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中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 603)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Oil And Gas Group Limited (the "**Company**") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2017 (the "**Period**").

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

FINANCIAL HIGHLIGHTS

- Natural gas sales volume increased by 15% to 1,602 million cubic meters;
- Revenue of the Group increased by 11% to HK$3,657 million as compared to last corresponding period; and
- Deducting the effects of other gains, profit for the Period was HK$342 million (2016: HK$288 million) with an increase of 19%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Revenue	4	**3,656,957**	3,298,290
Cost of sales		**(3,024,054)**	(2,708,278)
Gross profit		**632,903**	590,012
Other income		**24,099**	15,091
Other gains, net		**7,110**	124,842
Selling and distribution costs		**(20,956)**	(23,158)
Administrative expenses		**(143,848)**	(139,884)
Operating profit		**499,308**	566,903
Finance income		**53,953**	42,120
Finance costs		**(104,003)**	(87,706)
Share of profits/(losses) of investments accounted for using the equity method		**893**	(7,147)
Profit before taxation		**450,151**	514,170
Taxation	5	**(101,416)**	(101,282)
Profit for the period		**348,735**	412,888
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Currency translation differences		**206,817**	79,242
Changes in value of available-for-sale financial assets		**14,674**	8,597
Release of exchange reserve upon disposal of a subsidiary		**–**	4,456
Total comprehensive income for the period		**570,226**	505,183
Profit for the period attributable to:			
Owners of the Company		**170,251**	200,062
Non-controlling interests		**178,484**	212,826
		348,735	412,888
Total comprehensive income attributable to:			
Owners of the Company		**328,341**	290,574
Non-controlling interests		**241,885**	214,609
		570,226	505,183
		HK cents	*HK cents*
Earnings per share	6		
– Basic		**3.286**	3.824
– Diluted		**3.272**	3.817

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	**30.6.2017** **HK$'000** **(unaudited)**	31.12.2016 *HK$'000* (audited)
Assets			
Non-current assets			
Property, plant and equipment		**6,927,292**	6,624,992
Exploration and evaluation assets		**231,338**	213,548
Land use rights		**407,502**	393,344
Intangible assets		**1,012,886**	1,002,291
Investments accounted for using the equity method		**296,958**	300,065
Available-for-sale financial assets		**692,039**	638,262
Other non-current assets		**948,090**	792,258
Deferred tax assets		**20,051**	19,510
		10,536,156	9,984,270
Current assets			
Inventories		**199,858**	190,573
Deposits, trade and other receivables	*8*	**1,591,385**	1,516,892
Financial assets at fair value through profit or loss		**49,030**	47,448
Current tax recoverable		**6,210**	6,003
Time deposits with maturity over three months		–	25,170
Cash and cash equivalents		**1,770,933**	1,833,483
		3,617,416	3,619,569
Total assets		**14,153,572**	13,603,839

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2017

	Notes	**30.6.2017 *HK$'000* (unaudited)**	31.12.2016 *HK$'000* (audited)
Liabilities			
Current liabilities			
Trade and other payables	*9*	**1,386,543**	1,327,747
Receipt in advance		**1,012,529**	1,156,195
Short-term borrowings		**425,176**	360,907
Current tax payable		**156,220**	152,095
		2,980,468	2,996,944
Non-current liabilities			
Long-term borrowings		**109,250**	–
Senior notes		**4,971,976**	5,006,417
Deferred tax liabilities		**254,254**	240,801
Assets retirement obligation		**114,767**	108,723
		5,450,247	5,355,941
Total liabilities		**8,430,715**	8,352,885
Equity			
Equity attributable to owners of the Company			
Share capital		**58,257**	58,257
Reserves		**3,057,320**	2,772,174
		3,115,577	2,830,431
Non-controlling interests		**2,607,280**	2,420,523
Total equity		**5,722,857**	5,250,954
Total equity and liabilities		**14,153,572**	13,603,839

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(1) GENERAL INFORMATION

China Oil And Gas Group Limited (the "**Company**") was 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 in Hong Kong is 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 as the "**Group**".

(2) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standards ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. These interim financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2016.

(3) SIGNIFICANT ACCOUNTING POLICIES

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

Amendment to HKAS 7	Statement of cash flows
Amendment to HKAS 12	Income taxes

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

(4) REVENUE AND SEGMENT INFORMATION

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 six months ended 30 June 2017:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

– exploitation and production of crude oil and natural gas

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 six months ended 30 June 2017 and 2016 is set out below:

Business Segments

For the six months ended 30 June 2017:

	Sales and distribution of natural gas and other related products	Gas pipeline construction and connection	Exploitation and production of crude oil and natural gas	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and results				
Sales to external customers	3,173,001	315,619	168,337	3,656,957
Segment results	360,269	151,448	34,785	546,502
Finance income				53,953
Other gains, net				7,110
Finance costs				(104,003)
Share of profits of investments accounted for using the equity method				893
Unallocated corporate expenses				(54,304)
Profit before taxation				450,151
Taxation				(101,416)
Profit for the period				348,735

For the six months ended 30 June 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	2,795,900	355,173	147,217	3,298,290
Segment results	321,077	176,261	3,031	500,369
Finance income				42,120
Other gains, net				124,842
Finance costs				(87,706)
Share of losses of investments accounted for using the equity method				(7,147)
Unallocated corporate expenses				(58,308)
Profit before taxation				514,170
Taxation				(101,282)
Profit for the period				412,888

Analysis of the Group's assets by geographical market is set out below:

Assets

	At 30.6.2017 Total assets *HK$'000*	At 31.12.2016 Total assets *HK$'000*
Hong Kong	**183,297**	371,483
Mainland China	**10,581,966**	10,000,284
Canada	**2,330,231**	2,226,787
Total	**13,095,494**	12,598,554
Unallocated		
Investments accounted for using the equity method	**296,958**	300,065
Deferred tax assets	**20,051**	19,510
Available-for-sale financial assets	**692,039**	638,262
Financial assets at fair value through profit and loss	**49,030**	47,448
Total assets	**14,153,572**	13,603,839

(5) TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the Period (2016: 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% (2016: 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% (2016: 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.

	Unaudited (6 months) 1.1-30.6.2017	Unaudited (6 months) 1.1-30.6.2016
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**104,238**	113,374
Overseas taxation	**–**	–
Under provision in prior years	**122**	1,281
	104,360	114,655
Deferred tax	**(2,944)**	(13,373)
Taxation	**101,416**	101,282

(6) EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$170,251,000 (six months ended 30 June 2016: HK$200,062,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of approximately 5,181,050,000 shares (six months ended 30 June 2016: 5,232,314,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$170,251,000 (six months ended 30 June 2016: HK$200,062,000), and the weighted average number of ordinary shares of approximately 5,203,916,000 shares (six months ended 30 June 2016: 5,241,745,000 shares) which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the Period plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 21,749,000 shares (six months ended 30 June 2016: 8,166,000 shares) and the effect of awarded shares of approximately 1,117,000 shares (six months ended 30 June 2016: 1,265,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

(7) DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: Nil). During the Period, a final dividend of HK cent 0.5 per share (2016: Nil) for the year ended 31 December 2016 amounting to approximately HK$29,128,000 (2016: Nil) was distributed to the shareholders of the Company out of the contributed surplus account of the Company.

(8) DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	At 30.6.2017	At 31.12.2016
	HK$'000	*HK$'000*
Trade receivables	**809,045**	796,330
Other receivables, deposits and prepayments	**782,340**	720,562
	1,591,385	1,516,892

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

Up to 3 months	**707,059**	712,716
3 to 6 months	**46,711**	25,333
Over 6 months	**55,275**	58,281
Total	**809,045**	796,330

(9) TRADE AND OTHER PAYABLES

	Unaudited	Audited
	At 30.6.2017	At 31.12.2016
	HK$'000	*HK$'000*
Trade payables	**541,288**	570,343
Other payables and accruals	**845,255**	757,404
	1,386,543	1,327,747

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

Up to 3 months	**460,290**	470,508
3 to 6 months	**32,573**	37,871
Over 6 months	**48,425**	61,964
Total	**541,288**	570,343

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

From the beginning of the year, as the Chinese Government has continued to deepen the supply-side structural reform and the energy structural adjustment, the economy of China has stabilized and continued to improve. The social demand for energy has been seen with a continuous recovery. Benefiting from the powerful driving of the Chinese Government's policies of "reducing carbon emission and smog" and "coal-to-gas" conversion, and thanks to the gradual rationalizing of the natural gas price and supporting policies on the utilization of natural gas introduced by local governments, the growth rate of natural gas consumption across the whole society of China has reached 15% for the first half of 2017. In face of favorable opportunities, the Group adjusted its development strategy in a timely manner, devoted itself to the development of high-quality city gas projects, gave full play of its advantages on strong sale network as well as sufficient gas sources and deeply developed the existing and potential markets to actively obtain new projects and explore new profit growth points. By virtue of its improved business control and management competencies, the Group achieved effective market expansion and a substantial growth in the sales and transmission volume of natural gas. For the first half of 2017, the Group recorded a growth rate of 15% in the sales volume of natural gas and 125% in transmission volume.

Benefiting from the Group's considerable growth in sales and transmission volume of natural gas, the Group recorded a total revenue of HK$3,657 million for the first half of 2017, representing a remarkable increase of 11% as compared to HK$3,298 million for the corresponding period of last year. Thanks to the continuous enhancement in the operation and management, the effective sales strategy and cost control measures, the Group recorded a profit for the Period of HK$342 million (2016: HK$288 million) with an increase of 19% after deduction of other gains; the net profit attributable to the owners of the Company was HK$164 million (2016: HK$136 million), representing a substantial growth of 21%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the first six months of 2017, the Group recorded the sales and distributions of natural gas income of HK$3,173 million, representing a year-on-year growth of 13% and accounting for 87% of the total revenue. During the Period, the Group's total gas sales volume reached 1,602 million cubic meters (2016: 1,392 million cubic meters), representing an increase of 15% as compared with the same period last year; pipeline gas transmission volume reached 348 million cubic meters (2016: 155 million cubic meters), representing an increase of 125% as compared with the same period last year; and the gas transportation volume was 10 million cubic meters (2016: 8.0 million cubic meters), representing an increase of 25% as compared with the same period last year.

The significant increase in gas sales volume was mainly attributable to that gas sales volume of industrial and commercial users recorded 991 million cubic meters, representing a substantial growth of 31% as compared with 757 million cubic meters for the same period last year. In addition, the Group recorded gas sales volume of residential users amounted to 453 million cubic meters, which was flat with the same period last year; gas sales volume of gas stations was 158 million cubic meters, representing a decrease of 14% as compared with 183 million cubic meters of the same period last year.

Development of new users

For the first six months of 2017, the Group connected 58,332 new residential users, and the accumulated connections of residential users were 1,166,729. The industrial and commercial users have huge demand for natural gas, and as a result, in development of new users, it is the priority task of the Group to actively develop industrial and commercial users. For the first six months of 2017, the Group connected 481 new industrial and commercial users, and the accumulated connections of industrial and commercial users were 9,750. Benefiting from vigorous promotion of the Chinese Government's new urbanization, environmental protection and coal-to-gas policies, with flexible pricing strategy and its own tremendous cover of sales network and distribution capacity, it is expected that the number of new users of the Group will continue to increase steadily. With the increasing 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

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. Since the beginning of this year, the Group has successfully obtained the city gas concession rights in four new cities, including Fanshui Town, Jiangsu Province, Southeast area of Dafeng District, Yancheng City, Jiangsu Province, Zhengyang Town and Pai Hu Scenic, Xiantao City, Hubei Province. Until now, the Group has established a total of 106 project companies in 15 provinces and autonomous regions with 74 concession rights in the PRC. The total length of the natural gas high-pressure long-distance pipelines constructed by the Group has reached 1,055 km, which effectively promoted the development of projects in downstream. The total length of the city pipeline network reached 7,605 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 put extra effort 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

Since the beginning of this year, 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 the proved reserves of 22.9 million barrels of oil equivalent, and the proved plus probable reserves of 33.1 million barrels of oil equivalent.

For the first six months of 2017, the upstream oil and gas exploitation business of the Group achieved an average daily production of 4,695 barrels of oil equivalent (2016: 5,218 barrels of oil equivalent). Benefiting from the Group's continuous emphasis on technology enhancement with effective operating cost control measures, the average cost of oil exploitation was successfully controlled within CAD10 per barrel of oil equivalent. In the first six months of 2017, the Group achieved the average operating netback of CAD23.39 per barrel of oil equivalent, representing a significant increase of 43% as compared with CAD16.37 per barrel of oil equivalent for the corresponding period last year.

BUSINESS PROSPECT

The Chinese Government gives unprecedented policy supports to the development of the natural gas industry. In July 2017, the National Development and Reform Commission of the PRC officially issued the "Opinions on Speeding up in Promoting the Utilization of Natural Gas" (《關於加快推進天然氣利用的意見》), proposing clearly 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 requiring for local governments to clear the responsibilities of target, formulate and improve supporting measures on promoting the utilization of natural gas. The Group will grasp the development 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, replacement of coal with gas and heating by clean energy. 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 price will gradually rationalize. In June 2017, the National Development and Reform Commission officially issued the "Guidelines on Strengthening Natural Gas Distribution Pricing Regulations" (《關於加強天然氣配氣價格監管的指導意見》), which clearly explicated the Central Government's reform target for the pricing mechanism of "controlling the middle and loosening the two ends". This move makes the pricing mechanism of pipeline transmission more open and more transparent, which has effectively controlled the supply-sided price of natural gas and is expected to lower the cost of gas for end-users, thus stimulating demand in the terminal market and bringing new business opportunities to the existing core business of the Group. The Group will continue to make strategic plans based on the industrial and market-based reform, develop existing market in an orderly manner, actively expand incremental market and further improve the distribution and sales volume of natural gas through the opportunities arising from the competitive advantage of natural gas price.

The sustainable development of the natural gas industry will enjoy a bright future. According to the development target of "Developing the natural gas into the main energy of China's modern clean energy system, increasing the proportion of natural gas consumption in the total consumption of major energy sources to 10% by 2020, and striving to increase such proportion to 15% by 2030" proposed by 13 central departments including the National Development and Reform Commission, the sustainable development of the natural gas industry in China enjoys a bright future and it is a trend to focus on the development of the natural gas business. Based on the trend in the development of the industry, and the objectives, strategies and principles of its "13th Five-year Plan", the Group will lead the all-round, healthy and sustainable development of its businesses.

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 and will strategically increase its reserves and interest in high-valued light oil and gas assets 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 upstream oil and gas enterprise.

The Group will continue to strengthen human resources management and corporate cultural construction. The Group is committed to building a competitive and sustainable management talent team and technical talent pool, values management team construction and quality enhancement, and pays attention to the growth and career development of employees. Guided by the vision and mission of the Group and spiritually supported by the core values of "Integrity and Group interest as priority", the Group designs and implements a human resources management scheme in line with its own business development strategy, carries out strategic talent recruitment and training programs, performance-oriented remuneration policy as well as a reward and punishment mechanism to coordinate with the Group's business development strategies in an all-round way. These measures will offer endless development space and growth opportunities to employees, enhance employee engagement and professional attitude that meets the Group's standards to enable employees to develop jointly with the Group, and thus convert the human resources and corporate culture into the development and competition advantages of the Group.

Looking into the future, the Group is of one mind and will continue to do its best to enhance its operational and managerial standards and strengthen the market development and sales, and strike for optimizing its business layout and asset structure. At the same time, the Group will continue to actively strengthen and optimize energy industrial chains which will improve the brand value of the Group. By carrying forward the spirits of "Passionate, Ambitious, Practical and Diligent", the Group will work together to expand, innovate and create sustainable returns for the users, the society, the shareholders and other stakeholders.

FINANCIAL REVIEW

For the six months ended 30 June 2017, the Group recorded the revenue of HK$3,657 million, representing an 11% growth from HK$3,298 million for the six months ended 30 June 2016.

The total revenue combining by three segments, namely (1) sales and distribution of natural gas and other related products, (2) gas pipeline construction and connection and (3) exploitation and production of crude oil and natural gas, amounted to HK$3,173 million, HK$316 million and HK$168 million respectively (2016: HK$2,796 million, HK$355 million and HK$147 million respectively).

The Group's overall gross profit amounted to HK$633 million (2016: HK$590 million), its gross profit margin was 17.3% and was flat as compared with the last corresponding period's 17.9%. Profit for the Period was HK$349 million. Profit for the Period attributable to the owners of the Company was HK$170 million. Due to the effective sales strategies and cost control measures adopted and implemented by the Group, there was a substantial growth of the sales volume of natural gas during the Period, and the Group recorded the profit attributable to the owners of the Company of HK$164 million (2016: HK$136 million), represented a substantial growth of 21%, after deducting the effects of other gains.

Throughout all these years, the Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled all of its expenses. Administrative expenses were HK$144 million (2016: HK$140 million), the proportion of administrative expenses to revenue was further decreased; and selling and distribution costs was decreased by 9% to HK$21 million (2016: HK$23 million).

Finance costs (net of capitalization) increased slightly from the last corresponding period's HK$88 million to HK$104 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 30 June 2017 was 5.24% (2016: 5.67%).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. As compared with the first half of 2016, the Group continued to maintain the free cash flow position in the first half of 2017. As at 30 June 2017, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$5,506 million (31 December 2016: HK$5,367 million).

As at 30 June 2017, the Group had cash and cash equivalents of HK$1,771 million (31 December 2016: HK$1,833 million). Total assets were HK$14,154 million (31 December 2016: HK$13,604 million), in which current assets were HK$3,617 million (31 December 2016: HK$3,620 million). Total liabilities of the Group were HK$8,431 million (31 December 2016: HK$8,353 million), in which current liabilities were HK$2,980 million (31 December 2016: HK$2,997 million). The Group's debt-to-assets ratio, measured on the basis of total indebtedness divided by total assets was 39% (31 December 2016: 39%). The current ratio (current assets divided by current liabilities) of the Group was 1.21 times (31 December 2016: 1.21 times). The Group's financial and liquidity remain stable, and well prepared for the development in the next half of 2017.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group employed a total of 3,512 (31 December 2016: 3,515) full-time employees, most of them were stationed in the PRC. Total staff cost for the Period amounted to HK$148 million (2016: HK$141 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

As at 30 June 2017, no assets of the Group has been pledged.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2017.

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 State dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi and United State dollars.

Other than those disclosed, the Group does not have any material exposures to foreign exchange fluctuations. The Group does not have a foreign currency hedging policy. However, the Group monitors its foreign currency exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting a significant foreign currency hedging policy in the future.

LITIGATION

As at 30 June 2017, the Group has no litigation.

CAPITAL STRUCTURE

As at 30 June 2017, 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017, other than those purchased by its trustee for the Restricted Share Award Scheme adopted by the Board on 4 November 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standards set out in the Model Code throughout the Period.

CORPORATE GOVERNANCE PRACTICES

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2017. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the six months ended 30 June 2017, 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 the relevant code provisions as set out in the CG Code during the six months ended 30 June 2017.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the CG Code, which is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and to review the risk management and internal control systems.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Wang Guangtian and Mr. Yang Jie. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2017.

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

Hong Kong, 28 August 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. Wang Guangtian and Mr. Yang Jie.

* *for identification purposes only*