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 2017

FINANCIAL AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- Natural gas sales volume increased by 20% to 3,309 million cubic meters;
- The Group's total revenue increased by 19% to HK$7,651 million, in which sales and distribution of natural gas increased by 25%, representing 89% of total revenue; and
- After excluding the impact of one-off items (i.e. other gains, net and reversal of impairment losses on oil and gas properties under property, plant & equipment), the Group's recurring profit before taxation increased to HK$784 million (2016: HK$652 million), representing a 20% increase.

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 2017 together with the relevant comparative figures.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*3*	**7,651,280**	6,446,452
Cost of sales		**(6,435,083)**	(5,318,367)
Gross profit		**1,216,197**	1,128,085
Other income		**30,262**	26,735
Other gains, net		**22,901**	137,780
Selling and distribution costs		**(50,507)**	(66,537)
Administrative expenses		**(307,497)**	(301,650)
Reversal of impairment losses on oil and gas properties under property, plant and equipment		**4,402**	52,003
Operating profit	*4*	**915,758**	976,416
Finance income		**101,741**	83,310
Finance costs		**(203,677)**	(201,946)
Share of losses of investments accounted for using the equity method		**(2,356)**	(15,651)
Profit before taxation		**811,466**	842,129
Taxation	*5*	**(188,527)**	(184,461)
Profit for the year		**622,939**	657,668

	Note	2017 HK$'000	2016 HK$'000
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Release of exchange reserve upon disposal of a subsidiary		–	4,456
Currency translation differences		**482,811**	(401,693)
Change in value of available-for-sale financial assets		**40,296**	1,820
Other comprehensive income/(loss) for the year, net of tax		**523,107**	(395,417)
Total comprehensive income for the year		**1,146,046**	262,251
Profit attributable to:			
Owners of the Company		**250,467**	311,791
Non-controlling interests		**372,472**	345,877
		622,939	657,668
Total comprehensive income for the year attributable to:			
Owners of the Company		**642,756**	80,003
Non-controlling interests		**503,290**	182,248
		1,146,046	262,251
Earnings per share attributable to owners of the Company for the year	*7*		
– Basic (HK cents)		**4.865**	5.981
– Diluted (HK cents)		**4.858**	5.963

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**7,725,219**	6,624,992
Exploration and evaluation assets		**215,189**	213,548
Land use rights		**456,458**	393,344
Intangible assets		**1,035,324**	1,002,291
Investments accounted for using the equity method		**321,167**	300,065
Available-for-sale financial assets		**596,360**	638,262
Other non-current assets		**956,763**	792,258
Deferred tax assets		**4,796**	19,510
		11,311,276	9,984,270
Current assets			
Inventories		**244,438**	190,573
Deposits, trade and other receivables	*8*	**1,596,734**	1,516,892
Financial assets at fair value through profit or loss		**48,842**	47,448
Current tax recoverable		**6,333**	6,003
Time deposits with maturity over three months		**48,531**	25,170
Cash and cash equivalents		**2,290,447**	1,833,483
		4,235,325	3,619,569
Total assets		**15,546,601**	13,603,839
Liabilities			
Current liabilities			
Trade and other payables	*9*	**1,431,733**	1,327,747
Receipt in advance		**1,584,003**	1,156,195
Short-term borrowings		**689,258**	360,907
Current tax payable		**215,042**	152,095
		3,920,036	2,996,944

	2017	2016
	HK$'000	*HK$'000*
Non-current liabilities		
Senior notes	**4,970,240**	5,006,417
Long-term borrowings	**60,000**	–
Deferred tax liabilities	**260,359**	240,801
Assets retirement obligation	**130,311**	108,723
	5,420,910	5,355,941
Total liabilities	**9,340,946**	8,352,885
Equity		
Equity attributable to owners of the Company		
Share capital	**58,257**	58,257
Reserves	**3,286,289**	2,772,174
	3,344,546	2,830,431
Non-controlling interests	**2,861,109**	2,420,523
Total equity	**6,205,655**	5,250,954
Total equity and liabilities	**15,546,601**	13,603,839

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) 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 2017:

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKFRS 12	Disclosure of Interest in Other Entities

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

(b) **New standards, amendments to standards and interpretations not yet adopted**

The following are new standards, amendments to standards and interpretations that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted.

		Effective for accounting periods beginning on or after
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures	1 January 2018
HKAS 40 (Amendments)	Investment Properties	1 January 2018
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 January 2018
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	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
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	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:

	2017	2016
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**6,773,775**	5,424,144
Gas pipeline connection and construction services income	**524,680**	721,041
Revenue from exploitation and production of crude oil and natural gas	**352,825**	301,267
	7,651,280	6,446,452

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 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

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 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 and report the sales from external customers by geographical market, as the executive directors do not use these information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and liabilities for each reportable segment and a measure of sales by geographical market.

Information regarding the Group's reportable segments as provided to the executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

For the year ended 31 December 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	**6,773,775**	**524,680**	**352,825**	**7,651,280**
Segment results	**664,093**	**242,982**	**76,842**	**983,917**
Interest income				**101,741**
Other gains, net				**22,901**
Finance costs				**(203,677)**
Reversal of impairment losses on oil and gas properties under property, plant and equipment	**–**	**–**	**4,402**	**4,402**
Written off of exploration and evaluation assets	**–**	**–**	**(2,357)**	**(2,357)**
Share of losses of investments accounted for using the equity method				**(2,356)**
Unallocated corporate expenses				**(93,105)**
Profit before taxation				**811,466**
Taxation				**(188,527)**
Profit for the year				**622,939**

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

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2017 and 2016.

Analysis of the Group's assets by geographical market for the years ended 31 December 2017 and 2016 is set out below:

	2017		2016	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**137,351**	**–**	371,483	–
Mainland China	**12,018,750**	**1,020,397**	10,000,284	910,722
Canada	**2,419,335**	**232,466**	2,226,787	130,598
Total	**14,575,436**	**1,252,863**	12,598,554	1,041,320
Unallocated				
Investments accounted for using the equity method	**321,167**		300,065	
Deferred tax assets	**4,796**		19,510	
Available-for-sale financial assets	**596,360**		638,262	
Financial assets at fair value through profit and loss	**48,842**		47,448	
Total assets	**15,546,601**		13,603,839	

4 OPERATING PROFIT

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

	2017	2016
	HK$'000	*HK$'000*
Employee benefit expenses	**333,359**	310,230
Minimum lease payments under operating leases for leasehold land and buildings	**13,494**	16,883
Cost of inventories recognised as expense		
– Purchase of inventories	**5,415,724**	4,461,966
– Change of inventories during the year	**53,863**	(10,897)
Auditor's remuneration	**2,300**	2,300
Depreciation and depletion of property, plant and equipment	**428,491**	415,992
Amortisation of land use rights	**8,503**	8,587
Amortisation of intangible assets	**2,521**	2,685
Losses on disposals of property, plant and equipment	**1,652**	4,698
Losses on disposals of exploration and evaluation assets	**–**	1,909
Net exchange gains	**(28)**	(448)
Write off of exploration and evaluation assets	**2,357**	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 (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.

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**163,592**	176,172
Overseas taxation	**–**	1,009
Under provision in prior years	**3,957**	9,432
	167,549	186,613
Deferred tax	**20,978**	(2,152)
Taxation	**188,527**	184,461

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2017 (2016: Nil).

6 DIVIDEND

	2017	2016
	HK$'000	*HK$'000*
Proposed final dividend of HK cent 0.35 (2016: HK cent 0.50) per ordinary share	**20,390**	29,128

A final dividend relating to the year ended 31 December 2016 amounted to HK$29,128,000 was fully paid on 16 June 2017.

The Board proposed a distribution out of the contributed surplus account of the Company of HK cents 0.35 per ordinary share (2016: HK cents 0.50) amounting to a total of approximately HK$20,390,000 at the forthcoming annual general meeting to be held on 12 June 2018. This proposed distribution is not reflected as a dividend payable as of 31 December 2017, but will be recorded as a distribution out of contributed surplus for the year ending 31 December 2018.

7 EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$250,467,000 (2016: HK$311,791,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 5,148,640,000 shares (2016: 5,212,795,000 shares).

(b) Diluted

Diluted earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to owners of the Company of approximately HK$250,467,000 (2016: HK$311,791,000), and the weighted average number of ordinary shares of approximately 5,156,235,000 (2016: 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 6,075,000 shares (2016: 14,903,000 shares) and the effect of awarded shares of approximately 1,520,000 shares (2016: 1,145,000 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 2017, included in deposits, trade and other receivables is the balance of trade receivables amounting to HK$784,363,000 (2016: HK$796,330,000).

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

	2017	2016
	HK$'000	*HK$'000*
Up to 3 months	**730,625**	712,716
3 to 6 months	**30,363**	25,333
Over 6 months	**23,375**	58,281
Total	**784,363**	796,330

As at 31 December 2017, trade receivables of approximately HK$53,738,000 (2016: HK$83,614,000) 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 2017, included in trade and other payables is the balance of trade payables amounting to HK$447,956,000 (2016: HK$570,343,000).

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

	2017	2016
	HK$'000	*HK$'000*
Up to 3 months	**358,365**	470,508
3 to 6 months	**40,316**	37,871
Over 6 months	**49,275**	61,964
Total	**447,956**	570,343

BUSINESS REVIEW

The year 2017 was one of the years with stable development and growing good momentum for the Chinese macro economy. The government consistently promoted the optimisation of energy infrastructure and accelerated the building of an "ecological society". As a result, consumption of natural gas saw a rapid 17% increase during the year, recording a new high in annual growth. The Group leveraged fully on its market and business advantages to seize opportunities and explore new markets. Subsequently, the Group's sales of city gas achieved rapid growth, and the Group made progress in expanding the number of new projects and new users with its continuous optimisation of assets and business structure. All businesses showed a rapid and consistent trend of development.

For the financial year ended 31 December 2017, the Group's operational and financial performance was satisfactory on the whole. Total revenue increased by 19% to HK$7,651 million (2016: HK$6,446 million), and gross profit increased by 8% to HK$1,216 million (2016: HK$1,128 million). After excluding the impact of one-off items, including other gains, net and reversal of impairment losses on oil and gas properties under property, plant and equipment, the Group's recurring profit before taxation was HK$784 million (2016: HK$652 million), representing a year-on-year increase of 20%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distributions of natural gas

For the financial year ended 31 December 2017, the Group recorded sales and distribution of natural gas income of HK$6,774 million (2016: HK$5,424 million), representing a 25% increase and accounting for 89% of total revenue. During the year, the Group's total gas sales volume increased by 20% to 3,309 million cubic meters (2016: 2,769 million cubic meters). External pipeline gas transmission volume increased by 122% significantly to 756 million cubic meters (2016: 340 million cubic meters), and the external transportation volume was 11 million cubic meters (2016: 11 million cubic meters).

Gas sales volume for industrial and commercial users increased to 2,135 million cubic meters (2016: 1,599 million cubic meters), amounted to an increase of 34% of the total gas sales volume. For residential users, gas sales volume was 805 million cubic meters (2016: 808 million cubic meters), while for gas stations, the figure stood at 369 million cubic meters (2016: 362 million cubic meters), representing 65%, 24% and 11% of the gas sales volume respectively (2016: 58%, 29% and 13%).

Development of new users

During the year, the Group connected 127,100 new residential users and 1,157 new industrial and commercial users. Total connections for residential users and industrial and commercial users were 1,235,497 (2016: 1,108,397) and 10,426 (2016: 9,269) respectively, which were increased by 12% and 13% as compared to 2016, respectively. With local governments' advance of the "Coal to Gas Project", the number of new users is expected to maintain a stable growth in the future. Industrial and commercial users have higher demand for natural gas compared to residential users, making their development a priority task for the Group. In light of the increasing number of users, the Group will continue to improve service quality and will optimise safety management systems to provide stable, safe, clean and high-quality supply of energy for all end-users.

New project expansion

In 2017, besides the improvement of city natural gas networks in existing statutory areas, the Group made efforts to develop new markets by acquiring gas concession rights. During the year, the Group successively obtained city gas concession rights for five projects in Zhengchang Town (Xiantao City, Hubei Province), Fanshui Town (Jiangsu Province), Dafeng District of Yancheng City (Jiangsu Province), Pai Hu Scenic (Xiantao City, Hubei Province), and Beichuan Industrial Park (Xining City, Qinghai Province), as well as a natural gas utilisation project in Chishan Town, Shangli County, Pingxiang, Jiangxi Province.

As at 31 December 2017, the Group had established a total of 144 natural gas project companies in 15 provinces and autonomous regions, with 75 concession rights in the PRC. In 2017, the total length of its high-pressure long-distance pipelines reached 1,073 km, which effectively promoted the development of projects downstream.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS

In 2017, the Group has continued the business of exploitation and production of light crade oil and natural gas in Canada. According to the reserve report prepared by GLJ Petroleum Consultants for the year ended 31 December 2017, the Group has proved plus probable reserves of 35 million barrels of oil equivalent (2016: 33.1 million barrels of oil equivalent), representing an increase of 6% year-on-year. In 2017, average daily production was 4,849 barrels of oil equivalent. The average operating netback was CA$23.23 per barrel of oil equivalent in 2017 (2016: CA$18.78 per barrel of oil equivalent) representing a 24% increase.

SENIOR NOTES AND CREDIT RATING

In April 2017, the Group successfully issued senior notes with the principal amount of US$350 million at a low cost rate of 4.625%, which was the lowest among the five-year bonds issued by utilities companies with the same credit rating.

Rating agencies	**Ratings**
Moody’s	Ba2 (Stable)
Standard & Poor	BB (Positive)

The Group was rated “BB” by Standard & Poor with a positive rating outlook, and was rated “Ba2” by Moody’s, reflecting the Company’s healthy financial position and promising operational prospects.

BUSINESS PROSPECTS

In 2017, consumption of natural gas in China reached 235.2 billion cubic meters, accounting for 7% of the total consumption of primary energy resources. According to the Chinese government's 13th Five-year Plan, "the annual consumption of natural gas will reach 360 billion cubic meters by 2020, and the proportion of natural gas consumption in the total consumption of primary energy sources should reach 10%". Therefore, there is a huge potential for development in the country's natural gas industry. Accordingly, the Group will refine its strategic planning and prepare to seize the new opportunities – and meet the new challenges – of the coming era. Overall, it will continue forward at a controlled rate, maintaining the stable development of the Group's businesses, and will strive to achieve its medium- to long-term targets. Firstly, the Group will focus on its principal business in cities and increase its share in the end-user market. It will devote more effort to developing markets in statutory areas, acquire concession rights, find means to improve efficiency and increase its market share in the gas industry. Additionally, the Group will allocate reasonable resources to ensure an adequate supply of natural gas, and will conduct market development and marketing effectively and efficiently. The Group will invest more resources in the construction of key branch pipelines to facilitate market development, enhance the market competitiveness of CNG and LNG terminals, promote the strategic layout plan of distributed energy, maintain the stable development of oil exploitation, and optimise product offerings. Secondly, the Group will innovate in management system to improve the efficiency of internal control. The Group will continuously strengthen "grass-roots construction, basic work and basic skills", streamline the management system and its procedures, enhance its management of budgets, investments, projects and materials, optimise information management, and adopt an innovative operational model to respond to market changes and improve risk management and compliance management. Thirdly, the Group will optimise performance appraisal and same strengthen the competency of its workforce. The Group will establish a value-oriented talent strategy, strengthen performance appraisals, establish shared entrepreneurship mechanisms to strengthen team-building.

Looking ahead, opportunities and challenges exist in equal measure. The Group will move forward under its mission of "creating value for customers, creating career development for employees, and creating returns for shareholders" and strive to build the Group into 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 2017.

FINANCIAL REVIEW

The Group recorded sale of natural gas of 3.309 billion cubic meters for the year of 2017, representing an increase of 20% as compared to 2.769 billion cubic meters in 2016. Benefiting from the Group's considerable growth in sales and transmission volume of natural gas, a total revenue of HK$7,651 million was recorded, representing an increase of 19% as compared to HK$6,446 million in 2016. Gross profit amounted to HK$1,216 million (2016: HK$1,128 million), representing an increase of 8% from last year. The Group's profit before taxation is HK$811 million, representing a decrease of 4% as compared to HK$842 million in 2016. The profit of owners of the Company is HK$250 million (2016: HK$312 million), representing a decrease of 20%. Impacted by deducting one-off projects expenses, the Group's recurring profit before taxation increased by 20% to HK$784 million (2016: HK$652 million). The profit attributable to owners of the Company increased by 13%, from HK$199 million in 2016 to HK$225 million.

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")

With the compelling increase of the Group's natural gas sales volume of 20% to 3,309 million cubic meters in 2017, sales and distribution of natural gas contributed the most to the Group's revenue. Sales and distribution of natural gas continued to be the Group's principal source of revenue and constituted 89% of the total revenue (2016: 84%). Revenue related to this segment recorded a significant increase of 25% to HK$6,774 million (2016: HK$5,424 million) and segment results increased by 29% to HK$664 million (2016: HK$513 million), where segment profit ratio recorded an increase to 10% (2016: 9%).

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

As a natural gas distributor, the Group placed tremendous emphasis on the sales of natural gas. Our natural gas sales volume increased significantly for the past few years. Revenue on gas pipeline connection only constituted less than 7% of our total revenue in 2017 and it amounted to HK$525 million (2016: 721 million).

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

Revenue related to Exploitation and production amounted to HK$353 million (2016: HK$301 million), with a growth of 17%. Segment profit ratio reached 22% in 2017 from last year's 10%. Crude oil prices recovered in 2017, with West Texas Intermediate ("WTI") averaging US$50.93 per barrel compared with US$43.47 per barrel in 2016. The Group realised crude oil price of CAD60.26 per barrel in 2017 compared to CAD49.98 per barrel in 2016 with an increase of 21%.

The Group's sales and distribution costs decreased by 24% from HK$67 million in 2016 to HK$51 million in 2017; administrative expenses increased by 2% from HK$302 million to HK$307 million in the said years. Both costs together only represented less than 5% of total revenue in 2017, where this was 6% in 2016.

Finance costs were HK$204 million (2016: HK$202 million), which was relatively stable as compared to the Group's total debt in 2017 and 2016.

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 2017, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) was HK$5,719 million (2016: HK$5,367 million). Total available credit facility amounted to HK$5,081 million as of 31 December 2017 (2016: HK$4,661 million) with an utilisation rate of 13% (2016: 6%).

As at 31 December 2017, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$2,339 million (2016: HK$1,859 million). Total assets increased by 14% to HK$15,547 million (2016: HK$13,604 million), among which current assets were HK$4,235 million (2016: HK$3,620 million). Total liabilities of the Group were HK$9,341 million (2016: HK$8,353 million), and among which current liabilities were HK$3,920 million (2016: HK$2,997 million). The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 37% (2016: 39%). The current ratio (current assets divided by current liabilities) of the Group was 1.08 times (2016: 1.21 times).

The Group's financial and liquidity ratios remained stable, and hence the Group is well prepared for its development in the future.

EMPLOYEES AND REMUNERATION POLICY

At the end of 2017, the Group employed a total of 3,600 (2016: 3,515) full-time employees, most of whom were stationed in the PRC. Total staff cost for the year amounted to HK$333 million (2016: HK$310 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 2017.

CONTINGENT LIABILITY

The Group had no material contingent liability as at 31 December 2017.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The group is responsible for the financial risk management, and its treasury function is 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 2017, the Group had no litigation.

CAPITAL STRUCTURE

As at 31 December 2017, the issued share capital of the Company was approximately HK$58,256,838 resulted from 5,825,683,834 shares with a nominal value of HK$0.01 each.

DISTRIBUTION OUT OF CONTRIBUTED SURPLUS ACCOUNT

The Board resolved to propose to the shareholders of the Company at the forthcoming annual general meeting of the Company, which is to be held on Tuesday, 12 June 2018 ("2018 AGM"), a distribution of HK cent 0.35 (2016: HK cent 0.50) per share out of the contributed surplus account of the Company to be paid on Friday, 6 July 2018 to those shareholders whose names appear on the register of members of the Company on Wednesday, 20 June 2018. The proposed distribution will amount to approximately HK$20,390,000 (2016: HK$ 29,128,000).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Tuesday, 12 June 2018 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 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 Tuesday, 5 June 2018.

For determining the entitlement of the shareholders to the proposed distribution, the register of members of the Company will be closed from Wednesday, 20 June 2018 to Thursday, 21 June 2018 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed distribution, 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 Tuesday, 19 June 2018.

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 181,260,000 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 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 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 2017.

AUDIT COMMITTEE

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 2017.

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, 27 March 2018

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 purpose only*