HK\$2,246 million (2021: HK\$2,135 million), representing an increase of 5.20%, 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\$919 million, represented an increase of 1.7%.

Administrative expenses were HK\$519 million (2021: HK\$500 million), an increase of 3.8% as compared to the same period last year, the proportion of administrative expenses to revenue was slightly decrease to 3.0% (2021: 3.5%) with selling and distribution costs recorded a decrease of 8%.

Finance costs (net of capitalization) increase slightly from last year's HK\$344 million to HK\$326 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) for the year ended 31 December 2022 was 5.62% (2021: 5.63%).

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 2022, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK\$8,401 million (2021: HK\$8,720 million).

As at 31 December 2022, the Group had cash and cash equivalents and time deposits with maturity over three months of HK\$3,951 million (2021: HK\$3,766 million). Total assets were HK\$22,948 million (2021: HK\$22,649 million), in which current assets were HK\$7,007 million (2021: HK\$6,857 million). Total liabilities of the Group were HK\$13,968 million (2021: HK\$13,830 million), in which current liabilities were HK\$9,511 million (2021: HK\$5,883 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 19.4% (2021: 21.9%). The Group's financial and liquidity remain stable, and well prepared for the development in 2023.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed a total of 4,837 (2021: 4,704) full-time employees, most of whom were stationed in the PRC. 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 2022, 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 2022.

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 2022, the Group has no material litigation.

CAPITAL STRUCTURE

As at 31 December 2022, the issued share capital of the Company was HK\$56,368,038 divided into 5,636,803,834 shares of the Company with a nominal value of HK\$0.01 each.

MATERIAL EVENTS

In March 2022, CNPC Gas Xining Co., Ltd.* 西寧中油燃氣有限責任公司 (“**Xining Company**”), a subsidiary of the Group, entered into a concession agreement (the “**Concession Agreement**”) on urban piped gas with the management committee of Xining Comprehensive Bonded Zone (“**XCBZ Management Committee**”), pursuant to which XCBZ Management Committee agreed to grant Xining Company the concession for supply of gas for a term of 30 years. Pursuant to the Concession Agreement, Xining Company is licensed to sell natural gas within the current jurisdiction of the XCBZ Management Committee, including the supply of natural gas and liquefied natural gas to users in the form of pipeline transportation, and the provision of services related to piped gas facilities, such as project construction, maintenance, operation and emergency rush repair.

On 25 March 2022, the Company successfully drawdown a syndicated loan of an amount of USD290 million for the purpose of early redemption of part of the US\$320,000,000 5.5% senior notes of the Company due 2023 (the “**2023 Notes**”). On 23 November 2022 and 5 December 2022, the Company repurchased an aggregate principal amount of US\$22,242,285 of the 2023 Notes from the open market. The repurchased 2023 Notes had been cancelled accordingly. On 30 December 2022, in the 2023 Notes the aggregate principal amount of US\$86,786,286 remains outstanding.

On 7 March 2022 and 31 March 2022, China Oil and Gas Investment Group Company Limited* (中油燃氣投資集團有限公司) (“**China Oil and Gas Investment**”), a wholly-owned subsidiary of the Group, as guarantor, entered into the guarantee agreements in favour of China Guangfa Bank Co., Ltd. (廣發銀行股份有限公司) (“**Creditor 1**”) and Hua Xia Bank Co., Ltd. (華夏銀行股份有限公司) (“**Creditor 2**”) respectively, pursuant to which China Oil and Gas Investment has agreed to provide guarantees up to maximum amount of RMB50,000,000 and RMB50,000,000 for the due performance of the repayment obligations of Shandong Shengli Co., Ltd. (山東勝利股份有限公司) (“**Shandong Shengli**”) to the Creditor 1 and Creditor 2, respectively.

On 12 April 2022, China Oil and Gas Investment, as guarantor, entered into a guarantee agreement in favour of Taian Bank Co., Ltd (泰安銀行股份有限公司) (“**Creditor 3**”), pursuant to which China Oil and Gas Investment has agreed to provide guarantee up to maximum amount of RMB120,000,000 for the due performance of the repayment obligations of Shandong Shengli to Creditor 3.

On 29 April 2022, China Oil and Gas Investment, as guarantor, entered into a guarantee agreement in favour of Creditor 3, pursuant to which China Oil and Gas Investment has agreed to provide guarantee up to maximum amount of RMB200,000,000 for the due performance of the repayment obligations of Shandong Shengli to Creditor 3.

On 20 May 2022, China Oil and Gas Investment, as guarantor, entered into a memorandum (the “**Memorandum**”) with Shandong Shengli in favour of China Zheshang Bank Co., Ltd.* (浙商銀行股份有限公司) (“**Creditor 4**”), Laishang Bank Co., Ltd.* (萊商銀行股份有限公司) (“**Creditor 5**”), Bank of Rizhao Co., Ltd.* (日照銀行股份有限公司) (“**Creditor 6**”), Bank Of Qingdao Co., Ltd.* (青島銀行股份有限公司) (“**Creditor 7**”), Jining Bank Co., Ltd.* (濟寧銀行股份有限公司) (“**Creditor 8**”), Ping An Bank Co. Ltd.* (平安銀行股份有限公司) (“**Creditor 9**”), China Merchants Bank Co., Ltd.* (招商銀行股份有限公司) (“**Creditor 10**”), China Minsheng Bank Corp., Ltd.* (中國民生銀行股份有限公司) (“**Creditor 11**”) and Creditor 3, pursuant to which China Oil and Gas Investment has agreed to provide guarantees up to a maximum amount of RMB75,000,000, RMB50,000,000, RMB100,000,000, RMB50,000,000, RMB80,000,000, RMB100,000,000, RMB100,000,000, RMB100,000,000 and RMB30,000,000 for the due performance of the repayment obligations of Shandong Shengli to Creditor 4, Creditor 5, Creditor 6, Creditor 7, Creditor 8, Creditor 9, Creditor 10, Creditor 11 and Creditor 3, respectively.

Inclusive of the provision of guarantees on 31 March 2022, 12 April 2022 and 29 April 2022 and the provision of guarantees under the Memorandum, China Oil and Gas Investment has agreed to provide guarantees up to an aggregate maximum amount of RMB1,105,000,000, which constituted a major transaction of the Company and was subject to shareholders’ approval requirements. On 15 July 2022, a special general meeting was convened to approve the Memorandum and all transactions contemplated thereunder and the resolution was duly passed.

FINAL DIVIDEND

The Board resolved not to recommend any final dividend for the year ended 31 December 2022 (2021: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2022, the Company repurchased 130,240,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HK\$0.365 to HK\$0.485 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	Number of repurchased Shares	Purchase price per Share		Aggregate purchase consideration (excluding expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January 2022	65,240,000	0.485	0.440	30,363,200
April 2022	<u>65,000,000</u>	0.405	0.365	<u>24,017,100</u>
	<u>130,240,000</u>			<u>54,380,300</u>

Save as disclosed above, 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 2022.

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 2022. The Company has adopted the code provisions set out in the CG Code as its own code of corporate governance.

During the year ended 31 December 2022, 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 C.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 2022.

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 2022 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 2022 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 and consequently no opinion or assurance conclusion 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 2023

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*