中油燃氣集團有限公司

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)

Stock Code: 603

Interim Report 2007

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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

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 2007 (the "Period"):

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 January to 30 June 2007

	Notes	**Unaudited (6 months) 1.1.2007- 30.6.2007 HK$'000**	Unaudited (11 months) 1.8.2005- 30.6.2006 HK$'000
Continuing operations			
Turnover	4	**144,529**	150,825
Cost of sales		**(92,724)**	(101,168)
Gross profit		**51,805**	49,657
Other income and gains, net	5	**7,869**	29,245
Selling and distribution costs		**(2,957)**	(3,163)
Administrative expenses		**(14,205)**	(19,338)
Other expenses		**–**	(2,443)
Operating profit		**42,512**	53,958
Share of profit/(losses) of associates of jointly controlled entities		**1,970**	(2,421)
Finance costs	6	**(883)**	(1,499)
Profit before taxation	7	**43,599**	50,038
Taxation	8	**(4,361)**	(1,721)
Profit for the period from continuing operations		**39,238**	48,317

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

	Notes	Unaudited (6 months) 1.1.2007-30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005-30.6.2006 HK$'000
Discontinued operations			
Profit for the period from discontinued operations		–	3,230
Profit for the period		39,238	51,547
Attributable to:			
Equity holders of the Company		31,645	44,910
Minority interests		7,593	6,637
		39,238	51,547
Earnings per share	9		
Basic			
From continuing and discontinued operations			
– Basic		1.0 cents	2.5 cents
– Diluted		0.8 cents	1.9 cents
From continuing operations			
– Basic		1.0 cents	2.3 cents
– Diluted		0.8 cents	1.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	Unaudited At 30.6.2007 HK$'000	Audited At 31.12.2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**128,866**	109,142
Leasehold land and land use rights		**3,662**	3,778
Goodwill		**377,827**	58,188
Interests in associates		**12,749**	14,076
Available-for-sale financial assets		**3,941**	1,092
		527,045	186,276
CURRENT ASSETS			
Leasehold land and land use rights		**88**	88
Inventories		**8,628**	8,154
Financial assets at fair value through profit or loss		**9,500**	36,026
Deposits, trade and other receivables	11	**119,788**	96,559
Cash and cash equivalents		**861,276**	165,417
		999,280	306,244
TOTAL ASSETS		**1,526,325**	492,520
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**38,297**	25,197
Reserves		**1,145,545**	286,157
		1,183,842	311,354
Minority interests		**29,319**	21,213
Total equity		**1,213,161**	332,567

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	Unaudited At 30.6.2007 HK$'000	Audited At 31.12.2006 HK$'000
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**95,335**	95,919
Bank and other borrowings		**14,390**	14,088
Tax payable		**5,161**	8,557
		114,886	118,564
NON-CURRENT LIABILITIES			
Bank and other borrowings		**39,575**	38,743
Deferred tax liabilities		**2,703**	2,646
Convertible notes	13	**156,000**	–
		198,278	41,389
TOTAL LIABILITIES		**313,164**	159,953
TOTAL EQUITY AND LIABILITIES		**1,526,325**	492,520
NET CURRENT ASSETS		**884,394**	187,680
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,411,439**	373,956

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January to 30 June 2007

	Attributable to equity holders of the Company						Minority interests	Total
	Issued share capital	Share premium account	Capital redemption reserve	Other capital reserve	Exchange fluctuation reserve	Accumulated losses		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at 1 January 2007	25,197	989,988	675	11,813	4,115	(720,434)	21,213	332,567
Shares issued upon placement of shares	9,100	828,206	–	–	–	–	–	837,306
Exchange adjustment arising from translation of financial statements of jointly controlled entities not recognised in the consolidated income statement	–	–	–	–	(463)	–	–	(463)
Currency realignment	–	–	–	–	–	–	513	513
Issue of shares in consideration for acquisition of an interest in a subsidiary	4,000	–	–	–	–	–		4,000
Profit for the period	–	–	–	–	–	31,645	7,593	39,238
At 30 June 2007	38,297	1,818,194	675	11,813	3,652	(688,789)	29,319	1,213,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Company								Minority interests	Total
	Issued share capital	Share premium account	Capital redemption reserve	Convertible notes reserve	Other capital reserve	Investment fair value reserve	Exchange fluctuation reserve	Accumulated losses		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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 January to 30 June 2007

	Unaudited (6 months) 1.1.2007-30.6.2007 HK$'000	Unudited (11 months) 1.8.2005-30.6.2006 HK$'000
Net cash generated from operating activities		
Continuing operations	**107,989**	80,218
Discontinued operations	**–**	134
	107,989	80,352
Net cash used in investing activities		
Continuing operations	**(89,218)**	(2,164)
Discontinued operations	**–**	–
	(89,218)	(2,164)
Net cash generated from financing activities		
Continuing operations	**673,517**	2,034
Discontinued operations	**–**	–
	673,517	2,034
Net increase in cash and cash equivalents	**692,288**	80,222
Cash and cash equivalents at beginning of period	**165,417**	35,721
Effect of foreign exchange rate changes	**3,571**	336
Cash and cash equivalents at end of period	**861,276**	116,279

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. GENERAL

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 (collectively, the "Group") for the last interim period covered the period from 1 August 2005 to 30 June 2006. 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").

2. 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 financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets and 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 2006.

3. IMPACTS OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

Certain new standards, amendments and interpretations to existing standards have been published which are relevant to the Group's operations and financial statements and are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods, as noted below. Adoption of these Standards and Interpretations did not have any effect to the financial position or performance of the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective from 1 March 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective from 1 June 2006)
HK(IFRIC)-Int 10	Interim Reporting and Impairment (effective from 1 November 2006)
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments (effective from 1 January 2009)

4. SEGMENT INFORMATION

The Group is principally engaged in investments in the natural gas and other gas and energy related businesses. The Group's silicone rubber business, and investment in internet, information technology had been discontinued and disposed of on 14 February 2006 and 30 December 2006 respectively.

(a) Business Segments:

	Continuing operations		Discontinued operations					
	Natural gas business		Investment in internet, information technology and other activities		Silicone rubber business		Sub-total	
	(6 months) 1.1.2007 – 30.6.2007 HK$'000	(11 months) 1.8.2005 – 30.6.2006 HK$'000	**(6 months) 1.1.2007 – 30.6.2007 HK$'000**	(11 months) 1.8.2005 – 30.6.2006 HK$'000	**(6 months) 1.1.2007 – 30.6.2007 HK$'000**	(11 months) 1.8.2005 – 30.6.2006 HK$'000	**(6 months) 1.1.2007 – 30.6.2007 HK$'000**	(11 months) 1.8.2005 – 30.6.2006 HK$'000
Segment revenue:								
Turnover	**144,529**	150,825	**–**	–	**–**	–	**–**	–
Segment results	**42,512**	36,703	**–**	22,946	**–**	26	**–**	22,972
Unallocated income	**–**	223	**–**	–	**–**	–	**–**	–
Unallocated expenses	**–**	(5,914)	**–**	–	**–**	–	**–**	–
Share of profit/(losses) of associates of jointly controlled entities	**1,970**	(2,421)	**–**	–	**–**	–	**–**	–
Gain on disposal of discontinued operations	**–**	–	**–**	–	**–**	3,096	**–**	3,096
Finance costs	**(883)**	(1,499)	**–**	–	**–**	–	**–**	–
Profit before taxation	**43,599**	27,092	**–**	22,946	**–**	3,122	**–**	26,068
Taxation	**(4,361)**	(1,721)	**–**	–	**–**	108	**–**	108
Profit for the period before minority interests	**39,238**	25,371	**–**	22,946	**–**	3,230	**–**	26,176

(b) Geographical Segment:

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 Period and the 11 months ended 30 June 2006, turnover were all generated from the principal natural gas business in the PRC.

5. OTHER INCOME AND GAINS, NET

	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000
Interest income	**3,032**	337
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	**4,385**	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	**372**	–
Others	**80**	365
	7,869	29,245

6. FINANCE COSTS

	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000
Interest on:		
Bank loans	**593**	1,132
Securities trading account	**19**	327
Convertible notes	**271**	40
	883	1,499

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000
Depreciation of property, plant and equipment	**4,228**	6,696
Loss on disposal of property, plant and equipment	**–**	1,522
Loss on exchange	**6**	127

8. TAXATION

	Continuing operations		**Discontinued operations**		**Total**	
	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000	**Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000**	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000	**Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000**	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000
Current taxation:						
Hong Kong	**–**	131	**–**	–	**–**	131
Other jurisdictions	**4,361**	1,590	**–**	(108)	**4,361**	1,482
Total tax charge for the period	**4,361**	1,721	**–**	(108)	**4,361**	1,613

8. TAXATION (Continued)

Hong Kong profits tax has been provided at a rate of 17.5% (2006: 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/(losses) of associates on the face of the condensed consolidated income statement.

9. 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$31,645,000 (30 June 2006: profit of HK$44,910,000) and on the weighted average of 3,186,453,991 (30 June 2006: 1,797,260,045) ordinary shares in issue.

Basic earnings 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 and the denominators used are the same as those detailed above for basic earnings per share.

9. EARNINGS PER SHARE (Continued)

The calculation of diluted earnings per share is based on the following data:

	Unaudited (6 months) 1.1.2007 – 30.6.2007 HK$'000	Unaudited (11 months) 1.8.2005 – 30.6.2006 HK$'000
Earnings		
From continuing and discontinued operations:		
Net profit for the period	**31,645**	44,910
Saving on deemed conversion of convertible notes	**330**	605
	31,975	45,515
From continuing operations:		
Net profit for the period	**31,645**	41,680
Saving on deemed conversion of convertible notes	**330**	605
	31,975	42,285
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,186,453,991**	1,797,260,045
Effect of dilutive potential ordinary shares – convertible notes	**650,000,000**	650,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,836,453,991**	2,447,260,045

10. DIVIDEND

No interim dividend was paid to shareholders during the Period (2006: Nil).

11. DEPOSITS, TRADE AND OTHER RECEIVABLES

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

	Unaudited At 30.6.2007 HK$'000	Audited At 31.12.2006 HK$'000
Aging:		
Current to 90 days	**20,923**	15,927
91 – 180 days	**1,794**	213
Over 180 days	**37,066**	25,800
Total	**59,783**	41,940

12. TRADE AND OTHER PAYABLES

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

	Unaudited At 30.6.2007 HK$'000	Audited At 31.12.2006 HK$'000
Aging:		
Current to 90 days	**14,995**	7,736
91 – 180 days	**1,215**	371
Over 180 days	**24,315**	13,502
Total	**40,525**	21,609

13. CONVERTIBLE NOTES

On 1 February 2007, the Company issued convertible notes of principal amount of HK$66 million as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN") to an independent third party. The Feb CN is matured on the second anniversary date from the issue date, entitling the holder to convert up to an aggregate of 275 million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Feb CN is convertible in whole or any part after six months from the issue date at the option of the holder, and is bearing interest of 1% per annum payable semi-annually in arrears.

On 20 March 2007, the Company issued interest-free convertible notes of principal amount of HK$90 million as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") to Mr. Xu Tie-liang ("Mr. Xu"), the chairman and substantial shareholder of the Company. The Mar CN is matured on the second anniversary date from the issue date, entitling the holder to convert up to an aggregate of 375million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Mar CN is convertible in whole or any part after six months from the issue date at the option of the holder.

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:

13. CONVERTIBLE NOTES (Continued)

	Unaudited At 30.6.2007 HK$'000	Audited At 31.12.2006 HK$'000
Liabilities component at the beginning of the period	**–**	3,960
Nominal value of convertible notes issued during the period	**156,000**	–
Equity component	**–**	–
	156,000	3,960
Interest expenses	**271**	40
Liability component at the end of the period	**156,271**	4,000
Classified as other payables upon maturity of convertible notes	**(271)**	(4,000)
	156,000	–

14. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 31 July 2005, 31 December 2006 and 30 June 2007	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 31 July 2005	1,734,676,213	17,347
Share options exercised	70,000,000	700
Placing of shares	540,000,000	5,400
Issue of shares in consideration for acquisition of an interest in a subsidiary	175,000,000	1,750
Ordinary shares of HK$0.01 each at 31 December 2006	2,519,676,213	25,197
Placing of shares (note a)	360,000,000	3,600
Issue of shares in consideration for acquisition of an interest in a subsidiary (note b)	400,000,000	4,000
Placing of shares (note c)	550,000,000	5,500
Ordinary shares of HK$0.01 each at 30 June 2007	3,829,676,213	38,297

14. SHARE CAPITAL (Continued)

The movements in share capital were as follows:

(a) Pursuant to the placing agreement dated 19 December 2006 entered into between the Company and SBI E-2 Capital Securities Limited ("Placing Agent"), the Company conditionally agreed to, through the Placing Agent, place 360,000,000 new shares of the Company to independent investors at a placing price of HK$0.29 per share ("Dec Placing"). The Dec Placing was completed on 19 January 2007, and the Company allotted and issued 360 million new ordinary shares, and a net proceed of approximately HK$104 million was raised.

(b) On 15 December 2006, the Company, through a wholly owned subsidiary, entered into a sale and purchase agreement with Sino Vantage Management Limited, a company wholly owned by Mr. Xu, to acquire the entire issued share capital of Vast China Group Limited for a total consideration of HK$196,370,793, which shall be satisfied by i) HK$10,370,793 in cash, ii) HK$96 million by the issue of 400 million new shares of the Company at HK$0.24 each and iii) a sum of HK$90 million convertible note issued at interest-free. The consideration shares and the convertible notes were issued on 20 March 2007 upon completion of the acquisition.

(c) On 23 May 2007, Mr. Xu entered into the Placing Agreement with the Placing Agent and the Company and a subscription agreement with the Company for the subscription and top-up placing of 550,000,000 shares of the Company at HK$1.2 per share. The entire top-up placing and subscription of new shares of the Company was completed in June 2007, and the Company had issued 550,000,000 shares and a net proceed of approximately HK$640 million was raised.

15. CONTINGENT LIABILITIES

	Unaudited At 30.6.2007 HK$'000	Unaudited At 30.6.2006 HK$'000
Guarantees given to banks in connection with facilities granted to associates of a jointly controlled entity	**22,000**	67,630

16. POST BALANCE SHEET EVENTS

An increase of the Company's effective equity interest of a jointly controlled entity from 50% to 51%

On 7 May 2007, the Company, through its wholly owned subsidiary, entered into capital contribution agreement with China City Natural Gas Co. Limited ("CCNG"), a jointly controlled entity of the Company and China Petroleum Pipeline Bureau, for the contribution of RMB20 million in the capital of CCNG, and the Company will, through its subsidiaries, hold 51% effective interest in CCNG. The capital contribution was approved by the shareholders of the Company in July 2007.

Acquisition of 20% additional equity interests in an associate

On 19 June 2007, CCNG entered into a sale and purchase agreement with independent third parties to acquire an additional 20% equity interests in Liling China Oil and Gas Co. Ltd ("Liling Gas") at a cash consideration of RMB35 million. The transaction was completed in July 2007, and CCNG increased its equity interest in Liling Gas from 40% to 60%.

Acquisition of and investments in city gas business in Jiangxi

In August 2007, the Company, through its wholly owned subsidiary and CCNG, entered into an agreement with independent third parties to acquire entire interest of Ming Sheng Hong Kong Limited (which holds 76.35% interest in Nanchang Ruisheng Natural Gas Company Limited ("Nanchang Ruisheng") and 80% interest in Changbei Ruisheng Natural Gas Company Limited) at a total consideration of RMB60.4 million, and CCNG acquires the 23.65% equity interests in Nanchang Ruisheng at a total consideration of RMB8.1 million. The total consideration of RMB68.5 million shall be wholly settled in cash ("Nanchang Acquisition"). The Nanchang Acquisition is expected to be completed in October 2007.

Apart from the Nanchang Acquisition in Jiangxi, the Company has also agreed with the government of Pingxiang to invest and operate piped gas business in Pingxiang, Jiangxi. The Company has agreed to invest RMB70 million in the Pingxiang gas project and will supply gas to the local industries, mainly to the ceramic industry.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 24 September 2007.

REPORT OF THE BOARD

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For comprehension of this interim report, please note that the interim result is 6 months ended 30 June 2007, whereas, given the Group had changed its financial year end from 31 July to 31 December, the corresponding comparative results retrieved from last interim period was 11 months from 1 August 2005 to 30 June 2006.

Business Review

The Group is principally engaged in investment in the natural gas and energy related business. The Group, and through China City Natural Gas Co., Ltd. ("CCNG"), a joint venture company formed with China Petroleum Pipeline Bureau which is a wholly owned subsidiary of China National Petroleum Corporation, invest and operate natural gas in the PRC.

Gas operation of the Group including piped city gas business, natural gas stations ("CNG stations") business, liquefied natural gas ("LNG") business, and other gas related business, such as construction and logistic service.

The Group proposed to increase its equity interest in its major piped city gas operation – CCNG from 50% to 51% in May, and the proposal was subsequently approved by the shareholders of the Company after the balance sheet date on 16 July 2007, therefore, proportionate consolidation accounting was still applied for the consolidation of 50% of CCNG's results into the Group's accounts for the Period.

CCNG has increased its equity interest in Liling China Oil and Gas Co. Ltd. from 40% to 60% subsequent to 30 June 2007, therefore CCNG was still equity accounting for its 40% equity interests in its piped gas operation in Liling, Hunan during the Period.

As the corresponding results from the last interim period was 11 months which was distorted by the different time length and cut off period, in order to provide relevant and sensible comparison and analysis for the purpose of the business review, the key financial figures were rearranged and shown on the following table in 6 months from 1 January 2006 to 30 June 2006 (the "Last Period"):

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited and restated)
	HK$'000	HK$'000
Turnover	**144,529**	109,810
Gross Profit	**51,805**	35,145
Profit before tax	**43,599**	40,298
Profit after tax and minority interests	**31,645**	33,752

For the six months ended 30 June 2007, the Group recorded a turnover of approximately HK$145 million, representing an increase of approximately 31.6% as compared to the Last Period. The increase in turnover was mainly due to the increase in sales of piped gas and adjusted gas selling price in Xining city since January 2007. Gross profit of the Group increased by 47% to approximately HK$51.8 million, and gross margin was also improved due to the adjusted selling price and better gross margin from the CNG stations business. The Group's profit attributable to equity holders for the Period was approximately HK$31.6 million, slightly decreased about 6% as compared to the Last Period of HK$33.7 million. The decrease was mainly due to the decrease in other income from the securities investments activities for the Period.

Since the newly acquired projects and investments (i.e. CNG stations business, controlling interest in Liling gas operation, Nanchang city gas project, Qinghai LNG project) will have financial effects on the future financial results of the Group, during the Period under review, the CCNG gas operation, whose results was 50% consolidated into the Group's accounts, was still the major contributor to the Group's turnover and profit. Turnover of the CCNG group for the Period was approximately HK$260 million, proportionate to the Group: HK$130 million (Last Period: approximately HK$205 million), increased by 26%. During the Period, CCNG contributed HK$30 million to the Group's profit attributable to equity holders (Last Period: HK$13 million), increased by 130%. The increase in CCNG's profit was mainly due to the decrease in overall financial costs and the increase in sale of gas with adjusted gas price in the Xining operation.

Subsequent to the balance sheet date, CCNG increased its equity interest in Liling gas operation from 40% to 60%. The Liling gas operation is fast growing, since April 2007, we had increased the gas supply in Liling, the average daily gas sales volume increased by approximately 50%, daily reached approximately 250,000 m^3 gas.

In August 2007, the Group entered into agreement to acquire the piped gas projects in Nanchang city which is the largest industrial city in Jiangxi with strong GDP. The Nanchang gas project is still in the construction period, and is expected to have great contribution to the Group's earnings. The consideration for the acquisition of the Nanchang city gas project is approximately HK$70.5 million, and the acquisition is expected to be completed in October 2007. Apart from the Nanchang city gas project, the Group has also agreed with the government of Pingxiang to invest and operate piped gas business in Pingxiang, Jiangxi. Pingxiang is a city located in the western part of Jiangxi, close (approximately 30 km) to our gas operation in Liling, Hunan. The Group agreed to invest RMB70 million in the Pingxiang gas project and will supply gas to the local industries, mainly to the ceramic industry.

The Group has started the CNG stations business by acquiring CNG stations projects in Shandong, Anhui, and Jiangsu. The Jiangsu, Nanjing CNG stations acquisition was completed in February 2007, and the Anhui Maanshan CNG stations acquisition was completed in March 2007. As at 30 June 2007, most of the CNG stations are still under construction, where the main gas station in Anhui had come into operation around April 2007, and providing gas to other gas operators; the CNG station in Qingyun Shandong had come into trail operation in July 2007, and one of the station in the central of Nanjing city is expected to come into operation in October 2007. The CNG stations business had little contribution to the Group's results for the Period.

The Group's LNG factory in Xining will also come into trail operation in November 2007, and the Phase I construction will be completed and in its full operation by mid 2008.

Prospects

It is evidenced that China is putting more effort on the environment, and will largely employ natural gas as a major energy source by importing large amount of natural gas from overseas. We are optimistic on the natural gas industry in the PRC, and we, together with our business partner, are confident and committed to develop the Group and CCNG as an integrated leading gas and energy group.

The Group has positive operating cash flow, rich surplus of cash and minimal debt and borrowing, the financial position of the Group is strong and ready for upcoming development and opportunities. We backed by our business partner with edge advantage in technical expertise, stable gas sources, strong business relationship will aggressively while rationally invest and expand our business through new investments, merger and acquisitions.

As mentioned in the business review, the Group has been actively investing in new projects with the aim to strengthen and improve the Group's financial position, turnover and earnings, where most of the investments and new projects were made during mid of the year which will have strong and prolonged financial effects in the future financial results of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group employed a total workforce of approximately 380 (2006: 340). 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

In December 2006, the Group entered into an agreement with an independent third party to acquire 80% of Plentigreat Holdings Limited ("Plentigreat") at the consideration of HK$133 million of which HK$67 million was settled by cash and HK$66 milion was settled by the issue of convertible notes of the Company ("Nanjing CNG Acquisition"). The Plentigreat group is engaged in investments and operation of CNG stations business in Nanjing and Jiangsu. The Nanjing CNG Acquisition was completed in February 2007, and the Company has provided interest free shareholder's loan of HK$15 million to Plentigreat for the construction and development of the CNG stations.

In December 2006, the Group entered into an agreement with Sino Vantage Management Limited ("Sino Vantage"), a company wholly-owned by Mr. Xu Tie-liang ("Mr. Xu"), the chairman and substantial shareholder of the Company to acquire the entire interest of Vast China Group Limited ("Vast China") at the consideration of HK$196.4 million, of which HK$10.4 million was settled by cash, HK$90 million was settled by the issue of convertible notes of the Company, and 400,000,000 shares of the Company were issued as consideration shares ("Anhui CNG Acquisiton"). The Anhui CNG Acquisition is a connected and major transaction which had been duly approved by the independent shareholders of the Company in May 2007. Vast China group are principally engaged in investments and operation of CNG gas stations business in Maanshan. The Company has provided interest free shareholder's loan of HK$12 million to Vast China for the construction and development of the CNG stations.

In May 2007, the Group, through its wholly owned subsidiary, entered into a capital contribution agreement with CCNG, pursuant to which, the Group would contribute RMB20 million in the capital of CCNG, and the Group will through its subsidiaries, hold 51% effective interest in CCNG. The capital contribution in CCNG was approved by the shareholders of the Company in July 2007.

In June 2007, CCNG entered into an agreement to acquire an additional 20% of Liling China Oil and Gas Co. Ltd. ("Liling Gas") at the consideration of RMB35 million. The acquisition was completed in July 2007, and CCNG increased its equity interest in Liling Gas from 40% to 60%.

In August 2007, the Company, through its wholly-owned subsidiary and CCNG entered into an agreement with independent third parties to acquire entire interest of Ming Sheng Hong Kong Limited (which holds 76.35% interest in Nanchang Ruisheng Natural Gas Co., Limited ("Nanchang Ruisheng") and 80% interest in Changbei Ruisheng Natural Gas Co., Limited) at a total consideration of RMB 60.4 million, and CCNG acquires the 23.65% equity interests in Nanchang Ruisheng at a total consideration of RMB8.1 million. The total consideration of RMB68.5 million shall be wholly settled in cash ("Nanchang Acquisition"). The Nanchang Acquisition is expected to be completed in October. Apart from the Nanchang Acquisition in Jiangxi, the Company has also agreed with the government of Pingxiang to invest and operate piped gas business in Pingxiang, Jiangxi. The Company has agreed to invest RMB70 million in the Pingxiang gas project and will supply gas to the local industries, mainly to the ceramic industry.

In September 2007, CCNG agreed with the government of Rugao to invest and operate piped gas business in Rugao city in Jiangsu. CCNG has agreed to invest, at first stage, RMB50 million on the Rugao gas project.

Save for the abovementioned acquisition and investments, the Group did not incur or commit other material investment or capital expenditure.

Financial Position

In January 2007, the Company had issued 360,000,000 shares under the placing agreement entered with SBI E-2 Capital Securities Limited ("SBI") in December 2006, and a net proceed of approximately HK$104 million was raised.

On 20 March 2007, the Company issued 400,000,000 shares as consideration shares to Sino Vantage under the Anhui CNG Acquisition.

On 23 May 2007, Mr. Xu entered into a placing agreement with SBI and the Company, and a subscription agreement with the Company for a top-up placing and subscription of 550,000,000 shares of the Company. The entire top-up placing and subscription of new shares was completed in June 2007, and the Company had issued 550,000,000 shares and raised a net proceed of approximately HK$640 million.

As at 30 June 2007, the Group had a cash and bank balance of approximately HK$861 million (2006: HK$165 million), and the Group had total borrowings of approximately HK$54 million (2006: HK$52.8 million).

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. The Mar CN issued on 20 March 2007 in the principal amount of HK$90 million bearing no interest with 2 years maturity and convertible into 375,000,000 shares of the Company at a conversion price of HK$0.24 each.

As at 30 June 2007, the Group had total assets of approximately HK$1,526 million (2006: HK$492.5 million), and current assets were approximately HK$999 million (2006: HK$306 million). Total liabilities of the Group was approximately HK$313 million, including the Feb CN and Mar CN amounted to HK$156 million (2006: HK$160 million), and current liabilities were approximately HK$114 million (2006: HK$119 million). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 25.8% (2006: 48%). The current ratio of the Group was 8.7 (2006: 4.15) and the quick ratio was 8.6 (2006: 4).

Pledge of Assets

As at 30 June 2007, certain pipelines and the operation right of one of the gas operation in the PRC were pledged to secure a bank loan of approximately HK$10 million (2006: HK$10 million).

Contingent Liabilities

As at 30 June 2007, CCNG provided a financial guarantee on a loan granted to its associates to the extent of approximately HK$22.6 million (2006: HK$70 million).

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

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 and Renminbi, 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, where proper policy will be in place when the Board considers appropriate.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2007, 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 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 in shares, underlying shares and debentures of the Company

Name of director	Capacity	Long position/ Short position	Notes	Number of ordinary shares held	Number of underlying shares held	Percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	–	8.38%
	Interest in a controlled corporation	Long position	2	400,000,000	–	10.44%
			2	–	375,000,000	9.79%

Notes:

1. These 321,018,300 ordinary shares of the Company are held through Sino Advance Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Xu Tie-liang.

2. Sino Vantage Management Limited, a company wholly and beneficially owned by Mr. Xu Tie-liang was interested in 400,000,000 ordinary shares of the Company and the derivative of 375,000,000 ordinary shares of the Company pursuant to the sale and purchase agreement dated 15 December 2006 entered into between the Company and Sino Vantage Management Limited for the acquisition of natural gas business by the Group, whereby the Company shall issue to Sino Vantage Management Limited a convertible note in the principal amount of HK$90,000,000 which is convertible into 375,000,000 ordinary shares of the Company upon completion of the above agreement. Mr. Xu Tie-liang therefore deemed to be interested in the said ordinary shares and derivative.

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company which were recorded on the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2007.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2007, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Interests in the shares and underlying shares of the Company

Name of shareholders	Notes	Capacity	Number of ordinary shares held	Number of underlying shares held	Percentage of the Company's issued share capital
Sino Advance Holdings Ltd. ("Sino Advance")	1	Beneficial owner	321,018,300	–	8.38%
Sino Vantage Management Limited ("Sino Vantage")	2	Beneficial owner	400,000,000	–	10.44%
	2	Beneficial owner	–	375,000,000	9.79%
New Stamina Investments Limited ("New Stamina")	3	Beneficial owner	275,000,000	–	7.18%
Lo Chung	3	Interest in controlled a corporation	275,000,000	–	7.18%
	4	Family interest	16,000,000	–	0.42%

Notes:

1. Sino Advance, a company incorporated in the British Virgin Islands with limited liability is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares of the Company owned by Sino Advance.

2. Sino Vantage was interested in 400,000,000 ordinary shares and the derivative of 375,000,000 ordinary shares of the Company pursuant to the sale and purchase agreement dated 15 December 2006 entered into between the Company and Sino Vantage for the acquisition of natural gas business by the Group, whereby the Company shall issue a convertible note in the principal amount of HK$90,000,000 which is convertible into 375,000,000 ordinary shares of the Company to Sino Vantage upon completion of the above agreement. Sino Vantage is a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Xu Tie-liang.

3. New Stamina was interested in the derivative of 275,000,000 shares of the Company pursuant to the sale and purchase agreement dated 11 December 2006 entered into between the Company and New Stamina for the acquisition of natural gas business by the Group, whereby the Company shall issue a convertible note in the principal amount of HK$66,000,000 to New Stamina which is convertible into 275,000,000 ordinary shares of the Company. New Stamina is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lo Chung, and therefore, Mr. Lo Chung is deemed to be interested in the said derivatives.

4. These 16,000,000 ordinary shares are held by the spouse of Mr. Lo Chung, and therefore, Mr. Lo Chung is deemed to be interested in these shares.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 30 June 2007.

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.

During the period, no share option was granted and remain outstanding.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2007.

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 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

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 2007, 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 2007.

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. 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, 24 September 2007