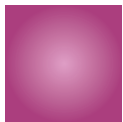
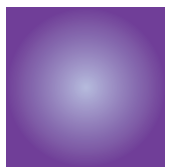
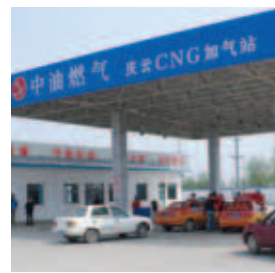
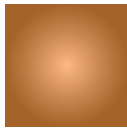




中油燃氣集團有限公司 China Oil And Gas Group Limited

(Incorporated in Bermuda with Limited Liability)
Stock Code: 603



Interim Report 2013

CONTENTS

	Page
Enterprise Culture	2
Financial Highlights	3
Operation Map	4
Corporate Information	5
Consolidated Interim Condensed Statement of Comprehensive Income	6
Consolidated Interim Condensed Statement of Financial Position	7
Consolidated Interim Condensed Statement of Changes in Equity	8
Consolidated Interim Condensed Statement of Cash Flows	10
Notes to Condensed Consolidated Financial Statements	11
Report of the Board	20

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

	Notes	(6 months)	(6 months)	+ / (-)
		1.1-30.6.2013	1.1-30.6.2012	
Revenue (excluding the LPG segment) (HK\$'million)		2,880	2,275	27%
Gross Profit (HK\$'million)		676	485	39%
Total Sales on Gas Volume (million m ³)		1,057	880	20%
Total Transmission Gas Volume (million m ³)		926	877	6%
Transmission Volume to Third Party (million m ³)		188	150	25%
Total Transportation Gas Volume (million m ³)		64	47	36%
Profit for The Period (HK\$'million)		407	310	31%
Recurring Profit Attributable to Owners of the Company (HK\$'million)		195	124	58%
Profit Attributable to Owners of the Company (HK\$'million)		157	152	3%
Earnings Per Share (HK cents)		3.155	3.081	2%
EBITDA (HK\$'million)	a	649	512	27%
		as at	as at	
		30.6.2013	31.12.2012	+ / (-)
Total Assets (HK\$'million)		11,358	9,188	24%
Net Assets (HK\$'million)		5,328	5,027	6%
Net Assets Value per share (HK cents)	b	0.66	0.64	3%
Cash Per Share (HK cents)	c	0.82	0.45	82%

Notes:

- Profit for the period + Finance cost + Taxation + Depreciation and amortisation
- (Net assets – NCI)/Issued and fully paid ordinary shares
- Cash and cash equivalents/Issued and fully paid ordinary shares

OPERATION MAP



Note: For illustrative purpose only, actual scale and location might differ slightly

Main trunk pipelines

- West-to-East line 1
- West-to-East line 2
- West-to-East line 3 (under construction)
- Se-Ning-Lan line
- Shaan-Jing line 4
- Shaan-Jing line 3
- Cang-Zi Line
- Zhong-Wu Line
- Myanmar-China Line

Company operating assets/data

- Branch pipeline
- City gas project with concession right
- ▲ LNG processing plant
- CNG/LNG station
- Province with natural gas sales volume > 100mn m³ in 1H2013
- Province with natural gas sales volume between 30-100mn m³ in 1H2013
- Province with natural gas sales volume < 30mn m³ in 1H2013
- Province to enter in near term

CORPORATE INFORMATION

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 Huao Law & Partners

PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
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

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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 2013 (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 2013

	Notes	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Revenue	4	2,879,691	2,357,861
Cost of sales		(2,203,707)	(1,873,061)
Gross profit		675,984	484,800
Other income	5	12,714	9,109
Other (losses)/gains	6	(38,595)	28,476
Selling and distribution costs		(23,403)	(18,294)
Administrative expenses		(111,438)	(90,708)
Operating profit		515,262	413,383
Interest income	7	41,768	26,694
Finance costs	7	(44,497)	(37,928)
Share of result of a jointly-controlled entity		213	(1,863)
Share of result of an associate		(535)	—
Profit before taxation		512,211	400,286
Taxation	8	(105,066)	(90,438)
Profit for the period		407,145	309,848
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Currency translation differences		—	—
Fair value changes from available-for-sale financial assets		(18,011)	—
Total comprehensive income for the period		389,134	309,848
Profit for the period attributable to:			
Owners of the Company		156,692	152,270
Non-controlling interests		250,453	157,578
		407,145	309,848
Total comprehensive income attributable to:			
Owners of the Company		138,681	152,270
Non-controlling interests		250,453	157,578
		389,134	309,848
		HK cents	HK cents
Earnings per share	9		
— Basic		3.155	3.081
— Diluted		3.119	3.058

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	Unaudited At 30.6.2013 HK\$'000	Audited At 31.12.2012 HK\$'000
Non-current assets			
Property, plant and equipment	11	3,180,995	2,952,712
Land use rights		147,026	140,093
Intangible assets		1,059,667	1,046,333
Interest in an associate		6,308	6,843
Interest in a jointly-controlled entity		43,607	43,393
Available-for-sale financial assets		600,833	523,674
Other non-current assets		686,609	404,754
		5,725,045	5,117,802
Current assets			
Inventories		203,866	224,577
Deposits, trade and other receivables	12	799,886	563,044
Financial assets at fair value through profit or loss		154,740	134,398
Time deposits with maturity over three months		293,560	731,762
Cash and cash equivalents		4,180,460	2,416,911
		5,632,512	4,070,692
Current liabilities			
Trade and other payables	13	612,339	569,423
Receipt in advance		990,021	1,146,758
Short-term borrowings		477,861	1,160,868
Current tax payable		42,211	67,786
		2,122,432	2,944,835
Net current assets		3,510,080	1,125,857
Total assets less current liabilities		9,235,125	6,243,659
Non-current liabilities			
Long-term borrowings		3,868,851	1,196,000
Deferred tax liabilities		38,243	20,829
Total non-current liabilities		3,907,094	1,216,829
Net assets		5,328,031	5,026,830
Equity			
Equity attributable to owners of the Company			
Share capital	14	49,781	49,654
Reserves		3,240,663	3,130,137
		3,290,444	3,179,791
Non-controlling interests		2,037,587	1,847,039
Total equity		5,328,031	5,026,830

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company									
	Share capital	Share premium	Shares held for share award scheme	Other reserves	Exchange fluctuation reserve	Share-based compensation 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 2013	49,654	1,572,081	(10,993)	167,394	228,360	15,461	1,157,834	3,179,791	1,847,039	5,026,830
Change in equity for 2013										
Fair value changes from available-for-sale financial assets	—	—	—	(18,011)	—	—	—	(18,011)	—	(18,011)
Profit for the period	—	—	—	—	—	—	156,692	156,692	250,453	407,145
Total comprehensive income for the period	—	—	—	(18,011)	—	—	156,692	138,681	250,453	389,134
Issue of shares upon exercise of share options	127	8,078	—	—	—	(2,748)	—	5,457	—	5,457
Equity-settled share-based payments	—	—	543	—	—	1,570	—	2,113	—	2,113
Shares purchased for share award scheme	—	—	(9,507)	—	—	—	—	(9,507)	—	(9,507)
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	6,672	6,672
Dividend paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	(66,577)	(66,577)
Dividend paid to shareholders of the Company	—	—	—	(32,275)	—	—	—	(32,275)	—	(32,275)
Others	—	—	—	(514)	6,698	—	—	6,184	—	6,184
At 30 June 2013	49,781	1,580,159	(19,957)	116,594	235,058	14,283	1,314,526	3,290,444	2,037,587	5,328,031

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2013

	Attributable to owners of the Company									
	Share capital	Share premium	Shares held for	Other reserves	Exchange fluctuation	Share-based	Retained profits	Total	Non-controlling	Total equity
			share award		reserve	compensation			interests	
			scheme		HK'000	reserve			reserve	
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)
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	38,430	38,430
Dividend paid to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	(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)
Others	—	—	—	—	(7,462)	—	—	(7,462)	—	(7,462)
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 CASH FLOWS

For the six months ended 30 June 2013

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Net cash generated from operating activities	316,530	512,279
Net cash used in investing activities	(385,294)	(1,306,546)
Net cash generated from financing activities	1,826,129	705,795
Net increase/(decrease) in cash and cash equivalents	1,757,365	(88,472)
Cash and cash equivalents at beginning of the period	2,416,911	2,027,915
Effect of foreign exchange rate changes	6,184	(4,557)
Cash and cash equivalents at end of the period	4,180,460	1,934,886

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

(1) GENERAL INFORMATION

China Oil And Gas Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office 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 piped city gas business, pipeline design and construction, as well as transports, distributes, sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG") 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 2012.

(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 2012 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 2013. The adoption of the new HKFRSs has no material impact on the Group's results and financial position for the current or prior periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(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 liquefied petroleum gas ("LPG")
- gas pipelines construction and connection

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(4) REVENUE AND SEGMENT INFORMATION (Continued)

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 2013 and 2012 is set out below:

Business Segments

For the six months ended 30 June 2013:

	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	2,437,630	—	442,061	2,879,691
Segment results	354,187	—	203,969	558,156
Interest income				41,768
Other (losses)/gains				(38,595)
Finance cost				(44,497)
Share of result of a jointly-controlled entity				213
Share of result of an associate				(535)
Unallocated corporate expenses				(4,299)
Profit before taxation				512,211
Taxation				(105,066)
Profit for the period				407,145

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(4) REVENUE AND SEGMENT INFORMATION (Continued)

For the period 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				26,694
Other (losses)/gains				28,476
Finance cost				(37,928)
Share of result of a jointly-controlled entity				(1,863)
Unallocated corporate expenses				(12,847)
Profit before taxation				400,286
Taxation				(90,438)
Profit for the period				309,848

(5) OTHER INCOME

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Dividend income from listed securities	3,984	1,277
Government subsidies	719	2,644
Rental income	4,082	2,743
Service income	2,076	1,548
Others	1,853	897
	12,714	9,109

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(6) OTHER GAINS/(LOSSES)

During the six months ended 30 June 2013 and 2012, the balances represent the fair value gains/(losses) on financial assets at fair value through profit or loss.

(7) INTEREST INCOME AND FINANCE COSTS

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Interest income from:		
Bank deposits	24,809	19,291
Advances to Shuanghe Coal Mine	16,463	6,907
Loan to a third party	496	496
	41,768	26,694
Finance costs on:		
Bank borrowings	(27,123)	(24,319)
Other borrowings	(17,374)	(13,609)
	(44,497)	(37,928)
Finance costs, net	(2,729)	(11,234)

(8) 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 (2012: Nil).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in Mainland China are subject to the PRC corporate income tax rate at 25% (2012: 25%).

Certain of the Company's PRC subsidiaries which are operating in the Western China have been granted tax concessions by the local tax bureau and are taxed at a preferential income tax rate of 15% (2012: 15%). Certain subsidiaries 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(8) TAXATION (Continued)

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Current tax:		
PRC corporate income tax	87,652	90,438
Deferred tax	17,414	—
Taxation	105,066	90,438

(9) EARNINGS PER SHARE

(a) Basic earnings per share

	Unaudited (6 months) 1.1-30.6.2013 HK Cents per share	Unaudited (6 months) 1.1-30.6.2012 HK Cents per share
Basic earnings per share	3.155	3.081

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

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Profit for the period attributable to owners of the Company	156,692	152,270
Earnings used in the calculation of basic earnings per share	156,692	152,270
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,965,987,759	4,942,652,257

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(9) EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

	Unaudited (6 months) 1.1-30.6.2013 HK Cents per share	Unaudited (6 months) 1.1-30.6.2012 HK Cents per share
Diluted earnings per share	3.119	3.058

	Unaudited (6 months) 1.1-30.6.2013 HK\$'000	Unaudited (6 months) 1.1-30.6.2012 HK\$'000
Profit for the period attributable to owners of the Company	156,692	152,270
Earnings used in the calculation of diluted earnings per share	156,692	152,270

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,965,987,759	4,942,652,257
Effect of dilutive potential ordinary shares		
— Share option scheme	57,317,394	36,096,367
— Share award scheme	920,173	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,024,225,326	4,978,748,624

(10) DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2013 (2012: Nil).

During the Period, a dividend of 0.65 HK cent per share (2012: Nil) amounting to HK\$32,275,000 was paid to the shareholders as the final dividend for 2012.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(11) PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment amounting to HK\$321,311,000 (six months ended 30 June 2012: HK\$374,758,000) and disposed of property, plant and equipment with net book value of HK\$2,407,000 (six months ended 30 June 2012: HK\$587,000).

(12) DEPOSITS, TRADE AND OTHER RECEIVABLES

	Unaudited At 30.6.2013 HK\$'000	Audited At 31.12.2012 HK\$'000
Trade receivables	268,572	146,658
Other receivables, deposits and prepayments	531,314	416,386
	799,886	563,044
The ageing analysis of trade receivables is as follows:		
Current to 90 days	243,942	133,824
91-180 days	15,860	6,646
Over 180 days	8,770	6,188
	268,572	146,658

(13) TRADE AND OTHER PAYABLES

	Unaudited At 30.6.2013 HK\$'000	Audited At 31.12.2012 HK\$'000
Trade payables	262,320	167,394
Other payables and accruals	350,019	402,029
	612,339	569,423
The ageing analysis of trade payables is as follows:		
Current to 90 days	170,502	124,124
91-180 days	33,777	17,538
Over 180 days	58,041	25,732
	262,320	167,394

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2013

(14) SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 30 June 2012, 31 December 2012 and 30 June 2013	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 at 30 June 2012	4,965,406,213	49,654
Ordinary shares of HK\$0.01 at 31 December 2012	4,965,406,213	49,654
Issue of share upon exercise of share options	12,690,000	127
Ordinary shares of HK\$0.01 each at 30 June 2013	4,978,096,213	49,781

(15) 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 2013.

(16) CONTINGENT LIABILITY

As at 30 June 2013, the Group has no material contingent liability (2012: Nil).

(17) APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 26 August 2013.

REPORT OF THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

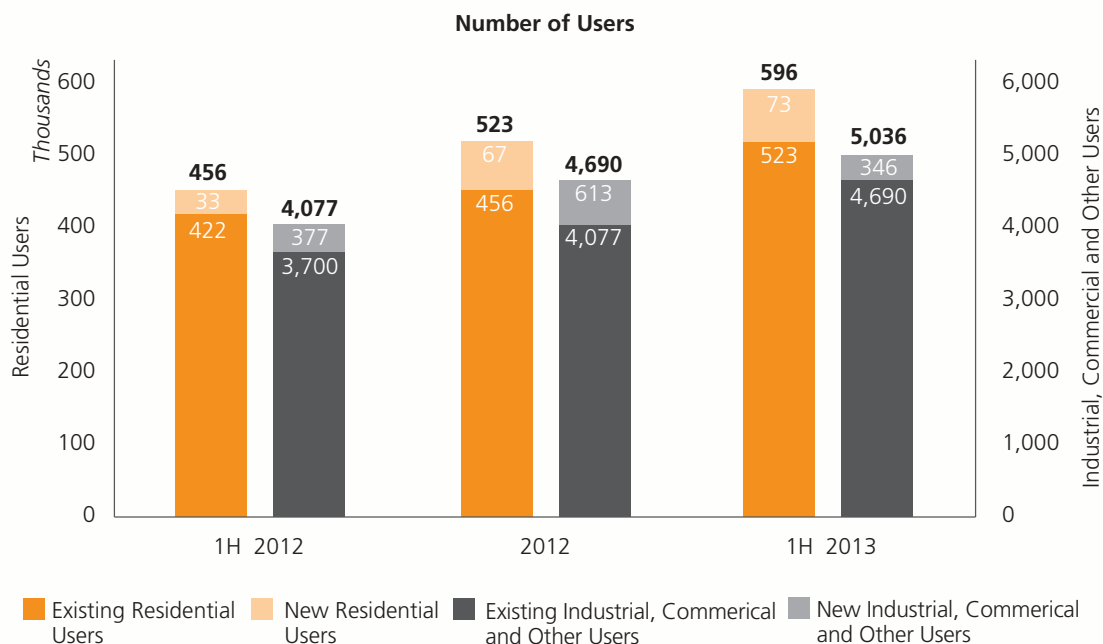
The Group is principally engaged in investment in natural gas and energy related business, including piped city gas business, pipeline design and construction, as well as transportation, distribution and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG").

Business Review

In the first half of 2013, albeit the impact of an overall downslope economy in the Asia Pacific region and sluggish economy in the operating regions, the Group's natural gas business successfully sustained sound growth under the concerted effort of our staff. As at 30 June 2013, the Group has established a total of 98 natural gas project companies in 48 cities of 14 provinces and autonomous regions in China.

Gas pipeline construction and connection

During the Period, the Group attained total revenue of HK\$2,880 million, representing an increase of 27% from HK\$2,275 million (excluding the LPG segment suspended in mid-2012) as compared with the same period last year. The increase was mainly attributable to a growth in gas pipeline connection income to HK\$442 million, representing a growth of 231% as compared with the same period last year. New connections to residential users and industrial, commercial and other users were 73,000 and 326 respectively, representing increases of 121% and 12% as compared to the same period last year. The number of new users was anticipated to maintain stable growth in the future. With the increases in the connection income, the Group would continue to open more channels for the sale of natural gas and provide services to more natural gas end-users, which would in turn lay a solid foundation for the sale of natural gas by the Group in the future.

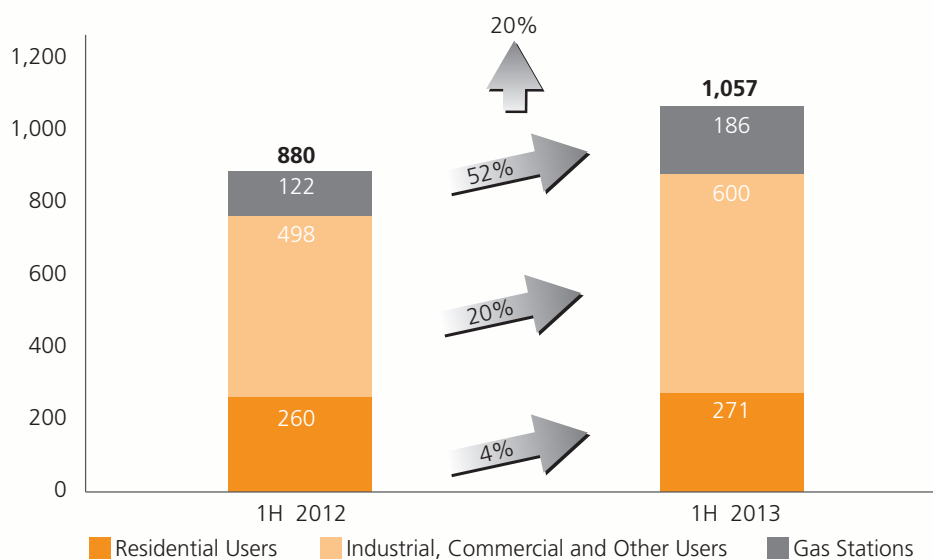


REPORT OF THE BOARD

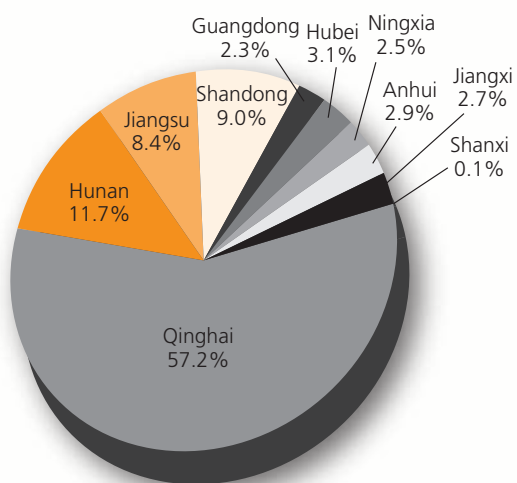
Sale of natural gas

Revenue from the sale of natural gas for the Period amounted to HK\$2,438 million, representing a year-to-year increase of 14% and representing 85% of the total revenue. During the Period, total gas sales volume was 1,057 million m³, representing a year-to-year increase of 20%. Amongst the total gas sales volume, gas consumption by residential users was 271 million m³ (2012: 260 million m³); consumption by industrial, commercial and other users was 600 million m³ (2012: 498 million m³); consumption by gas stations was 186 million m³ (2012: 122 million m³), representing increases of 4%, 20% and 52% respectively. At the end of the Period, the Group has a total of 38 gas stations. Benefited from the development of the Group's high pressure natural gas branch pipelines, gas transmission volume for the Period reached 926 million m³, of which transmission volume for external sales was 188 million m³.

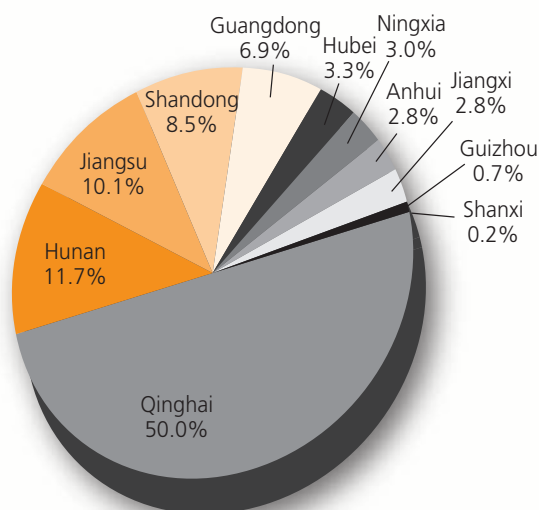
Natural Gas Sales Volume (million m³)



1.1 - 31.12.2012



1.1 - 30.6.2013



REPORT OF THE BOARD

Gross profit margin and net profit margin

During the Period, the Group's overall gross profit margin and net profit margin were 23.5% and 14.1% respectively, representing increases of 2.9% and 1.0% as compared to the same period last year.

The increase in gross profit margin was mainly attributable to the changes in the income structure of the Group, including firstly, an increase in gas pipeline construction and connection income of the Group during the Period; and secondly, the inclusion of a small part of LPG business with a relatively low gross profit margin for the same period last year.

Excluding the one-off losses and gains for the Period and the same period last year, the Group's profit attributable to owners of the Company was approximately HK\$195 million, as compared to HK\$124 million for the first half of 2012, whereas the net profit from the core business of the Group recorded an increase of 58%, exceeding the Group's target devised at the beginning of the year.

New natural gas concession right project

In the first half of 2013, the Group has conducted research and development in respect of projects peripheral to the natural gas stem pipelines including the Myanmar-China Gas Pipeline and the Third West-to-East Gas Pipeline on top of its existing operations. As to date, the Group has entered into concession right agreements for city gas projects in three cities, namely Qianxinan Buyizu Miaozi Autonomous Prefecture in Guizhou Province, Dafeng City in Jiangsu Province and Xin Dian Zhen of Xinyi City in Jiangsu Province, and has entered into cooperation framework agreements with the governments of Xunhua County in Qinghai Province, Longde County in Ningxia Hui Autonomous Region, Nanfeng County in Jiangxi Province and Yangxin County in Hubei Province. The above new projects would cover a potential connection of 6,000,000 population and an area of approximately 30,000 km². As at 30 June 2013, the Group has a total of 54 city gas concession rights. The Group will build on these achievements and unremittingly effort to secure new gas projects continuously.

Promotion of LNG business

As at 30 June 2013, the Group's project for "Converting vessels to natural gas" in Jiangsu and the basins of Gan River in Jiangxi has completed conversion of 9 vessels, providing a successful example and experience for reference by promotion of vessel conversion in different regions. The Group has also acquired a number of LNG transport vehicles to further scale up its existing logistics fleet.

Construction of natural gas pipelines

As an operator of natural gas branch line business, the Group has added approximately 50 km of new high pressure pipeline in the first half of 2013. An aggregate of 872 km has been completed, with a total designed transmission capacity exceeding 12.4 billion m³ per year. It is expected that approximately 100 km of branch pipelines will be constructed in the second half of 2013.

REPORT OF THE BOARD

FINANCIAL POSITION

The discussion below shall be read in conjunction with the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2013, the notes related thereto and other chapters.

ASSET LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had bank balances and cash equivalents (including fixed deposits with banks) of HK\$4,474 million (31 December 2012: HK\$3,149 million). The Group's primary source of funding included cash flow generated from operating activities, current assets, bank and other borrowings and bonds issued. Total bank borrowings amounted to HK\$452 million (31 December 2012: HK\$1,133 million). All bank borrowings were short-term, unsecured, and bearing an average interest rate of 5.84% p.a. (2012: 3.1%). Aggregate amount of other borrowings amounted to HK\$1,222 million (31 December 2012: HK\$1,224 million).

Capitalizing on opportunities on the international capital market and adopting a cautious financing strategy, the Group issued 5-year 5.25% senior notes of an aggregate principal amount of US\$350,000,000 (equivalent to approximately HK\$2,713 million) on 25 April 2013.

As always, the Group maintained a net cash financial position after the issue of the US dollar senior notes.

The Group had adequate capital and available bank facilities to meet the future capital expenditures and working capital requirements for its existing projects.

The Group had total assets of HK\$11,358 million (31 December 2012: HK\$9,188 million), including current assets of HK\$5,633 million (31 December 2012: HK\$4,071 million). Total liabilities was HK\$6,030 million (31 December 2012: HK\$4,162 million), including current liabilities of HK\$2,122 million (31 December 2012: HK\$2,945 million). As at the end of the Period, the Group's debt ratio measured on the basis of total liabilities as a percentage of total assets was 53% (31 December 2012: 45%). Current ratio was 2.65 (31 December 2012: 1.38) and quick ratio was 2.56 (31 December 2012: 1.31). Included in current liabilities was a receipt in advance of HK\$990 million (31 December 2012: HK\$1,147 million).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2013, the Group has employed a total of 3,532 employees (30 June 2012: 3,117), most of whom were stationed in China. Staff cost for the Period amounted to HK\$110 million (January to June 2012: HK\$89 million). The employees' remuneration, promotion and salaries are determined based on work performance, work experience and professional qualifications and the prevailing market practice.

PLEDGE OF ASSETS

The Group has pledged part of its equity interest in China City Natural Gas Co., Ltd., a subsidiary owned as to 51% by the Group, as the security for other borrowings of HK\$700,000,000.

REPORT OF THE BOARD

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 30 June 2013.

CURRENCY AND INTEREST RATE EXPOSURE

The Group's sales are denominated in Renminbi, and investments are mainly settled in Hong Kong Dollars. The Group does not anticipate material currency exposure and risk, and no currency and interest rate risk management or related hedges were made. The Board determined the appropriate policies as the circumstance may require.

LITIGATION

As at 30 June 2013, the Group was not involved in any litigation.

CAPITAL COMMITMENT

The Group did not incur or commit any material investment or capital expenditure for the Period.

CAPITAL STRUCTURE

During the Period, one director and several employees of the Group have exercised a total of 12,690,000 share options at the exercise price of HK\$0.43 per share.

As at 30 June 2013, the issued share capital of the Company was HK\$49,780,962.13 divided into 4,978,096,213 shares of HK\$0.01 each.

FUTURE PROSPECTS

Under the Chinese government's persistent development strategy to adjust structure and maintain growth, the industry development of natural gas as a form of clean energy has enjoyed the forceful support of the State's industry policies. As the cities remained troubled by the smog and carbon emission issues, natural gas resources have gain increasing popularity and the pace of replacement of coal and petroleum by natural gas has gradually gathered speed. Recently, the Chinese government has proposed to attract public funds to participate in infrastructure constructions, and 80,000 km of old gas pipeline renovation in cities and towns will be completed by 2015, creating new opportunities for the development of the Group. Construction works for neo-urbanization and creation of upgraded economy in the PRC will also provide immense room and strong power for the development of the natural gas industry.

REPORT OF THE BOARD

On 28 June 2013, the National Development and Reform Commission (“NDRC”) issued a Notice on the Adjustment of Natural Gas Prices. Pursuant to the notice, with effect from 10 July 2013, the city-gate prices of natural gas for residential use would remain unchanged whereas the city-gate prices of natural gas for non-residential use would be increased. The notice was aimed at further rationalizing the price relationship between natural gas and substitute energies while assuring minimal effects on the basic living of the citizens, with the aim of laying the foundation for fully market-oriented natural gas prices eventually. The reasonable upward adjustment of the natural gas prices will benefit the enhancement of energy structure and promote environmental protection, whereas through the price system, enterprises will be encouraged to increase import and step up exploration and development. These will provide important guarantees for the increase in natural gas supply and improvement of the energy structure; benefit the development and introduction of natural gas resources, ensure the safety of energy supply; enhance the rational consumption of natural gas and promote energy saving. Having responded proactively and communicated closely with the local governments, upstream gas suppliers and downstream industrial and commercial users in respect of the natural gas prices adjustment plan upon learning the notice of the NDRC, the Group successfully minimized the negative impact of the natural gas prices adjustment on the operation of the Company and its market development efforts, and protected the maximum interests of its shareholders whilst complying with the State’s requirements.

In the second half of 2013, the Board is optimistic towards the development of the Group and is fully confident of fulfilling the development targets of the year. The Group is committed to excel in market development, expand the scale of the Company, expedite the progress of its projects, and further enhance its management standards. With concerted efforts and dedication to overcoming any unfavorable environment, the Group strives to reach better performance, create greater value for its shareholders, and effort to turn itself into an elite gas enterprise.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2013 (30 June 2012: Nil).

DIRECTORS’ INTERESTS IN SHARES

As at 30 June 2013, the interests or short positions of the Directors and chief executives 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:

REPORT OF THE BOARD

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	22.404%
Guan Yijun	Interest of spouse	Long position	1	1,115,278,300	22.404%
Zhu Yuan	Beneficial owner	Long position	2	2,500,000	0.050%

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 2,500,000 shares include (1) 600,000 share options granted by the Company to Mr. Zhu Yuan exercisable into 600,000 shares of the Company; and (2) 700,000 restricted shares granted to Mr. Zhu Yuan pursuant to the Restricted Share Award Scheme.

Save as disclosed above, none of the Directors or chief executives 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 2013.

REPORT OF THE BOARD

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, 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 <i>(Note)</i>	Beneficial owner	Long position	321,018,300	6.449%
Sino Vantage <i>(Note)</i>	Beneficial owner	Long position	794,260,000	15.955%
Sino Best <i>(Note)</i>	Interest in controlled corporations	Long position	1,115,278,300	22.404%

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 Tie-liang 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 2013.

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").

REPORT OF THE BOARD

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 2013 as follows:

Name or category of participants	Exercise price (HK\$)	Date of grant	Exercisable period	Number of share options (Thousand)				
				Balance as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2013
Director								
Mr. Zhu Yuan	0.43	30 July 2009	31 July 2012 to 30 July 2014	450	—	(450)	—	—
	0.43	30 July 2009	31 July 2013 to 30 July 2014	600	—	—	—	600
Sub-total				1,050	—	(450)		600
Employees								
	0.43	30 July 2009	31 July 2011 to 30 July 2014	15,330	—	(3,450)	—	11,880
	0.43	30 July 2009	31 July 2012 to 30 July 2014	29,190	—	(8,790)	—	20,400
	0.43	30 July 2009	31 July 2013 to 30 July 2014	38,920	—	—	—	38,920
Sub-total				83,440	—	(12,240)	—	71,200
Total				84,490		(12,690)		71,800

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 2013.

REPORT OF THE BOARD

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 2013.

The Company has adopted the code provisions set out in the Corporate Governance Code (“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 2013, 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 calibre individuals with sufficient number thereof being independent non-executive Directors.

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

Code provision A.6.7 of the 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. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2013 annual general meeting of the Company held on 29 April 2013 (“2013 AGM”) by the reason of their engagement in their own official business.

REPORT OF THE BOARD

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 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 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.

Code provision E.1.2 of the CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Li Yunlong, the chairman of each of the Audit Committee and the remuneration committee of the Company, and Mr. Wang Guangtian, the chairman of the nomination committee of the Company, did not attend the 2013 AGM due to their engagement in their own official business.

Save as the aforesaid and in the opinion of the Directors, the Company has met all the relevant code provisions set out in the CG Code during the six months ended 30 June 2013.

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 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 2013.

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

Hong Kong, 26 August 2013