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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 2018

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 2018 (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 AND OPERATIONAL HIGHLIGHTS OF THE GROUP

- The Group's total revenue increased by 36% to HK$4,969 million, in which sales and distribution of natural gas increased by 34%, accounting for 86% of the total revenue;

- As compared to the last period, Profit for the Period was HK$504 million, representing an increase of 45%; basic earnings per share increased by 32% to 4.339 HK cents; excluding the effect of other gains, recovery of impairment on property, plant and equipment and amortization of share-based payment, the profit attributable to the owners of the Company was HK$217 million with an increase of 29%; and

- Natural gas sales volume increased by 16% to 1,855 million cubic meters.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Note	Six months ended 30 June **2018** *HK$'000* **(unaudited)**	2017 *HK$'000* (unaudited)
Revenue	*4*	**4,968,927**	3,656,957
Cost of sales		**(4,121,811)**	(3,024,054)
Gross profit		**847,116**	632,903
Other income		**15,691**	24,099
Other gains, net		**5,895**	7,110
Selling and distribution costs		**(22,637)**	(20,956)
Administrative expenses		**(185,765)**	(143,848)
Reversal of impairment losses on oil and gas properties under property, plant and equipment		**20,237**	–
Operating profit		**680,537**	499,308
Finance income		**66,169**	53,953
Finance costs		**(106,186)**	(104,003)
Share of (losses)/profits of investments accounted for using the equity method		**(3,840)**	893
Profit before taxation		**636,680**	450,151
Taxation	*5*	**(132,350)**	(101,416)
Profit for the period		**504,330**	348,735
Other comprehensive income:			
Item that will not be reclassified to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		**27,939**	–
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		**110,620**	206,817
Changes in fair value of available-for-sale financial assets		–	14,674
Changes in fair value of debt instruments at fair value through other comprehensive income		**(36,993)**	–
Total comprehensive income for the period		**605,896**	570,226
Profit for the period attributable to:			
Owners of the Company		**216,160**	170,251
Non-controlling interests		**288,170**	178,484
		504,330	348,735
Total comprehensive income attributable to:			
Owners of the Company		**304,091**	328,341
Non-controlling interests		**301,805**	241,885
		605,896	570,226
		HK cents	*HK cents*
Earnings per share	*6*		
– Basic		**4.339**	3.286
– Diluted		**4.310**	3.272

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**30.6.2018** *HK$'000* **(unaudited)**	31.12.2017 *HK$'000* (audited)
Assets			
Non-current assets			
Property, plant and equipment		**7,951,551**	7,725,219
Exploration and evaluation assets		**211,450**	215,189
Land use rights		**447,025**	456,458
Intangible assets		**1,043,495**	1,035,324
Investments accounted for using the equity method		**318,399**	321,167
Available-for-sale financial assets		–	596,360
Financial assets at fair value through other comprehensive income		**566,443**	–
Other non-current assets		**1,169,506**	956,763
Deferred tax assets		**4,888**	4,796
		11,712,757	11,311,276
Current assets			
Inventories		**263,116**	244,438
Deposits, trade and other receivables	*8*	**1,677,733**	1,596,734
Financial assets at fair value through profit or loss		–	48,842
Current tax recoverable		**6,189**	6,333
Time deposits with maturity over three months		–	48,531
Cash and cash equivalents		**2,711,933**	2,290,447
		4,658,971	4,235,325
Total assets		**16,371,728**	15,546,601

	Notes	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Liabilities			
Current liabilities			
Trade and other payables	9	**1,403,717**	1,431,733
Receipt in advance		**–**	1,584,003
Contract liabilities		**1,443,469**	–
Short-term borrowings		**1,382,899**	689,258
Current tax payable		**202,496**	215,042
		4,432,581	3,920,036
Non-current liabilities			
Senior notes		**4,978,520**	4,970,240
Long-term borrowings		**77,055**	60,000
Deferred tax liabilities		**274,612**	260,359
Assets retirement obligation		**135,635**	130,311
		5,465,822	5,420,910
Total liabilities		**9,898,403**	9,340,946
Equity			
Equity attributable to owners of the Company			
Share capital		**58,257**	58,257
Reserves		**3,327,392**	3,286,289
		3,385,649	3,344,546
Non-controlling interests		**3,087,676**	2,861,109
Total equity		**6,473,325**	6,205,655
Total equity and liabilities		**16,371,728**	15,546,601

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

(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 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 2017.

(3) SIGNIFICANT ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new standards, interpretation and amendments to standards which are effective for accounting period beginning on or after 1 January 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from contracts with customers

Other than the impact of adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" as disclosed below, the adoption of above interpretation and amendments to standards did not have material impacts on the preparation of the condensed consolidated financial statements.

HKFRS 15 Revenue from Contract with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, the Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus certain comparative figures may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales and distribution of natural gas and other related products
- Gas pipeline construction and connection
- Exploitation and production of crude oil and natural gas

The effects of the adoption of HKFRS 15 are further explained as follows:

(a) Accounting for sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas

The Group's contracts with customers for the sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas generally include one performance obligation. The Group has concluded that revenue from the above activities should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS15 did not have a material impact on the timing of revenue recognition.

(b) Accounting for gas pipeline construction and connection

In prior reporting periods, the Group accounted for gas pipeline construction and connection when the outcome of the construction contract for connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas pipeline connection are recognised using the percentage of completion method, measured by reference to the costs incurred during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas pipeline connection cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Under HKFRS 15, properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The contract assets will be reclassified as receivables when the progress billings are issued or properties are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

For the six months ended 30 June, 2018, the Group has concluded that the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

(c) Presentation and disclosure requirements

The Group's contract liabilities include receipts in advance under HKFRS 15.

The condensed consolidated statement of financial position as at 1 January 2018 was adjusted, resulting in reclassification of receipt in advance of HK$1,584,003,000 to contract liabilities of HK$1,584,003,000.

Apart from the above, the application of HKFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported on these condensed consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

- The Group elected to present in other comprehensive income for the fair value changes of all debt investments previously classified as available-for-sales financial assets and financial assets at fair value through profit or loss under HKAS 39, as management considered that all debt investments are held within a business model with the objective by both collecting contractual cash flows that meet the SPPI criterion and selling financial assets. At the date of initial application of HKFRS 9, HK$48,842,000 and HK$459,627,000 were reclassified from financial assets at fair value through profit or loss and available-for-sales financial assets to debt instruments at FVOCI respectively; HK$4,790,400, represented the accumulated fair value gains of debt investments previously classified as financial assets at fair value through profit or loss under HKAS 39, was reclassified from retained earnings to reserves.

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. The Group intends to hold them for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. At the date of initial application of HKFRS 9, equity instruments previously classified as available-for-sales financial assets under HKAS 39 amounted to HK$136,733,000 were reclassified to equity instruments at FVOCI.

The assessment of the Group's business model was made as of initial application, i.e. 1 January, 2018, and then applied retrospectively to those financial assets that were not derecognised as at 1 January, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not been changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss "ECL" approach.

The Group records an allowance for ECLs on financial assets which are subject to impairment under HKFRS 9, including all loans and other debt financial assets and contract assets.

For contract assets and trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other assets that are subject to impairment under HKFRS 9, the Group assessed for their impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Based on the assessments undertaken, the Group concluded that the adoption of new expected credit loss model did not have a material impact on loss allowances for its financial assets.

As a result of the adoption of HKFRS 9, certain comparative information in these condensed consolidated financial statements may not be comparable as it was prepared in accordance with HKAS 39.

(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 2018:

– 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 2018 and 2017 is set out below:

Business Segments

For the six months ended 30 June 2018:

	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	4,259,870	472,472	236,585	4,968,927
Segment results	413,603	210,631	90,520	714,754
Finance income				66,169
Other gains, net				5,895
Finance costs				(106,186)
Share of losses of investments accounted for using the equity method				(3,840)
Reversal of impairment losses on oil and gas properties under property, plant and equipment				20,237
Unallocated corporate expenses				(60,349)
Profit before taxation				636,680
Taxation				(132,350)
Profit for the period				504,330

For the six months ended 30 June 2017:

	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	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 gains 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

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

Assets

	At 30.6.2018 Total assets *HK$'000*	At 31.12.2017 Total assets *HK$'000*
Hong Kong	**165,272**	137,351
Mainland China	**12,862,160**	12,018,750
Canada	**2,454,566**	2,419,335
Total	**15,481,998**	14,575,436
Unallocated		
Investments accounted for using the equity method	**318,399**	321,167
Deferred tax assets	**4,888**	4,796
Available-for-sale financial assets	**–**	596,360
Financial assets at fair value through profit and loss	**–**	48,842
Financial assets at fair value through other comprehensive income	**566,443**	–
Total assets	**16,371,728**	15,546,601

(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 (2017: 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% (2017: 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% (2017: 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) 1.1-30.6.2018 ***HK$'000***	Unaudited (6 months) 1.1-30.6.2017 *HK$'000*
Current tax:		
PRC corporate income tax	**113,236**	104,238
Overseas taxation	**–**	–
Under provision in prior years	**–**	122
	113,236	104,360
Deferred tax	**19,114**	(2,944)
Taxation	**132,350**	101,416

(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$216,160,000 (six months ended 30 June 2017: HK$170,251,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of approximately 4,982,096,273 shares (six months ended 30 June 2017: 5,181,050,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$216,160,000 (six months ended 30 June 2017: HK$170,251,000), and the weighted average number of ordinary shares of approximately 5,014,815,085 shares (six months ended 30 June 2017: 5,203,916,000 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 31,377,142 shares (six month ended 30 June 2017: 21,749,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised and the effect of awarded shares of approximately 1,341,670 shares (six months ended 30 June 2017: 1,117,000).

(7) DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (2017: Nil). Subsequent to the end of the reporting period, a distribution of HK cent 0.35 (2017: HK cent 0.5) per share out of the contributed surplus, amounting to approximately HK$20,390,000 (2017: HK$29,128,000), shall be paid to the shareholders as the final dividend for 2017.

(8) DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	At 30.6.2018	At 31.12.2017
	HK$'000	*HK$'000*
Trade receivables	**803,245**	784,363
Other receivables, deposits and prepayments	**874,488**	812,371
	1,677,733	1,596,734

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

Up to 3 months	**722,920**	730,625
3 to 6 months	**48,195**	30,363
Over 6 months	**32,130**	23,375
Total	**803,245**	784,363

(9) TRADE AND OTHER PAYABLES

	Unaudited	Audited
	At 30.6.2018	At 31.12.2017
	HK$'000	*HK$'000*
Trade payables	**353,361**	447,956
Other payables and accruals	**1,050,356**	983,777
	1,403,717	1,431,733

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

Up to 3 months	**290,052**	358,365
3 to 6 months	**42,347**	40,316
Over 6 months	**20,962**	49,275
	353,361	447,956

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Since the beginning of 2018, driven by the Chinese government's environmental policies, the demand for clean natural gas energy has continued to grow in the society. Leveraging its strong sales network and gas source advantages, the Group has seized those favorable opportunities to achieve rapid business growth. The Group recorded total revenue of HK$4,969 million for the first half of 2018, representing a remarkable increase of 36% as compared to HK$3,657 million for the corresponding period of last year. The income from sales and distribution of natural gas was HK$4,260 million, representing a year-on-year growth of 34% and accounting for 86% of the total revenue. Thanks to the continuous enhancement in the operation and management, sound sales strategy and effective cost control measures, the Group recorded a profit for the Period of HK$504 million with a year-on-year increase of 45%. The profit attributable to the owners of the Company was HK$216 million with a year-on-year increase of 27%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distribution of natural gas

For the first six months of 2018, the Group's natural gas sales volume reached 1,855 million cubic meters (2017: 1,602 million cubic meters), representing an increase of 16% as compared with the same period last year; pipeline gas transmission volume reached 348 million cubic meters, which was flat with the same period last year.

The significant increase in gas sales volume was mainly attributable to that gas consumption of industrial and commercial users recorded 1,175 million cubic meters, representing a substantial growth of 19% as compared with 991 million cubic meters for the same period last year and accounting for 63% of the Group's total gas sales volume; gas consumption of gas stations increased by 18% to 186 million cubic meters, accounting for 10% of the total gas sales volume; and gas sales volume of residential users increased by 9% to 494 million cubic meters, accounting for 27% of the total gas sales volume.

Development of new users

For the first six months of 2018, the Group connected 59,019 new residential users, and the accumulated connections of residential users were 1,294,516, including 27,607 users of coal-to-gas village connection; and connected 438 new industrial and commercial users, and the accumulated connections of industrial and commercial users were 10,864. With the increasing number of users, the Group will continue to expand 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 of the Group in the future.

New project expansion

In 2018, the Group acquired two natural gas integrated utilization projects in Shandong Province, signed a natural gas distributed energy framework cooperation agreement in Jiangsu Province and entered into a strategic cooperation agreement with China Huadian Corporation. By virtue of the above cooperation, the Group has expanded its gas supply coverage by making full use of its pipeline network to achieve interconnection and secured certain overseas LNG sources for peak-shaving in winter. Until now, the Group has established a total of 144 project companies in 15 provinces and autonomous regions with 76 concession rights in the PRC. The total length of the natural gas pipelines constructed by the Group has reached 11,734km, which effectively promoted the development of projects downstream.

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 2017, the proved reserves of the Group were approximately 35.0 million barrels of oil equivalent. For the first six months of 2018, the upstream oil and gas exploitation business of the Group achieved an average daily production of 5,368 barrels of oil equivalent (2017: 4,695 barrels of oil equivalent) with a growth of 14%. Benefiting from the effective operating cost control measures and the rebound of international oil prices, the Group achieved the average operating netback of CAD29.52 per barrel of oil equivalent, representing an increase of 26% as compared with CAD23.39 per barrel of oil equivalent for the same period last year. Net cash generated from operating activities amounted to CAD16.04 million, representing an increase of 44% as compared with CAD11.12 million for the same period last year.

BUSINESS PROSPECT

The Chinese government strongly supports the development of the natural gas industry. In the first half of 2018, the National Development and Reform Commission issued policies such as the Circular on Rationalizing the Gas Station Price of Natural Gas Used for Residential Purpose (關於理順居民用氣門站價格的通知) and the Circular on Overall Planning, Construction and Operation of Gas Storage Facilities (關於統籌規劃做好儲氣設施建設運行的通知), which clarified that natural gas prices will be increasingly market-driven and prepared for the mismatch between supply and demand of natural gas at the end of last year. 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. Meanwhile, the Group strives to explore opportunities for the development of outstanding projects such as distributed energy and natural gas integrated utilization, so as to deliver ever better returns to shareholders.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group recorded the revenue of HK$4,969 million, representing a growth of 36% from HK$3,657 million for the six months ended 30 June 2017.

The total revenue combined 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$4,260 million, HK$472 million and HK$237 million respectively (2017: HK$3,173 million, HK$316 million and HK$168 million respectively).

The Group's overall gross profit amounted to HK$847 million (2017: HK$633 million), its gross profit margin was 17% and was flat with the last corresponding period. Profit for the Period was HK$504 million. Profit for the Period attributable to the owners of the Company was HK$216 million, represented a substantial growth of 27%.

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$186 million (2017: HK$144 million), the proportion of administrative expenses to revenue was further decreased to 3.7% (2017: 3.9%); and the proportion of selling and distribution costs to revenue was 0.5% (2017: 0.6%).

Finance costs (net of capitalization) increased slightly from the last corresponding period's HK$104 million to HK$106 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 30 June 2018 was 5.17% (2017: 5.24%).

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 expansion and acquisition. As at 30 June 2018, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$6,438 million (31 December 2017: HK$5,719 million).

As at 30 June 2018, the Group had cash and cash equivalents of HK$2,712 million (31 December 2017: HK$2,339 million). Total assets were HK$16,372 million (31 December 2017: HK$15,547 million), in which current assets were HK$4,659 million (31 December 2017: HK$4,235 million). Total liabilities of the Group were HK$9,898 million (31 December 2017: HK$9,341 million), in which current liabilities were HK$4,433 million (31 December 2017: HK$3,920 million). The Group's debt-to-assets ratio, measured on the basis of total indebtedness divided by total assets was 39% (31 December 2017: 37%). The current ratio (current assets divided by current liabilities) of the Group was 1.05 times (31 December 2017: 1.08 times). The Group's financial and liquidity remain stable, and well prepared for the development in the next half of 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group employed a total of 3,542 (31 December 2017: 3,600) full-time employees, most of them were stationed in the PRC. Total staff cost for the Period amounted to HK$203 million (2017: HK$148 million), including amortization of share options of approximately HK$27 million (2017: HK$5 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 2018, no assets of the Group has been pledged.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2018.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

The Group conducts its business primarily in Renminbi. The Group's certain bank deposits are denominated in Hong Kong dollars, Renminbi and United States dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi and United States dollars.

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

LITIGATION

As at 30 June 2018, the Group has no litigation.

CAPITAL STRUCTURE

As at 30 June 2018, 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 2018 (30 June 2017: 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 2018, 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 (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 2018. 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 2018, 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 nonexecutive Directors.

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

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

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions as set out in the CG Code during the six months ended 30 June 2018.

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; to approve the remuneration and terms of engagement of the external auditor, to provide recommendations for any questions regarding the resignation or dismissal of such auditor; to review the interim and annual reports, and financial statements of the Group; to oversee 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 system.

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 2018.

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

Hong Kong, 28 August 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Ms. Guan Yijun and Mr. Liu ChunSun; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Wang Guangtian and Mr. Yang Jie.

* *for identification purposes only*