Interim Report 2005-2006

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

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CORPORATE INFORMATION

Board of Directors	Xu Tie-liang *(Chairman)* Qu Guo-hua *(Chief Executive Officer)* Zeng Xiao Cheung Shing Cheung Man Yau, Timothy* Shi Xun-zhi* Peng Long* * *Independent non-executive Directors*
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 Registrar	Butterfield Fund Services (Bermuda) Limited Rosebank Centre, 11 Bermudiana Road Pembroke, Bermuda
Hong Kong Branch Registrar	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17/F, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors (the "Board") of China Oil And Gas Group Limited (formerly Nippon Asia Investments Holdings Limited) (the "Company", together with its subsidiaries, collectively referred as to the "Group") presents the unaudited condensed consolidated balance sheet as at 30 June 2006 and the unaudited condensed consolidated income statement of the Group for the period from 1 August 2005 to 30 June 2006 as follows.

The unaudited condensed consolidated financial statements for the period from 1 August 2005 to 30 June 2006 have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 August 2005 to 30 June 2006

	Notes	**Unaudited 1.8.2005 – 30.6.2006 HK$'000**	Audited 1.8.2004 – 31.7.2005 (Restated) HK$'000
Continuing operations			
Turnover	2	**150,825**	200,928
Cost of sales		**(101,168)**	(139,230)
Gross profit		**49,657**	61,698
Other income and gains, net	3	**29,245**	33,891
Selling and distribution costs		**(3,163)**	(2,936)
Administrative expenses		**(19,338)**	(35,199)
Other expenses		**(2,443)**	(162,512)
Operating profit/(loss)		**53,958**	(105,058)
Share of losses of associates of jointly controlled entities		**(2,421)**	(2,321)
Finance costs	4	**(1,499)**	(3,136)
Profit/(loss) before taxation	5	**50,038**	(110,515)
Taxation	6	**(1,721)**	(3,487)
Profit/(loss) for the period/year from continuing operations		**48,317**	(114,002)
Discontinued operations			
Profit/(loss) for the period/year from discontinued operations	9	**3,230**	(18,480)
Profit/(loss) for the period/year		**51,547**	(132,482)
Attributable to:			
Equity holders of the Company		**44,910**	(139,797)
Minority interests		**6,637**	7,315
		51,547	(132,482)
Earnings/(loss) per share			
From continuing and discontinued operations			
– Basic	7	**2.50 cents**	(9.30 cents)
From continuing operations			
– Basic	7	**2.32 cents**	(8.07 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	Unaudited At 30.6.2006 HK$'000	Audited At 31.7.2005 (Restated) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**96,543**	102,207
Leasehold land and land use rights		**–**	1,749
Interests in associates		**13,856**	21,247
Investment securities		**–**	6,269
Available-for-sale financial assets		**13,666**	–
		124,065	131,472
CURRENT ASSETS			
Leasehold land and land use rights		**–**	233
Inventories		**5,736**	11,897
Short term investments		**–**	16,610
Financial assets at fair value through profit or loss		**44,609**	–
Deposits, trade and other receivables	10	**51,513**	116,023
Cash and cash equivalents		**116,279**	35,806
		218,137	180,569
Assets classified as held for sale	9	**–**	374
		218,137	180,943
TOTAL ASSETS		**342,202**	312,415
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**18,047**	17,347
Reserves		**196,165**	153,428
		214,212	170,775
Minority interests		**16,463**	12,960
Total equity		**230,675**	183,735
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	**30,748**	38,975
Borrowings – Bank loans (secured)		**–**	4,999
Convertible notes		**–**	3,960
Tax payable		**1,974**	3,369
		32,722	51,303
Liabilities directly associated with assets classified as held for sale	9	**–**	3,663
		32,722	54,966
NON-CURRENT LIABILITIES			
Borrowings			
– Bank loans (secured)		**14,576**	23,740
– Other loans (unsecured)		**64,229**	49,974
		78,805	73,714
TOTAL LIABILITIES		**111,527**	128,680
TOTAL EQUITY AND LIABILITIES		**342,202**	312,415
NET CURRENT ASSETS		**185,415**	125,977
TOTAL ASSETS LESS CURRENT LIABILITIES		**309,480**	257,449

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 August 2005 to 30 June 2006

	Attributable to equity holders of the Company									
	Issued share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible notes reserve HK$'000	Other capital reserve HK$'000	Investment fair value reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 August 2004, as previously reported	238,046	995,175	675	-	25,341	-	-	(1,067,636)	-	191,601
Effect on adopting										
HKAS 1	-	-	-	-	-	-	-	-	4,161	4,161
HKAS 17	-	-	-	-	-	-	-	50	-	50
HKAS 32	-	-	-	282	-	-	-	(243)	-	39
At 1 August 2004, as restated	238,046	995,175	675	282	25,341	-	-	(1,067,829)	4,161	195,851
Shares issued upon conversion of convertible notes	24,600	-	-	-	-	-	-	-	-	24,600
Exercise of share options	18,000	-	-	-	-	-	-	-	-	18,000
Shares issued upon rights issue	51,209	-	-	-	-	-	-	-	-	51,209
Bonus shares pursuant to rights issue	76,814	(76,814)	-	-	-	-	-	-	-	-
Issue of convertible notes	-	-	-	1,590	-	-	-	-	-	1,590
Redemption of convertible notes	-	-	-	(753)	-	-	-	-	-	(753)
Conversion of convertible notes	-	117	-	(942)	-	-	-	-	-	(825)
Shares issued upon placement of shares	25,000	-	-	-	-	-	-	-	-	25,000
Capital reduction	(416,322)	-	-	-	-	-	-	416,322	-	-
Exchange adjustment arising from translation of financial statements of jointly controlled entities not recognised in the consolidated income statement	-	-	-	-	-	-	61	-	-	61
Other capital reserve transferred to accumulated losses after expiry of warrants in 2003	-	-	-	-	(25,341)	-	-	25,341	-	-
Cash inflow from shareholders of jointly controlled entities	-	-	-	-	-	-	-	-	1,484	1,484
Loss for the year, as restated	-	-	-	-	-	-	-	(139,797)	7,315	(132,482)
At 1 August 2005, as restated	**17,347**	**918,478**	**675**	**177**	**-**	**-**	**61**	**(765,963)**	**12,960**	**183,735**
Exchange difference arising from translation of financial statements of jointly controlled entities not recognised in the consolidated income statement	**-**	**-**	**-**	**-**	**-**	**-**	**1,070**	**-**	**-**	**1,070**
Exercise of share options	**700**	**3,360**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,060**
Increase in capital of a jointly controlled entity by capitalisation of its retained profits	**-**	**-**	**-**	**-**	**11,813**	**-**	**-**	**(11,813)**	**-**	**-**
Unrealised losses arising from changes in fair value of available-for-sale financial assets	**-**	**-**	**-**	**-**	**-**	**(6,603)**	**-**	**-**	**-**	**(6,603)**
Payment of dividend to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,480)**	**(3,480)**
Cash inflow from shareholders of jointly controlled entities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**346**	**346**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,910**	**6,637**	**51,547**
At 30 June 2006	**18,047**	**921,838**	**675**	**177**	**11,813**	**(6,603)**	**1,131**	**(732,866)**	**16,463**	**230,675**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 August 2005 to 30 June 2006

	Unaudited 1.8.2005 – 30.6.2006 HK$'000	Audited 1.8.2004 – 31.7.2005 (Restated) HK$'000
Net cash generated from/(used in) operating activities		
Continuing operations	**80,218**	(80,689)
Discontinued operations	**134**	(6,230)
	80,352	(86,919)
Net cash used in investing activities		
Continuing operations	**(2,164)**	(10,042)
Discontinued operations	**–**	–
	(2,164)	(10,042)
Net cash generated from financing activities		
Continuing operations	**2,034**	99,024
Discontinued operations	**–**	–
	2,034	99,024
Net increase in cash and cash equivalents	**80,222**	2,063
Cash and cash equivalents at beginning of period/ year	**35,721**	33,117
Effect of foreign exchange rate changes	**336**	541
Cash and cash equivalents at end of period/ year	**116,279**	35,721
Analysis of the balances of cash and cash equivalents From continuing and discontinued operations		
Cash and bank balances	**116,279**	35,819
Bank overdraft	**–**	(98)
	116,279	35,721
Less: Discontinued operations		
Cash and bank balances	**–**	13
Bank overdraft	**–**	(98)
	–	(85)
	116,279	35,806

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

On 19 October 2006 the Directors resolved to change the financial year end date of the Company from 31 July to 31 December. As a result, the condensed consolidated financial statements of the Company and its subsidiaries for the current period covered the period from 1 August 2005 to 30 June 2006 for the Company's second interim results announcement are presented. The change is to align the financial year end date of the Company with those of the Company's principal natural gas business in the People's Republic of China (the "PRC").

Changes in Accounting Policies

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") (which term collectively includes HKAS and interpretations) that are effective for accounting periods beginning on or after 1 January 2005. Other than early adoption of HKAS 31 "Investments in joint ventures" and HKAS-Int 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers" in the last annual financial statements for the year ended 31 July 2005, the Group has adopted the following new/revised standards and interpretations of HKFRS below, which are relevant to its operations, for the first time for the current period's interim financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchanges Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets

HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(SIC)-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The impact of adopting the HKFRS is summarised as follows:

(a) HKAS 1 "Presentation of Financial Statements"

HKAS 1 affects certain presentation in these financial statements, including the following:

- minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the Company; and

- taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group's share of profits and losses of associates.

(b) HKAS 17 "Leases"

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In case, the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and any accumulated impairment losses. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and any accumulated impairment. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land and land use rights previously included in "Fixed assets" as "Leasehold land and land use rights" with comparatives restated to conform to the current year's presentation.

(c) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 July 2005, investments of the Group were classified into investment securities and short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value respectively, and any impairment losses on investment securities and changes in fair value of the short term investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and other financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31 July 2005 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1 August 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of accumulated losses at 1 August 2005. However, the adoption of HKAS 39 has had no material effect on the Group's results and equity.

The effect of the changes in accounting policies on these interim financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

– all investment securities of the Group and the Company as at 31 July 2005 were redesignated into available-for-sale financial assets on 1 August 2005. The aggregate differences between the respective carrying value of each investment as at 31 July 2005 and the respective fair value at 1 August 2005 is insignificant and hence, no adjustment has been made against the accumulated losses at 1 August 2005;

– all short term investments of the Group and the Company as at 31 July 2005 were redesignated into financial assets at fair value through profit or loss on 1 August 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's short term investments as at 31 July 2005 is the same as that for the financial assets at fair value through profit or loss; and

– In prior periods, convertible notes were stated at amortised cost. Upon adoption of HKAS 32, the component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes and the amount is carried as liability on the amortised cost basis until extinguished on conversion and redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent periods.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

This change in accounting policies is applied retrospectively by way of adjustments to the opening balance of accumulated losses and comparative figures have been restated.

(d) The adoption of HKFRS 2 has resulted in the accounting policy for share-based payments. In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivables.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to accumulated losses.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2. In relation to share options granted on or before 7 November 2002 and share options granted on 7 November 2002 but which had vested before 1 August 2005, the Group does not recognise and expense those share options.

No adjustments to the opening balances as at 1 August 2004 and 1 August 2005 are required as all the share options granted were vested before 1 August 2005. Therefore, the adoption of HKFRS 2 has no impact on the accumulated losses as at 31 July 2004 and 31 July 2005.

(e) HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a single sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) Other standards

HKAS 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38, HKFRS 3 and HK(SIC)-Int 15 had no material impact on the Group's accounting policies and did not result in any changes to the amounts or disclosures in these interim financial statements.

HKAS 24 has affected the identification of related parties and some other related party disclosures.

The effects of the changes in the accounting policies described above on the results for the respective periods are as follows:

	Effect of adopting	**1.8.2005 – 30.6.2006 HK$'000**	1.8.2004 – 31.7.2005 HK$'000
Decrease in other income	HKAS 17	**(24)**	–
Increase in other income	HKAS 32	**–**	511
		(24)	511
Increase in administrative expenses	HKAS 17	**–**	26
Increase in finance costs	HKAS 32	**40**	522
		40	548
Decrease/increase in profit/(loss) for the period/ year		**64**	37
Decrease/increase in basic earnings/(loss) per share	HKAS 17 & 32	**0.003 cents**	0.002 cents

The cumulative effects of the application of the HKFRS at the respective period/ year ends are summarised below:

	Effect of adopting	**At 30.6.2006 HK$'000**	At 31.7.2005 HK$'000
Property, plant and equipment	HKAS 17	**–**	(1,958)
Leasehold land and land use rights	HKAS 17	**–**	1,982
Increase in assets		**–**	24
Convertible notes	HKAS 32	**–**	(40)
Decrease in liabilities		**–**	(40)
Share premium	HKAS 32	**–**	117
Convertible notes reserve	HKAS 32	**–**	177
Accumulated losses	HKAS 17 & 32	**–**	(230)
Increase in equity		**–**	64

2. SEGMENT INFORMATION

The Group is principally engaged in investments in the natural gas and other gas and energy related business. The silicone rubber business, which has been disposed of on 14 February 2006, was discontinued since the Company's interim report for the period ended 31 January 2005.

Business segments:

Segment information about the Group's continuing operations is presented below. Segment information about the Group's discontinued operations is presented in note 9.

	Investment in internet, information technology and other activities		**Natural gas business**		**Total for continuing operations**	
	1.8.2005-30.6.2006	1.8.2004-31.7.2005 (Restated)	**1.8.2005-30.6.2006**	1.8.2004-31.7.2005 (Restated)	**1.8.2005 - 30.6.2006**	1.8.2004-31.7.2005 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Turnover	**–**	–	**150,825**	200,928	**150,825**	200,928
Segment results	**22,946**	(106,961)	**36,703**	34,172	**59,649**	(72,789)
Unallocated income					**223**	1,076
Unallocated expenses					**(5,914)**	(33,345)
					53,958	(105,058)
Finance costs					**(1,499)**	(3,136)
Share of losses of associates of jointly controlled entities	**–**	–	**(2,421)**	(2,321)	**(2,421)**	(2,321)
Profit/(loss) before taxation					**50,038**	(110,515)
Taxation					**(1,721)**	(3,487)
Profit/(loss) for the period/year before minority interests from continuing operations					**48,317**	(114,002)

An analysis of the Group's segment revenue for the period/ year by geographical segment is as follows:

Geographical segments:

	Continuing operations				Discontinued operations			
	Investment in internet, information technology and other activities		Natural gas business		Silicone rubber business		Total	
	1.8.2005- 30.6.2006 HK$'000	1.8.2004- 31.7.2005 HK$'000	**1.8.2005- 30.6.2006 HK$'000**	1.8.2004- 31.7.2005 HK$'000	**1.8.2005 - 30.6.2006 HK$'000**	1.8.2004- 31.7.2005 HK$'000	**1.8.2005 - 30.6.2006 HK$'000**	1.8.2004- 31.7.2005 HK$'000
Segment revenue:								
Hong Kong	**–**	–	**–**	–	**–**	4,090	**–**	4,090
Mainland China	**–**	–	**150,825**	200,928	**–**	–	**150,825**	200,928
	–	–	**150,825**	200,928	**–**	4,090	**150,825**	205,018

3. OTHER INCOME AND GAINS, NET

	Unaudited 1.8.2005 – 30.6.2006 HK$'000	Audited 1.8.2004 – 31.7.2005 (Restated) HK$'000
Interest income	**337**	563
Gain on disposal of short term listed investments	**–**	23,742
Gain on partial disposal of a subsidiary	**–**	5,000
Gain on disposal of investment securities	**–**	575
Reversal of impairment loss on investment securities	**–**	2,369
Reversal of impairment of property, plant and equipment	**–**	287
Gain on disposal of financial assets available-for-sale through profit or loss	**992**	–
Fair value changes of financial assets at fair value through profit or loss	**26,701**	–
Dividend income from available-for-sale financial assets – listed shares outside Hong Kong	**100**	–
Gain on disposal of leasehold land and buildings	**750**	–
Gain on exchange	**–**	294
Others	**365**	1,061
	29,245	33,891

4. FINANCE COSTS

	Unaudited 1.8.2005 – 30.6.2006 HK$'000	Audited 1.8.2004 – 31.7.2005 (Restated) HK$'000
Interest on:		
Bank loans	**1,132**	1,797
Other loans – not wholly repayable within five years	**–**	236
– wholly repayable within five years	**–**	35
Securities trading account	**327**	422
Convertible notes	**40**	882
	1,499	3,372
Less: capitalised in property, plant and equipment	**–**	236
	1,499	3,136

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Unaudited 1.8.2005- 30.6.2006 HK$'000	Audited 1.8.2004- 31.7.2005 (Restated) HK$'000
Depreciation of property, plant and equipment	**6,696**	6,955
Impairment loss of goodwill	**–**	1,694
Impairment loss on investment securities	**–**	108,718
Bad and doubtful debts	**–**	15,644
Changes in fair values of short term listed investments	**–**	9,297
Loss on disposal of property, plant and equipment	**1,522**	3,312
Loss on exchange	**127**	–
Impairment of intangible assets	**–**	5,000
Impairment of interest in an associate	**–**	442

6. TAXATION

	Continuing operations		Discontinued operations		Total	
	Unaudited 1.8.2005- 30.6.2006 HK$'000	Audited 1.8.2004- 31.7.2005 HK$'000	**Unaudited 1.8.2005- 30.6.2006 HK$'000**	Unaudited 1.8.2004- 31.7.2005 HK$'000	**Unaudited 1.8.2005- 30.6.2006 HK$'000**	Audited 1.8.2004- 31.7.2005 HK$'000
Current taxation:						
Hong Kong	**131**	1,983	**–**	–	**131**	1,983
Other jurisdictions	**1,590**	1,504	**(108)**	(365)	**1,482**	1,139
Total tax charge for the period/year	**1,721**	3,487	**(108)**	(365)	**1,613**	3,122

Hong Kong profits tax has been provided at a rate of 17.5% (for the year ended 31 July 2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxation on other jurisdictions has been calculated on the estimated assessable profits for the period/ year 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 losses of associates on the face of the condensed consolidated income statement.

7. EARNINGS /(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share for the period ended 30 June 2006 is based on the net profit attributable to equity holders of the Company of HK$44,910,000 (for the year ended 31 July 2005: loss of HK$139,797,000 (restated)) and on the weighted average of 1,797,260,045 (31 July 2005: 1,502,285,871) ordinary shares in issue.

From continuing operations

Basic profit per share for the continuing operations based on the profit for the period ended 30 June 2006 from continuing operations of HK$41,680,000 (for the year ended 31 July 2005: loss of HK$121,317,000 (restated)) and the denominators used are the same as those detailed above for basic earnings/ (loss) per share.

No diluted earnings per share has been presented for the period ended 30 June 2006 as there are no outstanding potential ordinary shares. In 2005, no diluted loss per share has been presented for the year ended 31 July 2005 as the convertible notes and options outstanding during the year had anti-dilutive effect on the basic loss per share.

8. DIVIDEND

No interim dividend was paid to shareholders during the period (for the year ended 31 July 2005: Nil).

9. DISCONTINUED OPERATIONS

As detailed in the Company's interim report for the period ended 31 January 2005, due to prolonged disputes and litigation in connection with the silicone rubber business of a subsidiary, Golite International Limited ("Golite"), the Company announced the Board's decision to discontinue the silicone rubber business (the "discontinued operations") of the Group so as to preserve resources for the Group's other suitable and value-added business or investments. The Company therefore decided to dispose of its interests in Golite and its subsidiary (collectively referred as to the "Golite Group"). The assets and liabilities of the discontinued operations have since then been classified as a disposal group held for sale and are presented separately in the balance sheet. On 14 February 2006, the Group entered into a sale and purchase agreement with an independent third party for disposal of the entire interest in the Golite Group and the disposal was completed on the same date.

The profit/(loss) for the period/ year from the discontinued operations is analysed as follows:

	Unaudited 1.8.2005- 14.2.2006 HK$'000	Unaudited 1.8.2004- 31.7.2005 HK$'000
Net profit/(loss) of the silicone rubber business for the period/ year	**134**	(18,480)
Gain on disposal of silicone rubber business	**3,096**	–
	3,230	(18,480)

The results of the silicone rubber business for the period from 1 August 2005 to 14 February 2006 (date of disposal of the discontinued operations) are as follows:

	Unaudited 1.8.2005- 14.2.2006 HK$'000	Unaudited 1.8.2004- 31.7.2005 HK$'000
Revenue	**–**	4,090
Cost of sales	**–**	(3,140)
Other income and gains	**48**	10
Selling and distribution costs	**–**	(755)
Administrative expenses	**(22)**	(10,488)
Other expenses	**–**	(8,562)
Profit/(loss) before taxation	**26**	(18,845)
Taxation	**108**	365
Profit/(loss) for the period/ year	**134**	(18,480)

The major classes of assets and liabilities of the discontinued operations classified as held for sale are as follows:

	Unaudited At 30.6.2006 HK$'000	Unaudited At 31.7.2005 HK$'000
Assets		
Deposits, trade and other receivables	**–**	256
Tax recoverable	**–**	105
Cash and bank balances	**–**	13
	–	374
Liabilities		
Trade and other payables	**–**	3,565
Bank overdraft	**–**	98
	–	3,663

10. DEPOSITS, TRADE AND OTHER RECEIVABLES

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

	Unaudited At 30.6.2006 HK$'000	Audited At 31.7.2005 HK$'000
Aging:		
Current to 90 days	**70**	31
91 – 180 days	**10**	8
Over 180 days	**32,863**	15,953
Total	**32,943**	15,992

11. TRADE AND OTHER PAYABLES

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

	Unaudited At 30.6.2006 HK$'000	Audited At 31.7.2005 HK$'000
Aging:		
Current to 90 days	**1,560**	700
91 – 180 days	**4,805**	2,141
Over 180 days	**7,790**	3,466
Total	**14,155**	6,307

12. CONVERTIBLE NOTES

In January 2004, the Company issued a 3% convertible note due on 14 July 2005 in the principal amount of HK$20 million to an independent third party and the note was wholly redeemed in December 2004 with interest accrued.

In October and November 2004, the Company issued 1-year 1% convertible notes in the aggregate principal amount of USD2 million and HK$25 million respectively to independent third parties, entitling the holders to convert up to an aggregate of 1,624,000,000 ordinary shares of the Company at an initial conversion price of HK$0.025 per share. During the year ended 31 July 2005, the convertible notes in the principal amount of USD2 million was fully converted into 624,000,000 ordinary shares of the Company. In respect of the convertible notes in the aggregate principal amount of HK$25 million, HK$9 million of which was converted into 360,000,000 ordinary shares of the Company in December 2004 and HK$12 million of which was redeemed in July 2005.

The remaining convertible notes with the aggregate amount of HK$4 million were due on 3 November 2005 and remained outstanding as at 30 June 2006. After the maturity date of the convertible notes, the notes had been classified as other payables and were repayable on demand. On 15 August 2006, the notes were fully redeemed and repaid with interest accrued.

The fair value of the liability component and equity component of the convertible notes was determined at the issuance date. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. Interest expenses on the convertible notes are calculated using the effective interest method by applying the effective interest rate in the region of 5% to 5.125% to the liability component. The residue amount, representing the value of the equity component, is included in reserves.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity components as follows:

	Unaudited At 30.6.2006 HK$'000	Audited At 31.7.2005 (Restated) HK$'000
Liabilities component at the beginning of the period	**3,960**	19,960
Nominal value of convertible notes issued during the period/year	**–**	40,516
Equity component	**–**	(1,589)
	3,960	58,887
Interest expenses	**40**	882
Interest paid	**–**	(360)
Conversion of convertible notes	**–**	(23,691)
Redemption of convertible notes	**–**	(31,758)
Liability component at the end of the period/ year	**4,000**	3,960
Classified as other payables upon maturity of convertible notes	**(4,000)**	–
	–	3,960

13. SHARE CAPITAL

	Unaudited At 30.6.2006 Number of shares	Unaudited At 30.6.2006 Amount HK$'000	Audited At 31.7.2005 Number of shares	Audited At 31.7.2005 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	**125,000,000,000**	**1,250,000**	125,000,000,000	1,250,000
Issued and fully paid:				
At beginning of the period/year	**1,734,676,213**	**17,347**	9,521,841,423	238,046
Exercise of share options	**70,000,000**	**700**	720,000,000	18,000
Shares issued upon conversion of convertible notes	**–**	**–**	984,000,000	24,600
Shares issued upon rights issue	**–**	**–**	2,048,368,284	51,209
Bonus shares issued pursuant to rights issue	**–**	**–**	3,072,552,426	76,814
Placing of shares	**–**	**–**	1,000,000,000	25,000
Capital reduction	**–**	**–**	–	(416,322)
Share consolidation	**–**	**–**	(15,612,085,920)	–
At end of the period/year	**1,804,676,213**	**18,047**	1,734,676,213	17,347

14. LITIGATION

Golite International Limited ("Golite") was a wholly-owned subsidiary of the Group engaged in the manufacturing and trading of silicone rubber products, whose manufacturing operation was together with Golden Power Industries Limited ("Golden Power"), a disposed subsidiary of the Group engaged in the manufacturing of batteries, in Dongguan, the PRC under a feeding processing arrangement. Following the disposal of the battery business, Golite decided to detach its manufacturing operation from Golden Power, and requests were made to Golden Power on releasing the plants and machineries and trading records, but such requests were unreasonably rejected. The Company had finally through legal action retrieved most of the trading books and records, but some of the plants, machineries and stocks were still withheld by Golden Power. Golite was disposed of on 14 February 2006.

15. CONTINGENT LIABILITIES

	Unaudited At 30.6.2006 HK$'000	Audited At 31.7.2005 HK$'000
Guarantees given to banks in connection with facilities granted to associates of a jointly controlled entity	**67,630**	47,000

16. POST BALANCE SHEET EVENTS

Acquisition of a subsidiary engaged in the business of PRC natural gas station

On 18 July 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement for acquisition of 80% of the total issued share capital of a company, Accelstar Pacific Limited ("Accelstar"), at a consideration of HK$58.5 million. Pursuant to the agreement, the wholly owned subsidiary of the Company also undertook to advance an interest free loan of HK$8,914,000 to Accelstar for the purpose of construction and operations of the PRC natural gas stations. Accelstar is engaged in the business of investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC through its two subsidiaries in China.

On 15 November 2006, upon fulfillment of the conditions as stated in the sale and purchase agreement by both parties, the wholly owned subsidiary had completed Tranche 1 of the acquisition by payment of HK$48 million in cash to acquire 65% of the total issued share capital of Accelstar. Tranche 2 of the acquisition to acquire the remaining 15% of the interest in Accelstar was completed on 17 November 2006. The consideration of HK$10.5 million of Tranche 2 has been satisfied by issue of 175,000,000 ordinary shares of the Company to the vendor at an issue price of HK$0.06 per ordinary share.

On 16 November 2006, the Company entered into a preliminary sale and purchase agreement ("Preliminary Agreement") with Sino Vantage Management Limited, a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, to acquire Vast China Group Limited ("Vast China"), a company holding natural gas stations business in Anhui, the PRC. Due to the time constraint for finishing the accountants report of Vast China group, with uncertainty on the timing for the completion of the acquisition, a cancellation agreement was entered by the parties on 21 November 2006 to cancel the Preliminary Agreement and the proposed acquisition, and obligations of the parties under the Preliminary Agreement were released accordingly.

17. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of this interim financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective.

	Effective for accounting periods beginning on or after
Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 "Presentation of Financial Statements"	1 January 2006
– HKAS 27 "Consolidated and Separate Financial Statements"	1 January 2006
– HKFRS 3 "Business Combinations"	1 January 2006
Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":	
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments to HKAS 19 "Actuarial Gains and Losses, Group Plans and Disclosures"	1 January 2006
Amendments to HKAS 21 "Net Investment in a Foreign Operation"	1 January 2006
HKFRS-Int 4 "Determining whether an Arrangement contains a Lease"	1 January 2006
HKFRS 7 "Financial Instruments: Disclosures"	1 January 2007
Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"	1 January 2007

The Group has not early adopted the above standards, interpretations and amendments in the interim financial statements for the period ended 30 June 2006. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group's accounting policies and presentation of the financial statements will be resulted.

18. COMPARATIVE AMOUNTS

As further explained in note 1 to the interim financial statements, due to the adoption of new and revised HKFRS during the current period, the accounting treatment and presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 November 2006.

REPORT OF THE BOARD

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the period ended 30 June 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in investments in the natural gas and other gas and energy related business. Since the Group has changed its accounting policy and consolidated the result of China City Natural Gas Co., Ltd ("CCNGCL"), a joint venture company of the Group that principally engaged in the natural gas business in the PRC, the Group has decided to change the year end date from 31 July to 31 December to match the year end date of CCNGCL. Such change is necessary for the facilitation of a timely and smooth audit, and better internal and accounting controls for the Group and CCNGCL as a whole.

Given the year end date changed to 31 December, accordingly, 30 June becomes the interim date of the Group, thus the period under review in this interim report is 11 months from 1 August 2005 to 30 June 2006. In order to provide relevant and sensible comparisons with the 12 months audited result for the period from 1 August 2004 to 31 July 2005, some comparisons made for the income statements are normalized to 12 months.

The Group has significantly reduced investments apart from the Group's principal business to preserve resources and focus on the development of its natural gas business or investments in energy and natural gas related projects.

Business Review

For the 11 months period ended 30 June 2006, the turnover of the Group was approximately HK$150.8 million, representing approximately 24.9% decrease (12 months normalized: 18.1%) as compared to approximately HK$200.9 million of last year audited accounts. Such change is due to the decrease in the natural gas construction and installation income. The Group's unaudited consolidated profit attributed to equity holders of the Company was approximately HK$44.9 million, representing an increase in profit of approximately 132.1% (12 months normalized: 135%) compared with loss of approximately HK$139.8 million in the last year audited accounts. With a strict costs control and in the absence of the provision for impairment on investments, the profitability of the natural gas business was truly reflected, and the Group's profit attributable to equity holders of the Company for the period was, turning around from loss-making, largely improved. Profit per share for the period under review was approximately HK cents 2.5 (2005: Loss HK cents 9.3 (restated)).

Manufacturing Business (discontinued)

Since the disposal of its battery and silicone rubber manufacturing business, the Group had been completely out of the manufacturing segment.

The business of manufacturing and trading of silicone rubber products had been severely affected by prolonged disputes and litigations, operation of which was minimal, and had been making loss since 2004; the Group therefore discontinued its operation, and finally disposed of it in February 2006 to preserve resources and stop draining management effort and time. During the period under review, no turnover was recorded from the silicone rubber business (2005: HK$4.1 million).

Natural Gas Business

The Group, through CCNGCL, a joint venture formed with China Petroleum Pipeline Bureau ("CPP"), a wholly owned subsidiary of China National Petroleum Corporation ("CNPC"), to invest and operate natural gas businesses in various cities (Xining, Liling, Binzhou, Huimin, and Qingyun) in the PRC.

Natural gas is the main business that the Group is focusing on, and is the main revenue contributor to the Group during the period under review, unaudited consolidated turnover of which for 11 months is approximately HK$301 million and proportioned turnover to the Group was approximately HK$150.8 million, representing a decrease of approximately 24.9% (12 months normalized: 18.1% decrease) as compared with last year audited accounts of approximately HK$200.9 million, due to large amount of construction and installation income was recognised and recorded in the last year audited accounts, while the income from the construction and installation for the period under review is relatively decreased, the sales of natural gas was stably increased, and the proportioned operating profit of the natural gas business for the period was increased by 7.4% (12 months normalized: 17.17% increase) from HK$34.2 million in last year audited accounts to approximately HK$36.7 million for the 11 months under review.

Liquidity and Financial Resources

As at 30 June 2006, bank balances and cash on hand of the Group was approximately HK$116.3 million (2005: HK$35.8 million), and the Group maintained a securities portfolio consisting of equity securities listed in Hong Kong of approximately HK$44.6 million (2005: HK$16.6 million). The increase in the value of the marketable portfolio is due to the overall appreciation of the marketable securities, and by virtue of the bullish capital market, the Group, as at 30 June 2006, recorded a unrealised gain of approximately HK$29 million from the appreciated marketable securities. As at 30 June 2006, the Group had total borrowings amounting to approximately HK$78.8 million (2005: HK$82.7 million), mainly being the borrowings of CCNGCL, of which

HK$14.6 million representing a bank loan with floating interest rate for the operation of Xining natural gas companies, and HK$64.2 million representing a construction loan for the construction of pipeline network in Xining Province. Save for the abovementioned, the Group had no bank loans, overdraft or other borrowings. The Group's gearing ratio, measured on the basis of total current liabilities as a percentage of total equity, was 14.2% (2005: 29.9%). As at 30 June 2006, the Group had total assets of approximately HK$342.2 million (2005: HK$312.4 million). Current assets were approximately HK$218.1 million (2005: HK$180.9 million), and current liabilities were approximately HK$32.7 million (2005: HK$55 million). The current ratio of the Group was 6.7 (2005: 3.3) and the quick ratio was 6.5 (2005: 3.0).

Capital Commitment

In August 2005, the Group entered into a license agreement and a technical service agreement with Cubicsoft Co., Ltd., an online game software company in Korea ("Licensor"), among other things, to licence and operate certain online games in China with the maintenance and technical support to be provided by the Licensor. However, due to the impracticality in performing the maintenance and technical support to the sub-licencee in the PRC, the Company thereafter entered into a termination deed with the Licensor on 4 November 2005 to terminate the licence agreement and the technical service agreement.

In November 2006, the Company entered into a preliminary sale and purchase agreement ("Preliminary Agreement") with Sino Vantage Management Limited, a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, to acquire Vast China Group Limited ("Vast China"), a company holding natural gas stations business in Anhui, the PRC. Due to the time constraint for finishing the accountants report of Vast China group, with uncertainty on the timing for the completion of the acquisition, a cancellation agreement was entered by the parties to cancel the Preliminary Agreement and the proposed acquisition, and obligations of the parties under the Preliminary Agreement were released accordingly. The acquisition of the Anhui natural gas stations project will be seriously reconsidered when and where appropriate, as the Group will be benefited from the acquisition, where business of which is fundamentally in line with the Group's principal natural gas business and it is the Group's intention to setting up a national wide natural gas stations refilling network to capture the business potential in traffic, and the process could be accelerated through acquisitions.

In July 2006, the Group entered into an agreement to acquire 80% interest of Accelstar Pacific Limited ("Accelstar") at the consideration of HK$58.5 million which has been satisfied by HK$48 million in cash, and issue of 175,000,000 shares of the Company as consideration shares (the "Accelstar Acquisition"). Accelstar and its subsidiaries are principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun and Binzhou, the PRC. The Accelstar Acquisition was completed in November 2006, the Company shall provide a shareholder's loan of approximately HK$9 million to Accelstar ("Shareholders Loan") for the construction and operation of the natural gas stations, whereas construction of which is expected to be commenced in January 2007 after all the technical design and construction plan be finalized and approved.

Save for the Shareholders Loan mentioned above, the Group did not incur or commit any material investment or capital expenditure.

Capital Structure

During the period under review, the Group issued 70,000,000 shares as a result of the exercise of share options in October 2005.

Subsequent to 30 June 2006, the Company, in September 2006, entered into a placing agreement with Guotai Junan Securities (Hong Kong) Limited to place 540,000,000 new shares of the Company at HK$0.12 per share (the "Placement"). The Placement was completed in October 2006, and as result of the Placement, the Company issued 540,000,000 new shares and raised a net proceed of approximately HK$64 million. The Accelstar Acquisition was completed in November 2006, and the Company issued 175,000,000 new shares to Topfaith Group Limited as consideration shares for the Accelstar Acquisition.

Save for the abovementioned, the Group did not enter into any agreement or whatsoever in relation to fund raising and issue of shares of the Company.

Pledge of Assets

As at 30 June 2006, the Group had not pledged any of its assets.

Contingent Liability

As at 30 June 2006, save for the guarantee of HK$67.6 million given by CCNGCL to banks in connection with loan facility granted to associates of a jointly controlled entity, the Group had no contingent liability.

Foreign exchange and interest rate exposure

As the Group's sales are mostly based on Renminbi, and investments are mostly made in Hong Kong Dollar, having considered the exchange rate of the said currency is fairly stable, no foreign exchange and interest rate risk management or related hedges were made, proper policy will be in place when the Board considers appropriate.

Employees and Remuneration Policy

As at 30 June 2006, the Group employed a total workforce of approximately 280 people (2005: 320 people) among which 7 people (2005: 8 people) were stationed in Hong Kong and 273 people (2005: 312) were stationed in the PRC. The staff costs for the period amounted to approximately HK$12 million (2005: HK$11.4 million). The employees' remuneration, promotion and salary are assessed based on work performance, working and professional experiences and the prevailing market practice.

Corporate Development

In October 2006, the Company changed its name to "China Oil And Gas Group Limited" to signify the Group's intention to focus on the development of its natural gas business, and to make further investments in the energy sector, especially in natural gas and natural gas related business in China.

In order to cope with the new business vision, the Company announced on 30 August 2006 the change of Directors of the Company, whereby Mr. Xu Tie-liang, Mr. Qu Guo-hua were appointed as Chairman and Chief Executive Officer respectively and Mr. Shi Xun-zhi was appointed as independent non-executive Director. Mr. Xu Tie-liang has been directors of various companies specializing in investments in energy, environmental protection business and provision of legal and management consultancy services. He worked as an accountant in the subsidiaries of China National Petroleum Corporation ("CNPC") and worked in various governmental legal departments in the PRC. He had been the vice chairman and general manager of China Legal Service (Hong Kong) Limited, vice chairman of China Law Magazine Limited. Mr. Xu has extensive experience in investments, merger and acquisition, legal, accounting and finance, and corporate governance aspects.

Mr. Qu Guo-hua is a senior engineer, working for China Petroleum Pipeline Bureau (中國石油天然氣管道局) as a pipeline expert. He is also a representative of the Thirteenth Session of the National People's Congress of Xiling, a member of Qinghai Provincial Committee of the Chinese People's Political Consultative Conference. He has been a managing director of CCNGCL since 2002. He was working in the subsidiaries of CNPC since 1968, as the chief operating officer and deputy operating manager etc. He is responsible for organizing and supervising the ground surface construction works of the oilfields of CNPC and construction works of the long distance pipelines. He had participated in and organized Shanghai City natural gas distribution and supply work, and the water and gas pipeline construction work for Suzhou Industrial Park as well as construction of large oil storage tank in Zhoushan. Mr. Qu has extensive experience in the petroleum and gas industries, as well as expertise on the construction of oil and gas pipeline network.

Mr. Shi Xun-zhi is a deputy director and professor senior engineer. He has been awarded the Youth and Mature Scientist with outstanding contributions by the State Council. He worked as geology engineer, associate director of the technology division, director of human resources division, supervisor in the Petroleum Trade and Industry Department of the PRC (renamed as CNPC); the vice general manager of CNPC and also a member of the Ninth Chinese People's Political Consultative Conference. He has been the team head of the steering committee for the China-Russia Oil and Gas project by CNPC, and the chairman of China Petroleum Exploration and Development Corporation (中國石油勘探開發公司) and chairman of the China Petroleum Centre in Alberta of Canada (中國加拿大阿爾伯特石油中心) and responsible for the pipelines works between China and Russia, and worked on the overseas petroleum exploration and development as well as international cooperation work.

The new management team has extensive experience in petroleum, energy and gas industries, and the Board believes that the experienced new management team will bring the Group into a new era.

Prospects

Given the environmental friendly and affordable nature, natural gas is highly encouraged in China and other countries, and the natural gas industry in China is regarded as the star industry. In the coming future, the consumption of natural gas will be stably increasing and will become one of the major energy sources. The country's growing economy, the coming Olympic Game, and the government's commitments on environment protection, all contribute to the surging demand of energy and natural gas. We are optimistic and see enormous potential in the natural gas industry.

The Group is committed on the natural gas business. We will continue our investments in CCNGCL which is a very important operation arm of the Group. We have been discussing with our partner - CPP on the development and increase of investments in CCNGCL, once agreed, CCNGCL will be able to grow and further expand for the upcoming business opportunities in the rapidly growing natural gas market. Other than the development of CCNGCL, we will also look for other potential investments in relation to natural gas or energy related business.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange of Hong Kong Limited (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 Companies ("Model Code"), are set out below:

Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ Short position	Number of ordinary shares held	Percentage of the Company's issued share capital
Wong Kui Shing, Danny (Note)	Having an interest in a controlled corporation	Long position	6,000,000	0.33%
	Being a beneficial owner	Long position	2,310,000	0.13%
		Total:	8,310,000	0.46%

Note: 6,000,000 Shares were held by Noble Islands Int'l Limited ("Noble Islands"). The entire issued share capital of Noble Islands is held by Power Honest Holdings Limited which is in turn held by Mr. Wong Kui Shing, Danny. In accordance with the SFO, Mr. Wong was deemed to be interested in 6,000,000 Shares owned by Noble Islands.

Subsequent to the balance sheet date, on 30 August 2006, Mr. Wong Kui Shing, Danny resigned as an executive Director of the Company.

Save as disclosed above, none of the Directors or chief executive of the Company nor their associates, had any interest in long position or short position in the shares, underlying shares or debentures of the Company or its associated corporations 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.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the interests or short positions of every person, other than a Director or chief executive of the Company, 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 and short positions of substantial shareholders in shares and underlying shares of the Company

Name of shareholder	Capacity	Long position/ short position	Number of ordinary shares held	Percentage of the Company's issued share capital
Sino Advance Holdings Limited	Being a beneficial owner	Long position	321,018,300	17.79%

Note: Sino Advance Holdings Limited is wholly and beneficially owned by Mr. Xu Tie-liang, the Chairman and an executive Director of the Company appointed on 30 August 2006.

Save as disclosed above, the Directors are not aware of any person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at 30 June 2006.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 31 January 2002, pursuant to which the Board may, at its discretion offer options to any eligible participant who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive Directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

Movements in the Company's share option during the period are as follows:

Category of Participant	Date of grant	Exercise price per share HK$	Exercise period	Closing price before date of grant HK$	Movements of option shares during the period As at 1.8.2005	Granted	Exercised	Lapsed	As at 31.6.2006
Consultants	21.07.2005	0.0580	21.07.2005 – 20.07.2006	0.058	70,000,000	0	70,000,000	0	0
Total:					70,000,000	0	70,000,000	0	0

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the eleven months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the eleven months ended 30 June 2006, the Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices ("Code") in Appendix 14 to the Listing Rules effective on 1 January 2005, except for the following:

	Deviation from the Code	Relevant Code provisions	Remedial steps have been taken to comply with the Code
1.	The Company has not appointed a chief executive officer and the responsibilities between the chairman and chief executive officer have not been divided.	A.2.1	The Company has appointed a chief executive officer on 30 August 2006.
2.	The non-executive Directors are not appointed for specific term.	A.4.1	The non-executive Directors are subject to the provision for retirement by rotation under the Bye-laws of the Company.
3.	According to the then Bye-laws of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not 3 or a multiple of 3, the number nearest to but not greater than one-third) shall retire from office by rotation provided that the chairman of the Board and/or the managing Director of the Company shall not be subject to retirement by rotation.	A.4.2	A resolution has been passed at the annual general meeting of the Company held on 22 September 2006 to amend the Bye-laws so that all Directors appointed by the Board either to fill a casual vacancy or as an additional to the Board should be subject to election by the shareholders of the Company at the first general meeting after their appointment and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.
4.	The Company has not established written guidelines for relevant employees in respect of dealings in the securities of the Company.	A.5.4	The Company has adopted on 13 January 2006 the written guidelines for relevant employees in respect of dealings in the securities of the Company.

Deviation from the Code	Relevant Code provisions	Remedial steps have been taken to comply with the Code
5. The Company has not established a remuneration committee.	B.1.1	The Company has established a remuneration committee on 13 January 2006 with written terms of reference.
6. The Company has not formalized the functions reserved to the Board and those delegated to management in written form.	D.1.2	The Company has formalized in writing the division of work among the Board and senior management on 13 January 2006.

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 has been reviewed by the Audit Committee which comprises three independent non-executive Directors of the Company, namely Mr. Cheung Man Yau, Timothy (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, 28 November 2006