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 2019

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 2019 (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

- The Group's total revenue increased by 4% to HK$5,147 million, in which sales and distribution of natural gas increased by 9%, accounting for 90% of the total revenue.
- Natural gas sales and transmission volume increased by 16% to 2,552 million cubic meters.
- Excluding reversal of assets and other one-off gains, the profit attributable to owners of the Company would increase by 3%.

* *For identification only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Revenue	*4*	**5,147,124**	4,968,927
Cost of sales		**(4,360,768)**	(4,121,811)
Gross profit		**786,356**	847,116
Other income		**18,058**	15,691
Other gains, net		**6,541**	5,895
Selling and distribution costs		**(29,586)**	(22,637)
Administrative expenses		**(173,670)**	(185,765)
Reversal of impairment losses on oil and gas properties under property, plant and equipment		**–**	20,237
Operating profit		**607,699**	680,537
Finance income		**78,550**	66,169
Finance costs		**(116,773)**	(106,186)
Share of losses of investments accounted for using the equity method		**(16)**	(3,840)
Profit before taxation		**569,460**	636,680
Taxation	*5*	**(88,220)**	(132,350)
Profit for the period		**481,240**	504,330
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Currency translation differences		**3,435**	110,620
Changes in value at debt investments at fair value through other comprehensive income		**27,752**	(36,993)
Item that will not be reclassified to profit or loss:			
Change in value at equity investments at fair value through other comprehensive income		**(29,142)**	27,939
Total comprehensive income for the period		**483,285**	605,896

	Notes	Six months ended 30 June **2019** **_HK$'000_** **(unaudited)**	2018 _HK$'000_ (unaudited)
Profit for the period attributable to:			
Owners of the Company		**202,967**	216,160
Non-controlling interests		**278,273**	288,170
		481,240	504,330
Total comprehensive income attributable to:			
Owners of the Company		**204,367**	304,091
Non-controlling interests		**278,918**	301,805
		483,285	605,896
		HK cents	_HK cents_
Earnings per share	_6_		
– Basic		**4.060**	4.339
– Diluted		**4.056**	4.310

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Assets			
Non-current assets			
Property, plant and equipment		**8,077,231**	7,924,722
Exploration and evaluation assets		**176,859**	182,981
Land use rights		**425,344**	415,234
Intangible assets		**971,083**	974,526
Investments accounted for using the equity method		**303,128**	312,754
Financial assets at fair value through other comprehensive income		**351,812**	439,120
Other non-current assets		**1,058,675**	1,063,841
Deferred tax assets		**7,646**	7,646
		11,371,778	11,320,824
Current assets			
Inventories		**261,952**	282,777
Contract assets, deposits, trade and other receivables	*8*	**1,965,750**	1,751,116
Current tax recoverable		**6,086**	6,024
Time deposits with maturity over three months		**–**	158,679
Cash and cash equivalents		**2,341,816**	2,508,223
		4,575,604	4,706,819
Total assets		**15,947,382**	16,027,643

	Notes	30.6.2019 *HK$'000* (unaudited)	31.12.2018 *HK$'000* (audited)
Liabilities			
Current liabilities			
Trade and other payables	*9*	**1,438,011**	1,415,917
Contract liabilities		**1,084,431**	1,470,128
Short-term borrowings		**1,389,111**	1,455,839
Current tax payable		**257,268**	269,369
Senior notes		**2,320,198**	—
		6,489,019	4,611,253
Non-current liabilities			
Senior notes		**2,718,507**	5,029,991
Long-term borrowings		**58,167**	63,642
Deferred tax liabilities		**256,084**	270,019
Assets retirement obligation		**144,523**	140,678
		3,177,281	5,504,330
Total liabilities		**9,666,300**	10,115,583
Equity			
Equity attributable to owners of the Company			
Share capital		**58,391**	58,391
Reserves		**3,235,783**	3,137,516
		3,294,174	3,195,907
Non-controlling interests		**2,986,908**	2,716,153
Total equity		**6,281,082**	5,912,060
Total equity and liabilities		**15,947,382**	16,027,643

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

(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 2018.

As at 30 June 2019, the Group's current liabilities exceeded their current assets by HK$1,913,415,000. The ability of the Group to continue as going concern is dependent on the Group's ability to generate positive cash flows. On 18 July 2019, the Group has issued senior notes with an aggregate nominal value of US$320,000,000 (equivalent to HK$2,480,000,000 with its maturity on 25 January 2023. The Board of Directors is confident that the Group would have adequate financial resources to meet its financial obligations as and when they fall due.

(3) PRINCIPAL ACCOUNTANT POLICIES

The accounting policies and methods of computation used in the preparation of the unaudited interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2018 except for the changes mentioned below.

Taxes on income in the interim periods are accrual using the tax rates that would be applicable to expected total annual earnings.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs which are first effective for the current accounting period of the Group. Of these, the following new standards, amendments to standards and interpretation are relevant to the Group's consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interest in Associates and Joint ventures
Annual Improvements Project (Amendments)	Annual Improvements 2015-2017 Cycle

Other than the impact of the adoption of HKFRS 16 "Leases" as disclosed below, the directors of the Company has assessed that there was no significant impact to the adoption of the above amendments to standards and interpretation on the Group's results and financial position. The Group has assessed the impact of the adoption of the above amendments to standards and interpretation, and considered that there was no significant impact on the Group's results and financial position.

HKFRS 16, Leases

Under HKFRS 16, the lessees no longer distinguish between operating and finance leases. Instead, subject to practical expedients, a lease liability in respect of the present value of the minimum future lease payments and a corresponding right-of-use asset are recognised in the consolidated statement of financial position for all lease arrangements of more than 12 months by lessees. HKFRS 16 does not significantly change the way that lessors account for their rights and obligations under a lease.

At the commencement date of the lease, the Group as lessee recognises and measures a lease liability at the present value of the minimum future lease payment and recognises a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the Group recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset and impairment losses (if any), instead of the previous accounting policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term.

The Group adopted HKFRS 16 using the simplified transition approach from 1 January 2019 and has not restated comparative amounts for the year prior to the first adoption, as permitted under the specific transitional provisions in the standard.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was approximated 5%. The difference between the operating lease commitments as disclosed as at 31 December 2018 and the lease liabilities recognised as at 1 January 2019 is not material and mainly represented the discounting impact using the Group's incremental borrowing rate as of the date of initial application, and also the short-term leases and those leases with a remaining lease term of less than 12 months as at 1 January 2019 recognised on a straight-line basis as expense.

The associated right-of-use assets for all leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 Determining whether an Arrangement contains a Lease.

Given the Group does not have material lease arrangements as a lessee, the Group considers that there is no significant financial impact on the condensed consolidated interim financial information of the Group upon the adoption of HKFRS 16.

The Group has not applied any new standards or amendments of standards that is not yet effective for the current accounting period.

(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 2019:

— 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.

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 2019 and 2018 is set out below:

Business Segments

For the six months ended 30 June 2019:

	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				
Segment revenue				
Recognised at a point in time	**4,626,383**	**—**	**218,873**	**4,845,256**
Recognised over time	**—**	**301,868**	**—**	**301,868**
Sales to external customers	**4,626,383**	**301,868**	**218,873**	**5,147,124**
Segment results	**423,726**	**160,465**	**69,553**	**653,744**
Finance income				**78,550**
Other gains, net				**6,541**
Finance costs				**(116,773)**
Share of losses of investments accounted for using the equity method				**(16)**
Unallocated corporate expenses				**(52,586)**
Profit before taxation				**569,460**
Taxation				**(88,220)**
Profit for the period				**481,240**

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				
Segment revenue				
Recognised at a point in time	4,259,870	—	236,585	4,496,455
Recognised over time	—	472,472	—	472,472
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

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

Assets

	At 30.6.2019	At 31.12.2018
	Total assets	Total assets
	HK$'000	*HK$'000*
Hong Kong	**200,755**	145,069
Mainland China	**12,588,813**	12,692,966
Canada	**2,495,228**	2,430,088
Total	**15,284,796**	15,268,123
Unallocated		
Investments accounted for using the equity method	**303,128**	312,754
Deferred tax assets	**7,646**	7,646
Financial assets at fair value though other comprehensive income	**351,812**	439,120
Total assets	**15,947,382**	16,027,643

(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 (2018: Nil).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008 onwards at 10% (2018: 10%). Certain entities of the Group with Hong Kong business and directly owns at least 25% of the capital of the PRC subsidiaries are entitled to the lower withholding tax rate at 5% (2018: 5%).

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% (2018: 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% (2018: 15%).

Canada income tax has been provided for at the rate of 27% on the estimated assessable profits for the year (2018: 27%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 12% (2018: 12%) and 15% (2018: 15%) respectively.

Taxation on overseas (other than Hong Kong, PRC and Canada) 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) 1.1–30.6.2019 *HK$'000*	Unaudited (6 months) 1.1–30.6.2018 *HK$'000*
Current tax:		
PRC corporate income tax	**99,062**	113,236
Overseas taxation	**–**	–
Under provision in prior years	**–**	–
	99,062	113,236
Deferred tax	**(10,842)**	19,114
Taxation	**88,220**	132,350

(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$202,967,000 (six months ended 30 June 2018: HK$216,160,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of approximately 4,999,509,000 shares (six months ended 30 June 2018: 4,982,096,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$202,967,000 (six months ended 30 June 2018: HK$216,160,000), and the weighted average number of ordinary shares of approximately 5,003,947,000 shares (six months ended 30 June 2018: 5,014,815,000 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 2,905,000 shares (six month ended 30 June 2018: 31,377,000 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 1,533,000 shares (six months ended 30 June 2018: 1,342,000 shares).

(7) DIVIDEND

The Board resolved not to declared any interim dividend for the six months ended 30 June 2019 (2018: Nil). During the Period, a dividend of HK cent 0.4 per share (2018: HK cent 0.35) amounting to approximately HK$23,356,000 (2018: HK$20,390,000) was paid to the shareholders as the final dividend for 2018.

(8) CONTRACT ASSETS, DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited At 30.6.2019 *HK$'000*	Audited At 31.12.2018 *HK$'000*
Trade receivables	**393,736**	625,352
Contract assets, other receivables, deposits and other prepayments	**1,572,014**	1,125,764
	1,965,750	1,751,116

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

Up to 3 months	**362,243**	552,984
3 to 6 months	**23,635**	43,421
Over 6 months	**7,858**	28,947
Total	**393,736**	625,352

(9) TRADE AND OTHER PAYABLES

	Unaudited At 30.6.2019 *HK$'000*	Audited At 31.12.2018 *HK$'000*
Trade payables	**647,764**	505,977
Other payables and accruals	**790,247**	909,940
	1,438,011	1,415,917

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

Up to 3 months	**524,680**	402,076
3 to 6 months	**50,524**	40,910
Over 6 months	**72,560**	62,991
	647,764	505,977

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Since the beginning of 2019, the Sino-US trade war has continued, and the macro-economic control and risk of economic downturn have increased. Under the environment of changing policies and fierce market competition, China's natural gas consumption in the first half of the year still increased by 11% year on year to 149.3 billion cubic meters. Leveraging its market and business advantages, the Group vigorously promoted the construction of key branch pipelines, and further cultivated existing and potential markets. The Group recorded total revenue of HK$5,147 million for the first half of 2019, representing a year-on-year growth of 4%. The income from sales and distribution of natural gas and other related products was HK$4,626 million, representing an increase of 9% as compared to HK$4,260 million for the corresponding period of last year. Due to the decrease in revenue of gas pipeline construction and connection, the Group recorded a profit for the Period of HK$481 million with a year-on-year decrease of 5%. Excluding reversal of impairment losses on oil and gas properties and other one-off gains, the profit attributable to owners of the Company would increase by 3%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distribution of natural gas

For the first six months of 2019, the Group's natural gas sales and transmission volume reached 2,552 million cubic meters (2018: 2,203 million cubic meters), representing an increase of 16% as compared with the same period last year.

Gas consumption of industrial and commercial users recorded 1,245 million cubic meters, representing a growth of 6% as compared with 1,175 million cubic meters for the same period last year and accounting for 62% of the Group's total gas sales volume; gas consumption of residential users increased by 16% to 571 million cubic meters, accounting for 28% of the total gas sales volume; gas consumption of gas stations increased by 8% to 200 million cubic meters and continued to account for 10% of the Group's total gas sales volume. The transmission volume of pipeline was recorded 536 million cubic meters with a year-on-year increase of 54%.

Development of new users

For the first six months of 2019, the Group connected 49,346 new residential users, and the accumulated connections of residential users were 1,393,190. And connected 557 new industrial and commercial users, and the accumulated connections of industrial and commercial users were 12,369. With the increasing number of users, the Group will be continued 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.

In the first half of the year, the Group made active selection among a range of projects and analysed their economic benefits and feasibility; and made efforts to promote our distributed energy projects and gas storage projects with a view to bringing the projects to implementation stage as soon as practical in the second half of the year.

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 2018, the proved plus probable reserves of the Group were approximately 39 million barrels of oil equivalent. For the first six months of 2019, the upstream oil and gas exploitation business of the Group achieved an average daily production of 5,577 barrels of oil equivalent (2018: 5,368 barrels of oil equivalent) with a growth of 4%. The Group achieved the average operating netback of CAD27.00 per barrel of oil equivalent, representing a decrease of 8.5% as compared with CAD29.52 per barrel of oil equivalent for the same period last year.

BUSINESS PROSPECT

In the first half of 2019, for the oil and gas industry, the Chinese government issued a series of favourable policies which would benefit urban gas suppliers, including (1) allowing wholly foreign-owned enterprises to conduct the operations of oil and gas exploration and exploitation by removing the previous restriction that such operations can only be conducted in the form of joint venture or cooperation; (2) allowing foreign investors to hold the majority of equity interests in the operations of urban gas and heat supply pipeline networks of cities with a population of 0.5 million or above by removing the previous restriction that such operations must be under the control of domestic investors; and (3) announcing the establishment of a state oil and gas pipeline network company which is expected to provide more gas source choices for downstream natural gas operators. In addition, the Chinese section and the Russian section of China-Russia Eastern Natural Gas Pipeline has been successfully connected and the gas transmission is expected to commence by the end of the year. Upon put into full operation, this pipeline is expected to supply 38 billion cubic meters of natural gas to China per year, which will facilitate the growth of domestic natural gas industry. As of present, China has become the world's second largest LNG importer with the total reception capacity of the LNG terminals exceeding 80 million tonnes per year, and with the additional LNG terminals previously built across the country being successively put into operation, it is expected the LNG reception capacity of China will reach 100 million tonnes by 2025. All of the aforesaid factors will contribute to the formation of a diversified gas-source landscape in the natural gas market in China and in turn bring plenty of opportunities to the natural gas sector where the Group operates. In the second half of 2019, the Group will continue to explore new markets, reinforce its presence in the existing markets, enhance its team building, and grasp the arising opportunities. Facing challenges, the Group will uphold the principle of "creating value for our customers, creating future for our employees and creating return for our shareholders" and strive to develop into a clean energy company with international influence.

FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group recorded the revenue of HK$5,147 million, representing a growth of 4% from HK$4,969 million for the six months ended 30 June 2018.

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$4,626 million, HK$302 million and HK$219 million respectively (2018: HK$4,260 million, HK$472 million and HK$237 million respectively).

The Group's overall gross profit amounted to HK$786 million (2018: HK$847 million), its gross profit margin was 15.3% and last period was 17.0%; Profit for the Period was HK$481 million; Profit for the Period attributable to the owners of the Company was HK$203 million, represented a decrease of 6%.

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$174 million (2018: HK$186 million) as compared to a decrease of 6% for the same period last year, the proportion of administrative expenses to revenue was further decreased to 3.4% (2018: 3.7%); and the proportion of selling and distribution costs to revenue was 0.6% (2018: 0.5%).

Finance costs (net of capitalization) increased slightly from the last corresponding period's HK$106 million to HK$117 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 30 June 2019 was 4.18% (2018: 5.17%).

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 2019, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$6,486 million (31 December 2018: HK$6,549 million).

As at 30 June 2019, the Group had cash and cash equivalents of HK$2,342 million (31 December 2018: HK$2,508 million). Total assets were HK$15,947 million (31 December 2018: HK$16,028 million), in which current assets were HK$4,576 million (31 December 2018: HK$4,707 million). Total liabilities of the Group were HK$9,666 million (31

December 2018: HK$10,116 million), in which current liabilities were HK$6,489 million (31 December 2018: HK$4,611 million). As at 30 June 2019, the Group's current liabilities exceeded their current assets by HK$1,913,415. The ability of the Group to continue as going concern is dependent on the Group's ability to generate positive cash flows. On 18 July 2019, the Group has issued senior notes with an aggregate nominal value of US$320,000,000 (equivalent to HK$2,480,000,000) with its maturity on 25 January 2023. The Board of Directors is confident that the Group would have adequate financial resources to meet its financial obligations as and when they fall due. The Group's debt-to-assets ratio, measured on the basis of total indebtedness divided by total assets was 41% (31 December 2018: 41%). The Group's financial and liquidity remain stable, and well prepared for the development in the next half of 2019.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group employed a total of 3,488 (31 December 2018: 3,595) full-time employees, most of whom were stationed in the PRC. Total staff cost for the Period amounted to HK$178 million (2018: HK$203 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consists of basic salary, cash bonus and share-based incentives.

PLEDGE OF ASSETS

As at 30 June 2019, no assets of the Group has been pledged.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2019.

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 2019, the Group has no litigation.

CAPITAL STRUCTURE

As at 30 June 2019, the issued share capital of the Company was HK$58,391,238 divided into 5,839,123,834 Shares with a nominal value of HK$0.01 each.

EVENTS AFTER REPORTING PERIOD

On 18 July 2019, the Company issued US$320,000,000 5.5% senior notes due on 25 January 2023, and raised gross proceeds, before deduction of the underwriting commissions and other estimated expenses, of approximately US$318 million ("**2023 Notes**"). Part of the proceeds of the 2023 Notes in the amount of US$308,083,333.33 has been utilized to redeem the 5.0% senior notes due 2020 in the principal amount of US$300,000,000 at the redemption price equal to 101.25% of the principal amount thereof on 21 August 2019. The remaining proceed will be used for general corporate purpose.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019 (30 June 2018: 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 2019, 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 2019. 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 2019, 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 2019.

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 2019.

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

Hong Kong, 26 August 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Xu Tieliang (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.