



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



2012
Interim Report



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Enterprise Culture



In order to achieve greater success for our Group's future, we work our objectives like a four-equal-sides square, each side has to make progress simultaneously!

Financial Highlights

	(6 months)	(6 months)		(6 months)		(12 months)	(12 months)	
Notes	1.1-30.6.2012	1.1-30.6.2011	+ / (-)	1.1-30.6.2010	+ / (-)	1.1-31.12.2011	1.1-31.12.2010	+ / (-)
Revenue (HK\$' million)	2,358	2,033	16%	1,102	84%	4,391	2,626	67%
Gross Profit (HK\$' million)	485	406	19%	312	30%	901	578	56%
Total Sales on Gas Volume (million M ³)	974	805	21%	662	22%	1,585	1,273	25%
Total Transmission Gas Volume (million M ³)	727	508	43%	478	6%	1,228	824	49%
Total Transportation Gas Volume (million M ³)	47	44	7%	43	2%	92	86	7%
Profit for the period (HK\$' million)	310	252	23%	195	29%	500	354	41%
Profit attributable to owners of the Company (HK\$' million)	152	106	43%	88	20%	209	165	27%
Earnings per share (HK cents)	3.08	2.14	44%	1.79	20%	4.22	3.35	26%
EBITDA (HK\$' million)	(a) 448	343	31%	261	31%	807	558	45%
Total Assets (HK\$' million)	8,143	6,237	31%	3,937	58%	7,102	4,466	59%
Net Assets (HK\$' million)	4,441	3,618	23%	3,003	20%	4,198	3,252	29%
Net Assets Value per share (HK cents)	(b) 58	52	12%	47	11%	56	49	14%
Cash per share (HK cents)	(c) 39	41	-5%	24	71%	41	24	71%

Notes:

(a) Profit for the period + Finance costs + Taxation + Depreciation and amortisation

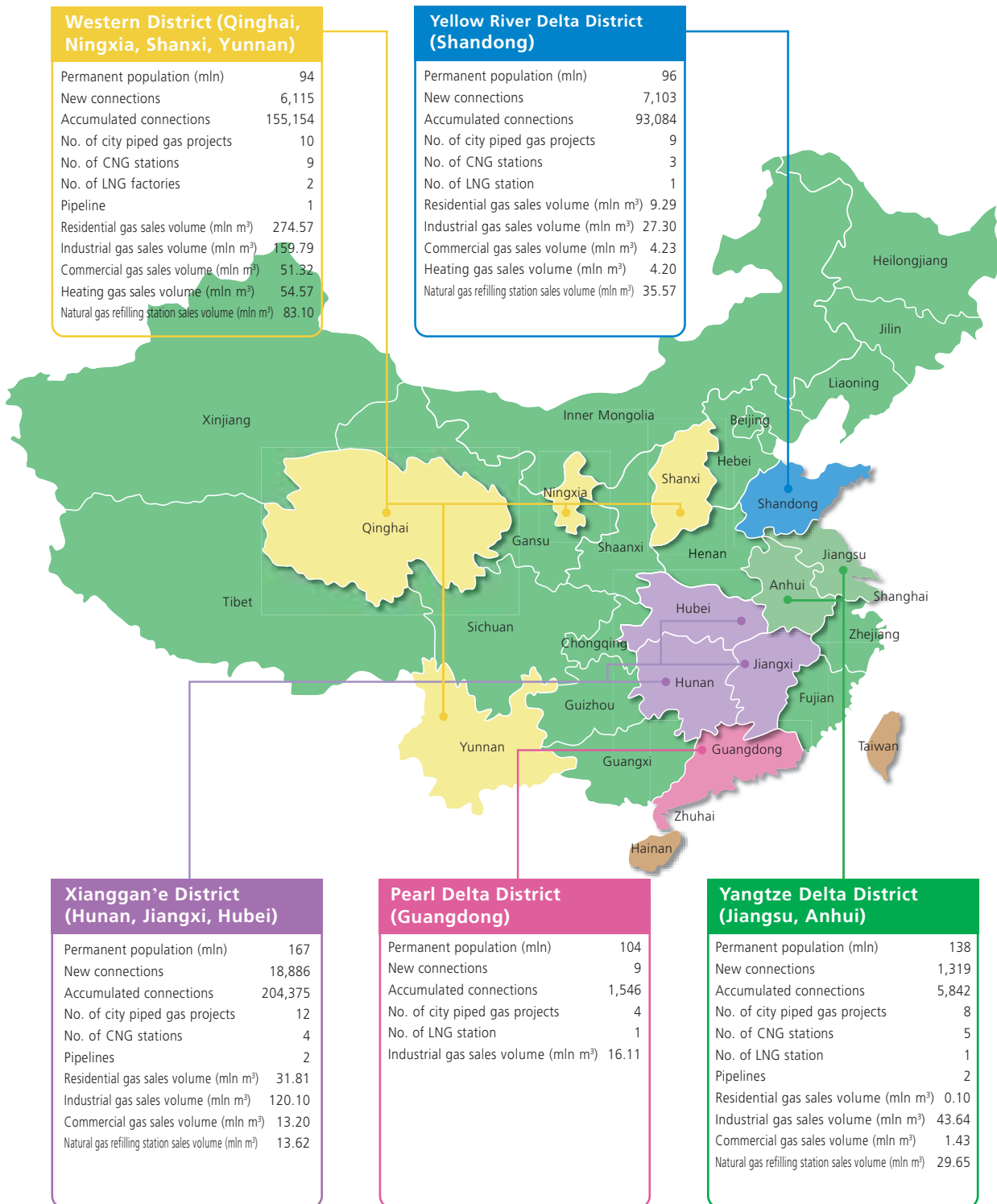
(b)
$$\frac{\text{Net assets} - \text{Non-controlling interests}}{\text{Issued and fully paid ordinary shares}}$$

(c)
$$\frac{\text{Cash and cash equivalents}}{\text{Issued and fully paid ordinary shares}}$$

Operation Map

Strong operations in 5 key markets

The Group has established 84 gas project companies in 32 cities, 11 provinces in 5 key districts, and owns 45 city gas operation rights



Board of Directors

Executive Directors

XU Tie-liang (*Chairman & Chief Executive Officer*)
ZHU Yuan
GUAN Yijun
CHEUNG Shing

Independent Non-Executive Directors

LI Yunlong
SHI Xun-zhi
WANG Guangtian

Company Secretary

CHAN Yuen Ying Stella, *ACIS, ACS, MHKIoD*

Authorised Representatives

XU Tie-liang
CHAN Yuen Ying Stella

Audit Committee

LI Yunlong (*chairman*)
SHI Xun-zhi
WANG Guangtian

Remuneration Committee

LI Yunlong (*chairman*)
WANG Guangtian
CHEUNG Shing

Nomination Committee

WANG Guangtian (*chairman*)
LI Yunlong
CHEUNG Shing

Corporate Governance Committee

XU Tie-liang (*chairman*)
ZHU Yuan
GUAN Yijun
CHEUNG Shing
LAW Yin Shan Jenny
CHAN Yuen Ying Stella

Auditor

PricewaterhouseCoopers

Legal Advisers

(As to Hong Kong Law)
Li & Partners

(As to PRC Law)
Beijing Huaao Law & Partners

Principal Registrar

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Suite 2805, 28th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Stock Code

603

Website and E-Mail Address

Website: <http://www.hk603.com>

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Interim Results

The board (the "Board") of directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012 (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").

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Revenue	4	2,357,861	2,032,558
Cost of sales		(1,873,061)	(1,626,667)
Gross profit		484,800	405,891
Other income and gains, net	5	47,893	8,030
Selling and distribution costs		(18,294)	(12,629)
Administrative expenses		(93,613)	(73,545)
Operating profit		420,786	327,747
Interest income	6	19,291	8,918
Finance costs	6	(37,928)	(21,825)
Share of loss of a jointly-controlled entity		(1,863)	–
Profit before taxation		400,286	314,840
Taxation	7	(90,438)	(63,234)
Profit for the period		309,848	251,606
Other comprehensive income:			
Currency translation differences		–	70,507
Total comprehensive income for the period		309,848	322,113
Profit for the period attributable to:			
Owners of the Company		152,270	105,727
Non-controlling interests		157,578	145,879
		309,848	251,606
Total comprehensive income attributable to:			
Owners of the Company		152,270	152,732
Non-controlling interests		157,578	169,381
		309,848	322,113
Earnings per share	8	HK cents	HK cents
– Basic		3.081	2.136
– Diluted		3.058	2.116

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		Unaudited At 30.6.2012 HK\$'000	Audited At 31.12.2011 HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment		2,501,333	2,314,583
Land use rights		126,618	118,860
Intangible assets		1,033,841	1,033,883
Interests in a jointly-controlled entity		41,967	43,831
Available-for-sale financial assets		685,483	288,095
Other non-current assets		224,184	224,184
		4,613,426	4,023,436
Current assets			
Inventories		212,910	174,954
Deposits, trade and other receivables	10	578,817	448,688
Financial assets at fair value through profit or loss		71,087	426,543
Time deposits with maturity over three months		731,762	–
Cash and cash equivalents		1,934,886	2,027,915
		3,529,462	3,078,100
Current liabilities			
Trade and other payables	11	524,874	487,200
Receipt in advance		995,745	1,005,382
Short-term borrowings		1,203,702	397,799
Current tax payable		11,475	46,414
		2,735,796	1,936,795
Net current assets		793,666	1,141,305
Total assets less current liabilities		5,407,092	5,164,741
Non-current liabilities			
Long-term borrowings		952,540	952,540
Deferred tax liabilities		14,097	14,097
Total non-current liabilities		966,637	966,637
Net assets		4,440,455	4,198,104
Equity			
Equity attributable to owners of the Company			
Share capital	13	49,654	49,521
Reserves		2,828,162	2,709,954
		2,877,816	2,759,475
Non-controlling interests		1,562,639	1,438,629
Total equity		4,440,455	4,198,104

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company									
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Exchange fluctuation reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK'000	HK'000
At 1 January 2012	49,521	1,964,143	(10,976)	78,716	204,209	13,022	460,840	2,759,475	1,438,629	4,198,104
Change in equity for 2012										
Profit for the period	-	-	-	-	-	-	152,270	152,270	157,578	309,848
Total comprehensive income for the period	-	-	-	-	-	-	152,270	152,270	157,578	309,848
Issue of shares upon exercise of share options	133	7,938	-	-	-	(2,356)	-	5,715	-	5,715
Equity-settled share-based payments	-	-	-	-	-	2,397	-	2,397	-	2,397
Shares purchased for share award scheme	-	-	(135)	-	-	-	-	(135)	-	(135)
Exchange adjustment arising from translation of financial statements not recognized in consolidated income statement	-	-	-	-	(7,462)	-	-	(7,462)	-	(7,462)
Capital injection by non-controlling interests	-	-	-	-	-	-	-	-	38,430	38,430
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(67,759)	(67,759)
Changes in the ownership interests that do not result in a loss of control	-	-	-	(34,444)	-	-	-	(34,444)	(4,239)	(38,683)
At 30 June 2012	49,654	1,972,081	(11,111)	44,272	196,747	13,063	613,110	2,877,816	1,562,639	4,440,455

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2012

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Exchange fluctuation reserve	Share option reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2011	49,509	1,963,391	81,970	74,597	7,737	251,908	2,429,112	822,565	3,251,677
Change in equity for 2011									
Exchange differences on translating foreign operations	-	-	-	47,005	-	-	47,005	23,502	70,507
Profit for the period	-	-	-	-	-	105,727	105,727	145,879	251,606
Total comprehensive income for the period	-	-	-	47,005	-	105,727	152,732	169,381	322,113
Equity-settled share-based payments	-	-	-	-	2,798	-	2,798	-	2,798
Capital injection by non-controlling interests	-	-	-	-	-	-	-	58,107	58,107
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(48,025)	(48,025)
Changes in the ownership interests that do not result in a loss of control	-	-	-	-	(2)	-	(2)	(292)	(294)
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	31,515	31,515
At 30 June 2011	49,509	1,963,391	81,970	121,602	10,533	357,635	2,584,640	1,033,251	3,617,891

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Net cash generated from operating activities	512,279	78,244
Net cash used in investing activities	(1,306,546)	(506,421)
Net cash generated from financing activities	705,795	1,250,766
Net (decrease)/increase in cash and cash equivalents	(88,472)	822,589
Cash and cash equivalents at beginning of the period	2,027,915	1,202,013
Effect of foreign exchange rate changes	(4,557)	19,221
Cash and cash equivalents at end of the period	1,934,886	2,043,823

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

(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 of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. Its subsidiaries are principally engaging in investment in natural gas and energy related business, including but not limited to city piped gas business, pipeline design and construction, as well as transportation, distribution and sales of compressed natural gas (“CNG”), liquefied natural gas (“LNG”) and liquefied petroleum gas (“LPG”) in the Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggan’e District of the People’s Republic of China (the “PRC”).

(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 2011.

(3) SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets at fair value through profit or loss, which are carried at fair values.

The accounting policies applied and methods of computation used in the preparation of these interim financial statements are consistent with those used in the 2011 annual financial statements, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations issued by the HKICPA that are relevant to the Group’s operations and mandatory for annual accounting periods beginning 1 January 2012. The adoption of the new HKFRSs has no material impact on the Group’s results and financial position for the current or prior periods.

(4) REVENUE AND SEGMENT INFORMATION

The Group’s executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in sales of natural gas and gas pipeline construction and connection in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group’s executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by a unique business unit within the Group whose performance is assessed independently. The Group’s operating segments under HKFRS 8 are therefore as follows:

- sales and distribution of natural gas and other related products
- sales of LPG
- gas pipelines construction and connection

Information regarding the Group’s reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the six months ended 30 June 2012 and 2011 is set out below:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(4) REVENUE AND SEGMENT INFORMATION (Continued)

Business Segments

For the six months ended 30 June 2012:

	Sales and distribution of natural gas and other related products HK\$'000	Sales of LPG HK\$'000	Gas pipeline construction and connection HK\$'000	Group HK\$'000
Segment revenue and results				
Sales to external customers	2,141,865	82,467	133,529	2,357,861
Segment results	346,625	(7,015)	58,144	397,754
Interest income				19,291
Gains on disposal of financial assets at fair value through profit or loss				28,317
Fair value gains on financial assets at fair value through profit or loss				159
Finance costs				(37,928)
Share of loss of a jointly-controlled entity				(1,863)
Unallocated corporate expenses				(5,444)
Profit before taxation				400,286
Taxation				(90,438)
Profit for the period				309,848

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(4) REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2011:

	Sales and distribution of natural gas and other related products HK\$'000	Sales of LPG HK\$'000	Gas pipeline construction and connection HK\$'000	Group HK\$'000
Segment revenue and results				
Sales to external customers	1,651,013	266,924	114,621	2,032,558
Segment results	356,280	3,461	46,150	405,891
Interest income				8,918
Gain on disposal of financial assets at fair value through profit or loss				9,717
Fair value losses on financial assets at fair value through profit or loss				(1,575)
Finance cost				(21,825)
Unallocated corporate expenses				(86,286)
Profit before taxation				314,840
Taxation				(63,234)
Profit for the period				251,606

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(5) OTHER INCOME AND GAINS, NET

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Dividend income from listed securities	1,277	122
Government grants	2,644	107
Rental income	2,743	–
Service income	1,548	1,626
Financial arrangement income	6,907	–
Others	1,393	326
Other income	16,512	2,181
Gains on disposal of financial assets at fair value through profit or loss	28,317	9,717
Fair value gains/(losses) on financial assets at fair value through profit or loss	159	(1,575)
Net exchange gains/(losses)	2,905	(2,293)
Gains, net	31,381	5,849
	47,893	8,030

(6) INTEREST INCOME AND FINANCE COSTS

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Interest income from:		
Bank deposits	7,153	4,908
Debt securities	12,138	4,010
	19,291	8,918
Finance costs on:		
Bank borrowings	(24,319)	(15,702)
Other borrowings	(13,609)	(6,123)
	(37,928)	(21,825)
	(18,637)	(12,907)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(7) TAXATION

Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% (2011: 25%) of the assessable profits for the companies within the Group, except for certain subsidiaries in the PRC which are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. PRC enterprise income tax has been provided for after taking these tax incentives into account.

No provision for Hong Kong profits tax has been made for those companies subject to Hong Kong profits tax within the Group as these subsidiaries did not have any assessable profits for the Period (2011:Nil).

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Current tax and taxation charge for the period:		
Taxation outside Hong Kong	90,438	63,234

(8) EARNINGS PER SHARE

(a) Basic earnings per share

	Unaudited (6 months) 1.1-30.6.2012 HK cents	Unaudited (6 months) 1.1-30.6.2011 HK cents
Basic earnings per share	3.081	2.136

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Profit for the period attributable to owners of the Company	152,270	105,727
Earnings used in the calculation of basic earnings per share	152,270	105,727

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,942,652,257	4,950,856,213

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(8) EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

	Unaudited (6 months) 1.1-30.6.2012 HK cents	Unaudited (6 months) 1.1-30.6.2011 HK cents
Diluted earnings per share	3.058	2.116

The calculation of the diluted earnings per share for the Period is based on the profit attributable to owners of the Company of HK\$152,270,000 and the weighted average number of 4,978,748,624 shares which is the weighted average number of shares in issue less shares held under share award scheme during the year plus the weighted average number of 36,096,367 shares deemed to be issued at no consideration if all outstanding options had been exercised.

	Unaudited (6 months) 1.1-30.6.2012 HK\$'000	Unaudited (6 months) 1.1-30.6.2011 HK\$'000
Profit for the period attributable to owners of the Company	152,270	105,727
Earnings used in the calculation of diluted earnings per share	152,270	105,727

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,942,652,257	4,950,856,213
Effect of deemed issue of shares under the Company's share option scheme	36,096,367	46,537,197
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,978,748,624	4,997,393,410

(9) DIVIDEND

No interim dividend was declared to be paid to shareholders during the Period (2011: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(10) DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited At 30.6.2012 HK\$'000	Audited At 31.12.2011 HK\$'000
Trade receivables	165,280	128,427
Other receivables, deposits and prepayments	413,537	320,261
	578,817	448,688
The ageing analysis of trade receivables is as follows:		
Current to 90 days	107,444	115,197
91-180 days	20,220	5,574
Over 180 days	37,616	7,656
	165,280	128,427

- (a) The Board considers that the carrying amounts of deposits, trade and other receivables approximate to their fair values.
- (b) At each Consolidated Interim Condensed Statement of Financial Position date, the Group's allowance for impairment of trade receivables will individually be determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowance will be recognised. In the opinion of the directors, all of the trade and other receivables are expected to be received or recognized as expense within one year.

The Group allows an average credit period ranging from 60 to 90 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

As at 30 June 2012, trade receivables of approximately HK\$57,836,000 (31 December 2011: HK\$13,230,000) that were past due but not impaired related to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balancers as there has not been a significant change in their credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2012

(11) TRADE AND OTHER PAYABLES

	Unaudited At 30.6.2012 HK\$'000	Audited At 31.12.2011 HK\$'000
Trade payables	330,130	229,237
Other payables and accruals	194,744	257,963
	524,874	487,200
The ageing analysis of trade payables is as follows:		
Current to 90 days	138,227	178,154
91-180 days	54,054	35,169
Over 180 days	137,849	15,914
	330,130	229,237

(12) CAPITAL EXPENDITURE

During the six months ended 30 June 2012, the Group acquired property, plant and equipment amounting to HK\$374,758,000 (six months ended 30 June 2011: HK\$244,130,000) and disposed of property, plant and equipment with net book value of HK\$587,000 (six months ended 30 June 2011: HK\$460,000).

(13) SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 June 2011, 31 December 2011 and 30 June 2012	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 at 30 June 2011	4,950,856,213	49,509
Issue of shares upon exercise of share options	1,260,000	12
Ordinary shares of HK\$0.01 at 31 December 2011	4,952,116,213	49,521
Issue of share upon exercise of share options	13,290,000	133
Ordinary shares of HK\$0.01 each at 30 June 2012	4,965,406,213	49,654

(14) PLEDGE OF ASSETS

The Group has pledged its equity interest in China City Natural Gas Co., Ltd. (a subsidiary owned as to 51% by the Group) as security for a borrowing of HK\$700,000,000 granted by China Petroleum Hong Kong (Holding) Limited.

Apart from the above, no other material assets of the Group have been pledged as at 30 June 2012.

(15) CONTINGENT LIABILITY

As at 30 June 2012, the Group has no material contingent liability (2011: Nil).

(16) APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 15 August 2012.

Management Discussion and Analysis

The Group is principally engaged in the investments in, and the operation and management of the natural gas and energy related business.

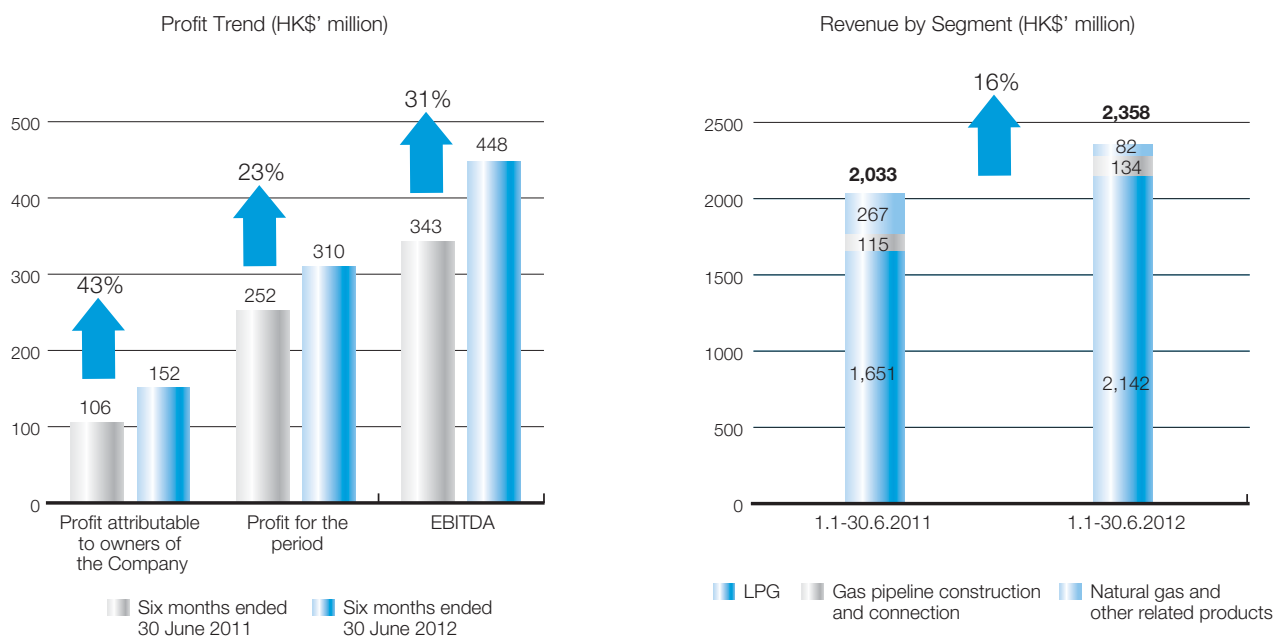
Gas operations include city piped gas business, natural gas vehicle refilling stations, pipeline construction and operation, as well as transportation, delivery and distribution of compressed natural gas (CNG) and liquefied natural gas (LNG). As at 30 June 2012, the Group has established a total of 84 natural gas project companies in 32 cities of 11 provinces in 5 key districts in China.

Business Review

Financial results

The revenue, gross profit and profit attributable to shareholders of the Company continued to increase steadily during the Period. The revenue, gross profit and net profit were HK\$2,358 million, HK\$485 million and HK\$152 million respectively, representing an increase of 16%, 19% and 43%, as compared with HK\$2,033 million, HK\$406 million and HK\$106 million for the corresponding period last year, respectively. Basic earnings per share was HK cents 3.081 and recorded an increase of 44% as compared to HK cents 2.136 for the last period.

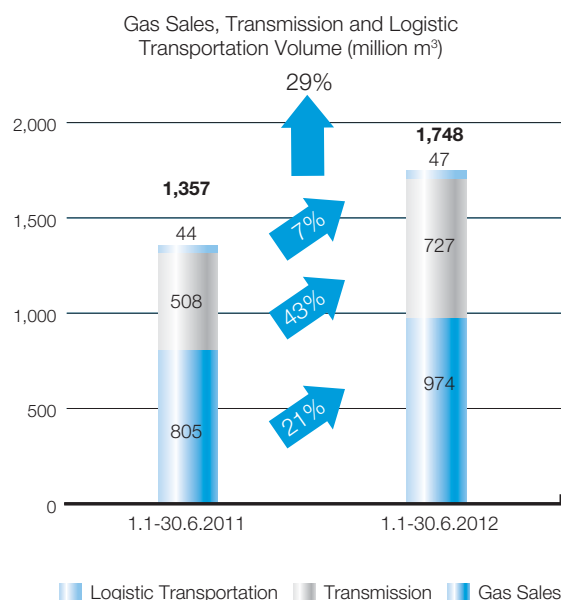
The sales of natural gas amounted to HK\$2,142 million representing an increase of 30% as compared to HK\$1,651 million for the last period and 91% of total revenue. The income of gas pipeline construction and connection amounted to HK\$134 million representing an increase of 17% as compared to HK\$115 million for the last period and 6% of the total revenue. Sales revenue of LPG amounted to HK\$82 million and recorded a decrease of 69% as compared to last period's HK\$267 million. Gross profit margin recorded a slight increase from 20% for the last period to 21% for the Period, which was mainly due to the increase in the gas transmission income which included in the sales of natural gas revenue.



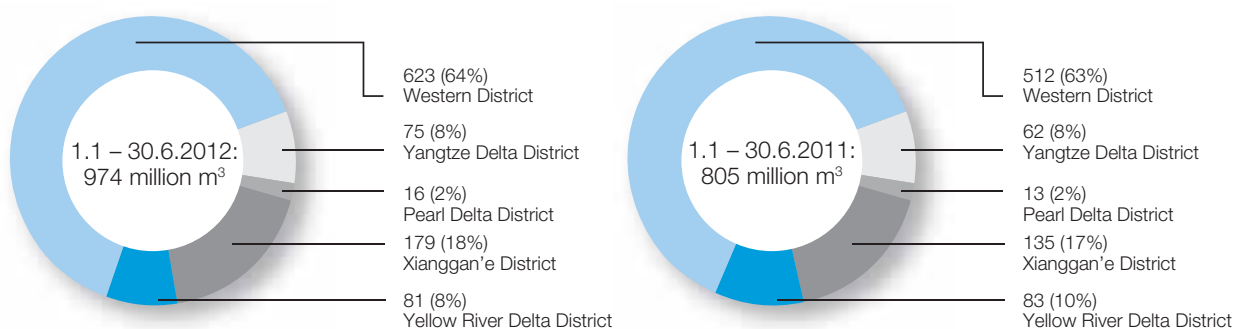
EBITDA for the first half of 2012 was HK\$448 million representing a growth of 31% as compared to last period's HK\$343 million, which clearly stated that the Group's core operations continued to perform stupendously.

Report of the Board

During the Period, the Group's gas sales, transmission and logistic transportation volume reached a total of 1,748 million m³ (2011: 1,357 million m³) with an increase of 29%. Total gas sales volume increased by 21% from last period's 805 million m³ to the Period's 974 million m³; transmission volume increased by 43% from 508 million m³ to 727 million m³; logistic transportation volume was up by 7% to the Period's 47 million m³.



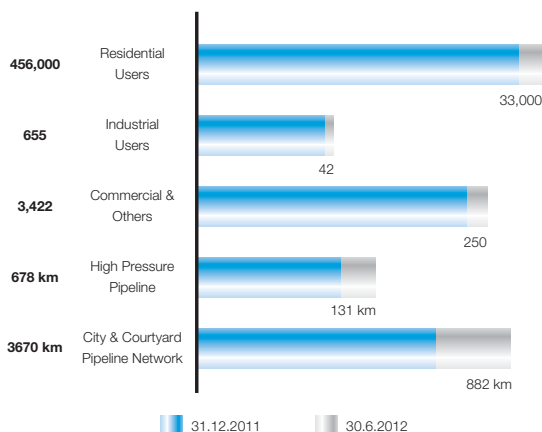
Gas sales volume in five key districts (million m³)



Administrative expenses for the Period were HK\$93.61 million (2011: HK\$73.55 million), which remained at approximately 4% of total revenue of the Group.

New piped gas project

During the Period, the Group insisted on the market strategy of “Taking full advantage on existing projects and radiating outwards”, actively selected projects, and achieved a significant result. The Group has newly increased 33,000 residential users, 42 industrial users, and around 250 commercial and other users. The Group had in aggregate approximately 456,000 residential users, 655 industrial users and 3,422 commercial and other users. The Group also newly constructed 131km of high pressure pipeline with 678km in total. The city and courtyard pipeline network was extended by 882km, and in aggregate 3,670km. At the same time, market research has been completed for a number of projects in the cities and towns along the PetroChina natural gas pipeline stem and branches, and some of the projects have made substantial progress. For example: the establishment of Yunnan China Oil and Gas Company, which is responsible for the gas market development within Yunnan Province, and at present has entered into natural gas direct supply agreements with tobacco companies such as Hongyunhonghe Group and Hongta Group; obtained exclusive operation agreements in three counties, including Ximeng County, Jinggu County and Zhenyuan County under the jurisdiction of Pu'er City; and entered into gas supply agreement with Pu'er industrial park. The Group also successfully obtained Jiangsu Xinyi project, whereby it supplied gas for dozens of glass companies within the district, and completed 4 cooperation framework agreements for the projects of Economic Development Zone in Shandong Laizhou City, Ledu County in Qinghai Province, direct supply of natural gas to Guizhou Zunyi Alumina and Boxing Chenhu town in Shandong Province.



Promotion of LNG business

The Group established a special LNG leading group which achieved a significant result for business development. Using Gan River in Jiangxi and Shandong Canal as the key demonstration areas for gas replacing oil in vessels, the Group established Jiangxi Yingtai China Oil and Gas Company (江西中油鷹泰公司), which is specifically engaged in the business of replacing oil with natural gas in vehicles and vessels and has currently entered into cooperation agreements with a few business partners, to modify the present 45 container vessels and bulk carriers. It was also agreed during the period of “Twelfth Five Years Plan” to cooperate in related business and projects such as inland canal transport, promotion of hybrid fuel for vessel and oil and gas transportation. At the same time, the Group developed 105 LNG buses in Shaoguan (Guangdong) and Binzhou (Shandong). The Group had also developed 20 LNG heavy trucks in Xining, Qinghai and Maanshan, Anhui. In 7 provinces such as Qinghai, Shandong and Guangdong, there are 3,200 vehicles with an intention of replacing oil with natural gas.

Gas refilling station project

During the Period, in order to stay with the development of LNG vehicles, the Group started constructing 10 LNG stations in Qinghai, Guangdong and Shandong. Currently, the stations gradually put into operation. Besides, the Group cooperated with passenger transportation, logistic transportation corporations and local government, and jointly developed 6 LNG station projects in Zhejiang, Shandong, Hebei, Gansu, Jiangsu and Guizhou.

Report of the Board

Construction of natural gas pipelines

During the Period, the Group classified the Zouping natural gas utilization project, Gaoqing – Binzhou High-tech Zone pipeline project, Xining piped city network, the Gan River branch pipeline, Xining Pingdong – Pingxi, Pingbei gas pipeline and Xinyi high-pressure pipeline project as the key projects, so as to increase the sales volume of gas by putting the key projects into operation. At present, both Zouping and Gaoqing – Binzhou High-tech Zone pipeline projects have been completed in general, and operation will start after connected with upstream pipelines. Xining piped city network is progressing steadily, which is important to the rational planning of the Xining city gas pipeline network and timely deployment of gas source. Gan River branch pipeline, Xining Pingdong – Pingxi, Pingbei gas pipelines and Xinyi high-pressure pipeline are under active construction, and are likely to commence operation in the second half of this year.

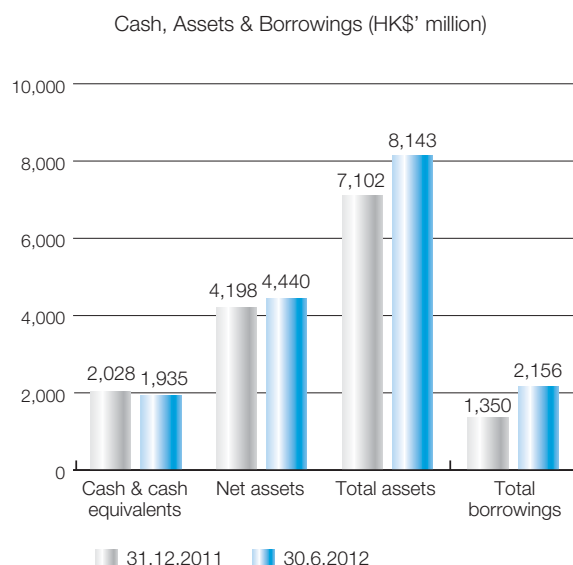
Financial Review

The following discussions should be read in conjunction with the unaudited condensed consolidated financial statement of the Group and the notes thereto and other sections set out in the interim report for the six months ended 30 June 2012.

Financial Position

During the six months ended 30 June 2012, the Group's primary source of funding included cash generated from operating activities and credit facilities provided by principal banks in Hong Kong and China. As at the end of the Period, net cash inflow from operating activities amounted to approximately HK\$512 million (2011: HK\$78 million) and with cash and cash equivalents of HK\$1,935 million (31 December 2011: HK\$2,028 million).

The Group's total assets amounted to HK\$8,143 million (31 December 2011: HK\$7,102 million) and net assets of HK\$4,440 million (31 December 2011: HK\$4,198 million). Total borrowings amounted to HK\$2,156 million (31 December 2011: HK\$1,350 million). Gearing ratio measured on the basis of total liabilities as a percentage of total equity was 83% (31 December 2011: 69%). Current ratio was 1.29 (31 December 2011: 1.59) and quick ratio was 1.21 (31 December 2011: 1.5). Included in current liabilities had receipt in advance from sales of natural gas amounted to HK\$996 million (31 December 2011: HK\$1,005 million), by excluding the receipt in advance, the gearing ratio, current ratio and quick ratio will be adjusted to 61%, 2.0 and 1.9 respectively (31 December 2011: 45%, 3.3 and 3.1 respectively).



Capital Commitments

During the Period, the Group did not incur or commit any material investment or capital expenditure.

Shareholding Structure

As at 30 June 2012, issued share capital of the Company was HK\$49,654,062.13 divided into 4,965,406,213 shares of HK\$0.01 each.

Contingent Liabilities

As at 30 June 2012, the Group did not have any significant contingent liabilities (2011: Nil).

Foreign Exchange Risk

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. Some of the Group's bank deposits are denominated in Hong Kong Dollars. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the period under review, the Group did not hedge any exposure to foreign exchange risk. Proper policy will be in place when the Board considers appropriate.

Human Resources

As at 30 June 2012, the Group employed a total workforce of 3,117 (30 June 2011: 1,752) and most of them were stationed in the PRC. The staff costs for the Period amounted to HK\$88.23 million (2011: HK\$55.48 million), including HK\$2.23 million equity-settled share-based payment (2011: HK\$2.58 million). The employees' remuneration, promotion and salaries are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

Future Prospects

According to the "Twelfth Five Years Plan" of natural gas issued by the National Energy Administration of China, the proportion of natural gas in the primary energy consumption will increase from 4% in 2011 to 8% in 2015, representing the consumption of natural gas increasing from 134 billion m³ in 2011 to 260 billion m³ in 2015. In the first half of 2012, domestic import of natural gas increased 45% as compared to the corresponding period of last year. Meanwhile, China National Development and Reform Commission expects that import of natural gas will further increase. Benefiting from the support of the Chinese government for natural gas, the Group has achieved satisfactory results in the first half of 2012 with exceeding realization of profits and each indicator. Outlook for the second half of the year is still promising.

The Group will focus on the following work in the second half of the year: 1. increasing efforts in marketing and extending the sales scale of gas; 2. accelerating the construction of key projects and striving for the early production; 3. carrying out LNG business to capture the high-end market; 4. co-ordinating the development of LNG and city gas business and doing well in investment management; 5. focusing on respective management in human resources; 6. strengthening financial management and enhancing fund-raising ability; 7. strengthening risk control and management; 8. introducing balanced scorecard performance measurement; 9. endeavouring to secure environmental protection; 10. strengthening corporate culture.

In the second half of 2012, the Board will implement a comprehensive plan, focus on layout, seize opportunities, and accelerate development of the Group. With enthusiasm, cooperation, hard-working, we would overcome difficulties, so as to achieve better results and to maximize the value in return for the support of our shareholders.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended 30 June 2012 (30 June 2011: Nil).

Report of the Board

Directors' Interests in Shares

As at 30 June 2012, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

Interests in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ short position	Notes	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Xu Tie-liang	Interest in controlled corporations	Long position	1	1,115,278,300	22.461%
Guan Yijun	Interest of spouse	Long position	1	1,115,278,300	22.461%
Zhu Yuan	Beneficial owner	Long position	2	1,500,000	0.030%

Notes:

- 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company are held through Sino Advance Holdings Limited ("Sino Advance") and Sino Vantage Management Limited ("Sino Vantage") respectively, both of which were incorporated in the British Virgin Islands with limited liability and are wholly-owned by Sino Best International Group Limited ("Sino Best") (a company incorporated in the British Virgin Islands with limited liability) which in turn is wholly and beneficially owned by Mr. Xu Tie-liang.

Ms. Guan Yijun is the spouse of Mr. Xu Tie-liang and is deemed to be interested in these 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company held through Sino Advance and Sino Vantage respectively.

- These 1,500,000 shares include 1,050,000 share options granted by the Company to Mr. Zhu Yuan exercisable into 1,050,000 shares of the Company.

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2012.

Substantial Shareholders

As at 30 June 2012, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Interests in the shares and underlying shares of the Company

Name of shareholder	Capacity	Long position/ short position	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Sino Advance (Note)	Beneficial owner	Long position	321,018,300	6.465%
Sino Vantage (Note)	Beneficial owner	Long position	794,260,000	15.996%
Sino Best (Note)	Interest in controlled corporations	Long position	1,115,278,300	22.461%

Note: Sino Advance and Sino Vantage are wholly-owned by Sino Best which in turn is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company held through Sino Advance and Sino Vantage respectively.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2012.

Share Option Scheme

Old Share Option Scheme

The Company adopted a share option scheme (the "Old Share Option Scheme") on 31 January 2002 and terminated the same at the special general meeting of the Company held on 23 November 2011 (the "SGM").

The following table sets forth the details of the share options under the Old Share Option Scheme outstanding during the six months ended 30 June 2012 as follows:

Report of the Board

Name or category of participants	Number of share options					Exercise price (HK\$)	Date of Grant	Exercisable Period
	Balance as at 1 January 2012	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2012			
Director								
Mr. Zhu Yuan	450,000	-	(450,000)	-	-	0.43	30 July 2009	31 July 2011 to 30 July 2012
	450,000	-	-	-	450,000	0.43	30 July 2009	31 July 2012 to 30 July 2013
	600,000	-	-	-	600,000	0.43	30 July 2009	31 July 2013 to 30 July 2014
Sub-total	1,500,000	-	(450,000)	-	1,050,000			
Employees								
	28,290,000	-	(12,840,000)	(120,000)	15,330,000	0.43	30 July 2009	31 July 2011 to 30 July 2012
	29,310,000	-	-	(120,000)	29,190,000	0.43	30 July 2009	31 July 2012 to 30 July 2013
	39,080,000	-	-	(160,000)	38,920,000	0.43	30 July 2009	31 July 2013 to 30 July 2014
Sub-total	96,680,000	-	(12,840,000)	(400,000)	83,440,000			
Total	98,180,000	-	(13,290,000)	(400,000)	84,490,000			

New Share Option Scheme

The Company adopted a new share option scheme (the "New Share Option Scheme") at the SGM. Pursuant to the New Share Option Scheme, the Board may at its discretion offer options to any eligible participant including, but not limited to any person being an employee, executive directors or non-executive directors of the Group or any invested entity (including independent non-executive directors of the Group or any invested entity) and any suppliers, consultants or advisers who will provide or have provided services to the Group or any invested entity.

No option was granted under the New Share Option Scheme since its adoption.

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 2012.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code 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 adopted the code provisions set out in the Code on Corporate Governance Practices (“Former CG Code”) as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report (“New CG Code”) with effect from 1 April 2012.

During the six months ended 30 June 2012, the Company was in compliance with all code provisions set out in the Former CG Code except for the deviations from code provisions A.2.1 and A.4.1, which are explained below.

Code provision A.2.1 of the Former 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 calibre individuals with sufficient number thereof being independent non-executive Directors.

Code provision A.4.1 of the Former 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 by rotation at least once every three years in accordance with the bye-laws of the Company (the “Bye-Laws”).

During the period from 1 April 2012 to 30 June 2012, the Company has also complied with the code provisions set out in the New CG Code except for the deviations from code provisions A.6.7 and D.1.4, which are explained below.

Code provision A.6.7 of the New CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2012 annual general meeting of the Company held on 9 May 2012 due to their engagement in their own official business.

Code provision D.1.4 of the New CG Code requires that issuers 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 that Mr. Xu Tie-liang entered into a service contract with the Company on 30 August 2006 for an initial fixed term of two years and his appointment shall continue thereafter until it is terminated pursuant to the terms under the service contract). However, the Directors shall be subject to retirement 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 set out in the Former CG Code and the New CG Code during the six months ended 30 June 2012.

Report of the Board

Audit Committee

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the Former CG Code (“Terms of Reference”), which was revised on 20 March 2012 to comply with the New CG Code. The revised Terms of Reference is currently made available on the Stock Exchange’s website and the Company’s website.

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

The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Wang Guangtian. The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2012.

By Order of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

Hong Kong, 15 August 2012