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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014 (the "Period").

The unaudited condensed consolidated financial information for the Period has not been audited but has been reviewed by the Company's audit committee (the "Audit Committee").

FINANCIAL HIGHLIGHTS

- Revenue was HK$3,447 million, representing an increase of 20% over the last corresponding period.
- Profit attributable to owners of the Company was HK$210 million, representing an increase of 34% over the last corresponding period.
- Basic earnings per share was HK cents 4.250, representing an increase of 35% over the last corresponding period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June **2014** *HK$'000* (unaudited)	2013 *HK$'000* (unaudited)
Revenue	*4*	**3,447,287**	2,879,691
Cost of sales		**(2,846,419)**	(2,203,707)
Gross profit		**600,868**	675,984
Other income		**17,973**	12,714
Other gains/(losses)		**40,320**	(38,595)
Selling and distribution costs		**(26,824)**	(23,403)
Administrative expenses		**(110,640)**	(111,438)
Operating profit		**521,697**	515,262
Interest income		**66,153**	41,768
Finance costs		**(71,792)**	(44,497)
Share of result of a jointly-controlled entity		**6,758**	213
Share of result of an associate		**(778)**	(535)
Profit before taxation		**522,038**	512,211
Taxation	*5*	**(111,948)**	(105,066)
Profit for the period		**410,090**	407,145
Other comprehensive income/(loss):			
Items that may be subsequently reclassified to profit or loss:			
Fair value changes from available-for-sale financial assets		**(5,082)**	(18,011)
Total comprehensive income for the period		**405,008**	389,134
Profit for the period attributable to:			
Owners of the Company		**209,954**	156,692
Non-controlling interests		**200,136**	250,453
		410,090	407,145
Total comprehensive income attributable to:			
Owners of the Company		**204,872**	138,681
Non-controlling interests		**200,136**	250,453
		405,008	389,134
		HK cents	*HK cents*
Earnings per share	*6*		
– Basic		**4.250**	3.155
– Diluted		**4.225**	3.119

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30.6.2014 HK$'000 (unaudited)	31.12.2013 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**3,977,386**	3,712,892
Exploration and evaluation assets		**2,384,719**	–
Land use rights		**219,959**	192,365
Intangible assets		**1,072,124**	1,072,227
Interest in an associate		**5,385**	6,162
Interest in a jointly-controlled entity		**47,989**	41,231
Available-for-sale financial assets		**293,649**	835,011
Other non-current assets		**980,886**	870,710
		8,982,097	6,730,598
Current assets			
Inventories		**206,332**	185,926
Deposits, trade and other receivables	*8*	**1,363,418**	921,344
Financial assets at fair value through profit or loss		**62,554**	145,812
Time deposits with maturity over three months		**781,321**	795,427
Cash and cash equivalents		**3,606,769**	3,377,551
		6,020,394	5,426,060
Current liabilities			
Trade and other payables	*9*	**1,128,687**	859,804
Consideration payable		**1,708,600**	–
Receipt in advance		**934,565**	1,006,593
Short-term borrowings		**938,461**	708,500
Current tax payable		**112,606**	105,572
		4,822,919	2,680,469
Net current assets		**1,197,475**	2,745,591
Total assets less current liabilities		**10,179,572**	9,476,189

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2014

	Notes	**30.6.2014**	31.12.2013
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Non-current liabilities			
Long-term borrowings		**954,000**	954,000
Senior notes		**2,676,260**	2,672,082
Deferred tax liabilities		**277,299**	23,960
Other non-current liabilities		**168,778**	–
Total non-current liabilities		**4,076,337**	3,650,042
Net assets		**6,103,235**	5,826,147
Equity			
Equity attributable to owners of the Company			
Share capital		**52,797**	50,007
Reserves		**3,659,538**	3,497,373
		3,712,335	3,547,380
Non-controlling interests		**2,390,900**	2,278,767
Total equity		**6,103,235**	5,826,147

(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 of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company, and its subsidiaries are principally engaged in investment in energy related businesses, including 1) piped city gas operation, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG"); 3) exploration and development, production and sales of oil and gas and other upstream energy resources.

(2) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. These interim financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2013.

(3) APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STARDARDS ("HKFRS(S)")

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to HKFRSs issued by the HKICPA:

HKAS 32 (Amendments)	Offsetting financial assets and financial liabilities
HKAS 36 (Amendments)	Recoverable amount disclosures for non-financial assets
HKAS 39 (Amendments)	Novation of derivatives and continuation of hedging accounting
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Investment Entities
HK (IFRIC) – Int 21	Levies

The application of the above new, revised or amended standards and interpretations have no material impact on the results and the financial position of the Group.

(4) REVENUE AND SEGMENT INFORMATION

Information regarding the Group's reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the six months ended 30 June 2014 and 2013 is set out below:

Business Segments

For the six months ended 30 June 2014:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Group *HK$'000*
Segment revenue and results			
Sales to external customers	**2,996,825**	**450,462**	**3,447,287**
Segment results	**317,517**	**207,800**	**525,317**
Interest income			**66,153**
Other gains/(losses)			**40,320**
Finance cost			**(71,792)**
Share of result of a jointly-controlled entity			**6,758**
Share of result of an associate			**(778)**
Unallocated corporate expenses			**(43,940)**
Profit before taxation			**522,038**
Taxation			**(111,948)**
Profit for the period			**410,090**

For the six months ended 30 June 2013:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Group *HK$'000*
Segment revenue and results			
Sales to external customers	2,437,630	442,061	2,879,691
Segment results	354,187	203,969	558,156
Interest income			41,768
Other gains/(losses)			(38,595)
Finance cost			(44,497)
Share of result of a jointly-controlled entity			213
Share of result of an associate			(535)
Unallocated corporate expenses			(4,299)
Profit before taxation			512,211
Taxation			(105,066)
Profit for the period			407,145

(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 Period (2013: Nil).

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% (2013: 25%).

Certain of the Company's PRC subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are taxed at a preferential income tax of 15% (2013: 15%). Certain subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. PRC enterprise income tax has been provided for after taking these tax incentives into account.

	Unaudited	Unaudited
	(6 months)	(6 months)
	1.1-30.6.2014	1.1-30.6.2013
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**107,908**	87,652
Deferred tax	**4,040**	17,414
Taxation	**111,948**	105,066

(6) EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$209,954,000 (six months ended 30 June 2013: HK$156,692,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of approximately 4,940,485,000 shares (six months ended 30 June 2013: 4,965,988,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$209,954,000 (six months ended 30 June 2013: HK$156,692,000), and the weighted average number of ordinary shares of approximately 4,969,073,000 shares (six months ended 30 June 2013: 5,024,225,000 shares) which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the Period plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 27,686,000 shares (six months ended 30 June 2013: 57,317,000 shares) and the effect of awarded shares of approximately 902,000 shares (six months ended 30 June 2013: 920,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

(7) DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil). During the Period, a dividend of HK cents 0.72 per share (2013: HK cents 0.65) amounting to HK$38,014,000 (2013: HK$32,275,000) was paid to the shareholders as the final dividend for 2013.

(8) DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	At 30.6.2014	At 31.12.2013
	HK$'000	*HK$'000*
Trade receivables	**679,727**	372,414
Other receivables, deposits and prepayments	**683,691**	548,930
	1,363,418	921,344

The ageing analysis of trade receivables is as follows:

Current to 90 days	**625,809**	342,859
91 – 180 days	**23,283**	18,716
Over 180 days	**30,635**	10,839
	679,727	372,414

(9) TRADE AND OTHER PAYABLES

	Unaudited	Audited
	At 30.6.2014	At 31.12.2013
	HK$'000	*HK$'000*
Trade payables	**571,269**	386,462
Other payables and accruals	**557,418**	473,342
	1,128,687	859,804

The ageing analysis of trade payables is as follows:

Current to 90 days	**472,686**	334,299
91 – 180 days	**48,867**	24,012
Over 180 days	**49,716**	28,151
	571,269	386,462

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2014, the Group's natural gas business successfully sustained healthy growth under the concerted effort of our staff. As at 30 June 2014, the Group has established a total of 109 natural gas project companies in 48 cities of 14 provinces and autonomous regions in China.

Gas pipeline construction and connection income

During the Period, the Group attained revenue of HK$3,447 million, representing an increase of 20% from HK$2,880 million as compared with the same period last year. Income from gas pipeline construction and connection was HK$450 million. New connections to residential users and industrial and commercial users were 77,000 and 349 respectively, representing an increase of 11% and 6% respectively as compared to the end of last year. It is anticipated that the number of new users will maintain stable growth in the future. With the increases in the connection income, the Group would continue to open more channels for the sale of natural gas and provide services to more natural gas end-users, which would in turn lay a solid foundation for the sale of natural gas by the Group in the future.

Sales and distribution of natural gas and other related products

Revenue from the sales and distribution of natural gas and other related products amounted to HK$2,997 million, representing a year-on-year increase of 23% which accounted for 87% of the total revenue. During the Period, total gas sales volume was 1,219 million m^3, representing a year-on-year increase of 15%. Amongst the total gas sales volume, gas consumption by residential users was 318 million m^3 (2013: 271 million m^3); consumption by industrial and commercial users was 709 million m^3 (2013: 600 million m^3); consumption by gas stations was 190 million m^3 (2013: 186 million m^3), representing a year-on-year increase of 18%, 18% and 2% respectively. Benefited from the development of the Group's high pressure natural gas branch pipelines, gas transmission volume for the Period reached 243 million m^3 (2013: 188 million m^3), representing a year-on-year increase of 29%.

Development of natural gas distribution business

In the first half of 2014, focusing on coast and riverfront markets and centered on the existing scope of businesses, the Group conducted intensive research and development in respect of the periphery of key natural gas pipelines. The Group obtained the concession right of city gas projects in Yangxin county, Hubei Province, as well as five new projects, including Changbei L/CNG refueling station, Nantong Hongjiang L/CNG refueling station, Nantong vehicles hub L/CNG refueling station, Xining Mafang oil and gas station and Xining Eastern Exit oil and gas station. The Group continued to promote the application of LNG business of "gas in substitution of oil" by selecting key areas and closely monitoring the LNG projects in Jiangsu Province and along the Ganjiang River in Jiangxi Province, and progresses were made in gas used by modified vessels, gas used by modified vehicles and LNG point-to-point projects. In the first half of 2014, the Group extended approximately 57 km of new high pressure pipelines, forming a high pressure pipeline network of 987 km, which pushed the development of downstream projects effectively. The city and courtyard pipeline network extended by 577 km in the first half of 2014, reaching an aggregate length of 5,478 km. The Group will make persistent efforts to obtain new gas projects and promote the development of natural gas distribution business.

New oil and gas production business

The Company entered into an agreement with the Canadian Baccalieu Energy Inc. ("Baccalieu") on 20 June 2014 to acquire 100% equity interest of Baccalieu at a consideration of CAD235.5 million, which became a wholly-owned subsidiary of the Group.

According to a reserve report prepared by GLJ Petroleum Consultants, Baccalieu has proven reserves of approximately 16.2 million barrels of oil equivalent (60% is light oil and NGLs, 40% is natural gas) and proven plus probable reserves of approximately 22 million barrels of oil equivalent (60% is light oil and NGLs, 40% is natural gas) as of 31 December 2013.

In the first half of 2014, the average daily production of Baccalieu was 4,154 barrels of oil equivalent (67% is light oil and NGLs, 33% is natural gas). The average operating net back value was CAD50.17 per barrel of oil equivalent.

Baccalieu possesses energy business in production, a very experienced management team with proven track record, stable production assets profolio, strong cash flow and profitability with considerable potential for growth. The financial results of Baccalieu will be consolidated into the Group in the second half of 2014.

As at 30 June 2014, the aforesaid acquisition had been completed and the combination of businesses had been presented in the consolidated statement of financial position of the Group. Since the allocation of the fair value of identifiable assets and liabilities under the acquisition is still in process, the initial accounting for the acquisition was determined provisionally. The adjustments relating to the temporary value of identifiable assets and liabilities will be recognized upon the completion of initial accounting.

Business Prospect

In 2014, the Chinese economy was still underpinned by strong fundamentals. The improving external economic environment would lead to improvement of the market. Inflationary pressure continued to ease off. Consumer price index (CPI) was within the price control target of 3.5%. Economic growth was stimulated by the adoption of mixed ownership model and structural reformation. After the Third Plenary Session of the 18th Communist Party of China Central Committee, the PRC government introduced numerous reform measures such as simplifying and delegating administrative approval procedures, and the pace of structural reform accelerated. The economic development of the non-public sector geared up. The efficiency of resources deployment was effectively raised. The Group continued to maintain good co-operation with companies under the PRC central government and local governments and private enterprises. By utilizing its edge of market-oriented operation and rich industrial experience, the Group grasped the opportunity of synergy development of the industry and gained a broader room for development.

Since the beginning of this year, the PRC government issued "Several Opinions on Establishing Long-Term Mechanism to Guarantee Stable Natural Gas Supply" and "Energy Industry to Strengthen Air Pollution Control Work Program", clearly stating natural gas supply capacity of China should reach 250 billion m^3 in 2015 and over 400 billion m^3 in 2020. The introduction of these policies will provide favourable policy support for the rapid and healthy development of the natural gas industry in the long run. On 21 July, the operational data of the natural gas industry published by NDRC showed that the natural gas production for the first half of the year was 63.2 billion m^3, representing a year-on-year increase of 7.5%. The apparent consumption of natural gas for the first half of the year was 88.7 billion m^3, representing a year-on-year increase of 8.9%. The discrepancy between demand and supply was still substantial with reliance on external supply at 31.9%. Such national policies and industry development were favourable factors to the core business of the Group.

As the gap for domestic natural gas supply widens, and demand for natural gas import grows. The price of natural gas supply will increase inevitably. During the year, NDRC issued the Guidance Opinions on Implementing Progressive Price Level Mechanism for Residential Gas Supply and Notice on the Adjustment of Non-Residential Gas Prices, planning to increase the city-gate gas prices in different provinces in September. Subsidiary enterprises of the Group will continue to closely communicate with the local governments, industrial associations and industrial and commercial clients to co-operate with the local governments' commencement of natural gas price adjustments.

2014 is a crucial year for the Group to realize its development strategy of vertical integration of upstream and downstream operations. Currently, conventional oil and gas resources in the PRC are relatively deficient, resulting in the degree of dependence on foreign oil and gas of the PRC reaching 58%. Actively searching for foreign oil and gas resources and realizing optimized resource allocation on a global scale have always been the energy strategy of the PRC. The Group's acquisition of the Canadian Baccalieu Energy Inc. in June 2014 is not only for the need of realizing its development strategy of vertical integration of upstream and downstream operations, but is also an efficient path to achieve continuous operation in the future and to improve operation results.

The Group has been constantly improving its corporate management and operational standard. On the basis of the good results from the management and regulatory work of the previous year, the Group will continue to improve its corporate governance and internal control standard. Effective and sustainable corporate governance measures can prevent risks and make sure that the Group can achieve its operational goals.

Taking into account the various factors above, the Group will maintain its current investment portfolio and business development model in the second half of the year and in the future to achieve steady growth. While concentrating on the development of its existing domestic business, the Group will also create an upstream resources platform overseas for the Group to become an energy group which is trusted by clients, socially respected, well-managed and constantly creates value for shareholders.

FINANCIAL RESULTS

For the six months ended 30 June 2014, the Group recorded a total revenue of HK$3,447 million (2013: HK$2,880 million), representing an increase of approximately 20%. The Group's cost of sales was HK$2,846 million (2013: HK$2,204 million), representing an increase of approximately 29%. Gross profit amounted to HK$601 million (2013: HK$676 million) with a decrease of approximately 11%.

Among the total revenue, the revenue of the sales and distribution of natural gas was HK$2,997 million (2013: HK$2,438 million) and the revenue of gas pipeline construction and connection was HK$450 million (2013: HK$442 million), representing a 23% and 2% growth. Sales and distribution of natural gas continued to be the Group's main source of income and constituted 87% of the Period's total revenue (2013: 85%).

The Group's selling and distribution costs increased by 15% to approximately HK$26.8 million from approximately HK$23.4 million in 2013. The increase was in line with the Group's new project companies set up during the Period and new concession rights. The Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled its selling and distribution costs at 0.8% (2013: 0.8%) of the total revenue.

2013 was a year of enhancing the Group's management capability, during which a sound corporate system was established and the corporate governance structure was improved. In 2014, the Group continued to promote the construction of corporate governance and internal control standard, and the corporate governance level was efficiently raised. During the Period, the administrative expenses of the Group decreased by 0.7% to HK$111 million. With stringent cost control and improvement in efficiency, the Group successfully curbed its administrative expenses at 3% of total revenue, as compared to 4% during the first half of 2013.

Finance costs increased from HK$44.5 million of the corresponding period last year to current period's HK$71.8 million, which was mainly constituted by coupon interests on our senior notes issued on 25 April 2013. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 30 June 2014 was 5.1% (2013: 5.1).

Profit attributable to owners of the Company was HK$210 million for the period ended 30 June 2014 (2013: HK$157 million), representing an increase of 34%.

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 finance major expansion and acquisition. The Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$4,569 million (31 December 2013: HK$4,335 million).

As at 30 June 2014, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$4,388 million (31 December 2013: HK$4,173 million). Total assets of HK$15,003 million (31 December 2013: HK$12,157 million), and among which current assets were HK$6,020 million (31 December 2013: HK$5,426 million). Total liabilities of the Group were HK$8,899 (31 December 2013: HK$6,331 million), and among which current liabilities were HK$4,823 (31 December 2013: HK$2,680 million).

The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 30.5% (31 December 2013: 35.7%). The current ratio (current assets divided by current liabilities) of the Group was 1.25 times (31 December 2013: 2.02 times). EBITDA to interest cover ratio was at healthy level of times. The financial and liquidity of the Group is at a very healthy and stable position.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group employed a total of approximately 3,744 (31 December 2013: 3,643) full-time employees, where mostly were stationed in the PRC. Total staff cost for the Period amounted to HK$130 million (2013: HK$110 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consisted of basic salary, cash bonus and share-based incentives.

PLEDGE OF ASSETS

The Group has pledged part of its equity interest (actual capital investment at the time of drawdown) in China City Natural Gas Co., Ltd., a subsidiary owned as to 51% by the Group, as security for an other borrowing of HK$700,000,000.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2014.

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 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 30 June 2014, the Group has no litigation.

CAPITAL STRUCTURE

During the Period, a total of 28,980,000 share options had been exercised by the employees and one Director of the Group at the exercise price of Hk$0.43 per share and 250,000,000 share had been issued under the share award scheme.

As at 30 June 2014, the issued share capital of the Company was HK$52,797,696, divided into 5,279,696,213 shares with a nominal value of HK$0.01.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

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 six months ended 30 June 2014, 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 as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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 Period.

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 six months ended 30 June 2014.

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 six months ended 30 June 2014, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviations as explained below.

Code provision A.2.1 of the CG Code provides that the responsibilities between chairman and chief executive officer should be divided. Mr. Xu Tie-liang is the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Code provision A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors are not appointed for a specific term, but they are subject to retirement from office by rotation at least once every three years in accordance with the Bye-Laws of the Company (the "Bye-Laws").

Code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2014 annual general meeting of the Company held on 29 May 2014 ("2014 AGM") by the reason of their engagement in their own official business.

Code provision D.1.4 of the CG Code requires that the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors (except for Mr. Xu Tie-liang). However, the Directors shall be subject to retirement by rotation in accordance with the Bye-Laws. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Code provision E.1.2 of the CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Li Yunlong, the chairman of each of the Audit Committee and the Remuneration Committee of the Company, and Mr. Wang Guangtian, the chairman of the Nomination Committee of the Company, did not attend the 2014 AGM due to their engagement in their own official business.

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions as set out in the CG Code during the six months ended 30 June 2014.

AUDIT COMMITTEE

The Company established 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 and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and the internal control procedures.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Wang Guangtian. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2014.

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

Hong Kong, 28 August 2014

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Mr. Zhu Yuan, Ms. Guan Yijun and Mr. Cheung Shing; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian.

* *For identification purpose only*