

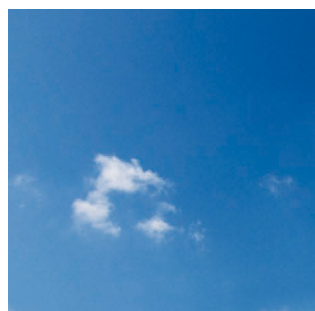
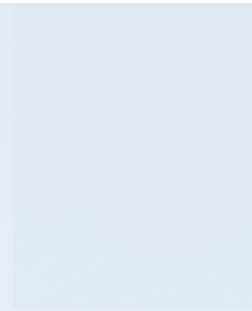
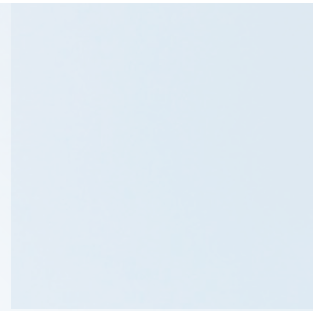


# 中油燃氣集團有限公司

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)

Stock Code: 603



Interim Report  
**2010**



## Contents

	Page
FINANCIAL HIGHLIGHTS	3
OPERATION MAP	4
CORPORATE INFORMATION	5
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	6
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET	8
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	10
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS	12
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	13
REPORT OF THE BOARD	25

## ENTERPRISE CULTURE

### OUR CULTURE:

- Integrity
- Rewards
- Excellency
- Harmony

### OUR OBJECTIVES:

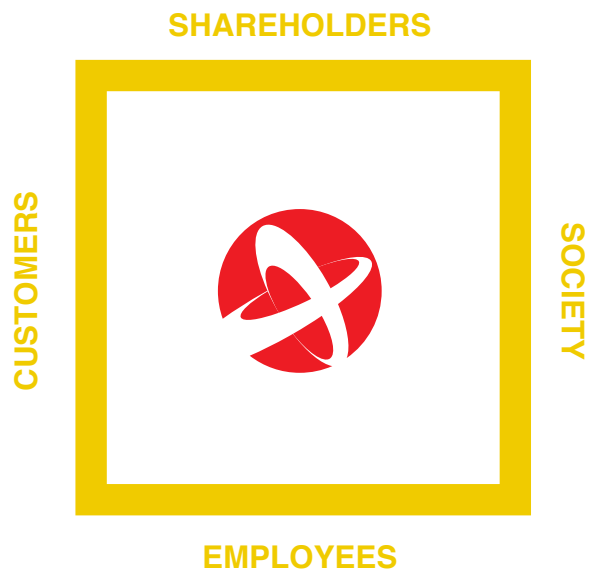
Create values for our customers;  
Create profits for our shareholders;  
Create future for our employees;  
Create prosperity for our society.

### OUR MISSION:

Developing environmental friendly energy to secure sustainable development and make contributions to our future.

### OUR VISION:

Turning the Group into an internationally influential enterprise which produces environmental friendly and clean energy.



**In order to achieve greater success for our Group's future,  
we work our objectives like a four-equal-sides square, each side has to make  
progress simultaneously!**

## FINANCIAL HIGHLIGHTS

	Notes	(6 months) <b>1.1-30.6.2010</b>	(6 months) 1.1-30.6.2009	(+/-)	(12 months) 1.1-31.12.2009
Turnover (HK\$ million)		<b>1,102</b>	796	38%	1,721
Gross profit (HK\$ million)		<b>312</b>	209	49%	408
Total Sales on Gas Volume (million m <sup>3</sup> )		<b>662</b>	471	41%	965
Total Transmission and Transportation Gas Volume (million m <sup>3</sup> )		<b>521</b>	416	25%	824
Profit for the Period/Year (HK\$ million)		<b>195</b>	151	29%	253
Profit attributable to equity holders of the Company (HK\$ million)		<b>87.8</b>	79.8	10%	132
Earnings per share (HK cents)		<b>1.79</b>	1.76	2%	2.96
Total Assets (HK\$ million)		<b>3,937</b>	2,861	38%	3,365
Net Assets (HK\$ million)		<b>3,003</b>	2,029	48%	2,223
Net Assets Value per share (HK cents)	(a)	<b>60.65</b>	45.52	33%	49.86
Cash per share (HK cents)	(b)	<b>23.95</b>	15.18	58%	24
Return on Average Equity (%)	(c)	<b>3.36</b>	4.06		6.4
Price to Book ratio	(d)	<b>1.38</b>	0.81		1.81
Market value as at Period/Year ended per share (HK\$)		<b>0.84</b>	0.37		0.90
Market capitalization (HK\$ million)		<b>4,159</b>	1,649		4,012

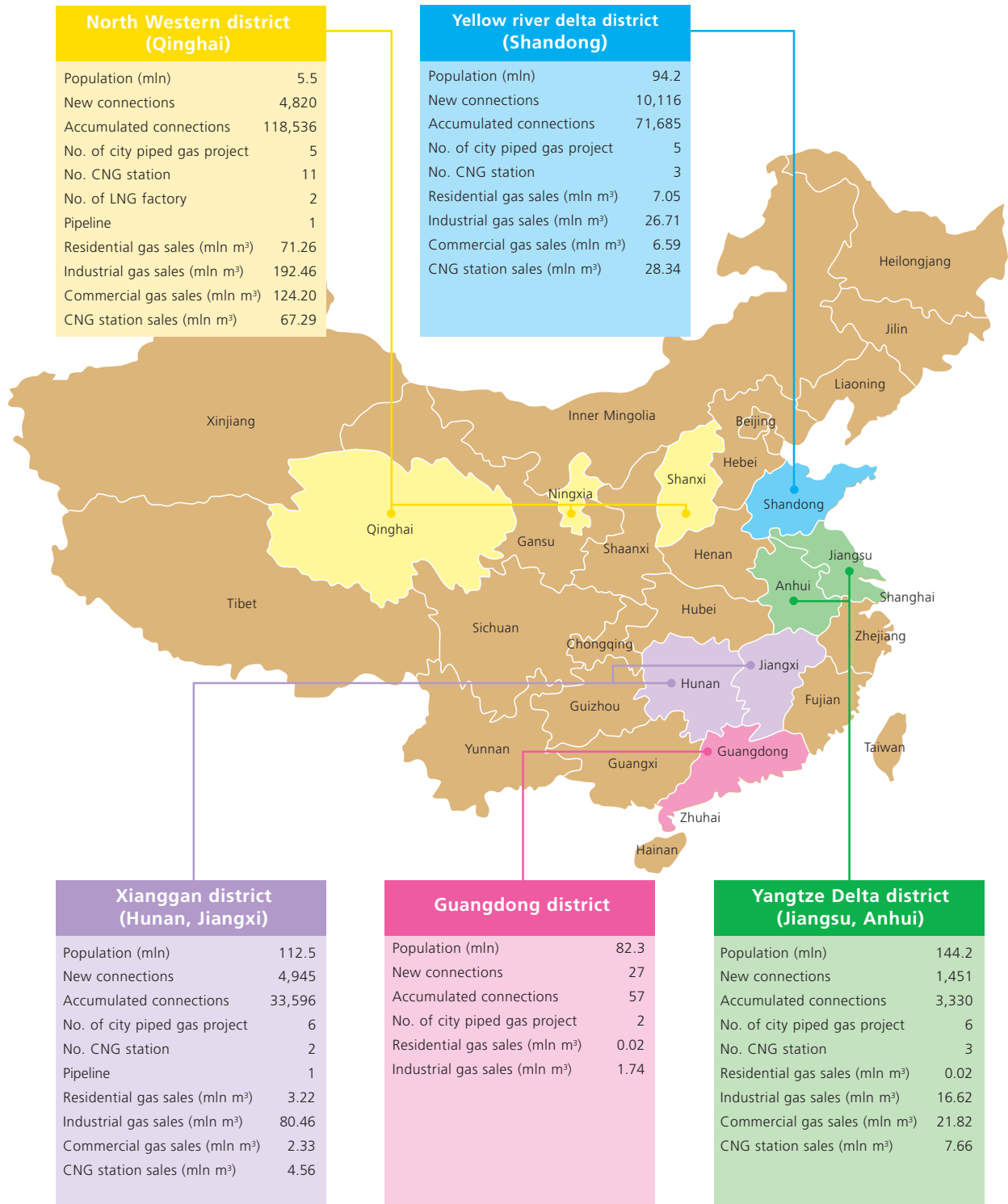
Notes:

(a)	$\frac{\text{Net assets}}{\text{Issued and fully paid ordinary shares}}$
(b)	$\frac{\text{Cash and cash equivalent}}{\text{Issued and fully paid ordinary shares}}$
(c)	$\frac{\text{Profit attributable to equity holders of the Company}}{\text{Average equity attributable to equity holders of the Company}}$
(d)	$\frac{\text{Market value per share as at Period/Year ended}}{\text{Net assets value per share}}$

# OPERATION MAP

## Strong operations in 5 key markets

The Group has established 49 project companies in 24 cities, 5 key areas in 9 provinces, and owns 24 city gas franchise operation rights



## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

XU Tie-liang (*Chairman & Chief Executive Officer*)  
CHEUNG Shing

#### Independent Non-Executive Directors

LI Yunlong  
SHI Xun-zhi  
PENG Long  
WANG Guangtian

### COMPANY SECRETARY

CHAN Yuen Ying Stella, *ACIS, ACS, MHKIoD*

### AUTHORISED REPRESENTATIVES

XU Tie-liang  
CHAN Yuen Ying Stella

### AUDIT COMMITTEE

LI Yunlong (*Chairman*)  
SHI Xun-zhi  
PENG Long  
WANG Guangtian

### REMUNERATION COMMITTEE

LI Yunlong (*Chairman*)  
PENG Long  
WANG Guangtian  
CHEUNG Shing

### NOMINATION COMMITTEE

WANG Guangtian (*Chairman*)  
PENG Long  
LI Yunlong  
CHEUNG Shing

### AUDITORS

Ting Ho Kwan & Chan

### LEGAL ADVISERS

(As to Hong Kong Law)  
LI & Partners

(As to PRC Law)  
Beijing Huaao Law & Partners

### PRINCIPAL REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM 08  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### REGISTRE 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 BANKER

The Hongkong and Shanghai Banking Corporation Limited

### STOCK CODE

603

### WEBSITE AND E-MAIL ADDRESS

Website: <http://www.hk603.com>

E-mail: [info@hk603.com](mailto:info@hk603.com)

## Interim Results

The board (the "Board") of directors (the "Directors") of China Oil And Gas Group Limited (the "Company") announces the unaudited consolidated interim condensed results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 (the "Period").

The unaudited consolidated interim condensed financial information for the Period have not been audited but have been reviewed by the Company's Audit Committee (the "Audit Committee").

### CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME For the period from 1 January to 30 June 2010

	Notes	Unaudited (6 months) 1.1-30.6.2010 HK\$'000	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Turnover	3	<b>1,101,951</b>	795,767
Other income and gains, net	4	<b>1,354</b>	35,138
Interest income		<b>3,990</b>	883
Purchases, services and others		<b>(790,317)</b>	(587,203)
Employee compensation costs		<b>(25,905)</b>	(22,679)
Depreciation and amortisation expenses		<b>(5,189)</b>	(8,796)
Interest expenses	5	<b>(10,381)</b>	(5,858)
Other expenses		<b>(30,407)</b>	(30,219)
Profit before taxation	6	<b>245,096</b>	177,033
Taxation	7	<b>(50,531)</b>	(25,875)
Profit for the period		<b>194,565</b>	151,158
Other comprehensive income:			
Exchange differences on translation of foreign operations		<b>(75)</b>	(1,439)
Other comprehensive expense for the period, net of tax		<b>(75)</b>	(1,439)
Total comprehensive income for the period		<b>194,490</b>	149,719



## CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the period from 1 January to 30 June 2010

	Note	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
<b>Profit attributable to:</b>			
Equity holders of the Company		<b>87,786</b>	79,800
Non-controlling interests		<b>106,779</b>	71,358
		<b>194,565</b>	151,158
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		<b>87,711</b>	78,361
Non-controlling interests		<b>106,779</b>	71,358
		<b>194,490</b>	149,719
<b>Earnings per share</b>	8		
– Basic		<b>1.794 cents</b>	1.758 cents
– Diluted		<b>1.771 cents</b>	–



## CONSOLIDATED INTERIM CONDENSED BALANCE SHEET

At 30 June 2010

	Notes	Unaudited At 30.6.2010 HK\$'000	Audited At 31.12.2009 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		1,206,902	1,213,519
Leasehold land and land use rights		70,410	72,095
Goodwill		627,068	627,068
Other intangible assets		5,080	5,127
Interest in an associate		2,250	2,461
Available-for-sale financial assets		2,155	452
<b>Total non-current assets</b>		<b>1,913,865</b>	1,920,722
<b>Current assets</b>			
Inventories		51,158	54,040
Financial assets at fair value through profit or loss		216,721	57,537
Deposits, trade and other receivables	10	568,395	262,603
Cash and cash equivalents		1,186,391	1,069,717
<b>Total current assets</b>		<b>2,022,665</b>	1,443,897
<b>Current liabilities</b>			
Trade and other payables	11	595,931	727,109
Bank and other borrowings		263,670	338,540
Current tax payable		645	14,225
<b>Total current liabilities</b>		<b>860,246</b>	1,079,874
<b>Net current assets</b>		<b>1,162,419</b>	364,023
<b>Total assets less current liabilities</b>		<b>3,076,284</b>	2,284,745

## CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (Continued)

At 30 June 2010

	Note	Unaudited At 30.6.2010 HK\$'000	Audited At 31.12.2009 HK\$'000
<b>Non-current liabilities</b>			
Bank and other borrowings		52,739	51,592
Deferred tax liabilities		20,068	10,405
<b>Total non-current liabilities</b>		<b>72,807</b>	61,997
<b>Net assets</b>		<b>3,003,477</b>	2,222,748
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	12	49,509	44,579
Reserves		2,272,395	1,587,493
		<b>2,321,904</b>	1,632,072
Non-controlling interests		681,573	590,676
<b>Total equity</b>		<b>3,003,477</b>	2,222,748

## CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2010

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total
	Issued share capital	Share premium account	Capital redemption reserve	Other capital reserve	Exchange fluctuation reserve	Share option 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 January 2010	44,579	1,968,998	893	81,480	46,372	2,332	(512,582)	1,632,072	590,676	2,222,748
<b>Change in equity for 2010</b>										
Exchange differences on translating foreign operations	-	-	-	-	(75)	-	-	(75)	-	(75)
Profit for the period	-	-	-	-	-	-	87,786	87,786	106,779	194,565
Total comprehensive income for the period	-	-	-	-	(75)	-	87,786	87,711	106,779	194,490
Equity-settled share-based payments	-	-	-	-	-	2,798	-	2,798	-	2,798
Capital injection by minority shareholders	-	-	-	-	-	-	-	-	12,462	12,462
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(28,344)	(28,344)
Repurchase of own shares	(70)	(6,028)	70	-	-	-	(70)	(6,098)	-	(6,098)
Shares issued upon placement of shares, net of issuing expenses	5,000	600,421	-	-	-	-	-	605,421	-	605,421
Set-off against accumulated losses	-	(600,000)	-	-	-	-	600,000	-	-	-
At 30 June 2010	49,509	1,963,391	963	81,480	46,297	5,130	175,134	2,321,904	681,573	3,003,477

## CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (Continued)

For the period ended 30 June 2010

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total
	Issued share capital	Share premium account	Capital redemption reserve	Other capital reserve	Exchange fluctuation reserve	Share option 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 January 2009	44,579	1,968,998	893	23,626	47,546	-	(586,818)	1,498,824	405,004	1,903,828
<b>Change in equity for 2009</b>										
Exchange differences on translating foreign operations	-	-	-	-	(1,439)	-	-	(1,439)	-	(1,439)
Profit for the period	-	-	-	-	-	-	79,800	79,800	71,358	151,158
Total comprehensive income for the period	-	-	-	-	(1,439)	-	79,800	78,361	71,358	149,719
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(24,480)	(24,480)
At 30 June 2009	44,579	1,968,998	893	23,626	46,107	-	(507,018)	1,577,185	451,882	2,029,067

## CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the period from 1 January to 30 June 2010

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Net cash (used in)/generated from operating activities	<b>(239,309)</b>	112,321
Net cash used in investing activities	<b>(140,346)</b>	(111,863)
Net cash generated from/(used in) financing activities	<b>496,329</b>	(53,693)
Net increase/(decrease) in cash and cash equivalents	<b>116,674</b>	(53,235)
Cash and cash equivalents at beginning of the period	<b>1,069,717</b>	731,151
Effect of foreign exchange rate changes	-	(1,025)
Cash and cash equivalents at end of the period	<b>1,186,391</b>	676,891

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (1) GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company.

### (2) BASIS OF PREPARATION

The unaudited consolidated interim condensed financial information of the Group have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

These unaudited consolidated interim condensed financial information have been prepared under the historical cost convention, as modified by revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The unaudited consolidated interim condensed financial information presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Group for the year ended 31 December 2009.

Except as described below, the accounting policies and methods of computation applied in the preparation of the unaudited consolidated interim condensed financial information are consistent with those of the consolidated financial statements for the year ended 31 December 2009.

The following new/revised standards are mandatory for the first time for the financial year beginning 1 January 2010:

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments are unlikely to have any financial impact on the Group.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (2) BASIS OF PREPARATION (Continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments are unlikely to have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The amendments are unlikely to have any financial impact on the Group.

The following new and revised standards, amendments and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2010 and have not been early adopted:

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2013
HKAS 24 (Revised) Related Party Disclosures	1 January 2011
HK(IFRIC)-Int 14 (Amendment) Prepayments of a Minimum Funding Requirement	1 January 2011
HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010 which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for the annual periods beginning on or after 1 July 2010, other amendments are effective for annual periods beginning on or after 1 January 2011 although there is separate transitional provision for each standard or interpretation.

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (3) SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in sales of natural gas and gas pipeline construction and connection in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by a unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (3) SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's turnover and results by operating segment for the periods under review:

Segment information about these businesses is presented below:

Income statement for the periods ended 30 June 2010 and 30 June 2009

#### Business segments

#### For the period ended 30 June 2010:

	<b>Sales and distribution of natural gas and other related products HK\$'000</b>	<b>Gas pipeline construction and connection HK\$'000</b>	<b>Group HK\$'000</b>
<b>Segment revenue and results</b>			
Sales to external customers	<b>945,725</b>	<b>156,226</b>	<b>1,101,951</b>
Segment results	<b>214,726</b>	<b>96,909</b>	<b>311,635</b>
Interest income			<b>3,990</b>
Loss on disposal of financial assets at fair value through profit or loss			<b>(169)</b>
Fair value gains on financial assets at fair value through profit or loss			<b>372</b>
Finance costs			<b>(10,381)</b>
Unallocated corporate expenses			<b>(60,351)</b>
Profit before taxation			<b>245,096</b>
Taxation			<b>(50,531)</b>
Profit for the period			<b>194,565</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (3) SEGMENT INFORMATION (Continued)

For the period ended 30 June 2009:

	Sales and distribution of natural gas and other related products HK\$'000	Gas pipeline construction and connection HK\$'000	Group HK\$'000
<b>Segment revenue and results</b>			
Sales to external customers	736,485	59,282	795,767
Segment results	173,020	35,544	208,564
Interest income			883
Fair value gains on financial assets at fair value through profit or loss			25,116
Finance costs			(5,858)
Unallocated corporate expenses			(51,672)
Profit before taxation			177,033
Taxation			(25,875)
Profit for the period			151,158

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (4) OTHER INCOME AND GAINS, NET

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Government subsidies	<b>281</b>	1,466
Dividend income	<b>36</b>	919
Fair value gains on financial assets at fair value through profit or loss	<b>372</b>	25,116
Others	<b>665</b>	7,637
	<b>1,354</b>	35,138

### (5) INTEREST EXPENSES

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Interest on:		
Bank loans	<b>10,340</b>	5,858
Securities trading account	<b>41</b>	-
	<b>10,381</b>	5,858

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (6) PROFIT BEFORE TAXATION

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Loss on disposal of financial assets at fair value through profit or loss	<b>169</b>	315
Fair value losses on financial assets at fair value through profit or loss	–	789
Loss on exchange	<b>1,033</b>	–

### (7) TAXATION

Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% (2009: 25%) of the assessable profits for the companies within the Group, except for certain subsidiaries in the PRC which are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. PRC enterprise income tax has been provided for after taking these tax incentives into account.

No provision for Hong Kong profits tax has been made for those companies subject to Hong Kong profits tax within the Group as these subsidiaries did not have any assessable profits for the period (2009: Nil).

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Current tax and taxation charge for the period:		
Taxation outside Hong Kong	<b>50,531</b>	25,875

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (8) EARNINGS PER SHARE

#### (a) Basic earnings per share

	<b>Unaudited (6 months) 1.1-30.6.2010 HK Cents per share</b>	Unaudited (6 months) 1.1-30.6.2009 HK Cents per share
Basic earnings per share	<b>1.794</b>	1.758

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<b>Unaudited (6 months) 1.1-30.6.2010 HK\$'000</b>	Unaudited (6 months) 1.1-30.6.2009 HK\$'000
Profit for the period attributable to equity holders of the Company	<b>87,711</b>	78,361
Earnings used in the calculation of basic earnings per share	<b>87,711</b>	78,361

	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>4,890,242,953</b>	4,457,856,213

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (8) EARNINGS PER SHARE (Continued)

#### (b) Diluted earnings per share

	<b>Unaudited (6 months) 1.1-30.6.2010 HK Cents per share</b>	Unaudited (6 months) 1.1-30.6.2009 HK Cents per share
Diluted earnings per share	<b>1.771</b>	N/A

The calculation of the diluted earnings per share for the period is based on the profit attributable to equity holders of the Company of HK\$87,711,000 and the weighted average number of 4,952,278,706 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 62,035,753 shares deemed to be issued at no consideration if all outstanding options had been exercised.

	<b>2010 HK\$'000</b>
Profit for the period attributable to equity holders of the Company	<b>87,711</b>
Earnings used in the calculation of diluted earnings per share	<b>87,711</b>

	<b>2010 Number of shares</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>4,890,242,953</b>
Effect of deemed issue of shares under the Company's share option scheme	<b>62,035,753</b>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>4,952,278,706</b>

Diluted earnings per share for the period ended 30 June 2009 was not presented as there were no potential dilutive ordinary shares outstanding during the period.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (9) DIVIDEND

No interim dividend was paid to shareholders during the period (2009: Nil).

### (10) DEPOSITS, TRADE AND OTHER RECEIVABLES

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

	<b>Unaudited At 30.6.2010 HK\$'000</b>	Audited At 31.12.2009 HK\$'000
Current to 90 days	<b>38,064</b>	31,232
91-180 days	<b>6,126</b>	1,629
Over 180 days	<b>44,729</b>	44,596
	<b>88,919</b>	77,457

### (11) TRADE AND OTHER PAYABLES

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

	<b>Unaudited At 30.6.2010 HK\$'000</b>	Audited At 31.12.2009 HK\$'000
Current to 90 days	<b>58,983</b>	71,498
91-180 days	<b>39,963</b>	23,731
Over 180 days	<b>41,335</b>	37,082
	<b>140,281</b>	132,311

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (12) SHARE CAPITAL

	Number of shares	Amount HK\$000
Authorised ordinary shares of HK\$0.01 each at 30 June 2009, 31 December 2009 and 30 June 2010	125,000,000,000	1,250,000
Ordinary shares of HK\$0.01 each at 30 June 2009 and 31 December 2009	4,457,856,213	44,579
Placing of shares (note a)	500,000,000	5,000
Shares repurchased (note b)	(7,000,000)	(70)
Ordinary shares of HK\$0.01 each at 30 June 2010	4,950,856,213	49,509

The movements in share capital were as follows:

- (a) On 26 January 2010, the Company had entered into the Placing and Subscription Agreement with the Placing Agent (Deutsche Bank AG, Hong Kong Branch), the Vendors (Sino Advance Holdings Limited and Sino Vantage Management Limited) and Mr. Xu Tie-liang. Pursuant to which the Placing Agent had agreed, on a fully-underwritten basis and as agent of the Vendors to place up to 500,000,000 existing shares at a price of HK\$1.25 per share to not fewer than 6 independent professional or institutional investors. In addition, pursuant to the Placing and Subscription Agreement, the Vendors have conditionally agreed to subscribe for the Subscription Shares at HK\$1.25 (before deduction of cost of the Placing) per Subscription Share. The net proceeds of approximately HK\$606 million from the Subscription is intended to be used for investment and development of principal activities in natural gas and coalbed methane business. The net price (after deduction of the cost in connection with the Placing) per Subscription Share is approximately HK\$1.21.
- (b) The Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per ordinary share		Aggregate consideration paid
		Highest	Lowest	
May 2010	7,000,000	HK\$0.890	HK\$0.860	HK\$6,077,600

The above ordinary shares were subsequently cancelled. The premium paid on the repurchase of the shares of HK\$6,028,000 (2009: HK\$Nil) was charged to share premium account. The nominal value of the shares repurchased of HK\$70,000 (2009: HK\$Nil) was transferred to the capital redemption reserve.



## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **(13) POST BALANCE SHEET EVENTS**

On 16 July 2010, a wholly-owned subsidiary of the Company entered into a natural gas utilization cooperation agreement with Jiangxi Pingxiang City People's Government (江西省萍鄉市人民政府) ("Pingxiang Government"), pursuant to which Pingxiang Government agreed the Group, on top of the existing investment and construction of gas project in Pingxiang City Economic Development Zone, to fully access to the investment in and development of natural gas integrated utilization business in Pingxiang City, Jiangxi Province of the PRC (including all districts and counties) and the related natural gas station business.

### **(14) APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 20 August 2010.

# Report of the Board

## MANAGEMENT DISCUSSION AND ANALYSIS

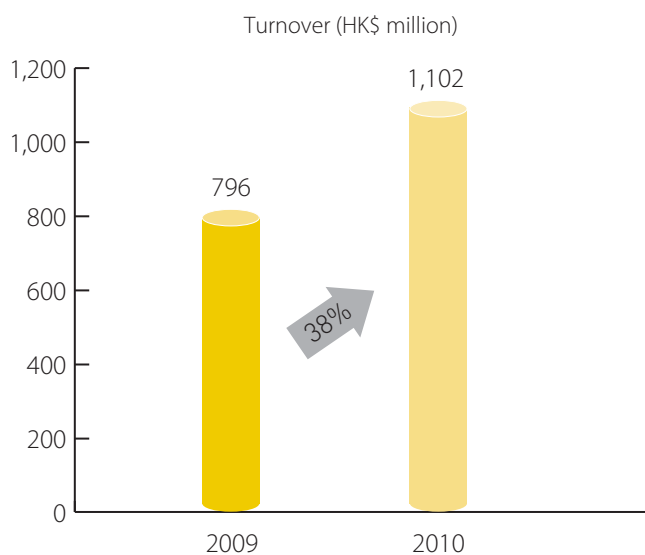
The Group is principally engaged in investments in, and the operation and management of the natural gas and energy related business. Gas operations of the Group include piped city gas business, CNG stations business, LNG business, pipeline design and construction, gas transportation and logistics service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

### Business Review

As of 30 June 2010, the Group has established 49 project companies in 24 cities, 5 key areas in 9 provinces in China, and owns 24 city gas franchise operation rights.

By stretching on the 5 key areas of the Group's strategy, market development is the major task the Group focused on since the beginning of 2010. Stepping into 2010, the Group has successfully entered into an exclusive strategic co-operation agreement with PetroChina Coalbed Methane Co., Ltd. (中石油煤層氣有限公司) ("PetroChina CBM"), acquired 60% equity interest of Yinchuan Yongning Natural Gas Company Limited, entered into a cooperation framework agreement with CNPC Kunlun Natural Gas Exploitation Company Limited (中石油昆崙天然氣利用有限公司) and none but not least, entered into a natural gas utilization cooperation agreement with Pingxiang Government. During the first half of 2010, the Group has newly developed approximately 19,000 residential households, 70 industrial users, over 300 commercial users, and a few of the piped-natural-gas franchise rights were allowed to extend into nearby cities and counties. By quantifying the market development, it has been multiplied by five times by comparing to the corresponding period of last year (the "Last Period"). Development of new markets and expanding our original markets will continuously be the highlight of the Group for the remaining of 2010.

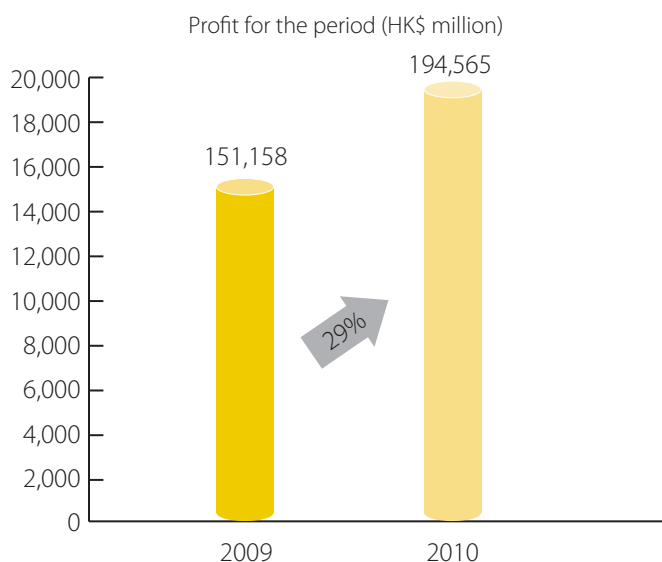
### Financial Results



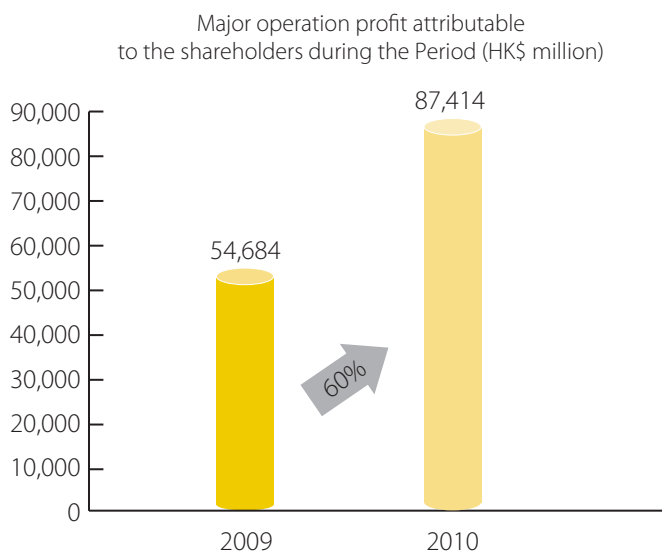
For the six months ended 30 June 2010 (the "Period"), the Group recorded a turnover of HK\$1,101,951,000, representing an increase of approximately 38% as compared to the Last Period's HK\$795,767,000. The Group's cost of sales was HK\$790,317,000 (2009: HK\$587,203,000) representing an increase of approximately 36%. Gross profit amounted to

## Report of the Board

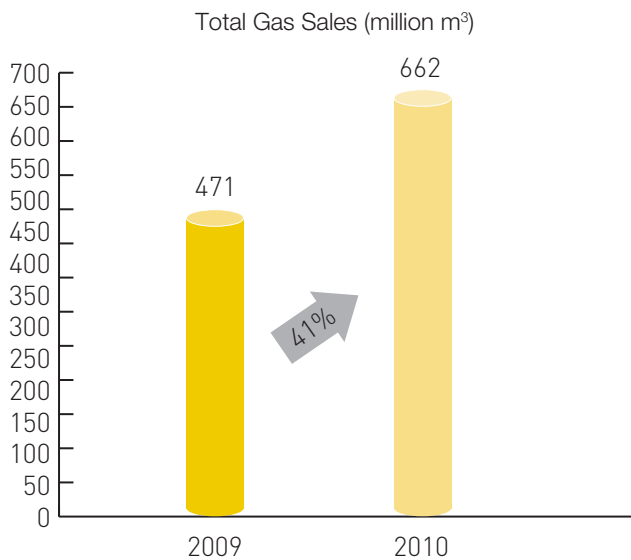
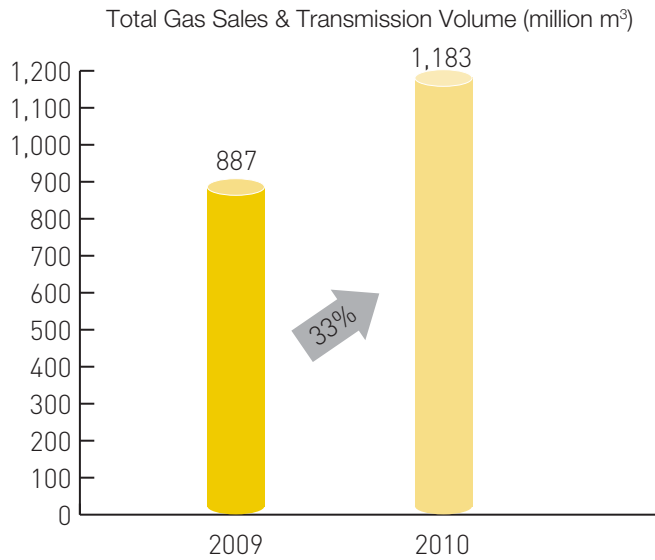
HK\$311,635,000 (2009: HK\$208,564,000) increased by approximately 49%. Profit for the Period was HK\$194,565,000 (2009: HK\$151,158,000) and the Group's profit attributable to the shareholders was HK\$87,786,000 (2009: HK\$79,800,000), recorded an increase of 29% and 10% respectively, as compared to the Last Period. Basic earnings per share were 1.794 cents and 1.758 cents for both periods, respectively.



The 2% increase of the gross profit ratio was mainly due to a 28% increase of sales of natural gas and a 164% increase of connection fee income received during the Period. Through the past few years, the Group continuously invests in PRC's integrated natural gas businesses. Even though some of these investments were building from the very beginning, but the harsh time has been gradually through and harvest time begins. During the first half of 2010, the Group has successfully developed a few residential districts. As an effect, the Group's gas pipeline construction and connection income sharply increases from 7% of the total turnover to the current Period's 14%. Last Period's profit attributable to shareholders of the Group included unrealized profit from financial assets of HK\$25.116 million. Such an unrealized income has no contribution to the Group for the Period. After the elimination of this one-off income for the Last Period, the profit attributable to shareholders increased by 61%.

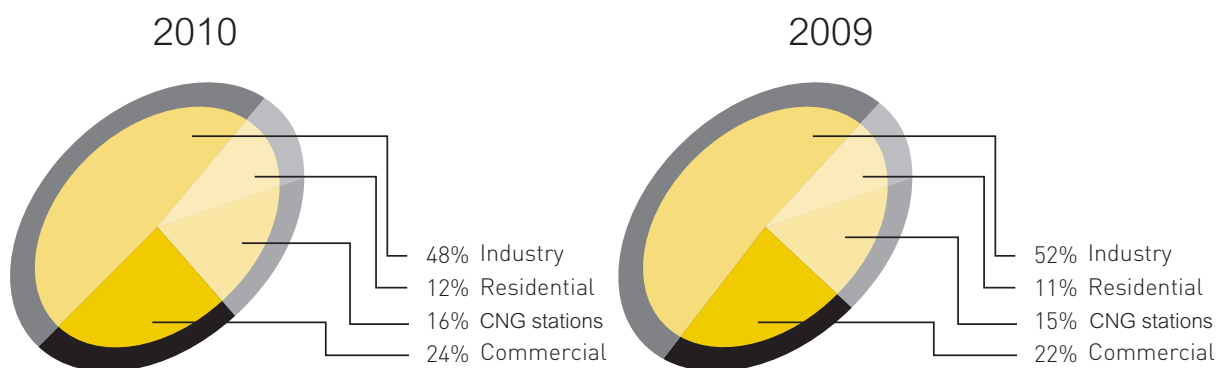


## Report of the Board



During the Period, the Group's total gas sales and transmission volume reached 1,183 million cubic meters (m<sup>3</sup>), recorded an overall increase of 33% as compared to 887 million m<sup>3</sup> for the Last Period. Total gas sales increased by 41% from Last Period's 471 million m<sup>3</sup> to current period's 662 million m<sup>3</sup>; whereas 24% (2009: 22%) was from commercial consumption; 48% (2009: 52%) was from industrial consumption; 12% (2009: 11%) was from household consumption; 16% (2009: 15%) was from CNG stations.

## Report of the Board



### Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended 30 June 2010 (30 June 2009: Nil).

### Liquidity and Financial Resources

#### Financial Position

The Group remained at a strong financial position. As at 30 June 2010, the Group had cash and cash equivalents of approximately HK\$1,186,391,000 (31 December 2009: HK\$1,069,717,000). The Group's total borrowings amounted to HK\$316,409,000 (31 December 2009: HK\$390,132,000), representing bank borrowings and loans made for the gas operations in the PRC under China City Natural Gas Co., Ltd. ("CCNG"), a decrease of approximately 19%, as compared to 31 December 2009.

As at 30 June 2010, the Group had total assets of HK\$3,936,530,000 (31 December 2009: HK\$3,364,619,000), and among which current asset were HK\$2,022,665,000 (31 December 2009: HK\$1,443,897,000). Total liabilities of the Group was HK\$933,053,000 (31 December 2009: HK\$1,141,871,000), and among which current liabilities were HK\$860,246,000 (31 December 2009: HK\$1,079,874,000). The gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 31% (2009: 51%). The current ratio of the Group was 2.35 (2009: 1.34) and quick ratio was 2.29 (2009: 1.29). This reflects the fact that the Group has a sound financial position, comparatively low gearing ratio and sufficient cash, which enables the Group to be fully prepared for the capital requirements for its future business expansion.

#### Shareholding Structure

On 26 January 2010, the Company entered into a placing and subscription agreement with Deutsche Bank Hong Kong Branch for the issue of 500,000,000 shares and raised net proceeds of approximately HK\$606,000,000.

As at 30 June 2010, the issued share capital of the Company was HK\$49,508,562.13 divided into 4,950,856,213 shares of HK\$0.01 each.





# Report of the Board

## Capital Investments and Commitments

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

## Employees and Remuneration Policy

As at 30 June 2010, the Group employed a total workforce of approximately 1,450 (2009: 1,280). Most of the employees are located in the PRC. The Group remunerates its employees based on their work performance, working experiences and professional qualifications and the prevailing market practice.

## Pledge of Assets

As at 30 June 2010, no asset of the Group has been pledged (2009: Nil).

## Contingent Liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities (2009: Nil).

## Currency and Interest Rate Exposure

The Group's sales are denominated in Renminbi, and investments are mostly made in Hong Kong Dollars. The Group does not anticipate material currency exposure and risk, and no currency and interest rate risk management or related hedges were made. Proper policy will be in place when the Board considers appropriate.

## Litigation

As at 30 June 2010, the Group has no litigation.

## PROSPECTS

As a part of the Group's strategic plans in the future, we emphasize on the natural gas branch lines' construction for stable transmission revenue and to magnify the demand for natural gas by the markets along the branch lines. We expected the first phase of Taizhou-Jiangyan-Dainan branch line will be ready by the end of October 2010, Anyi-Nanchang and Nantong Rugao-Haian branch lines will be ready by the end of the year. Meanwhile, the Group will seek to secure the construction of Yuedong branch line in order to facilitate the Chaozhou project.

With respect to the Coal-Bed-Methane (CBM) project, the collection of those loose CBM to produce CNG will be expected to operate by the end of October 2010. The Group will continue to operate in harmony with PetroChina CBM Company and once the schedule of CBM can be confirmed, the two LNG factories will be ready to construct.

## Report of the Board

On 1 June 2010, the PRC government raised the cost of natural gas throughout the country. Up to the date of this announcement, the Group have received documents from almost all of the local governments for the approval of increase of the sale prices, and luckily the effect is at its minimal. Under the leadership of our outstanding management and operational teams, they stayed calm but at the same time act quick and efficient as they communicated with the local government in the first place. This is the major reason for the pass-through been done so quick and successfully.

Subsequent to the balance sheet date, a wholly-owned subsidiary of the Group entered into a natural gas utilization cooperation agreement with Pingxiang Government, pursuant to which the Group would cooperate with the local gas company for the formation of a joint venture company as soon as possible in the second half of this year so as to get ready to supply clean natural gas for over 10 thousand households in Pingxiang City before the end of this year.

Furthermore, the Group has entered into agreements with Binzhou High & New Technology Industrial Development Zone and Binbei Industrial Park of Binzhou City, with the total investment to be approximately RMB70 million and RMB50 million respectively. In addition to obtaining operating right in the above areas, the Group estimates that the gas consumption of these two areas will amount to over 60 million cubic metres and 10 million cubic metres before 2015.

Besides the above mentioned investment projects, the Group is actively considering various projects in hand. For the remaining for 2010, our Group will persist to work on market development and aim at moving towards the upstream of oil and gas as we consider these resources the most valuable assets of our country. Meanwhile, we will strengthen our management's skill level and enhance our communication with our whole workforce in order to demonstrate the culture of our Group: Integrity, Rewards, Excellency and Harmony.

### DIRECTORS' INTERESTS IN SHARES

As at 30 June 2010, 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 Issuers ("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	Percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	6.48%
	Interest in a controlled corporation	Long position	2	776,500,000	15.68%

## Report of the Board

Notes:

1. These 321,018,300 ordinary shares of the Company are held through Sino Advance Holdings Limited ("Sino Advance"), a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Sino Best International Group Limited ("Sino Best") (a company incorporated in the British Virgin Islands with limited liability) which is in turn wholly and beneficially owned by Mr. Xu Tie-liang.
2. These 776,500,000 ordinary shares of the Company are held through Sino Vantage Management Limited ("Sino Vantage"), a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Sino Best which is in turn wholly and beneficially owned by Mr. Xu Tie-liang.

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 2010.

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, 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 shareholder	Capacity	Long position/ short position	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
Sino Advance	Beneficial owner	Long position	1	321,018,300	6.48%
Sino Vantage	Beneficial owner	Long position	1	776,500,000	15.68%
Sino Best	Interest in a controlled corporation	Long position	1	1,097,518,300	22.17%
New Stamina Investments Limited ("New Stamina")	Beneficial owner	Long position	2	275,000,000	5.55%
Lo Chung	Interest in a controlled corporation	Long position	2	275,000,000	5.55%
	Family interest	Long position	3	17,400,000	0.35%

## Report of the Board

*Notes:*

1. Sino Advance and Sino Vantage are wholly-owned by Sino Best which are in turn wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares and 776,500,000 ordinary shares of the Company held through Sino Advance and Sino Vantage.
2. New Stamina is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lo Chung. Hence, Mr. Lo Chung is deemed to be interested in 275,000,000 ordinary shares of the Company held through New Stamina.
3. These 17,400,000 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 2010.

### 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.

The following table discloses the details of the share options outstanding during the six months ended 30 June 2010 as follows:

	<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price per share</b> <i>HK\$</i>	<b>Outstanding at 1 January and 30 June 2010</b>
Eligible participants (other than any Director, chief executive or substantial shareholder)	30.07.2009	30.07.2009 to 29.07.2014	0.43	100,000,000
Total eligible participants (other than any Director, chief executive or substantial shareholder)				100,000,000

## Report of the Board

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During six months ended 30 June 2010, the Company repurchased 7,000,000 shares of HK\$0.01 each in the capital of the Company at prices ranging from HK\$0.860 to HK\$0.890 per share on the Stock Exchange. Details of the repurchases are as follows:

Month of repurchase	Number of ordinary shares	Price per ordinary share		Aggregate consideration paid
		Highest	Lowest	
May 2010	7,000,000	HK\$0.890	HK\$0.860	HK\$6,077,600
Total	7,000,000			HK\$6,077,600

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2010.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

### CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "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 2010, the Company was in compliance with the code provisions set out in the CG Code except for the deviations from code provisions A.2.1 and A.4.1.

Code provision A.2.1. of the CG Code provides that the responsibilities between chairman and chief executive officer should be divided. Mr. Xu Tie-liang, being the Chairman and the chief executive officer of the Company. The Board believes that vesting the roles of both Chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.



## Report of the Board

Code provision A.4.1. of the CG Code provides that non-executive Directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors (except Mr. Wang Guangtian) are not appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the By-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 during the six months ended 30 June 2010.

### **AUDIT COMMITTEE**

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

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

Hong Kong, 20 August 2010