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 2016

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- Natural gas sales volume increased to 2,769 million cubic meters;
- 157,017 natural gas residential households were added and the accumulated residential connections reached 1,108,397;
- Gross profit increased by 9% to HK$1,128 million as compared to that in 2015;
- Profit for the year reached HK$658 million as compared to HK$29 million in 2015;
- Basic earnings per share attributable to owners of the Company for the year were HK cents 5.98; and
- The Board of Directors recommended a final dividend of HK cent 0.50 per share.

ANNUAL RESULTS

The Board (the "Board") of Directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2016 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016** **HK$'000**	2015 HK$'000
Revenue	3	**6,446,452**	7,373,902
Cost of sales		**(5,318,367)**	(6,338,364)
Gross profit		**1,128,085**	1,035,538
Other income		**26,735**	31,167
Other gains, net		**137,780**	2,828
Selling and distribution costs		**(66,537)**	(68,982)
Administrative expenses		**(301,650)**	(319,357)
Reversal/(recognition) of impairment losses on oil and gas properties under property, plant and equipment		**52,003**	(507,441)
Operating profit	4	**976,416**	173,753
Finance income		**83,310**	111,562
Finance costs		**(201,946)**	(230,782)
Share of losses of investments accounted for using the equity method		**(15,651)**	(4,343)
Profit before taxation		**842,129**	50,190
Taxation	5	**(184,461)**	(20,857)
Profit for the year		**657,668**	29,333

	Note	**2016**	2015
		HK$'000	*HK$'000*
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Release of exchange reserve upon disposal of subsidiary		**4,456**	–
Currency translation differences		**(401,693)**	(660,561)
Change in value of available-for-sale financial assets		**1,820**	8,594
Other comprehensive loss for the year, net of tax		**(395,417)**	(651,967)
Total comprehensive income/(loss) for the year		**262,251**	(622,634)
Profit/(loss) attributable to:			
Owners of the Company		**311,791**	(183,831)
Non-controlling interests		**345,877**	213,164
		657,668	29,333
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**80,003**	(696,168)
Non-controlling interests		**182,248**	73,534
		262,251	(622,634)
Earnings/(losses) per share attributable to owners of the Company for the year	*7*		
– Basic (HK cents)		**5.981**	(3.609)
– Diluted (HK cents)		**5.963**	(3.609)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**6,624,992**	6,535,541
Exploration and evaluation assets		**213,548**	249,139
Land use rights		**393,344**	314,013
Intangible assets		**1,002,291**	1,055,676
Investments accounted for using the equity method		**300,065**	316,854
Available-for-sale financial assets		**638,262**	354,947
Other non-current assets		**792,258**	904,806
Deferred tax assets		**19,510**	16,735
		9,984,270	9,747,711
Current assets			
Inventories		**190,573**	201,470
Deposits, trade and other receivables	*8*	**1,516,892**	1,562,686
Financial assets at fair value through profit or loss		**47,448**	50,271
Current tax recoverable		**6,003**	5,796
Time deposits with maturity over three months		**25,170**	216,000
Cash and cash equivalents		**1,833,483**	2,303,704
		3,619,569	4,339,927
Total assets		**13,603,839**	14,087,638
Liabilities			
Current liabilities			
Trade and other payables	*9*	**1,327,747**	1,376,420
Receipt in advance		**1,156,195**	1,089,707
Short-term borrowings		**360,907**	972,774
Current tax payable		**152,095**	126,288
		2,996,944	3,565,189

	Note	**2016**	2015
	Note	***HK$'000***	*HK$'000*
Non-current liabilities			
Senior notes		**5,006,417**	4,992,169
Deferred tax liabilities		**240,801**	231,700
Assets retirement obligation		**108,723**	98,326
		5,355,941	5,322,195
Total liabilities		**8,352,885**	8,887,384
Equity			
Equity attributable to owners of the Company			
Share capital		**58,257**	58,257
Reserves		**2,772,174**	2,718,807
		2,830,431	2,777,064
Non-controlling interests		**2,420,523**	2,423,190
Total equity		**5,250,954**	5,200,254
Total equity and liabilities		**13,603,839**	14,087,638

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") 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 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) New and amended standards adopted by the Group

The Group has adopted the following new and amended standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2016:

Amendment to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to HKAS 27	Equity method in separate financial statements
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory deferral accounts
Amendments to annual improvements project	Annual improvements 2012-2014 cycle

The adoption of above new and amended standards did not have any material impacts on the preparation of the consolidated financial statements.

(b) New standards and interpretations not yet adopted

The following are new standards, amendments to standards and interpretation that have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

		Effective for annual periods beginning on or after
Amendment to HKAS 7	Statement of cash flows	1 January 2017
Amendment to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 28 and HKFRS 10	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendment to HKFRS 2	Share-based payment	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019

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:

	2016	2015
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**5,424,144**	6,052,178
Gas pipeline connection and construction services income	**721,041**	892,133
Revenue from exploitation and production of crude oil and natural gas	**301,267**	429,591
	6,446,452	7,373,902

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 2016:

– 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, net, interest income, finance costs, share of losses of investments accounted for using the equity method, reversal/recognition of impairment losses on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, losses on disposals of exploration and evaluation assets 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, 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.

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 2016 and 2015 is set out below.

For the year ended 31 December 2016:

	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	**5,424,144**	**721,041**	**301,267**	**6,446,452**
Segment results	**512,863**	**353,804**	**31,108**	**897,775**
Interest income				**83,310**
Other gains, net				**137,780**
Finance costs				**(201,946)**
Reversal of impairment losses on oil and gas properties under property, plant and equipment	–	–	**52,003**	**52,003**
Written off of exploration and evaluation assets	–	–	**(11,745)**	**(11,745)**
Losses on disposals of exploration and evaluation assets	–	–	**(1,909)**	**(1,909)**
Share of losses of investments accounted for using the equity method				**(15,651)**
Unallocated corporate expenses				**(97,488)**
Profit before taxation				**842,129**
Taxation				**(184,461)**
Profit for the year				**657,668**

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)
Recognition of impairment losses on oil and gas properties under property, plant and equipment	–	–	(507,441)	(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

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2016 and 2015.

Analysis of the Group's assets by geographical market for the years ended 31 December 2016 and 2015 is set out below:

	2016		2015	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**371,483**	**–**	726,579	408
Mainland China	**10,000,284**	**910,722**	10,529,668	1,099,445
Canada	**2,226,787**	**130,598**	2,092,584	687,545
Total	**12,598,554**	**1,041,320**	13,348,831	1,787,398
Unallocated				
Investments accounted for using the equity method	**300,065**		316,854	
Deferred tax assets	**19,510**		16,735	
Available-for-sale financial assets	**638,262**		354,947	
Financial assets at fair value through profit and loss	**47,448**		50,271	
Total assets	**13,603,839**		14,087,638	

4 OPERATING PROFIT

Operating profit has been arrived after charging the following items:

	2016	2015
	HK$'000	*HK$'000*
Employee benefit expenses	**310,230**	343,380
Minimum lease payments under operating leases for leasehold land and buildings	**16,883**	17,208
Cost of inventories recognised as expense		
– Purchase of inventories	**4,461,966**	5,228,827
– Change of inventories during the year	**(10,897)**	5,867
Depreciation and depletion of property, plant and equipment	**415,992**	455,670
Drilling cost of exploration and evaluation assets	**270,159**	402,042
Amortisation of land use rights	**8,587**	7,161
Amortisation of intangible assets	**2,685**	1,666
Losses on disposals of property, plant and equipment	**4,698**	5,847
Losses on disposals of exploration and evaluation assets	**1,909**	–
Written off of exploration and evaluation assets	**11,745**	–

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 (2015: 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% (2015: 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% (2015: 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.

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**176,172**	166,803
Overseas taxation	**1,009**	3,379
Under/(over) provision in prior years	**9,432**	(5,376)
	186,613	164,806
Deferred tax	**(2,152)**	(143,949)
Taxation	**184,461**	20,857

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2016 (2015: Nil).

6 DIVIDEND

	2016	2015
	HK$'000	*HK$'000*
Proposed final dividend of HK cent 0.50 (2015: Nil) per ordinary share	**29,128**	–

A distribution of dividend out of contributed surplus account in respect of the year ended 31 December 2016 of HK cent 0.50 (2015: Nil) per share, amounting to a total dividend out of contributed surplus account of approximately HK$29,128,000 is to be proposed at the forthcoming annual general meeting on 18 May 2017.

These financial statements do not reflect this dividend payable.

7 EARNINGS/(LOSSES) PER SHARE

(a) Basic

The calculation of basic earnings/losses per share is based on the Group's profit attributable to owners of the Company of approximately HK$311,791,000 (2015: loss of HK$183,831,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 5,212,795,000 shares (2015: 5,093,724,000 shares).

(b) Diluted

Diluted earnings per share for the year ended 31 December 2016 is calculated based on the profit attributable to owners of the Company of approximately HK$311,791,000, and the weighted average number of ordinary shares of approximately 5,228,843,000 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 14,903,000 shares and the effect of awarded shares of approximately 1,145,000 shares deemed to be issued at no consideration if all outstanding share options granted had been exercised.

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.

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 2016, included in deposits, trade and other receivables is the balance of trade receivables amounting to HK$796,330,000 (2015: HK$803,503,000).

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

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**712,716**	722,367
3 to 6 months	**25,333**	31,031
Over 6 months	**58,281**	50,105
Total	**796,330**	803,503

As at 31 December 2016, trade receivables of approximately HK$83,614,000 (2015: HK$81,136,000) 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 2016, included in trade and other payables is the balance of trade payables amounting to HK$570,343,000 (2015: HK$670,774,000).

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

	2016	2015
	HK$'000	*HK$'000*
Up to 3 months	**470,508**	565,916
3 to 6 months	**37,871**	45,933
Over 6 months	**61,964**	58,925
Total	**570,343**	670,774

BUSINESS REVIEW

In 2016, benefiting from the increasing efforts of the Chinese government in "reducing carbon emission and smog", the improvement in the competitiveness of the price of natural gas and supporting policies on the utilization of natural gas introduced by local governments, the natural gas consumption reached 205.8 billion cubic meters in China, representing an increase of 7% year on year. The Group continued to devote itself to the development of high-quality urban gas projects. It actively developed in the market, improved the management, optimized the control and management model on core businesses and fully initiated information-based management. It effectively streamlined the establishment of institutes, strengthened performance management and facilitated market expansion and the growth in the sales volume of gas through complete incentive and restriction mechanisms. Under the complicated and changing international market environment and the pressure on the slower economic growth in China, the Group went forward with its burdens discarded. With its strong users basis and the advantages on sale network as well as sufficient gas sources, the Group recorded an increase as expected in the total sales volume of natural gas in 2016.

Thanks to the continuous improvement in the operation and management, the effective control over cost and fees, continuous increase in the income and reduction in the expenditures, the successful completion of the price adjustment on the natural gas business in China and considerable growth in the sales volume of gas as well as the significant recovery of the international oil price from the bottom, the Group recorded a profit of HK$657.67 million for the year ended 31 December 2016, representing a significant growth from a profit of HK$29.33 million for the year ended 31 December 2015.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the year ended 31 December 2016, the Group recorded the sales and distributions of natural gas income of HK$5,424 million, accounting for 84% of the total revenue. During the year, the Group's total gas sales volume reached 2,769 million cubic meters (2015: 2,650 million cubic meters); external pipeline gas transmission volume reached 340 million cubic meters (2015: 427 million cubic meters); and the external transportation volume was 11 million cubic meters (2015: 51 million cubic meters).

Gas sales volume of residential users was 808 million cubic meters (2015: 684 million cubic meters); of industrial and commercial users was 1,599 million cubic meters (2015: 1,520 million cubic meters); and of gas stations was 362 million cubic meters (2015: 447 million cubic meters), representing 29%, 58% and 13% of the gas sales volume respectively (2015: 26%, 57% and 17%).

Development of new users

During the year, the Group connected 157,017 new residential users and 934 new industrial & commercial users. The accumulated connections of residential users were 1,108,397, and for industrial & commercial users, the accumulated connections were 9,269. With the advancing of the new type of urbanization and the "Coal to Gas Project" for coal-fired boilers by the Chinese government, the number of new users is expected to maintain stable growth. While actively developing new users, the Group will continue to strengthen the development of medium and old household users in the existing urban gas projects to maintain a stable total connection of residential users. The industrial & commercial users have higher demand for natural gas as compared with residential users. As a result, it is the priority task of the Group to actively develop 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 2016, the Group mastered the development opportunities in the popularization of clean energy and gave full play to the advantages of sufficient gas sources, wide coverage of the pipeline network, flexible logistics and transportation services as well as good partnerships with local governments, state-owned and private capitals. 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, together with the areas along the Yangtze River which have good economic basis and huge demand of natural gas. During the year, the Group has successfully obtained the concession rights for operations of gas business in four new cities, including the areas of Wulie area, Dongtai City, Jiangsu Province, five towns in Huaian City, Jiangsu Province, Zhangye Economic and Technological Development Zone in Gansu Province and Sanfutan Town, Xiantao City, Hubei Province. As at the end of 2016, the Group has established a total of 105 natural gas project companies in 15 provinces and autonomous regions with 70 concession rights in the PRC. In 2016, the total length of the high-pressure long-distance pipelines reached 1,055 km, which effectively promoted the development of projects in total downstream. The total length of the city pipeline network reached 7,530 km, covering a total population of 12 million. The Group will make use of its advantages in the wide coverage of its pipeline network and work even harder to obtain more projects with concession rights in more industrial cities, economic development zones and industrial parks. It will further explore the domestic gas market and expand the market share through such programs to improve the market position of the Group in China.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS

In 2016, 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 2016, the Group has proved reserves of 22.9 million barrels of oil equivalent (2015: 20.5 million barrels of oil equivalent), and the proved plus probable reserves of 33.1 million barrels of oil equivalent (2015: 30.1 million barrels of oil equivalent), representing an increase of 12% and 10%, respectively. In 2016, the average daily production was 5,001 barrels of oil equivalent (2015: 5,386 barrels of oil equivalent).The average operating netback value was CAD18.78 per barrel of oil equivalent in 2016 (2015: CAD21.16).

In 2016, the international oil price recovered from the bottom at the beginning of the year and maintained stable growth in the second half. Facing the challenges and business opportunities, the Group acted with caution and monitored closely the international market environment. By leveraging on the advantages of the low oil price, the Group effectively controlled the operation cost. 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. The Group took advantage of the low oil price to seek potential high-quality assets. It offset the natural decline in output and achieved growth in reserves and output as planned by ways of acquisition of high-quality oil and gas assets, projects and land as well as the development of new wells. As of the end of 2016, the oil and gas exploitation business of the Group totally owns gross 150,000 acres of land with oil and gas mineral rights which have huge development potential. With the recovery of oil price, these oil and gas reserves will bring considerable investment returns to the Group.

BUSINESS PROSPECT

The Chinese government gives unprecedented policy supports to the development of the natural gas industry. In December 2016, the National Energy Administration issued the Opinions on Speeding up in Promoting the Utilization of Natural Gas, proposing to fully speed up in advancing the large-scale utilization of natural gas in urban gas, industrial fuels, gas power generation and transport fuels and calling for local governments to introduce specific measures on promoting the utilization of natural gas. Responding to the calls of the central government, local governments in Shandong, Jiangsu, Jiangxi, Hunan and Hubei have introduced various measures, including improving financial and taxation supports to the "Coal to Gas Project", conducting the promotion of natural gas in the countryside to ensure the access to natural in all towns and countries as well as raising the rate of gasification in urban areas and eliminating coal-fired boilers. The Group will grasp the opportunities and actively conduct market inspections and adopt flexible pricing strategies to assist local governments of the operation areas in formulating implementation plans and obtain policy supports on the rectification of coal-fired boilers within a certain period. It is expected that more detailed policies guaranteeing the utilization and development of natural gas will be introduced in the future, which will greatly benefit various businesses of the Group in the distribution of natural gas in China. The Group will actively cooperate with local governments in the implementation of relevant policies.

The natural gas pricing reform will see substantial progresses. The Chinese government issued the "Administrative Measure for the Pricing of Natural Gas Pipeline Transmission (Trial)" and "Supervising Measures for the Cost Pricing of Natural Gas Pipeline Transmission (Trial)", which have regulated that the pipeline transmission price shall be charged based on the principle of "permitted cost plus reasonable revenue". The intention is to make the pricing mechanism of pipeline transmission more open and more transparent, which will effectively control the supply-sided cost of upstream natural gas and lower the cost of gas for end users. It will improve the pricing competitiveness of alternative energy to natural gas, boost the demand in the downstream market and bring new business opportunities to the existing core business of the Group. The Group will continue to make plans based on the industrial and market-based reform and further improve the distribution and sales volume of natural gas through the opportunities arising from the competitive advantage of natural gas price.

2016 is the first year of the "13th Five-year Plan". The "13th Five-year Plan on the Development of Natural Gas" proposes the target that "the proportion of natural gas consumption in the total consumption of major energy sources should reach 10%, and the consumption of natural gas will reach 350 billion cubic meters by 2020". However, the proportion of natural gas in the total consumption of major energy sources is just less than 6%. The development of the natural gas industry enjoys a bright future and it is a trend to focus on the development of the natural gas business. Based on the economic conditions and the trend in the development of the industry, the Group formulated the "13th Five-year Plan" of the Group, which sets development goals, strategic positioning, resources allocation and guarantee measures to guide and lead the business development of the Group.

For the business of exploitation of oil and gas, leveraging its advantages in premium light oil assets, highly efficient cost management and above-peer technology, the Group will continue its reasonable planning for development under the environment of low oil price and will strategically increase its reserve and interest in high-valued light oil and gas in order to reinforce the foundation of the Group's long-term development. Looking into the future, the Group will follow the strategic plan on the oil and gas business, expand the value-added potential, exploit the internal potential, improve capital efficiency and strengthen the management and control over cost to maintain growth in reserves and output as planned and make a new step towards to the target of becoming a medium-sized upper-stream oil and gas enterprise.

It will fully conduct human resources and enterprise cultural construction. The Group adheres to the introduction of talents and internal promotion and pays attention to the growth and career development of employees. In 2016, the Group fully conducted the enterprise cultural construction and fully implemented and practiced the core values of "Integrity, Group interest as priority, Customer orientation, Innovation and Teamwork", requiring all employees of the Group to actively become partners sharing responsibilities with the Group. Meanwhile, it improved the remuneration system and the incentive system and formed an orientation mechanism with common interests of employees and the Company. The Group will continue to try its best to improve the operation and management and convert the talent advantages and enterprise culture into the development and competition advantages of the Group.

For these 15 years, the Group has been adhering to the missions of "developing business of clean energy and contributing sustainability to society" and following the development strategy of "One body, Two wings". It has established an industrial structure with the urban gas business as the body and the resources development and energy services as two wings with the integration of upstream and downstream and the development of pipeline natural gas, liquefied natural gas, compressed natural gas, pipeline construction and operation, logistics transportation, liquefied natural gas processing plants, natural gas stations for automobiles and vessels, equipment manufacturing, project services, financial leasing and professional services. Looking into the future, the Group is of one mind and strike for optimizing the business layout and asset structure. At the same time, the Group will continue to actively explore new types of energy to strengthen and optimize energy industrial chains which will improve the brand image of the Group. By carrying forward the spirits of "Passionate, Ambitious, Practical and Diligent", the Group will work together to expand, innovate and build the Group as an influential clean energy company.

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 31 December 2016.

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded a revenue of HK$6,446 million (2015: HK$7,374 million), representing a decrease of 13%. Such decrease is principally attributable to the exchange differences arising on translation from the operating currencies to presentation currency and the city-gate price cut in the PRC during November 2015. Gross profit amounted to HK$1,128 million (2015: HK$1,036 million), representing an increase of 9% from last year. Overall gross profit margin has increased to 18% from last year's 14%.

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 84% of the total revenue (2015: 82%). Revenue and cost of sales related to Sales and distribution of natural gas amounted to HK$5,424 million (2015: HK$6,052 million) and HK$4,681 million (2015: HK$5,486 million) respectively. Segment results was HK$513 million (2015: HK$323 million). Gross profit margin and segment profit ratio were 14% (2015: 9%) and 9% (2015: 5%) respectively.

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

Revenue and cost of sales related to Connection amounted to HK$721 million (2015: HK$892 million) and HK$367 million (2015: HK$450 million) respectively. Considering the Group placed great emphasis on the effectiveness of cost control and centralised procurement, Connection's gross profit margin and segment profit ratio both remained stable at 49% (2015: 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$301 million (2015: HK$430 million) and HK$270 million (2015: HK$403 million) respectively. Both gross profit margin and segment profit ratio reached 10% (2015: both at 6%). The Group realised crude oil price of CAD49.98 per barrel of oil equivalent in 2016 compared to CAD54.01 per barrel of oil equivalent in 2015 with a decrease of 7%; while West Texas Intermediate ("WTI") averaging US$43.37 per barrel of oil equivalent in 2016 compared with US$48.76 per barrel of oil equivalent in 2015 with a decrease of 11%. The reduction in WTI in 2016 was partially offset by a decrease in the differential for the Group's crude oil and weakness in the Canadian dollar in 2016.

The Group's selling and distribution costs decreased 4% from HK$69 million in 2015 to HK$67 million and administrative expenses decreased 6% from HK$319 million to HK$302 million. The Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled the selling and distribution costs at 1% of total revenue in both years and administrative expenses at below 5% in both years.

Finance costs net of capitalisation has been decreased from last year's HK$231 million to current year's HK$202 million, which represented a decrease of 13% by the Group effectively reduced its borrowings by HK$598 million as compared to last year. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 31 December 2016 was 5.4% (2015: 5.7%).

Benefiting from the considerable growth in sales volume of gas and the effective cost control, profit attributable to owners of the Company increased to HK$312 million in 2016. In 2015, loss attributable to the owners of the Company was HK$184 million which 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 in 2015.

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 2016, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$5,367 million (2015: HK$5,965 million). Total available credit facility amounted to HK$4,661 million as of 31 December 2016 (2015: HK$3,972 million) with an utilisation rate of 6% (2015: 17%).

As at 31 December 2016, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$1,859 million (2015: HK$2,520 million). Total assets of HK$13,604 million (2015: HK$14,088 million), and among which current assets were HK$3,620 million (2015: HK$4,340 million). Total liabilities of the Group were HK$8,353 million (2015: HK$8,887 million), and among which current liabilities were HK$2,997 million (2015: HK$3,565 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 39% (2015: 42%). The current ratio (current assets divided by current liabilities) of the Group was 1.21 times (2015: 1.22 times).

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

EMPLOYEES AND REMUNERATION POLICY

At the end of 2016, the Group employed a total of 3,515 (2015: 3,713) full-time employees, where mostly were stationed in the PRC. Total staff cost for the year amounted to HK$310 million (2015: HK$343 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 for the outstanding borrowings as at 31 December 2016.

CONTINGENT LIABILITY

The Group has no material contingent liability as at 31 December 2016.

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 2016, the Group has no litigation.

CAPITAL STRUCTURE

As at 31 December 2016, 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 resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Thursday, 18 May 2017 ("2017 AGM") the distribution of a final dividend of HK cent 0.50 (2015: Nil) per share out of the contributed surplus account of the Company to be paid on Friday, 16 June 2017 to those shareholders whose names appear on the register of members of the Company on Monday, 29 May 2017. The final dividend will amount to approximately HK$29,128,000 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Friday, 12 May 2017 to Thursday, 18 May 2017 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 11 May 2017.

For determining the entitlement of the shareholders to the proposed distribution of final dividend, the register of members of the Company will be closed from Monday, 29 May 2017 to Wednesday, 31 May 2017 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration not later than 4:30 p.m. on Friday, 26 May 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company, through the trustee of the Restricted Share Award Scheme, purchased from the market 57,340,000 shares for the purpose of the Restricted Share Award Scheme. Save as aforesaid, 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 2016, 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 aforesaid and in the opinion of the Directors, the Company has met all the other relevant code provisions as set out in the CG Code during the year ended 31 December 2016.

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 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 to review the risk management and the internal control systems. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2016.

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 2017

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*