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 2015

ANNUAL RESULTS

The board (the "Board") of Directors (the "Directors") of China Oil And Gas Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2015 together with the relevant comparative figures.

Financial and Operational Highlights

– The sales volume of natural gas reached 2,650 million cubic meters, representing an increase of 6%.

– The accumulated connections of residential users and industrial and commercial users of natural gas reached 995,729 and 8,398 respectively, representing an increase of 19% and 28% respectively.

– The average daily production on exploitation and production of crude oil and natural gas reached 5,386 barrels of oil equivalent, representing an increase of 26%; the proved plus probable reserves reached 30.1 million barrels of oil equivalent, representing an increase of 19%.

– Affected by a fall on international oil price, the Group suffered from a one-off and non-cash impairment of HK$507 million under exploitation and production of crude oil and natural gas, which is the main reason of the HK$183 million loss attributable to the owners of the Company during the year.

– Without all of the one-off and non-cash adjustments, the Group's core profit increased by 30% to HK$340 million.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
Revenue	*3*	**7,373,902**	7,697,811
Cost of sales		**(6,338,364)**	(6,544,604)
Gross profit		**1,035,538**	1,153,207
Other income		**31,167**	47,657
Other gains, net		**2,828**	50,430
Selling and distribution costs		**(68,982)**	(61,775)
Administrative expenses		**(319,357)**	(332,583)
Impairment losses on oil and gas properties under property, plant and equipment		**(507,441)**	–
Operating profit	*4*	**173,753**	856,936
Finance income		**111,562**	125,371
Finance costs		**(230,782)**	(135,860)
Share of (losses)/profit of investments accounted for using the equity method		**(4,343)**	7,716
Profit before taxation		**50,190**	854,163
Taxation	*5*	**(20,857)**	(217,565)
Profit for the year		**29,333**	636,598
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(660,561)**	(144,762)
Change in value of available-for-sale financial assets		**8,594**	(11,033)
Other comprehensive loss for the year, net of tax		**(651,967)**	(155,795)
Total comprehensive (loss)/income for the year		**(622,634)**	480,803
(Loss)/profit attributable to:			
Owners of the Company		**(183,831)**	308,650
Non-controlling interests		**213,164**	327,948
		29,333	636,598
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(696,168)**	152,855
Non-controlling interests		**73,534**	327,948
		(622,634)	480,803
(Losses)/earnings per share attributable to owners of the Company for the year	*7*		
– Basic (HK cents)		**(3.609)**	6.234
– Diluted (HK cents)		**(3.609)**	6.195

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**6,535,541**	6,883,531
Exploration and evaluation assets		**249,139**	222,655
Land use rights		**314,013**	253,663
Intangible assets		**1,055,676**	1,071,912
Investments accounted for using the equity method		**316,854**	55,109
Available-for-sale financial assets		**354,947**	585,211
Other non-current assets		**904,806**	968,436
Deferred tax assets		**16,735**	5,643
		9,747,711	10,046,160
Current assets			
Inventories		**201,470**	195,603
Deposits, trade and other receivables	8	**1,562,686**	1,474,664
Financial assets at fair value through profit or loss		**50,271**	53,859
Current tax recoverable		**5,796**	31,867
Time deposits with maturity over three months		**216,000**	973,739
Cash and cash equivalents		**2,303,704**	2,691,557
		4,339,927	5,421,289
Total assets		**14,087,638**	15,467,449
Liabilities			
Current liabilities			
Trade and other payables	9	**1,376,420**	1,680,480
Receipt in advance		**1,089,707**	1,229,109
Short-term borrowings		**972,774**	808,379
Current tax payable		**126,288**	137,664
		3,565,189	3,855,632

	Notes	**2015**	2014
		HK$'000	*HK$'000*
Non-current liabilities			
Senior notes		**4,992,169**	4,978,675
Deferred tax liabilities		**231,700**	419,090
Other non-current liabilities		**98,326**	121,303
		5,322,195	5,519,068
Total liabilities		**8,887,384**	9,374,700
Equity			
Equity attributable to owners of the Company			
Share capital		**58,257**	52,996
Reserves		**2,718,807**	3,548,111
		2,777,064	3,601,107
Non-controlling interests		**2,423,190**	2,491,642
Total equity		**5,200,254**	6,092,749
Total equity and liabilities		**14,087,638**	15,467,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Oil And Gas Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. Its subsidiaries are principally engaging in investment in energy related business in various regions in the People's Republic of China ("PRC") and West Central Alberta, Canada, including but not limited to 1) piped city gas business, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG"); and 3) development, production and sale of oil and gas and other upstream energy resources. The Company and its subsidiaries are collectively referred to the "Group".

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Changes in accounting policy and disclosures

(i) Amendments to standards adopted by the Group

The Group has adopted the following amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2015:

Amendments to HKAS 19	Defined benefit plans – employee contributions
Annual Improvements Project	Annual improvements 2010–2012 Cycle
Annual Improvements Project	Annual improvements 2011–2013 Cycle

The adoption of above amendments to standards did not have any material impact on the preparation of the consolidated financial statements.

(ii) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) became effective during the year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(b) New standards and amendments to standards not yet adopted

The following are new standards and amendments to existing standards that have been issued but are not effective for the financial year beginning 1 January 2015 and have not been early adopted.

HKAS 1 (Amendment)	Disclosure initiative(1)
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation(1)
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer plants(1)
HKAS 27 (Amendment)	Equity method in separate financial statements(1)
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture(1)
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: Applying the consolidation exception(1)
HKFRS 9	Financial instruments(2)
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations(1)
HKFRS 14	Regulatory deferral accounts(1)
HKFRS 15	Revenue from contracts with customers(2)
Annual Improvements Project	Annual improvements 2012-2014 cycle(1)

1 Effective for the annual period beginning on or after1 January 2016
2 Effective for the annual period beginning on or after 1 January 2018

The Group is accessing the impact of these new standards and will apply them once they are effective.

3 REVENUE AND SEGMENT INFORMATION

The Group's principal activities are the sales and distribution of natural gas, crude oil and other related products and provision of construction and connection services of gas pipelines in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

	2015	2014
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**6,052,178**	6,296,143
Gas pipeline construction and connection services income	**892,133**	1,077,009
Revenue from exploitation and production of crude oil and natural gas	**429,591**	324,659
	7,373,902	7,697,811

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas, gas pipeline construction and connection; and exploitation and production of crude oil and natural gas.

The Group has presented the following three reportable segments for the year ended 31 December 2015:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

– exploitation and production of crude oil and natural gas

No operating segments have been aggregated to form the above reportable segments.

The executive directors assess the performance of the business segments based on profit before taxation without allocation of other gains, interest income, finance costs, share of (losses)/profits of investments accounted for using the equity method, impairment of non-financial assets, property, plant and equipment, available-for-sale financial assets and other unallocated corporate expenses, which is consistent with these in the consolidated financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, 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 segment liabilities for each reportable segment.

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 2015 and 2014 is set out below.

For the year ended 31 December 2015:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	**6,052,178**	**892,133**	**429,591**	**7,373,902**
Segment results	**323,492**	**441,958**	**26,129**	**791,579**
Interest income				**111,562**
Other gains, net				**2,828**
Finance costs				**(230,782)**
Impairment losses on oil and gas properties under property, plant and equipment				**(507,441)**
Share of losses of investments accounted for using the equity method				**(4,343)**
Unallocated corporate expenses				**(113,213)**
Profit before taxation				**50,190**
Taxation				**(20,857)**
Profit for the year				**29,333**

For the year ended 31 December 2014:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	6,296,143	1,077,009	324,659	7,697,811
Segment results	378,941	482,491	60,871	922,303
Interest income				125,371
Other gains, net				46,385
Finance costs				(135,860)
Share of profit of investments accounted for using the equity method				7,716
Unallocated corporate expenses				(111,752)
Profit before taxation				854,163
Taxation				(217,565)
Profit for the year				636,598

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2015 and 2014.

Analysis of the Group's assets by geographical market for the years ended 31 December 2015 and 2014 is set out below:

Assets

	2015		2014	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**726,579**	**408**	2,094,294	1,899
Mainland China	**10,529,668**	**1,099,445**	10,027,192	1,525,298
Canada	**2,092,584**	**687,545**	2,646,141	323,840
Total	**13,348,831**	**1,787,398**	14,767,627	1,851,037
Unallocated				
Investments accounted for using the equity method	**316,854**		55,109	
Deferred tax assets	**16,735**		5,643	
Available-for-sale financial assets	**354,947**		585,211	
Financial assets at fair value through profit and loss	**50,271**		53,859	
Total assets	**14,087,638**		15,467,449	

4 OPERATING PROFIT

Operating profit has been arrived after charging the following items:

	2015	2014
	HK$'000	*HK$'000*
Employee benefit expenses	**343,380**	327,357
Minimum lease payments under operating leases for leasehold land and buildings	**17,208**	14,041
Cost of inventories recognised as expense	**5,234,694**	5,674,154
Depreciation and depletion of property, plant and equipment	**455,670**	363,732
Amortisation of land use rights	**7,161**	5,651
Amortisation of intangible assets	**1,666**	1,442
Losses on disposals of property, plant and equipment	**5,847**	547
Impairment losses on oil and gas properties under property, plant and equipment *(Note)*	**507,441**	–

Note: As a result of the decrease in forward benchmark crude oil prices in 2015, an impairment test on the Group's oil and gas properties under properties, plant and equipment was performed. As at 31 December 2015, the Group determined that an impairment loss of HK$507,441,000 was recognised during the year ended 31 December 2015.

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 (2014: 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% (2014: 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% (2014: 15%).

Taxation on overseas (other than Hong Kong and PRC) 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.

	2015	2014
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**166,803**	222,168
Overseas taxation	**3,379**	(28,089)
(Over)/underprovision in prior years	**(5,376)**	10,860
	164,806	204,939
Deferred tax	**(143,949)**	12,626
Taxation	**20,857**	217,565

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2015 (2014: Nil).

6 DIVIDEND

	2015	2014
	HK$'000	*HK$'000*
Final dividend proposed by way of bonus issue of one bonus share for every ten shares	**–**	5,296

The bonus issue related to the year ended 31 December 2014 credited as fully paid by way of capitalisation of an amount of approximately HK$5,296,000 in the share premium account of the Company.

The Board does not recommend the payment of dividend in respect of the year ended 31 December 2015.

7 (LOSSES)/EARNINGS PER SHARE

(a) Basic

The calculation of basic losses (2014: earnings) per share is based on the Group's loss attributable to owners of the Company of approximately HK$183,831,000 (2014: HK$308,650,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 5,093,724,000 shares (2014: 4,950,778,000 shares).

(b) Diluted

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2015 in respect of a dilution as the impact of the shares held under share award scheme outstanding during the years had an anti-dilutive effect on the basic loss per share amounts presented.

For the year ended 31 December 2014, diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$308,650,000, and the weighted average number of ordinary shares of approximately 4,982,548,000 shares which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 13,979,000 shares, share warrants of approximately 15,930,000 and the effect of awarded shares of approximately 1,861,000 shares deemed to be issued at no consideration if all outstanding share options granted had been exercised.

8 DEPOSITS, TRADE AND OTHER RECEIVABLES

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 2015, included in deposits, trade and other receivables is the balance of trade receivables amounted to HK$803,503,000 (2014: HK$758,349,000).

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

	2015	2014
	HK$'000	*HK$'000*
Up to 3 months	**722,367**	678,647
3 to 6 months	**31,031**	29,129
Over 6 months	**50,105**	50,573
Total	**803,503**	758,349

As at 31 December 2015, trade receivables of approximately HK$81,136,000 (2014: HK$79,702,000) that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

9 TRADE AND OTHER PAYABLES

As at 31 December 2015, included in trade and other payables is the balance of trade payable amounted to HK$670,774,000 (2014: HK$662,265,000).

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

	2015	2014
	HK$'000	*HK$'000*
Up to 3 months	**565,916**	554,963
3 to 6 months	**45,933**	37,651
Over 6 months	**58,925**	69,651
Total	**670,774**	662,265

BUSINESS REVIEW

In 2015, the operating activities of the Group were facing a complex and volatile international and domestic market environment. The slowdown in economic growth and the deceleration of industrial activities as a result of de-capacity had caused a decline in demand of industrial gas. Meanwhile, the continuous fall in international oil price and the delay in adjustment of the natural gas price in China had weakened the competitiveness of the selling price of natural gas. The weak demand in natural gas caused a downturn in growth rate, which is rare in the development of China natural gas industry. In order to support the industry, the National Development and Reform Commission of PRC ("NDRC") announced a tariff cut of RMB700 per thousand cubic meter on the non-residential city-gate natural gas price on 18 November 2015. Until now, the Group has successfully completed the price adjustment on the major natural gas distribution area in PRC. Despite of the lacking drive of natural gas demand, the Group achieved a 6% increase in the total natural gas sales volume in 2015.

As impacted by the significant decline in international oil price, the provision of impairment on relevant oil and gas asset has dragged down the overall result performance of the Group. In 2015, the Group suffered a loss of HK$507 million from a one-off or non-operating item, which is a non-cash item and would not affect cash flow of the Group.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas income

For the year ended 31 December 2015, the Group's total gas sales volume reached 2,650 million cubic meters (2014: 2,506 million cubic meters), representing an increase of 6% as compared with 2014; pipeline gas transmission volume reached 427 million cubic meters (2014: 569 million cubic meters); and the transportation volume was 51 million cubic meters (2014: 132 million cubic meters).

Gas sales volume to residential users was 684 million cubic meters (2014: 598 million cubic meters); to industrial and commercial users was 1,520 million cubic meters (2014: 1,487 million cubic meters); and to gas stations was 447 million cubic meters (2014: 422 million cubic meters), representing an increase of 14%, 2% and 6% respectively.

Gas pipeline construction and connection income

In 2015, the Group connected 158,923 new residential users and 1,855 new industrial & commercial users. The accumulated connections of residential users were around 995,729, and for industrial & commercial users, the accumulated connections were 8,398, representing an increase of 19% and 28% respectively as compared to the year before. It is expected that the number of new users will maintain stable growth in the future. The industrial & commercial users have higher demand for natural gas as compared with residential users. As such, in addition to fulfilling the demand of residential customers for natural gas, the Group also speeded up gas connections for industrial & commercial users. With the increased number of users, the Group will continue to trigger more channels for the sales of natural gas and provide services to more natural gas end-users, which will lay a solid foundation for the sales of natural gas by the Group in the future.

New Projects Expansion

In 2015, notwithstanding the grim situation resulting from the insufficient natural gas end-user demand, the Group remained confident and increased the intensity of market development. While promoted the organic growth of the existing projects, the Group focused on coastal and riparian market, conducted an in-depth research and development on the surrounding area of the main natural gas pipeline. During the year, the Group has successfully obtained city gas concession rights in Xinghua Economic Development Zone, Taizhou Jiangsu province, Qingyuan (Yingde) Economic Cooperation Zone, Shunde Guangdong province, Qichun County, Hubei province, and Xiangdong District, Pingxiang City, Jiangxi province, and successfully extended the concession rights in Lishui, Nanjing city from the original Lishui Economic Development Management Zone to the whole Lishui District. The area under this concession rights has been enlarged from 28 square kilometres to 1,067 square kilometres. In June 2015, the Group entered into a Coalbed Gas Supply Agreement with China Petroleum & Chemical Corporation East China branch. The Group has established a total of 108 natural gas project companies in 15 provinces and autonomous regions in China with 67 concession rights as at 31 December 2015. In 2015, the Group extended 49 km of new high pressure pipelines, forming a high pressure pipeline network of 1,082 km, which prompted the development of downstream projects effectively. The city and courtyard pipeline network extended by 708 km in 2015, reaching an aggregated length of 6,541 km. The Group will make persistent efforts to obtain more projects on industrialized cities, economic development and industrial zones. Such projects will be one of the great forces promoting the development of natural gas distribution business of the Group.

Exploitation and production of crude oil and natural gas

In 2015 the Group continued the business of exploitation and production of light oil and natural gas in Canada. According to the reserve report prepared by GLJ Petroleum Consultants for the year ended 31 December 2015, the Group has proven reserves of 20.5 million barrels of oil equivalent (2014: 18.2 million barrels of oil equivalent), and the proven plus probable reserves of 30.1 million barrels of oil equivalent (2014: 25.2 million barrels of oil equivalent), representing an increase of 13% and 19%, respectively. In 2015, the average daily production was 5,386 barrels of oil equivalent (62% is liquified products, 38% is natural gas), representing an increase of 26% compared with the year before (2014: 4,266 barrels of oil equivalent). The average operating netback value was CAD21.16 per barrel of oil equivalent in 2015 (2014: CAD43.97).

The oil prices plunged by nearly 70% from the peak with great fluctuation over the year. The Group acted with cautious and monitored closely to the market condition in order to grasp the timing of any potential rebounce and also reacted reasonably by adjusting the proportion of liquefied products. The Group executed conservative development plan and made strict control on cost, so as to enhance production efficiency and effectively alleviate the impact effect of declined oil price. During the year, the average cost of oil exploitation was successfully controlled within CAD10 per barrel of oil equivalent, which was substantially lower than other producers in the same play. Meanwhile, the Group took advantage of low oil price to obtain high quality reserves and working interests by ways of acquisitions and joint operations. The proven plus probable reserves exceeded 30 million barrels of oil equivalent for the first time and the average daily production capacity exceeded 5,000 barrels of oil equivalent. The scale of oil and gas assets and the production capacity has reached a new milestone, setting a solid foundation for the future development on oil and gas production business of the Group.

BUSINESS PROSPECT

The economy of China stayed at the "new normal" status in 2015. The annual GDP maintained above 7 with difficulty due to the adjustment of industrial structure, excess productivity of traditional manufacturing industry and the declining rate of operation in some of the factories. A negative growth rate on main energy consumption was seen for the first time in the past thirty years. However, the portion of natural gas consumption over the main energy consumption increased to 5.9% because of the positive effect of adjustment of energy industry structure, which is still not close to the objective of above 10% in 2020 planned by NDRC (National Development and Reform commission). Hence, there will be a prosperous prospect for the natural gas industry in China. Looking forward, the economy of China continues to develop at a more environmental and more sustainable development route, and natural gas continues to act as the main force to the adjustment of energy structure.

The increase rate of natural gas demand in China slowed down in 2015 because of the macro factors such as the continuous decline of international crude oil price, the delay in the price adjustment of natural gas supply and the warm global weather. The statistics showed that the natural gas consumption of China in 2015 increased by only 4.8% to 184.5 billion cubic meters with an year-on-year increase of only 8.4 billion cubic meters which was the lowest in the past ten years. The annual production of natural gas in China was about 131.8 billion cubic meters, and import volume was about 62.4 billion cubic meters, showing a glut of annual total natural gas volume.

The Chinese government has faced a big pressure on the adjustment of energy structure and environment protection due to the slow increase of natural gas demand. The government decreased the non-residence city gate price by RMB0.7 per cubic meters in November 2015, which improved the marketization of natural gas price. In early 2016, the government made the decision that the domestic refined oil price will not be reduced when the international crude oil price is below USD40. These policies ensure the advantage of natural gas price, easing the burden of downstream industry and improve the consumption demand in the natural gas market. It is shown that the natural gas consumption in China recorded a double-digit growth in January 2016. The economy of China is still facing the pressure of de-capacity in 2016, but the Group expects that the Chinese government will keep working on the adjustment of energy industrial structure and environment protection and the market will continue to adapt to the business encouragement policies. Therefore, the Group has the confidence in our natural gas distribution business in China.

In 2015, the Group proceeded with caution on the development plan of crude oil and natural gas business in Canada. Taking advantage of low international crude oil price, the Group is minimizing positively screening to acquire the potential working interests of high-quality oil and gas properties. Looking forward in 2016, time is needed for the balance on demand and supply of international crude oil. The excess supply have determined the international oil price would linger at a low level. The Group will continue a strict control on the investment scale, decreasing the inefficient production, optimizing the production structure and operation costs, in order to increase the income and reduce the expenditures with efficiency.

Looking forward in 2016, the macro economy will still at the phase of intense adjustment, and the market will continue to adapt to the business encouragement policies. Confronting the challenges and opportunities, the Group, with a cautious and optimistic attitude, will positively adapt to the changes of the market, improve the operation and the management, enhance the market development and sales, increase the income and reduce the expenditures, optimize the asset structure and business distribution and create the sustainable return to the clients, the society and our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and its notes and other sections in the annual report for the year ended 2015.

FINANCIAL REVIEW

For the year ended 31 December 2015, the Group recorded a revenue of HK$7,374 million (2014: HK$7,698 million), representing a decrease of 4%. Such decrease is principally attributable to the enlarged exchange differences arising on translation from the operating currencies to presentation currency. Gross profit amounted to HK$1,036 million, representing a decrease of 10% over the same period last year.

The Group's principal activities are divided into three segments.

(1) Sales and distribution of natural gas and other related products ("Sales and distribution of natural gas")

Sales and distribution of natural gas continued to be the Group's major source of revenue and constituted 82% of the total revenue (2014: 82%). Revenue and cost of sales related to Sales and distribution of natural gas amounted to HK$6,052million (2014:HK$6,296million) and HK$5,486million (2014: HK$5,698million) respectively. Segment results was HK$323million (2014: HK$379million). Gross profit margin and segment profit ratio were 9% (2014: 9%) and 5% (2014: 6%) respectively, remain stable compare with last year.

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

Revenue and cost of sales related to Connection amounted to HK$892million (2014: HK$1,077million) and HK$450million (2014: HK$595million) respectively. Considering the Group placed great emphasis on the effectiveness of cost control and centralized procurement, Connection's gross profit margin and segment profit ratio both increased from 45% to current year's 50%.

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

Revenue and cost of sales related to Exploitation and production amounted to HK$430 million (2014: HK$325 million) and HK$402million (2014: HK$252million) respectively. Exploitation and production segment contributed six months of results to the Group in 2014 but a full year in 2015. The Group realised crude oil price of CAD54.01 per barrel of oil equivalent in 2015 compared to CAD79.77 per barrel of oil equivalent in 2014 with a decrease of 32%; while West Texas Intermediate ("WTI") averaging US$48.76 per barrel of oil equivalent compared with US$82.83 per barrel of oil equivalent in 2014 with a decrease of 41%. The reduction in WTI in 2015 was partially offset by a decrease in the differential for the Group's crude oil and weakness in the Canadian dollar in 2015. As a result of lower prices for crude oil, NGLs and natural gas and corresponding lower price forecasts, the Group recorded a non-cash impairment of HK$507 million in 2015.

The Group's selling and distribution costs increased 11% from HK$62 million to current year's HK$69 million and administrative expenses decreased 4% from HK$333 million to HK$319 million. The Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled the selling and distribution costs at less than 1% of total revenue in both years and administrative expenses at 4% in both years.

Finance costs net of capitalisation has been increased from last year's HK$136 million to current year's HK$231 million, which was mainly constituted by coupon interest on our senior notes issued on 11 November 2014, where coupon interest expenses accounted for less than two months in 2014 but accounted for a full year in 2015. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 31 December 2015 was 5.7% (2014: 5.2%).

Loss attributable to the owners of the Company was HK$184 million, compared to the profit attributable to owners of the Company of HK$309 million in 2014. The dramatic decrease was mainly due to the one-off non-cash impairment of HK$507 million resulted of lower prices for crude oil and a lower price forecast.

The table below sets out the comparative figures without the one-off and non-cash items of the Group for the year 2015 and 2014:

	2015	2014	
	HK$'000	*HK$'000*	
(Loss)/profit attributable to Owners of the Company	**(183,831)**	308,650	-160%
Add:			
Impairment losses on oil and gas properties under property, plant and equipment	**507,441**	–	
Other (losses)/gain:			
– Losses/(gains) from disposal of available-for-sale financial assets	**1,434**	(17,146)	
– (Gains)/losses on disposal of financial assets at fair value through profit or loss	**(10)**	8,021	
– Fair value losses on financial assets at fair value through profit or loss	**1,876**	237	
– Gain on a bargain purchase	**(5,551)**	(37,497)	
– Others	**(577)**	(4,045)	
Share granted from share award scheme on market price basis	**18,827**	2,782	
Profit for the year after one-off and non-cash adjustments	**339,609**	261,002	30%

As shown in the table above, the loss for the current year was driven by the sharp drop in oil prices and worldwide adverse financial environment. Without the these extraordinary reasons, the Group's core profit increased by 30%.

Meanwhile, the adjusted EBITDA remained stable for the year.

Adjusted EBITDA	**2015**	2014	
Earnings before tax	**50,190**	854,163	-94%
Depreciation	**455,670**	363,732	25%
Amortisation	**8,827**	7,093	24%
Finance cost	**230,782**	135,860	70%
Provision for impairment of oil and gas properties under property, plant and equipment	**507,441**	–	100%
Interest income	**(111,562)**	(125,371)	-11%
	1,141,348	1,235,477	-8%

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

It is the Group's policy to adopt conservative financial strategies by using the cash flow generated from operations as the principal source of fund to finance its capital expenditures. As at 31 December 2015, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$5,965 million (2014: HK$5,787 million). Total availability credit facility amounted to HK$3,708 million as of 31 December 2015 (2014: HK$2,906 million) with an utilisation rate of 16% (2014: 5%).

As at 31 December 2015, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$2,570 million (2014: HK$3,665 million). Total assets of HK$14,088 million (2014: HK$15,467 million), and among which current assets were HK$4,340 million (2014: HK$5,421 million). Total liabilities of the Group were HK$8,887 million (2014: HK$9,375 million), and among which current liabilities were HK$3,565 million (2014: HK$3,856 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 42% (2014: 37%). The current ratio (current assets divided by current liabilities) of the Group was 1.22 times (2014: 1.41 times).

The Group's financial and liquidity remain stable, and well prepared for the Group's development in 2016.

EMPLOYEES AND REMUNERATION POLICY

At the end of 2015, the Group employed a total of 3,713 (2014: 3,828) full-time employees, where mostly were stationed in the PRC. Total staff cost for the year amounted to HK$322 million (2014: HK$327 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

No assets of the Group have been pledged as at 31 December 2015.

CONTINGENT LIABILITY

The Group has no material contingent liability as at 31 December 2015.

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 Stated dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi, United Stated dollars and Canadian 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 2015, the Group has no litigation.

CAPITAL STRUCTURE

In January 2015, the Company repurchased a total of 3,500,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$1.01 to HK$1.02 per share in the open market for an aggregate consideration of HK$3,538,200. The above ordinary shares were subsequently cancelled.

During the year, 529,607,621 shares had been issued under the bonus issue by way of one bonus share for every ten shares to those shareholders whose names appeared on the register of members of the Company on 2 June 2015 as the final dividend for 2014.

As at 31 December 2015, the issued share capital of the Company was HK$58,256,838 divided into 5,825,683,834 Shares with a nominal value of HK$0.01 each.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: final dividend by way of bonus issue of one bonus share for every ten shares, the bonus issue credited as fully paid by way of capitalisation of an amount of approximately HK$5,296,000 in the share premium account of the Company).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2015, the Company repurchased 3,500,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$1.01 to HK$1.02 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	**Number of shares repurchased**	**Purchase price per share**		**Aggregate purchase consideration (excluding expenses)**
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
January 2015	3,500,000	1.01	1.02	3,538,200.00
	3,500,000			3,538,200.00

During the period, the Company, through the trustee of the Restricted Share Award Scheme, purchased from the market 175,580,000 shares for the purpose of the Restricted Share Award Scheme.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2015, 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 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.

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 year ended 31 December 2015.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The terms of reference of the Audit Committee has been revised on 31 December 2015 to be in line with the revised Corporate Governance Code effective for the financial year started from 1 January 2016. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. 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 audited financial statements of the Group for the year ended 31 December 2015.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all our staff for their dedication and hard work and to our shareholders for their continuous support.

By Order of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

Hong Kong, 23 March 2016

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*