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中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 603)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

INTERIM RESULTS

The board of Directors (the “Board”) of China Oil And Gas Group Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2009 (the “Period”).

The Unaudited Condensed Consolidated Financial Information for the Period have not been audited but have been reviewed by the Company’s Audit Committee (the “Audited Committee”).

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January to 30 June 2009

		Unaudited (6 months) 1.1-30.6.2009 HK\$'000	Unaudited (6 months) 1.1-30.6.2008 HK\$'000
	Notes		
Turnover		795,767	656,127
Other income and gains, net		35,138	444
Interest income		883	9,263
Purchases, services and others		(587,203)	(500,243)
Employee compensation costs		(22,679)	(13,686)
Depreciation and amortisation expenses		(8,796)	(6,428)
Interest expenses		(5,858)	(6,104)
Other expenses		(30,219)	(37,342)
Share of profit of associates		—	8,514
Profit before taxation		177,033	110,545
Taxation	(4)	(25,875)	(16,588)
Profit for the period		151,158	93,957
Other comprehensive income		—	—
Total comprehensive income for the period		151,158	93,957
Profit Attributable to:			
Equity holders of the Company		79,800	49,450
Minority interests		71,358	44,507
		151,158	93,957
Earnings per share	(5)		
Basic		1.79 Cents	1.25 Cents
Diluted		—	1.18 Cents

CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	Notes	Unaudited At 30.6.2009 HK\$'000	Audited At 31.12.2008 HK\$'000
Non-current assets			
Property, plant and equipment		1,033,549	1,004,165
Leasehold land and land use rights		49,466	33,825
Goodwill		627,118	627,258
Other intangible assets		3,775	3,802
Available-for-sale financial assets		748	499
Total non-current assets		1,714,656	1,669,549
Current assets			
Inventories		55,962	46,286
Financial assets at fair value through profit or loss		45,018	19,517
Deposits, trade and other receivables	(7)	368,703	326,165
Cash and cash equivalents		676,891	731,151
Total current assets		1,146,574	1,123,119
Total assets		2,861,230	2,792,668
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		44,579	44,579
Reserves		1,532,606	1,454,245
		1,577,185	1,498,824
Minority interests		451,882	405,004
Total equity		2,029,067	1,903,828
Non-current liabilities			
Bank and other borrowing		61,967	64,749
Deferred tax liabilities		5,839	5,851
Total non-current liabilities		67,806	70,600
Current liabilities			
Trade and other payables	(8)	507,775	555,099
Bank and other borrowings		227,719	240,573
Current tax payable		28,863	22,568
Total current liabilities		764,357	818,240
Total liabilities		832,163	888,840
Total equity and liabilities		2,861,230	2,792,668
Net current assets		382,217	304,879
Total assets less current liabilities		2,096,873	1,974,428

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PREPARATION

The Unaudited Condensed Consolidated Interim Financial Information 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 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”).

These Unaudited Condensed Consolidated Interim Financial Information 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 Unaudited Condensed Consolidated Interim Financial Information presented herein should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the annual report of the Group for the year ended 31 December 2008.

Except as described below, the accounting policies and methods of computation applied in the preparation of the Unaudited Consolidated Interim Condensed Financial Information are consistent with those of the Consolidated Financial Statements for the year ended 31 December 2008.

The following new/revised standards are mandatory for the first time for the financial year beginning 1 January 2009:

HKAS 1 (revised), “Presentation of financial statements”. The revised standard introduced a number of terminology changes, including revised titles for the condensed consolidated financial information, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. This did not result in an increase in the number of reportable segments present.

The HKICPA has made amendments to a number of HKFRS in May 2009 in response to the annual improvement projects which do not have any significant impact on the Group’s accounting policies and financial statements.

The following new and revised standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2009 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 27 (revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 3 (revised)	Business Combinations	1 July 2009
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owner	1 July 2009
HK(IFRIC)-Int 18	Transfer of Assets from Customers	1 July 2009

Management is in the process of making an assessment of the impact of these new and revised standards, amendments and interpretations and is not yet in a position to state whether they would have a significant impact on the Group’s results of operations and financial positions.

(2) SEGMENT INFORMATION

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

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting system in order to assess performance of the Group's sales of natural gas projects in mainland China. The Board assesses the performance of the single operating segment based on a measure of profit after tax.

No segment analysis of the Group's revenue and contribution to operating profit is presented as the Group's financial information already provide the management information on the assessment of the performance of the Group.

(3) PROFIT BEFORE TAXATION

	Unaudited (6 months) 1.1-30.6.2009 HK\$'000	Unaudited (6 months) 1.1-30.6.2008 HK\$'000
Loss on disposal of financial assets at fair value through profit or loss	315	3,636
Fair value losses on disposal of financial assets at fair value through profit or loss	789	5,210
Loss on exchange	—	128
	<u> </u>	<u> </u>

(4) TAXATION

	Unaudited (6 months) 1.1-30.6.2009 HK\$'000	Unaudited (6 months) 1.1-30.6.2008 HK\$'000
Current tax and taxation charge for the period:		
Taxation outside Hong Kong	25,875	16,588

Hong Kong profits tax has been provided at a rate of 16.5% (2008: 16.5%) 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 Consolidated Interim Condensed Statement of Comprehensive Income.

(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\$79,800,000 (30 June 2008: profit of HK\$49,450,000) and on the weighted average of 4,457,856,213 (30 June 2008: 3,945,770,059) ordinary shares in issue.

Diluted earnings per share

Diluted earnings per share for the period ended 30 June 2009 has not been calculated as there was no dilutive effect during the Period (2008: HK cents 1.18).

The calculation of the diluted earnings per share for 2008 was based on the profit attributable to equity holders of the Company of HK\$49,778,000 and the weighted average of 4,220,770,059 ordinary shares in issue during the period, calculated as follows:

	Unaudited (6 months) 1.1-30.6.2009 HK\$'000	Unaudited (6 months) 1.1-30.6.2008 HK\$'000
Earnings		
Net profit for the period	79,800	49,450
Saving on deemed conversion of convertible notes	—	328
	79,800	49,778
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,457,856,213	3,945,770,059
Effect of dilutive potential ordinary shares – convertible notes	—	275,000,000
	4,457,856,213	4,220,770,059

(6) DIVIDEND

No interim dividend was paid to shareholders during the Period (2008: Nil).

(7) DEPOSITS, TRADE AND OTHER RECEIVABLES

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

	Unaudited At 30.6.2009 HK\$'000	Audited At 31.12.2008 HK\$'000
Ageing:		
Current to 90 days	31,232	31,591
91-180 days	1,629	975
Over 180 days	44,596	46,035
	77,457	78,601

(8) TRADE AND OTHER PAYABLES

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

	Unaudited At 30.6.2009 HK\$'000	Audited At 31.12.2008 HK\$'000
Ageing:		
Current to 90 days	71,498	71,722
91-180 days	23,731	25,593
Over 180 days	37,082	25,649
	132,311	122,964

(9) POST BALANCE SHEET EVENTS

On 16 July 2009, a subsidiary of the Group, 中油中泰燃氣有限責任公司 (China City Natural Gas Co., Ltd.) ("CCNG"), entered into the Pingdu City Gas Framework Agreement with Pingdu City People's Government, pursuant to which CCNG is granted a franchise right to exclusively operate the business of providing natural gas to the industrial parks and surrounding areas of Pingdu City, Shandong Province, the People's Republic of China (the "PRC"). Pursuant to the framework agreement, the proposed investment amount of the project will be US\$30,000,000 (approximately HK\$234,000,000).

On 30 July 2009, in order to motivate and reward the Company's staffs, the Company has granted to certain eligible employees of the Company share options to subscribe for an aggregate of 100,000,000 ordinary shares of HK\$0.01 each in share capital of the Company ("Share(s)"), under the share option scheme adopted by the Company on 31 January 2002. The exercise price will be HK\$0.43 per Share and the validity period will be from 30 July 2009 to 29 July 2014.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2009 (30 June 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in investments in, and the operation and management of the natural gas and energy related business. Gas operations of the Group include piped city gas business, CNG stations business, LNG business, pipeline design and construction, gas transportation and logistics services in the PRC.

Business Review

Up to the end of June 2009, our Group has 18 Piped Natural Gas Franchise Rights and 41 natural gas projects which scattered in 7 provinces and 15 cities.

In the first half of 2009, 南京潔寧燃氣有限公司 (Nanjing Jiening Gas Co., Ltd.*) (“Nanjing Jiening”), a wholly-owned subsidiary of the Group, has also obtained a 南京市溧水經濟開發區管道燃氣特許經營協議 (Piped Gas Franchise Agreement of Lishui Economic Development Zone in Nanjing*). Meanwhile, Nanjing Jiening also established a joint venture company in the PRC with 南京寧城工程建設項目管理諮詢有限公司 (Nanjing Ningcheng Engineering Construction Project Management Consultants Co., Ltd.*). In addition, through CCNG, 2 new city gas projects, An Yi China Oil and Gas and Hai An China Oil and Gas, have also been incorporated during the first half of 2009.

Financial Results

For the six months ended 30 June 2009, the Group recorded a turnover of HK\$795,767,000, representing an increase of approximately 21% as compared to HK\$656,127,000 recorded in the six months ended 30 June 2008 (the “Last Period”). The Group’s cost of sales was HK\$587,203,000 (2008: HK\$500,243,000) representing an increase of approximately 17%. Gross profit amounted to HK\$208,564,000 (2008: HK\$155,884,000) increased by approximately 34%. Profit for the Period was HK\$151,158,000 (2008: HK\$93,957,000) and the Group’s profit attributed to the shareholders was HK\$79,800,000 (2008: HK\$49,450,000), both recorded a significant increase of 61% as compared to the Last Period. For the Last Period, basic earnings per share was HK1.25 cents, which represented a 43% increase to HK1.79 cents for the Period.

The 2% increase of the gross profit ratio for the Period over the corresponding period of last year was due to an increase of connection fee income received during the first half of the year. The jump in profit attributable to shareholders of the Group is mainly due to the growing profits from sales of natural gas, coupled with unrealized profit from financial assets of HK\$25,116,000. Such an unrealized income was not recorded in the first half of 2008.

Liquidity and Financial Resources

Financial Position

The Group was under a relatively strong financial position. As at 30 June 2009, the Group had cash and cash equivalents of approximately HK\$676,891,000 (2008: HK\$731,151,000). The Group's total borrowings amounted to HK\$289,686,000 (2008: HK\$305,322,000), representing bank and other borrowings made for the gas operations under CCNG, a decrease of approximately 5%, as compared to 31 December 2008.

As at 30 June 2009, the Group had total assets of HK\$2,861,230,000 (2008: HK\$2,792,668,000), and among which current asset were HK\$1,146,574,000 (2008: HK\$1,123,119,000). Total liabilities of the Group was HK\$832,163,000 (2008: HK\$888,840,000), and among which current liabilities were HK\$764,357,000 (2008: HK\$818,240,000). The gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total assets, was 29% (2008: 32%). The current ratio of the Group was 1.50 (2008:1.37) and quick ratio was 1.43 (2008:1.32).

During the Period, the Group's total gas sales and transmission volume reached 887,000,000 cubic meters (m³), recorded an overall increase of 86% as compared to 477,000,000 m³ for the Last Period. Total gas sales increased by 20% from Last Period's 392,000,000 m³ to the Period's 471,000,000 m³; whereas 5% (2008: 5%) was from commercial consumption; 65% (2008: 67%) was from industrial consumption; 9% (2008: 11%) was from household consumption; 10% (2008: 11%) was from CNG stations; 6% (2008: 6%) was contributed from the sales of LNG. The remaining 5% consumption for the Period was contributed from logistic services, where accounted for less than 1% for the Last Period. Pipeline gas transmission increased substantially by 389% from 85 million m³ to the Period's 416 million m³ after the acquisition of a pipeline gas transmission company at the end of 2008.

Capital Investments and Commitments

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

Employees and Remuneration Policy

As at 30 June 2009, the Group employed a total workforce of approximately 1,273 (2008: 1,028). 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.

Pledge of Assets

As at 30 June 2009, no asset of the Group has been pledged (2008: Nil).

Contingent Liabilities

As at 30 June 2009, the Group did not have any significant contingent liabilities (2008: Nil).

Currency and Interest Rate Exposure

The Group's sales are denominated in Renminbi, and investments are mostly made 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. Proper policy will be in place when the Board considers appropriate.

Litigation

As at 30 June 2009, the Group has no litigation.

Prospects

In the second half of 2008, a RMB 4 trillion economic stimulus package has been introduced by mainland China and where its policy become more transparent, further large-scale infrastructure projects and increase of bank loans are foreseeable. The market's interpretation as the PRC economy is recovering gradually from the financial tsunami. Accompany with the recovery of economy will be further growth in demand for natural gas, which signify further development for our Group.

Looking forward to the second half of 2009, the Group will continuously uphold our current focus on the 5 key areas regarding market development, namely, the North-western District (西北區域), Yangtze Delta District (長三角區域), Xianggan District (湘贛區域), Shandong District (山東區域) and Guangdong District (廣東區域). Under a healthy cash position, our Group will concentrate to acquire and consolidate nearby cities and towns' gas projects around the 5 key areas, with a view of sharing resources and lowering cost which lead to achieving a greater market share on our natural gas business and to maximize our shareholders' return. In July 2009, CCNG entered into a 合作框架協議書 (Cooperation Framework Agreement) with 平度市人民政府 (Pingdu City People's Government*) pursuant to which CCNG is granted a franchise right to exclusively operate the business of providing natural gas to the industrial parks and surrounding areas of Pingdu City, Shandong Province, the PRC. In September 2009, our Ganhe Industrial Zone Project in Qinghai has been approved for an additional 400 million m³ of natural gas supply target. Meanwhile, a new Binzhougang District Project in Binzhou of Shandong Province is expected to have CNG gas connection at the end of the year.

Our Group is optimistic for the natural gas industry within PRC in the long run. The Second Phase of West-to-East Pipeline (西氣東輸二線) has been under construction, which is designed with a capacity of approximately 30 billion m³ per year and is expected to be connected thoroughly before 2012 and the total supply will reach at least 120 billion m³ in the near future. By taking advantages of the secured natural gas resource from our partner China Petroleum Pipeline Bureau, management techniques, high quality and efficient natural gas distribution networks; together with the capital strength as a Hong Kong listed company, our Group will grasp the enormous business opportunities presenting in front of us so as to step out with big jumps in developing our gas business.

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 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific 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.

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 six months ended 30 June 2009, 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 six months ended 30 June 2009.

AUDIT COMMITTEE

The Company has an 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, and 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.

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

Hong Kong, 21 September 2009

* *For identification purpose only*

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Xu Tie-liang (Chairman), Mr. Qu Guo-hua (Chief Executive Officer) and Mr. Cheung Shing; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Peng Long.