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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 2021

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 2021 (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**”).

BUSINESS HIGHLIGHTS

- The sales volume of natural gas was 2,425 million cubic meters, increased by 20%;
- The overall gross profit increased from HK\$749 million to HK\$1,184 million, increased by 58%;
- The cash flow generated from operating activities increased by 17% to HK\$640 million; and
- The profit for the Period attributable to the owners of the Company was HK\$310 million, increased by 63%.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)
Revenue	4	6,951,713	4,653,901
Cost of sales		<u>(5,767,482)</u>	<u>(3,905,127)</u>
Gross profit		1,184,231	748,774
Other income		17,108	16,155
Other losses, net		(5,437)	(11,999)
Selling and distribution costs		(49,288)	(38,254)
Administrative expenses		<u>(255,893)</u>	<u>(159,283)</u>
Operating profit		890,721	555,393
Finance income		80,388	97,626
Finance costs		(122,515)	(119,396)
Share of losses of investments accounted for using the equity method		<u>(12,694)</u>	<u>(3,043)</u>
Profit before taxation		835,900	530,580
Taxation	5	<u>(168,438)</u>	<u>(104,807)</u>
Profit for the period		667,462	425,773
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss:</i>			
Currency translation differences		114,245	(284,799)
Changes in value of debt investments at fair value through other comprehensive income		(7,488)	(31,194)
<i>Item that will not be reclassified to profit or loss:</i>			
Change in value of equity investments at fair value through other comprehensive income		<u>(4,162)</u>	<u>(15,714)</u>
Total comprehensive income for the period		<u><u>770,057</u></u>	<u><u>94,066</u></u>

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		309,650	189,741
Non-controlling interests		357,812	236,032
		<u>667,462</u>	<u>425,773</u>
Total comprehensive income/(loss) attributable to:			
Owners of the Company		369,158	(62,962)
Non-controlling interests		400,899	157,028
		<u>770,057</u>	<u>94,066</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6		
– Basic		6.025	3.847
– Diluted		6.025	3.847
		<u>6.025</u>	<u>3.847</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	30.6.2021 HK\$'000 (unaudited)	31.12.2020 <i>HK\$'000</i> (audited)
Assets			
Non-current assets			
Property, plant and equipment		9,482,166	9,008,993
Right-of-use assets		625,034	589,057
Exploration and evaluation assets		131,858	128,444
Intangible assets		1,036,606	1,024,062
Investments accounted for using the equity method		550,290	429,356
Financial assets at fair value through other comprehensive income		400,588	633,995
Other non-current assets		1,233,459	1,201,201
Deferred tax assets		4,772	5,810
		<u>13,464,773</u>	<u>13,020,918</u>
Current assets			
Inventories		436,649	328,386
Contract assets, deposits, trade and other receivables	8	2,451,009	2,151,734
Current tax recoverable		6,479	6,293
Time deposits with maturity over three months		543,600	836,570
Cash and cash equivalents		5,953,085	2,926,434
		<u>9,390,822</u>	<u>6,249,417</u>
Total assets		<u>22,855,595</u>	<u>19,270,335</u>

	<i>Notes</i>	30.6.2021 HK\$'000 (unaudited)	31.12.2020 <i>HK\$'000</i> (audited)
Liabilities			
Current liabilities			
Trade and other payables	9	1,319,986	1,286,205
Contract liabilities		2,176,665	2,306,032
Senior notes		2,701,383	—
Short-term borrowings		1,160,555	1,341,941
Current tax payable		191,779	196,968
Lease liabilities		15,743	18,116
		<u>7,566,111</u>	<u>5,149,262</u>
Non-current liabilities			
Senior notes		5,802,457	5,410,227
Long-term borrowings		978,456	996,470
Lease liabilities		63,160	58,444
Deferred tax liabilities		155,972	123,615
Assets retirement obligation		197,801	186,103
		<u>7,197,846</u>	<u>6,774,859</u>
Total liabilities		<u>14,763,957</u>	<u>11,924,121</u>
Equity			
Equity attributable to owners of the Company			
Share capital		57,670	57,670
Reserves		4,130,090	3,720,464
		<u>4,187,760</u>	<u>3,778,134</u>
Non-controlling interests		3,903,878	3,568,080
		<u>8,091,638</u>	<u>7,346,214</u>
Total equity		<u>8,091,638</u>	<u>7,346,214</u>
Total equity and liabilities		<u>22,855,595</u>	<u>19,270,335</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

(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, gas, coal gasification and other upstream energy resources. The Company and its subsidiaries are collectively referred to as the “**Group**”.

(2) BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. These interim financial statements should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2020.

(3) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as appropriate.

Other than the changes of accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of hedge accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

In the current period, the Group has applied the Amendments to Reference to the Conceptual Framework in HKFRSs that are mandatorily effective for the current period and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

(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, exploitation and production of crude oil and natural gas; and production and sales of coal gasification and other related products.

The Group has presented the following four reportable segments for the six months ended 30 June 2021:

- sales and distribution of natural gas and other related products
- gas pipeline construction and connection
- exploitation and production of crude oil and natural gas
- production and sales of coal gasification and other related products

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 2021 and 2020 is set out below:

Business Segments

For the six months ended 30 June 2021:

	Sales and distribution of natural gas and other related products <i>HK\$'000</i>	Gas pipeline construction and connection <i>HK\$'000</i>	Exploitation and production of crude oil and natural gas <i>HK\$'000</i>	Production and sales of coal gasification and other related products <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment revenue and results					
Segment revenue					
Recognised at a point in time	5,994,503	—	222,681	303,393	6,520,577
Recognised over time	—	431,136	—	—	431,136
	<u>5,994,503</u>	<u>431,136</u>	<u>222,681</u>	<u>303,393</u>	<u>6,951,713</u>
Sales to external customers					
	<u>5,994,503</u>	<u>431,136</u>	<u>222,681</u>	<u>303,393</u>	<u>6,951,713</u>
Segment results	<u>672,607</u>	<u>177,240</u>	<u>111,964</u>	<u>33,988</u>	995,799
Finance income					80,388
Other losses, net					(5,437)
Finance costs					(122,515)
Share of losses of investments accounted for using the equity method					(12,694)
Unallocated corporate expenses					<u>(99,641)</u>
Profit before taxation					835,900
Taxation					<u>(168,438)</u>
Profit for the period					<u>667,462</u>

For the six months ended 30 June 2020:

	Sales and distribution of natural gas and other related products <i>HK\$'000</i>	Gas pipeline construction and connection <i>HK\$'000</i>	Exploitation and production of crude oil and natural gas <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment revenue and results				
Segment revenue				
Recognised at a point in time	4,184,693	–	134,156	4,318,849
Recognised over time	–	335,052	–	335,052
	<u>4,184,693</u>	<u>335,052</u>	<u>134,156</u>	<u>4,653,901</u>
Sales to external customers	<u>4,184,693</u>	<u>335,052</u>	<u>134,156</u>	<u>4,653,901</u>
Segment results	<u>443,848</u>	<u>168,765</u>	<u>9,449</u>	622,062
Finance income				97,626
Other losses, net				(11,999)
Finance costs				(119,396)
Share of losses of investments accounted for using the equity method				(3,043)
Unallocated corporate expenses				<u>(54,670)</u>
Profit before taxation				530,580
Taxation				<u>(104,807)</u>
Profit for the period				<u>425,773</u>

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

Assets

	At 30.6.2021	At 31.12.2020
	Total assets	Total assets
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	3,221,554	103,866
Mainland China	16,732,860	16,258,012
Canada	1,945,531	1,839,296
	<hr/>	<hr/>
Total	21,899,945	18,201,174
	<hr/>	<hr/>
Unallocated		
Investments accounted for using the equity method	550,290	429,356
Deferred tax assets	4,772	5,810
Financial assets at fair value through other comprehensive income	400,588	633,995
	<hr/>	<hr/>
Total assets	<u>22,855,595</u>	<u>19,270,335</u>

(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 (2020: 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% (2020: 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% (2020: 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% (2020: 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% (2020: 15%).

Canada income tax has been provided for at the rate of 27% on the estimated assessable profits for the year (2020: 27%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 12% (2020: 12%) and 15% (2020: 15%) respectively.

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) 1.1–30.6.2021 HK\$'000	Unaudited (6 months) 1.1–30.6.2020 HK\$'000
Current tax:		
PRC corporate income tax	156,042	104,928
Overseas taxation	9,242	–
	<u>165,284</u>	<u>104,928</u>
Deferred tax	<u>3,154</u>	<u>(121)</u>
Taxation	<u>168,438</u>	<u>104,807</u>

(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\$309,650,000 (six months ended 30 June 2020: HK\$189,741,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the Period of approximately 5,139,280,000 shares (six months ended 30 June 2020: 4,932,171,000 shares).
- (b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK\$309,650,000 (six months ended 30 June 2020: HK\$189,741,000), and the weighted average number of ordinary shares of approximately 5,139,280,000 shares (six months ended 30 June 2020: 4,932,171,000 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 Nil shares (six months ended 30 June 2020: Nil 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 Nil shares (six months ended 30 June 2020: Nil shares).

(7) DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021 (2020: Nil).

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

	Unaudited At 30.6.2021 <i>HK\$'000</i>	Audited At 31.12.2020 <i>HK\$'000</i>
Trade receivables	1,038,327	775,666
Other receivables, deposits and prepayments	<u>1,412,682</u>	<u>1,376,068</u>
	<u>2,451,009</u>	<u>2,151,734</u>

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

Up to 3 months	957,302	695,133
3 to 6 months	22,098	27,799
Over 6 months	<u>58,927</u>	<u>52,734</u>
Total	<u>1,038,327</u>	<u>775,666</u>

(9) TRADE AND OTHER PAYABLES

	Unaudited At 30.6.2021 <i>HK\$'000</i>	Audited At 31.12.2020 <i>HK\$'000</i>
Trade payables	435,427	448,525
Other payables and accruals	<u>884,559</u>	<u>837,680</u>
	<u>1,319,986</u>	<u>1,286,205</u>

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

Up to 3 months	324,376	357,221
3 to 6 months	43,760	37,632
Over 6 months	<u>67,291</u>	<u>53,672</u>
Total	<u>435,427</u>	<u>448,525</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, with the availability of vaccines for COVID-19 in many countries and the continuous increase in the amount of vaccinations, the worldwide economy has recovered. With the resumption of work and production in the PRC, the economy has been greatly improved at the same time. The Group is actively facing market changes and opportunities, while analysing the situation and moving forward steadily.

During the first six months of 2021, the Group's natural gas sales volume and upstream oil prices both increased, with a total revenue of HK\$6.952 billion (2020: HK\$4.654 billion), a year-on-year increase of 49%. The Group recorded profit for the Period attributable to owners of the Company of HK\$310 million, a year-on-year increase of 63%.

CITY PIPELINE NATURAL GAS BUSINESS

Sales and distribution of natural gas

The Group's natural gas sales volume recorded to be 2,425 million cubic meters for the first six months of 2021 (2020: 2,019 million cubic meters), increased by 20% compared with the same period last year. Transmission volume was 503 million cubic meters, recorded a 19% rise as compared to the last period.

Consumption of residential users increased by 1% from last period's 617 million cubic meters to 625 million cubic meters; industrial and commercial users recorded 1,597 million cubic meters (2020: 1,242 million cubic meters), increased by 29% compared with the same period last year; gas consumption of gas stations recorded an increase from last period's 160 million cubic meters to current period's 203 million cubic meters. Each of the above category representing 26%, 66% and 8% of the total gas sales volume (2020: 30%, 62% and 8%), respectively.

Development of new users

For the first six months of 2021, the Group connected 84,409 (2020: 65,475) new residential users, representing a period-to-period increase of 29% and the accumulated development of residential users were 1,687,505. Total connections for new industrial and commercial users were 528 (2020: 874), representing a period-to-period decrease of 40% and the accumulated development of industrial and commercial users were 14,847.

New project expansion

While promoting organic growth from existing projects, the Group also conducted thorough inspections on the areas surrounding the natural gas pipelines and the coastal areas in the first half of 2021. During the Period, the Group successfully obtained the exclusive concession right for Jixian Industrial Cluster in Linfen, Shanxi Province, and secured the “Shaopu — Zhuzang” Branch Pipeline Project in Guizhou Province. The Group started the merger and acquisition of Shandong Shengli Co., Ltd. (“**Shandong Shengli**”) (000407.SZ) in July 2021. It has established 139 natural gas project companies in 16 provinces, municipalities and autonomous regions in the PRC, with 73 concession rights.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

The Group continued the business of exploitation and production of light oil and natural gas in Canada. The Group’s production in the first half of 2021 was 4,966 barrels of oil equivalent per day (“**boe/d**”), a decrease of 6.4% from 5,305 boe/d in the comparable period of 2020.

Reference crude oil prices were 67.6% higher in the first half of 2021, with West Texas Intermediate averaging US\$61.95 per barrel compared with US\$36.96 per barrel in the first half of 2020. The Group realized a crude oil price of CAD72.28 per barrel in 2021 compared to CAD41.27 per barrel in 2020 with a year-on-year increase of 75.1%. The Group achieved the average operating netback of CAD29.54 per barrel of oil equivalent, representing an increase of 144.9% as compared with CAD12.06 per barrel of oil equivalent for the same period last year.

BUSINESS PROSPECT

In the first half of 2021, China’s economy sustained a steady recovery, the GDP grew 12.7% year-on-year to RMB53.2167 trillion and energy consumption saw rapid growth. China’s natural gas output increased steadily to 104.5 billion cubic metres in the first half of 2021, a year-on-year rise of 10.9%. The domestic apparent consumption of natural gas rose 17.4% year-on-year to 182.7 billion cubic metres. China imported 59.82 million tons of natural gas during the Period, up 22.9% year-on-year.

China continuously deepened reform on the natural gas system and tightened control over prices in natural monopoly sectors to promote the high-quality development of the natural gas industry. The National Development and Reform Commission issued the “Measures for the administration of prices for natural gas pipeline transportation (interim)” and the “Measures for the supervision and examination of the pricing cost of natural gas pipeline transportation (interim)” to improve the mechanism for regulating natural gas prices and release the benefits of reform. Further efforts will be made to optimise the natural gas price regulating mechanism to vitalise market and promote the perfect competition between the upstream and downstream sectors.

China Oil & Gas Pipeline Network Corporation (“**PipeChina**”) has received pipeline infrastructure assets from the three state-owned oil conglomerates since its establishment. It plans to connect the provincial pipeline networks of some provinces. PipeChina operated 49,200 km of natural gas pipelines as of the end of 2020, accounting for more than 60% of the country’s total natural gas pipeline mileage. It will accelerate the construction of a nationwide oil and gas pipeline network. PipeChina plans to integrate all major domestic natural gas resources to achieve the interconnection of trunk gas transmission lines by 2025.

China aims to bring its carbon emissions to a peak before 2030 and become carbon-neutral before 2060. The transformation of energy structure is the must-go path to meet the targets. Natural gas is a realistic choice to ensure energy security, transform energy structure and realise clean energy supply. It will act as a bridge in the transformation of energy structure. In China, the proportion of urban population grew from 37.66% in 2001 to 63.89% in 2021. The 14th Five-Year Plan set a target of 65% of the urbanisation rate for the 2021–2025 period. China will continuously see rapid urbanisation in the next five years. With the development of urbanisation, the gasification rate in urban areas will go up and the gas consumption of urban households will increase in a steady manner in the future. Clean energy was used for heating in 65% of the households in northern China at the end of 2020. The figure is set to hit 70% in 2021. Clean energy will be used for heating by all urban households of key cities, by more than 80% of the households in counties and urban-rural fringes, and by 60% of the households in rural areas. Heating with natural gas has larger development space.

In the next step, the Group will consolidate its existing advantages to explore markets and gas sources, and strengthen the capacity building of gas storage and peak shaving. The Group established Chongqing Natural Gas Storage and Transportation Company Limited* (重慶天然氣儲運有限公司) with PetroChina Company Limited (中國石油天然氣股份有限公司), Chongqing Gas Group Corporation Ltd. (重慶燃氣集團股份有限公司), Chongqing Shale Gas Industry Investment Fund Co., Ltd. (重慶頁岩氣產業投資基金有限責任公司) and Chongqing Kaiyuan Petroleum and Natural Gas Co., Ltd. (重慶凱源石油天然氣有限責任公司). The joint venture will build two gas storage facilities with a capacity of 3.1 billion cubic metres. After completion, the facilities will play to their strengths in resources, location and so forth of underground gas storage in Chongqing to address the problems including insufficient gas storage facilities and weak supply in winter in the city, which will make a positive contribution to ensure the national gas supply in China. The Group announced to acquire a total of 17.19% stake in Shandong Shengli (000407.SZ) in July and August 2021, which will further broaden its market coverage, generate synergies and promote its high-quality development.

FINANCIAL REVIEW

For the six months ended 30 June 2021, the Group recorded revenue of HK\$6,952 million, representing an increase of 49.4% from HK\$4,654 million for the six months ended 30 June 2020.

The total revenue combined by four segments, namely (1) sales and distribution of natural gas and other related product, (2) gas pipeline construction and connection, (3) exploitation and production of crude oil and natural gas and (4) production and sales of coal gasification and other related products, amounted to HK\$5,995 million, HK\$431 million, HK\$223 million and HK\$303 million respectively (2020: HK\$4,185 million, HK\$335 million, HK\$134 million and Nil respectively).

The Group's overall gross profit amounted to HK\$1,184 million (2020: HK\$749 million), the overall gross margin rose by 5.6% to 17.0% (2020: 16.1%) due to the Group's effective optimization of cost structure; Profit for the Period attributable to the owners of the Company was HK\$310 million, represented an increase of 63%.

Administrative expenses were HK\$256 million (2020: HK\$159 million), an increase of 61% as compared to the same period last year, the proportion of administrative expenses to revenue was slightly increased to 3.7% (2020: 3.4%) with selling and distribution costs recorded an increase of 29%.

Finance costs (net of capitalization) increase slightly from the last corresponding period's HK\$119 million to HK\$123 million. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 30 June 2021 was 4.44% (2020: 5.26%).

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 expand business and acquire projects. As at 30 June 2021, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK\$10,643 million (31 December 2020: HK\$7,749 million).

As at 30 June 2021, the Group had cash and cash equivalents of HK\$6,497 million (31 December 2020: HK\$3,763 million). Total assets were HK\$22,856 million (31 December 2020: HK\$19,270 million), in which current assets were HK\$9,391 million (31 December 2020: HK\$6,249 million). Total liabilities of the Group were HK\$14,764 million (31 December 2020: HK\$11,924 million), in which current liabilities were HK\$7,566 million (31 December 2020: HK\$5,149 million). The Group's net debt-to-assets ratio, measured on the basis of total indebtedness net of cash and term deposits, divided by total assets was 18.1% (31 December 2020: 20.7%). The Group's financial and liquidity remain stable, and well prepared for the development in the second half of 2021.

For the six months ended 30 June 2021, the Group's net cash generated from operating activities amounted to HK\$640 million (six months ended 30 June 2020: HK\$548 million), a period-on-period increase of 16.8%.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group employed a total of 4,700 (31 December 2020: 4,443) full-time employees, most of whom were stationed in the PRC. Total staff cost for the Period amounted to HK\$255 million (2020: HK\$152 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 2021, senior notes were guaranteed by certain subsidiaries of the Company.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2021.

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, Canadian dollars 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 2021, the Group has no material litigation.

CAPITAL STRUCTURE

As at 30 June 2021, the issued share capital of the Company was HK\$57,670,438 divided into 5,767,043,834 shares with a nominal value of HK\$0.01 each.

MATERIAL EVENTS DURING AND AFTER REPORTING PERIOD

In June 2021, the Group successfully issued senior notes due 2026 (“**2026 Notes**”) with a par value of US\$400 million at a low cost of 4.7%, which is the lowest interest rate for the issuance of 5-year bonds among the same-rated utilities.

On 2 July 2021, the Company announced that it has informed the trustee and holders of the 4.625% senior notes due 2022 (“**2022 Notes**”) that all of the outstanding 2022 Notes would be redeemed in full on 2 August 2021 (the “**Redemption Date**”) at a redemption price equal to 101.156% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the Redemption Date. The redemption was satisfied by using a portion of the net proceeds from the 2026 Notes. The outstanding principal amount of the 2022 Notes was US\$350,000,000.

On 15 July 2021, China Oil and Gas Investment Group Co., Ltd. (“**China Oil and Gas Investment**”), a wholly-owned subsidiary of the Group, acquired an aggregate of 47,675,503 shares of Shandong Shengli, representing approximately 5.42% of the then issued shares of Shandong Shengli, at a total consideration of RMB246,504,504.87. The acquisition was completed on 17 August 2021. For further details, please refer to the announcement of the Company dated 15 July 2021.

On 10 August 2021, China Oil and Gas Investment has entered into agreements to acquire a further aggregate of 103,624,719 shares of Shandong Shengli, representing approximately 11.77% of the existing issued shares of Shandong Shengli, at a total consideration of RMB541,957,280.37. Inclusive of the shares of Shandong Shengli acquired as announced on 15 July 2021, China Oil and Gas Investment has totally acquired an aggregate of 151,300,222 shares, representing an approximate 17.19% of the existing issued shares of Shandong Shengli, at a total consideration of RMB788,461,785.24.

As the applicable percentage ratios in respect of the acquisition and the further acquisition of Shandong Shengli exceed 25% but less than 100%, the further acquisition constitutes a major transaction of the Company, and is therefore subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

For further details, please refer to the announcement of the Company dated 10 August 2021.

As at the date of this announcement, the further acquisition was yet to complete.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021 (30 June 2020: 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 2021, 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 (the “**Model Code**”) as set out in Appendix 10 to 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 2021. 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 2021, 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.

Save as the aforesaid and in the opinion of the Directors, the Company has met all relevant code provisions as set out in the CG Code during the six months ended 30 June 2021.

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 terms of reference of the Audit Committee comply with the code provisions set out in the CG Code. 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. Wang Wenhua (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 2021.

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

Hong Kong, 25 August 2021

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. Gao Falian; and three independent non-executive Directors, namely Mr. Wang Wenhua, Mr. Wang Guangtian and Mr. Yang Jie.

* *for identification purposes only*