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中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 603)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

ANNUAL RESULTS

The board (the "Board") of Directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2013 together with the relevant comparative figures.

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK$6.44 billion, with an increase of 32%.
- Profit for the year amounted to HK$937.60 million, with an increase of 28%.
- Final dividend of HK cents 0.72 (2012: HK cents 0.65) per share was recommended by the Board.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013**	2012
		HK$'000	*HK$'000*
Revenue	*3*	**6,439,825**	4,889,428
Cost of sales		**(4,985,630)**	(3,786,974)
Gross profit		**1,454,195**	1,102,454
Other income		**37,575**	34,513
Other (losses)/gains		**(18,132)**	54,675
Selling and distribution costs		**(57,719)**	(44,822)
Administrative expenses		**(218,235)**	(248,213)
Operating profit	*4*	**1,197,684**	898,607
Interest income		**99,603**	76,943
Finance costs		**(114,674)**	(38,011)
Share of loss of a joint venture		**(3,212)**	(1,156)
Share of loss of an associate		**(861)**	(597)
Profit before taxation		**1,178,540**	935,786
Taxation	*5*	**(240,945)**	(201,600)
Profit for the year		**937,595**	734,186
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		**111,235**	47,735
Fair value changes from available-for-sale financial assets		**(16,042)**	22,385
Other comprehensive income, net of tax		**95,193**	70,120
Total comprehensive income for the year		**1,032,788**	804,306
Profit for the year attributable to:			
Owners of the Company		**401,494**	365,705
Non-controlling interests		**536,101**	368,481
		937,595	734,186
Total comprehensive income for the year attributable to:			
Owners of the Company		**451,663**	412,241
Non-controlling interests		**581,125**	392,065
		1,032,788	804,306
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (HK cents)		**8.142**	7.396
– Diluted (HK cents)		**8.062**	7.343

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
Non-current assets			
Property, plant and equipment		**3,712,892**	2,952,712
Land use rights		**192,365**	140,093
Intangible assets		**1,072,227**	1,046,333
Interest in an associate		**6,162**	6,843
Interest in a joint venture		**41,231**	43,393
Available-for-sale financial assets		**835,011**	523,674
Other non-current assets		**870,710**	404,754
		6,730,598	5,117,802
Current assets			
Inventories		**185,926**	224,577
Deposits, trade and other receivables	*8*	**921,344**	563,044
Financial assets at fair value through profit or loss		**145,812**	134,398
Time deposits with maturity over three months		**795,427**	731,762
Cash and cash equivalents		**3,377,551**	2,416,911
		5,426,060	4,070,692
Current liabilities			
Trade and other payables	*9*	**859,804**	569,423
Receipt in advance		**1,006,593**	1,146,758
Short-term borrowings		**708,500**	1,160,868
Current tax payable		**105,572**	67,786
		2,680,469	2,944,835
Net current assets		**2,745,591**	1,125,857
Total assets less current liabilities		**9,476,189**	6,243,659
Non-current liabilities			
Long-term borrowings		**954,000**	1,196,000
Senior notes		**2,672,082**	–
Deferred tax liabilities		**23,960**	20,829
		3,650,042	1,216,829
Net assets		**5,826,147**	5,026,830
Equity			
Equity attributable to owners of the Company			
Share capital		**50,007**	49,654
Reserves		**3,497,373**	3,130,137
		3,547,380	3,179,791
Non-controlling interests		**2,278,767**	1,847,039
Total equity		**5,826,147**	5,026,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 transportation, distribution and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG") of the People's Republic of China (the "PRC"). The Company and its subsidiaries are collectively referred to the "Group".

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

(a) Effect of adopting new standards, amendments to standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 January 2013:

Amendment to HKAS 1, "Financial statements presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

HKAS 27 (revised), "Separate financial statements", includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

HKAS 28 (revised), "Investments in associates and joint ventures", includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11.

HKFRS 10, "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

HKFRS 11, "Joint arrangements" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

HKFRS 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13, "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

Amendment to HKFRS 7, 'Financial instruments: Disclosures' on asset and liability offsetting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

Other than as disclosed above, there are no HKASs or HKFRSs that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a significant impact on the Group.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant HKASs, HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2013 or later periods and have not been early adopted by the Group:

HKAS 32 (Amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities [1]
HKAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets [1]
HKAS 39 (Amendment)	Financial instruments: Recognition and measurement – novation of derivatives and continuation of hedging accounting [1]
HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities [1]
HKFRS 14 (Amendment)	Regulatory deferral accounts [3]
HK(IFRIC) – Int 21	Levies [1]
Annual Improvements Project	Annual improvement to 2010-2012 cycle and 2011-2013 cycle [2]

[1] Effective for the Group for annual period beginning 1 January 2014
[2] Effective for the Group for annual period beginning 1 July 2014
[3] Effective for the Group for annual period beginning 1 January 2016

The Group will apply the above HKFRS, amendments to existing HKFRSs and interpretations of HKFRS from 1 January 2014 or later periods. The Group anticipates that the application of the above new, revised or amended standards and interpretations have no material impact on the results and the financial position of the Group.

3 REVENUE AND SEGMENT INFORMATION

The Group's principal activities are sales and distribution of natural gas and other related products and provision of construction and connection services of gas pipelines in the PRC. Revenue for the year comprises the following:

	2013	2012
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**5,398,517**	4,309,717
Sales of LPG	**–**	84,197
Gas pipeline connection and construction services income	**1,041,308**	495,514
	6,439,825	4,889,428

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection.

The Group has presented the following three reportable segments:

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

No operating segments have been aggregated to form the above reportable segments.

The executive directors assesses the performance of the business segments based on profit before taxation without allocation of other (losses)/gains, interest income, finance costs, share of loss of a joint venture, share of loss of an associate and other unallocated corporate expenses, which is consistent with these in the financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, as the executive directors do not use this information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

Information regarding the Group's reportable segments as provided to the executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

For the year ended 31 December 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	**5,398,517**	**–**	**1,041,308**	**6,439,825**
Segment results	**779,373**	**–**	**451,580**	**1,230,953**
Interest income				**99,603**
Other (losses)/gains				**(18,132)**
Finance costs				**(114,674)**
Share of loss of a joint venture				**(3,212)**
Share of loss of an associate				**(861)**
Unallocated corporate expenses				**(15,137)**
Profit before taxation				**1,178,540**
Taxation				**(240,945)**
Profit for the year				**937,595**

For the year ended 31 December 2012:

	Sales and distribution of natural gas and other related products	Sales of LPG	Gas pipeline construction and connection	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and results				
Sales to external customers	4,309,717	84,197	495,514	4,889,428
Segment results	648,716	(7,255)	217,758	859,219
Interest income				76,943
Other (losses)/gains				54,675
Finance costs				(38,011)
Share of loss of a joint venture				(1,156)
Share of loss of an associate				(597)
Unallocated corporate expenses				(15,287)
Profit before taxation				935,786
Taxation				(201,600)
Profit for the year				734,186

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2013 and 2012.

Analysis of the Group's revenue and results by geographical market has not been presented as over 90.0% of the Group's revenue and business activities are conducted in the PRC.

Substantially all of the non-current assets are located in the PRC.

4 OPERATING PROFIT

Operating profit has been arrived after charging the following items:

	2013	2012
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration)		
Salaries and wages	**207,567**	156,332
Equity-settled share-based payments	**2,717**	4,853
Retirement benefits scheme contributions	**37,380**	44,365
	247,664	205,550
Cost of inventories recognised as expense	**4,407,747**	3,238,575
Auditors' remuneration	**1,650**	1,534
Depreciation of property, plant and equipment	**187,032**	155,087
Amortisation of land use rights	**3,070**	4,079
Amortisation of intangible assets	**1,398**	659

5 TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year (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 subsidiaries are entitled to tax concessions and tax relief whereby the profits of those subsidiaries are taxed at a preferential income tax rate of 15% (2012: 15%).

	2013	2012
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax		
– current year	**238,318**	195,099
Deferred tax	**2,627**	6,501
Taxation	**240,945**	201,600

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2013 (2012: Nil).

6 DIVIDEND

	2013	2012
	HK$'000	*HK$'000*
Final dividend proposed at HK cents 0.72 (2012: HK cents 0.65) per share *(Note)*:	**36,005**	32,275

Note:

A final dividend relating to the year ended 31 December 2012 amounted to HK$32,275,000 was fully paid on 21 May 2013.

The Board proposed a final dividend of HK cents 0.72 per ordinary share (2012: HK cents 0.65 per ordinary share) for the year ended 31 December 2013 on 25 March 2014 amounting to a total of approximately HK$36,005,000 (2012: HK$32,275,000). The amount is based on approximately 5,000,716,000 (2012: 4,965,406,000) shares issued as at 25 March 2014. This proposed final dividend is not reflected as a dividend payable as of 31 December 2013, but will be recorded as a distribution of retained earnings for the year ending 31 December 2014.

Included in the proposed final dividend is an amount of approximately HK$483,000 (2012: HK$122,000), being the dividends to the shares held by the trustee for the benefits of the eligible grantees under the restricted share award scheme of the Company adopted on 4 November 2011.

7 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$401,494,000 (2012: HK$365,705,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,931,092,000 shares (2012: 4,944,502,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$401,494,000 (2012: HK$365,705,000), and the weighted average number of ordinary shares of approximately 4,979,945,000 shares (2012: 4,980,319,000 shares) which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 46,865,000 shares (2012: 35,487,000 shares) and the effect of awarded shares of approximately 1,988,000 shares (2012: 330,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

8 DEPOSITS, TRADE AND OTHER RECEIVABLES

As at 31 December 2013, included in deposits, trade and other receivables is the balance of trade receivables amounted to HK$372,414,000 (2012: HK$146,658,000).

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.

The ageing analysis of trade receivables is as follows:

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**342,859**	133,824
Past due but not impaired:		
– 91 to 180 days	**18,716**	6,646
– Over 180 days	**10,839**	6,188
Total	**372,414**	146,658

As at 31 December 2013, trade receivables of approximately HK$29,555,000 (2012: HK$12,834,000) that were past due but not impaired relate 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 balances 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.

9 TRADE AND OTHER PAYABLES

As at 31 December 2013, included in trade and other payables is the balance of trade payables amounted to HK$386,462,000 (2012: HK$167,394,000)

The ageing analysis of trade payables is as follows:

	2013	2012
	HK$'000	*HK$'000*
Current to 90 days	**334,299**	124,124
91 to 180 days	**24,012**	17,538
Over 180 days	**28,151**	25,732
Total	**386,462**	167,394

RESULTS

2013 was a year full of challenges for the Group. During the year, the Group was able to maintain rapid growth amid the difficult environment, it carried out outward expansion and optimization in all business scopes. Operating in a highly competitive gas industry, it was the concerted efforts of all employees which contributed to the success of the Group in the past year.

Revenue of the Group was HK$6,440 million in 2013, representing an increase of 34% compared with HK$4,805 million for last year (excluding the LPG segment in 2012), the growth was mainly due to the recurring gas sales and an increase in gas pipeline connection income. After deducting the one-off other (losses)/gains, profit for the year and profit attributable to owners of the Group were HK$956 million and HK$420 million (2012: HK$680 million and HK$311 million) respectively, with year-on-year growth rates of 41% and 35%.

As of 31 December 2013, total assets of the Group amounted to HK$12,157 million, or a growth of 32%; net asset value was HK$5,826 million, an increase of 16%.

BUSINESS REVIEW

City gas projects

The Group's total gas sales volume reached 2,247 million m^3 during the year, representing an increase of 16% as compared to 2012; gas transmission volume was 377 million m^3 and transportation volume was 124 million m^3.

Gas sales volume to residential users was 487 million m^3 (2012: 448 million m^3), gas sales volume to industrial, commercial and other users was 1,366 million m^3 (2012: 1,179 million m^3) and to gas stations was 394 million m^3 (2012: 304 million m^3), representing an increase of 9%, 16% and 30% respectively.

In 2013, the Group incorporated 11 new project companies, obtained 9 city gas concession rights in Anlong county, Puan county, Qinglong county and Ceheng county of Qianxinan prefecture, Guizhou province, Xindian town of Xinyi city, Jiangsu province, Dafeng city, Jiangsu province, Longde county of Ningxia Hui Autonomous Region, Cuikou town and Yanwu town of Qingyun city, Shandong province. Currently, the Group has established a total of 102 gas project companies in 48 cities in 14 provinces and autonomous administrative regions of China and possessed 60 city gas concession rights. It completed new connections to approximately 150,000 residential users, and 757 industrial, commercial and other users during the year, and had aggregate connections to approximately 675,000 residential users and 5,500 industrial, commercial and other users. The city and courtyard pipeline network was extended by 473 km, and in aggregate 4,901 km.

Promotion of LNG business

In 2013, the Group speeded up the promotion and use of gas instead of oil, selectively focused its key LNG activities on the LNG projects in Jiangsu, Gan River of Jiangxi etc. Progress was made in converting vessels and vehicles to natural gas and LNG point-to-point projects, and conversion of 14 LNG vessels and 413 LNG vehicles were completed during the year.

Natural gas branch pipelines

As an operator of natural gas branch pipelines, it completed approximately 108 km new high-pressure pipelines in 2013, and 930 km was completed in aggregate, with a total designed transmission capacity of over 13 billion m^3 per year.

Gas station projects

The Group currently has 36 CNG stations, 6 LNG stations and 2 L/CNG stations. Another 8 stations are under construction and all expected to be in operation in 2014. Besides, we are proceeding with the cooperations with local governments and public transportation companies for over 10 station projects.

SENIOR NOTES

In April 2013, the Company issued US$350 million senior notes bearing an interest rate of 5.25% per annum payable semi-annually in arrear due 2018 at par with an oversubscription of 13 times. Standard & Poor's gave the Company a credit rating of "BB+" with stable outlook, Moody's Investors Service gave the Company a credit rating of "Ba1" with stable outlook. These reflect the Company's solid and stable financial position and operational prospects.

Successful issuance of the senior notes not only broaden the financing channels and enhanced the visibility into the international capital markets of the Group, which together laid a solid foundation for the rapid and stable development for the Group in the future.

Key covenants of the senior notes including, among others, the following:

1. The EBITDA (defined as profit before tax, excluding interest, depreciation and amortisation) must be greater than 3 times of finance cost;

2. the aggregate principal amount of outstanding of all indebtedness of subsidiaries must not exceed an amount equal to 15% of the total asset of the Group;

3. in the event that any person or group acquires a greater voting power than the existing largest shareholder of the Company, the Company is required to make an offer to repurchase all senior notes outstanding at the purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

BUSINESS PROSPECT

At present, although there is a slowdown in the economic growth in China, the development trend is still positive. The energy industry is currently in a transformation and adjustment stage. The PRC government proposes that it will actively promote the mixed-ownership economy and intensify reforms in state-owned enterprises, which aims to break the resource monopoly in energy industry, maximize energy structure, change the mode of energy development, and form a clean direction of equity diversification for enterprises. The Group has been actively developing business with enterprise owned by the central government and local governments as well as joint ventures established in China by private enterprises for years, and has rich experience in the implementation of mixed-ownership structure. Along with the intensification of mixed-ownership economic reform, the Group would have definite advantage in securing energy projects and fostering business development.

To address the issue of strong smog weather that affected vast areas across China in the past year, the State Council formulated ten measures to control air pollution, among which were "speeding up the adjustment of energy structure, increasing the supply of clean energy like natural gas and converting coal to methane". With the arrival of the low carbon emission era, the use of natural gas is the best solution for the use of clean energy, and as the pace of urbanization in China accelerates, the demand for natural gas in the market will continue to grow.

In June 2013, the Chinese government issued notice on the adjustment of natural gas prices, aiming at setting up a dynamic adjustment mechanism which would reflect the demand and supply in the market by linking the scarcity of resources to the prices of renewable energy, and gradually streamline the price comparison relationship of natural gas and renewal energy, eventually achieving a total liberalization of natural gas prices. This is an important move to break monopoly, open the market and bring in competition, as well as an important measure for the protection of increasing exploration and production, increasing energy import and ensuring the supply of natural gas sources.

According to the Plan, during the "Twelfth Five-Year Plan" period, there will be 2,500 billion m^3 of conventional natural gas available from proven geological reserves, of which approximately 1,900 billion m^3 are technically recoverable reserves, and new proven geological reserves of coalbed methane will account for approximately 1,000 billion m^3. By 2015, the natural gas supply capacity in China will reach approximately 176 billion m^3, combining 139 billion m^3 of conventional natural gas; 15-18 billion m^3 of natural gas converted from coal; approximately 16 billion m^3 from the ground development and production of coalbed methane. According to the contracts already signed, by 2015 the import volume of natural gas by China will be approximately 94 billion m^3. These will secure the sources of supply of natural gas.

The natural gas resources of China are mainly concentrated in the western, central and northern regions, and major demand is in the eastern coastal region, thus creating the need for the transmission of gas from the west to the main piped networks in the east, West East Pipelines, Central Asia-China Pipeline Myanmar China Pipeline and the construction of LNG receiving terminal along the coast, this has basically formed the multiple gas supply structure of "Transmission from West to East, from North to South, and from Offshore to Onshore". Currently China has developed a main pipeline network with an annual gas transmission capacity of 134 billion m^3, and LNG stations with an annual handling volume of 25 million tonnes; it is expected that in 2015 when the Shaan-Jing Line 3, West-to-East Line 3 and natural gas receiving terminals along all coastal areas are constructed and put into operation, this will make the annual gas transmission capacity of natural gas to reach 262.4 billion m^3.

Under the guidance of the strategic thinking of "Enhancing management, innovating and expansion, and market strengthening" of the Group, internally it has implemented all management enhancement measures, formed a management model of five business units with three regional companies, set up a remuneration allocation mechanism comparable to the market to enhance both the profitability of the Group and staff value to support the stable and realize its long term development of the Group; while externally the Group has on the strong foundation of its existing projects actively pushed forward the projects under construction, expanded the regional markets, stressed on investment return and risk control, to ensure the regulated, sustainable, effective and safe development of the Group in the future.

FUTURE BUSINESS STRATEGIES

In order to maintain the Group's sustainability and value over the longer term, the Group will continue to look for suitable investment opportunities and projects with stable cash inflows and simple management mechanism in other areas.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and its notes and other sections in the annual report for the year ended 2013 ("Year").

FINANCIAL RESULTS

For the Year, the Group recorded a revenue of HK$6,440 million (2012:HK$4,805 million), representing an increase of approximately 34%. The Group's cost of sales was HK$4,986 million (2012: HK$3,695 million), representing an increase of approximately 35%. Gross profit amounted to HK$1,454 million (2012: HK$1,110 million) with gross profit margin maintaining at 23% for both years. The comparison above have excluded the LPG segment in 2012.

Total revenue for the Year combining sales and distribution of natural gas and gas pipeline connection and construction income amounted to HK$5,399 million and HK$1,041 million respectively, representing a year-on-year increase of 25% and 110%. Sales and distribution of natural gas continued to be the Group's main source of income and constituted 84% of the Year's total revenue (2012: 90%, excluding the LPG segment in 2012). It is expected that the number of new connections will eventually enable the Group to maintain stable growth in the sales of natural gas. With the increase in the connection and construction income, the Group will continue to establish more channels for the sale of natural gas and provide services to more end-users, which will in turn lay a solid foundation for more volume growth on sales of natural gas in the future.

The Group's selling and distribution costs increased by 29% to approximately HK$58 million in 2013 from HK$45 million in 2012. The increase was in line with the Group's new project companies and new concession rights. The Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled its selling and distribution costs at 0.9% (2012: 0.9%) of total revenue.

2013 was a year of enhancing the Group's management capability, and we managed to trim out administrative expenses by 12% from HK$248 million in 2012 to HK$218 million in 2013. With stringent cost control and improvement in efficiency, the Group successfully curbed its administrative expenses at 3% of total revenue in 2013, as compared to 5% in 2012.

Finance costs increased from last year's HK$38 million to the current year's HK$115 million, which was mainly constituted by coupon interests on our senior notes issued on 25 April 2013. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 31 December 2013 was 4.9% (2012: 3.8%).

Excluding the one-off other (losses) and gains for both years which were non-recurring in nature, and coupon interests paid on our senior notes issued during the year, the Group's profit attributable to owners of the Company was approximately HK$420 million, as compared to HK$311 million in 2012, representing an increase of 35% compared with the same period of 2012, exceeding the Group's target set at the beginning of the Year.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. On 25 April 2013, the Company issued US$350 million senior notes bearing an interest rate of 5.25% per annum payable semi-annually in arrear due 2018 at par. The Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$4,335 million (2012: HK$2,357 million).

As at 31 December 2013, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$4,173 million (2012: HK$3,149 million). Total assets of HK$12,157 million (2012: HK$9,188 million), and among which current assets were HK$5,426 million (2012: HK$4,071 million). Total liabilities of the Group were HK$6,331 million (2012: HK$4,162 million), and among which current liabilities were HK$2,680 million (2012: HK$2,945 million). Under the Group's current liabilities included receipt in advance of approximately HK$1,007 million (2012: HK$1,147 million).

The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 36% (2012: 26%). The current ratio (current assets divided by current liabilities) of the Group was 2.02 times (2012: 1.38 times). EBITDA to interest cover ratio was at healthy level of 12.08 times. The financial and liquidity of the Group is at a very healthy and stable position.

EMPLOYEES AND REMUNERATION POLICY

At the end of 2013, the Group employed a total of approximately 3,643 (2012: 3,435) full-time employees, where mostly were stationed in the PRC. Total staff cost for the Year amounted to HK$248 million (2012: HK$206 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consisted of basic salary, cash bonus and share-based incentives.

PLEDGE OF ASSETS

The Group has pledged part of its equity interest (actual capital investment at the time of drawdown) in China City Natural Gas Co., Ltd. ("CCNG"), a subsidiary owned as to 51% by the Group, as security for an other borrowing of HK$700,000,000.

As at 31 December 2013, certain financial assets at fair value through profit or loss and available-for-sale financial assets of the Group are pledged as securities for certain banking facilities of the Group.

CONTINGENT LIABILITIES

The Group has no material contingent liability as at 31 December 2013.

FINANCIAL MANAGEMENT AND TREASURY POLICY

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

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

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

LITIGATION

As at 31 December 2013, the Group has no litigation.

CAPITAL STRUCTURE

During the Year, a total of 35,310,000 share options had been exercised by the employees of the Group at the exercise price of HK$0.43 per share and 320,000 share options had been forfeited.

As at 31 December 2013, the issued share capital of the Company was HK$50,007,162.13 divided into 5,000,716,213 shares of HK$0.01 each.

FINAL DIVIDEND

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Thursday, 29 May 2014 ("2014 AGM") a final dividend of HK cents 0.72 (2012: HK cents 0.65) per share to be paid on Monday, 23 June 2014 to those shareholders whose names appear on the register of members of the Company on Tuesday, 10 June 2014. The final dividend will amount to approximately HK$36,005,000 (2012: HK$ 32,275,000).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2014 AGM, the register of members of the Company will be closed from Wednesday, 28 May 2014 to Thursday, 29 May 2014 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2014 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 27 May 2014.

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Monday, 9 June 2014 to Tuesday, 10 June 2014 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration not later than 4:30 p.m. on Friday, 6 June 2014.

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 year ended 31 December 2013, other than those purchased by the trustee for the Restricted Share Award Scheme adopted on 4 November 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 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.

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.

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. 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, and Mr. Wang Guangtian, the chairman of the Nomination Committee, 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 code provisions as set out in the CG Code during the year ended 31 December 2013.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. 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 consolidated financial statements of the Group for the year ended 31 December 2013.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all our staff for their dedication and hard work and to our shareholders for their continuous support.

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

Hong Kong, 25 March 2014

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Mr. Zhu Yuan, Ms. Guan Yijun and Mr. Cheung Shing; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian.

* *For identification purpose only*