



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 603)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

INTERIM RESULTS

The Board of Directors (the “Board”) of China Oil And Gas Group Limited (the “Company”) is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008 (the “Period”).

The unaudited condensed consolidated financial statements for the Period have been reviewed by the Company’s audit committee (“Audit Committee”).

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January to 30 June 2008

		Unaudited (6 months) 1.1.2008 – 30.6.2008 HK\$'000	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK\$'000
	Notes		
Turnover	2	656,127	144,529
Cost of sales		(500,243)	(92,724)
Gross profit		155,884	51,805
Other income and gains, net		9,707	7,869
Selling and distribution costs		(7,666)	(2,957)
Administrative expenses		(49,790)	(14,205)
Operating profit		108,135	42,512
Finance costs		(6,104)	(883)
Share of profit of associates of jointly controlled entities		8,514	1,970
Profit before taxation	3	110,545	43,599
Taxation	4	(16,588)	(4,361)
Profit for the period		93,957	39,238
Attributable to:			
Equity holders of the Company		49,450	31,645
Minority interests		44,507	7,593
		93,957	39,238
Earnings per share	5		
– Basic		1.25 cents	1.0 cents
– Diluted		1.18 cents	0.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Notes	Unaudited At 30.6.2008 HK\$'000	Audited At 31.12.2007 HK\$'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		664,648	513,578
Leasehold land and land use rights		28,026	24,932
Goodwill		558,305	558,305
Other intangible assets		1,911	1,803
Interests in associates		15,705	—
Available-for-sale financial assets		1,542	1,542
		<u>1,270,137</u>	<u>1,100,160</u>
CURRENT ASSETS			
Leasehold land and land use rights		665	594
Inventories		25,760	27,292
Financial assets at fair value through profit or loss		17,959	16,219
Deposits, trade and other receivables	7	398,552	202,285
Tax recoverable		332	695
Cash and bank balances		743,979	839,166
		<u>1,187,247</u>	<u>1,086,251</u>
TOTAL ASSETS		<u>2,457,384</u>	<u>2,186,411</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		41,908	38,172
Reserves		1,343,968	1,217,000
		<u>1,385,876</u>	<u>1,255,172</u>
Minority interests		313,118	287,013
TOTAL EQUITY		<u>1,698,994</u>	<u>1,542,185</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8	310,430	316,162
Bank and other borrowings		294,706	80,147
Convertible notes		328	604
Tax payable		18,376	17,451
		<u>623,840</u>	<u>414,364</u>

	Unaudited At 30.6.2008 HK\$'000	Audited At 31.12.2007 HK\$'000
NON-CURRENT LIABILITIES		
Bank and other borrowings	66,624	79,110
Deferred tax liabilities	5,764	5,420
Convertible notes	62,162	145,332
	<u>134,550</u>	<u>229,862</u>
TOTAL LIABILITIES	<u>758,390</u>	<u>644,226</u>
TOTAL EQUITY AND LIABILITIES	<u>2,457,384</u>	<u>2,186,411</u>
NET CURRENT ASSETS	<u>563,407</u>	<u>671,887</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,833,544</u>	<u>1,772,047</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which also include Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The condensed consolidated 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 value.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2007.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Revised)	Share-based Payment – Amendments Relating to Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

2. SEGMENT INFORMATION

The Group is principally engaged in investments in the natural gas and other gas and energy related businesses.

(a) Business segments

Segment revenues and results

For the periods ended 2008 and 2007, no business segment information in respect of the Group's operation has been presented as all the Group's turnover was derived from natural gas business.

(b) Geographical segments

In determining the Group's geographical segments, revenues and results attributed to the segments are based on the location of the customers, and assets attributed to the segments are based on the location of the assets. During the six months ended 2008 and 2007, turnover were all generated from the principal natural gas business in the PRC.

3. PROFIT BEFORE TAXATION

	Unaudited (6 months) 1.1.2008 – 30.6.2008 HK\$'000	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK\$'000
Profit before taxation is arrived at after charging:		
Staff costs		
Salaries and wages	9,734	1,272
Directors' remuneration	3,746	1,980
Retirement benefits scheme contributions	206	15
	13,686	3,267
Depreciation of property, plant and equipment	6,428	4,228
Loss on disposal of financial assets at fair value through profit or loss	3,636	–
Fair value losses on disposal of financial assets at fair value through profit or loss	5,210	–
Loss on exchange	128	6

4. TAXATION

Unaudited (6 months) 1.1.2008 – 30.6.2008 HK\$'000	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK\$'000
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Current tax and taxation charge for the period:

Taxation outside Hong Kong	16,588	4,361
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Hong Kong profits tax has been provided at a rate of 17.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxation on overseas profits has been calculated on the estimated assessable profits for the Period at the rate of taxation prevailing in the countries in which the Group operates.

No tax is attributable to associates and included in share of profit of associates on the face of the condensed consolidated income statement.

5. EARNINGS PER SHARE

Basic

The calculation of basic earnings per share for the Period is based on the net profit attributable to equity holders of the Company of HK\$49,450,000 (30 June 2007: profit of HK\$31,645,000) and on the weighted average of 3,945,770,059 (30 June 2007: 3,186,453,991) ordinary shares in issue.

The calculation of the diluted earnings per share is based on the profit attributable to equity holders of the Company of HK\$49,778,000 (30 June 2007: profit of HK\$31,975,000) and the weighted average of 4,220,770,059 (30 June 2007: 3,836,453,991) ordinary shares in issue during the Period, calculated as follows:

Unaudited (6 months) 1.1.2008 – 30.6.2008 HK\$'000	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK\$'000
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Earnings

Net profit for the period	49,450	31,645
Saving on deemed conversion of convertible notes	328	330
	49,778	31,975

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	3,945,770,059	3,186,453,991
Effect of dilutive potential ordinary shares – convertible notes	275,000,000	650,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,220,770,059	3,836,453,991

6. DIVIDEND

No interim dividend was paid to shareholders during the Period (2007: Nil).

7. DEPOSITS, TRADE AND OTHER RECEIVABLES

Included in deposits, trade and other receivables are trade receivables with the following ageing analysis:

	Unaudited At 30.6.2008 <i>HK\$'000</i>	Audited At 31.12.2007 <i>HK\$'000</i>
Ageing:		
Current to 90 days	117,285	45,070
91 – 180 days	21,542	1,235
Over 180 days	100,530	46,235
Total	239,357	92,540

8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis:

	Unaudited At 30.6.2008 <i>HK\$'000</i>	Audited At 31.12.2007 <i>HK\$'000</i>
Ageing:		
Current to 90 days	59,759	39,809
91 – 180 days	3,515	5,991
Over 180 days	24,607	15,429
Total	87,881	61,229

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in investments in the natural gas and energy related businesses. The Group, and through China City Natural Gas Co., Ltd. (“CCNG”), a major subsidiary formed with China Petroleum Pipeline Bureau (“CPP”, a wholly owned subsidiary of China National Petroleum Corporation), which invests, develops and operates natural gas in the PRC.

Natural gas operations of the Group including piped city gas business, compressed natural gas (“CNG”) stations business, liquefied natural gas (“LNG”) business, pipeline design and construction, gas transportation and logistics services.

Financial Results

As at 30 June 2008, the Group records rapid growth in its natural gas operations and achieved brilliant results during the period under review.

As the Group had increased its equity interest in CCNG from 50% to 51% in July 2007, CCNG had become a major subsidiary of the Group and the results of which were fully consolidated into the Group’s results for the six months ended 30 June 2008 (the “Period”).

For comparison purpose of the business review, turnover and cost of sales for the prior six months ended 30 June 2007 (the “Last Period”), have been rearranged and included CCNG’s contribution to the Group for the Last Period. Rearranged figures are shown in the following table:

	Six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Turnover	656,127	274,269
Gross Profit	155,884	104,909
Profit before taxation	110,545	43,599
Profit after taxation and minority interests	49,450	31,645

For the Period, the Group recorded a turnover of approximately HK\$656 million, representing an increase of approximately 139% as compared to the Last Period's HK\$274 million. The increase in turnover was mainly due to the increase in sales of piped gas with contributions from the new projects. The Group's profit attributable to the shareholders was approximately HK\$49 million for the Period, and approximately HK\$31.6 million for the Last Period, recorded an increase of 55%. Compared with Last Period, fully diluted earnings per share was HK0.8 cent, with a 45% increase to HK1.18 cents for the Period.

Business Review

During the Period, the Group's total gas sales volume reached 477 million cubic meter (m³), increased by approximately 64% as compared to Last Period's 290 million m³. Among the gas consumption, 65% (2007: 52%) was commercial and industrial consumption; 6% (2007: 28%) was government and public utility consumption; 9% (2007: 9%) was household consumption and 20% (2007: 11%) was supplied to traffic. The Group's major subsidiary, CCNG, has contributed turnover amounted to HK\$585 million, approximately 89% of the total turnover, of the Group.

The Group has started the CNG stations business by acquiring CNG stations projects in Shandong, Anhui, and Jiangsu during 2007. As at 30 June 2007, the Group's CNG stations business began to expand, new stations being acquired and constructed. Gas operation in Anhui, Nanjing and Shandong began to supply gas to local and other gas operators during mid-end of 2007. During the Period, the CNG stations business contributed turnover of approximately HK\$28 million to the Group.

The Group's competitiveness and market position is further enhanced by the commencement of its Qinghai LNG factory operation at the end of 2007, coupled with our own gas transportation and logistics team, the mobility and coverage of the Group's natural gas supply have been greatly increased which enabled the Group to expand its business to markets and areas currently without the reach of gas pipelines. The LNG Phase II project is currently under construction and is expected to come into full operation at the end of 2008.

Prospects

Along with China's strong economy development, energies are perpetually under demand, where natural gas has gradually become a significant green energy source in China. According to the country planning, the application of natural gas is expected to boost up by 2010. Large amount of imported gas will be supplied to China and major gas pipelines including the 2nd Western-to-Eastern Pipeline and the Sichuan-to-East Pipeline projects are confirmed for this mission.

We expect the up-coming years would be the second evolution for China's natural gas development since the first western-to-eastern pipeline project. Our goal is clear, we will adhere to our business strategy on horizontally, continuously expand commercial and industrial users who have balanced gas consumption throughout the year, and on vertically, strategically plan to build more CNG stations to further improve the vehicular gas supply network. Nonetheless, the Group will enhance and glorify our predominance position on the secured natural gas sources, experience and expertise, connections and support from our business partners, CPP, to seize this opportunity to develop the Group as a leading gas and energy company, and play an important part in China's natural gas market.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2008, the Group employed a total workforce of approximately 1,028 (2007: 380). Most of the employees are located in the PRC. The Group remunerates its employees based on their work performance, working experiences and professional qualifications and the prevailing market practice.

LIQUIDITY AND FINANCIAL RESOURCES

Capital Investments and Commitments

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

Financial Position

In January 2008, the Company repurchased a total of 1,440,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HK\$0.395 to HK\$0.405 per share in the open market for an aggregate amount of approximately HK\$600,000.

The Group had convertible notes issued under the Nanjing CNG Acquisition ("Feb CN") and the Anhui CNG Acquisition ("Mar CN").

The Feb CN issued on 1 February 2007 in the principal amount of HK\$66 million bearing an interest of 1% per annum with 2 years maturity and convertible into 275,000,000 shares of the Company at a conversion price of HK\$0.24 each. Subsequent to the balance sheet date, the Feb CN was fully converted on 13 August 2008.

On 29 April 2008, the Mar CN has been fully converted into 375,000,000 shares of the Company at a conversion price of HK\$0.24 each. The Mar CN was originally issued on 20 March 2007 in the principal amount of HK\$90 million bearing no interest with 2 years maturity.

The Group was under a very strong financial position. As at 30 June 2008, the Group had Cash and bank balances of approximately HK\$744 million (2007: HK\$839 million), and the Group had total borrowings of approximately HK\$361 million (2007: HK\$159 million).

As at 30 June 2008, the Group had total assets of approximately HK\$2,457 million (2007: HK\$2,186 million), and current assets were approximately HK\$1,187 million (2007: HK\$1,086 million). Total liabilities of the Group was approximately HK\$758 million, including the Mar CN amounted to HK\$62 million (2007: HK\$644 million including the Feb & Mar CN amounted to HK\$145 million), and current liabilities were approximately HK\$624 million (2007: HK\$414 million). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 45% (2007: 42%). The current ratio of the Group was 1.90 (2007: 2.62) and the quick ratio was 1.86 (2007: 2.56).

Pledge of Assets

As at 30 June 2008, certain pipelines and the operation right of one of the gas operation in the PRC were pledged to secure bank loans of approximately HK\$81 million (2007: HK\$77 million).

Contingent Liabilities

As at 30 June 2008, CCNG provided a financial guarantee to a bank in connection with facilities granted to its subsidiaries to the extent of approximately HK\$500 million (2007: HK\$44 million).

Save as disclosed above, the Group did not have other significant contingent liabilities.

Foreign Exchange and Interest Rate Exposure

Since the Group's sales are denominated in Renminbi, and investments are mostly made in Hong Kong Dollar, the Group does not anticipate material foreign exchange exposure and risk, and no other foreign exchange and interest rate risk management or related hedges were made, proper policy will be in place when the Board considers appropriate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, the Company repurchased 1,440,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HK\$0.395 to HK\$0.405 per share on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Purchase Price per share		Aggregate purchase consideration
		Highest HK\$	Lowest HK\$	
January 2008	1,440,000	0.405	0.395	HK\$574,500

Save as disclosed above, neither the Company nor any its subsidiary purchased, redeemed or sold any of the Company's listed securities during the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the Period, the Company was in compliance with code provisions set out in the CG Code except that code provision A.4.1 of the CG Code provides that non-executive Directors should be appointed for a specific term. The non-executive Directors of the Company are not appointed for a specific term but are subject to the provision for retirement by rotation under the Bye-laws of the Company.

Save as the aforesaid and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the Period.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The interim financial statements have been reviewed by the Audit Committee which comprises three independent non-executive Directors of the Company, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Peng Long.

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

Hong Kong, 26 September 2008

As at the date of this announcement, the Board is comprised of four executive Directors, namely Mr. Xu Tie-liang, Mr. Qu Guo-hua, Mr. Cheung Shing and Mr. Zeng Xiao, and three independent non-executive Directors, namely, Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Peng Long.