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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

ANNUAL RESULTS

The board of Directors (the "Board") of China Oil And Gas Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the twelve months ended 31 December 2007 (the "Period") together with the relevant comparative figures.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	**01.01.2007 To 31.12.2007 HK$'000**	01.08.2005 To 31.12.2006 HK$'000
Continuing operations			
Turnover		**677,372**	369,914
Cost of sales		**(507,685)**	(290,305)
Gross profit		**169,687**	79,609
Other income and gains, net		**53,790**	47,401
Selling and distribution costs		**(11,676)**	(5,831)
Administrative expenses		**(64,037)**	(33,130)
Other expenses		**–**	(7,263)
Operating profit		**147,764**	80,786
Finance costs		**(19,812)**	(9,121)
Share of profits of associates of a jointly controlled entity		**1,970**	1,981
Share of losses of associates		**(475)**	–
Profit before taxation		**129,447**	73,646
Taxation		**(15,639)**	(7,319)
Profit for the year/period from continuing operations		**113,808**	66,327
Discontinued operations			
Profit from discontinued operations	*5*	**–**	1,824
Profit for the year/period	*6*	**113,808**	68,151
Attributable to:			
Equity holders of the Company		**72,622**	57,342
Minority interests		**41,186**	10,809
		113,808	68,151
Earnings per share	*8*		
From continuing and discontinued operations			
– Basic		**2.07 cents**	3.05 cents
– Diluted		**1.93 cents**	N/A
From continuing operations			
– Basic		**2.07 cents**	2.95 cents
– Diluted		**1.93 cents**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**513,578**	109,142
Leasehold land and land use rights		**24,932**	3,778
Goodwill		**558,305**	58,188
Other intangible assets		**1,803**	–
Interests in associates		**–**	14,076
Available-for-sale financial assets		**1,542**	1,092
Total non-current assets		**1,100,160**	186,276
Current assets			
Leasehold land and land use rights		**594**	88
Inventories		**27,292**	8,154
Financial assets at fair value through profit or loss		**16,219**	36,026
Deposits, trade and other receivables	*9*	**202,285**	96,559
Tax recoverable		**695**	–
Cash and cash equivalents		**839,166**	165,417
Total current assets		**1,086,251**	306,244
Total assets		**2,186,411**	492,520
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**38,172**	25,197
Reserves		**1,217,000**	286,157
		1,255,172	311,354
Minority interests		**287,013**	21,213
Total equity		**1,542,185**	332,567

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Bank and other borrowings		**79,110**	38,743
Convertible notes		**145,332**	–
Deferred tax liabilities		**5,420**	2,646
Total non-current liabilities		**229,862**	41,389
Current liabilities			
Trade and other payables	*10*	**316,162**	95,919
Bank and other borrowings		**80,147**	14,088
Convertible notes		**604**	–
Tax payable		**17,451**	8,557
Total current liabilities		**414,364**	118,564
Total liabilities		**644,226**	159,953
Total equity and liabilities		**2,186,411**	492,520
Net current assets		**671,887**	187,680
Total assets less current liabilities		**1,772,047**	373,956

NOTES:

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.

2. BASIS OF PREPARATION

The 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 disclosure requirements of 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 (the "Listing Rules"). The consolidated 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 preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The HKICPA has issued certain new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the accounting current period of the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, "Financial Instruments: Disclosures" and the amendments to HKAS 1, "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, "Financial Instruments: Disclosure and Presentation".

The amendments to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's objectives, policies and processes for managing capital.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment, and (b) on a secondary segment reporting basis, by geographical segment.

Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing Operations:

- Natural gas business

Discontinued Operations:

- Manufacture and trading of silicone rubber products; and
- Investment in internet and information technology activities

Details of the discontinued operations are disclosed in note 5.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The principal activities of the Group are mainly managed in The People's Republic of China ("PRC").

(a) Business segments

Segment revenues and results

For the year ended 31 December 2007

No business segment information in respect of the Group's operation has been presented as all the Group's turnover was derived from natural gas business.

For the period from 1 August 2005 to 31 December 2006

	Continuing operations	**Discontinued operations**		
	Natural gas business	**Manufacturing and trading of silicone rubber products**	**Investment in internet and information technology**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	369,914	–	–	369,914
Results	68,853	26	(1,400)	67,479
Unallocated income	28,163	–	–	28,163
Unallocated expenses	(25,351)	–	–	(25,351)
Share of profits of associates	1,981	–	–	1,981
Gain on disposal of discontinued operations	–	3,090	–	3,090
Profit before taxation	73,646	3,116	(1,400)	75,362
Taxation	(7,319)	108	–	(7,211)
Profit for the period	66,327	3,224	(1,400)	68,151

Other segment information included in the income statement are as follows:

For the period from 1 August 2005 to 31 December 2006

	Continuing operations	Discontinued operations		
	Natural gas business	**Manufacturing and trading of silicone rubber products**	**Investment in internet and information technology**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	10,104	211	–	10,315
Amortisation of leasehold land and land use rights	137	–	3	140

Segment assets and liabilities

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Natural gas business	**N/A**	369,653	**N/A**	154,917
Unallocated	**N/A**	122,867	**N/A**	5,036
Consolidated	**N/A**	492,520	**N/A**	159,953

Capital expenditure

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	HK$'000	*HK$'000*
Natural gas business (including goodwill arising from acquisition of natural gas business)	**N/A**	83,098
Unallocated	**N/A**	496
	N/A	83,594

(b) Geographical segments

No geographical segment information in respect of the Group's operation as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

4. 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 33% of the assessable profit of the companies within the Group, except for certain subsidiaries in PRC were entitled to preferential tax treatments, which are taxed at preferential rate of 18%.

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 year (2006: Nil).

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**–**	307
Taxation outside Hong Kong	**15,841**	4,258
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	**(202)**	2,646
Taxation charge	**15,639**	7,211
Attributable to:		
Continuing operations	**15,639**	7,319
Discontinued operations *(note 5)*	**–**	(108)
	15,639	7,211

A reconciliation of the tax expense applicable to profit/(loss) before taxation using the statutory rates for the countries in which the Company, its subsidiaries and a jointly controlled entity are domiciled to the tax expense using the domestic taxation rates applicable to the profit/(loss) of the consolidated companies is as follows:

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	HK$'000	*HK$'000*
Profit/(loss) before taxation		
– Continuing operations	**129,447**	73,646
– Discontinued operations *(note 5)*	**–**	(1,374)
	129,447	72,272
Tax calculated at the domestic tax rate of 17.5% (2006: 17.5%)	**22,653**	12,648
Tax effect of income not subject to taxation	**(32,909)**	(13,752)
Tax effect of expenses not deductible for tax purpose	**16,537**	6,008
Tax effect of tax losses not recognised	**2**	2,064
Tax effect of utilisation of previously unrecognised tax losses	**–**	(6)
Tax effect of unrecognised temporary differences for the year/period	**(202)**	–
Effect of different tax rates of a jointly controlled entity and its subsidiaries	**9,558**	42
Underprovision of taxation	**–**	(440)
Taxation charge	**15,639**	7,211

5. DISCONTINUED OPERATIONS

(a) Disposal of silicone rubber business

On 14 February 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire interest in the Golite International Limited and its subsidiary, which are mainly engaged in the business of manufacturing and trading of silicone rubber products. On the same date, the disposal was completed.

Disposal of investment in internet and information technology activities

On 28 December 2006, the Company entered into a sale and purchase agreement with an independent third party to dispose of its interest in Hikari Tsushin Investments Holdings (BVI) Limited and its subsidiaries, which are principally engaged in the business of investment in internet and information technology activities. The disposal is consistent with the Group's long-term policy to focus its principal activities in natural gas business. The disposal was completed on 30 December 2006.

(b) The combined results arising from discontinued operations (ie. silicone rubber business, investment in internet and information technology activities) are set out below.

	01.01.2007 To 31.12.2007 HK$'000	01.08.2005 To 31.12.2006 HK$'000
Turnover	**–**	–
Other gains	**–**	48
	–	48
Expenses	**–**	(1,422)
Loss before taxation	**–**	(1,374)
Taxation	**–**	108
	–	(1,266)
Gain on disposal of discontinued operations	**–**	3,090
Profit for the year/period from discontinued operations	**–**	1,824

(c) Cash flows from discontinued operations

	01.01.2007 To 31.12.2007 HK$'000	01.08.2005 To 31.12.2006 HK$'000
Net cash outflows from operating activities	**–**	(265)
Net cash inflows from investing activities	**–**	1,296
Net cash flows from financing activities	**–**	–
	–	1,031

6. PROFIT FOR THE YEAR/PERIOD

This has been arrived at after charging and (crediting):

	01.01.2007 to 31.12.2007		01.08.2005 to 31.12.2006	
	Continuing operations	**Discontinued operations**	Continuing operations	Discontinued operations
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Staff costs (excluding directors' remuneration):				
Salaries and wages	**17,638**	**–**	8,968	–
Retirement benefits scheme contributions	**159**	**–**	503	(50)
	17,797	**–**	9,471	(50)
Minimum lease payments under operating leases for leasehold land and buildings	**2,998**	**–**	3,301	–
Auditors' remuneration	**1,080**	**–**	1,005	–
Depreciation of property, plant and equipment	**27,520**	**–**	10,104	211
Bad debt written off	**29**	**–**	–	–
Amortisation of leasehold land and land use rights	**565**	**–**	137	3
Loss/(gain) on disposal of property, plant and equipment and leasehold land and land use rights	**1,253**	**–**	(350)	1,236
Loss on disposal of a subsidiary	**–**	**–**	1,270	–
Impairment losses of available-for-sale financial assets	**–**	**–**	4,758	–
Fair value losses on financial assets at fair value through profit or loss	**4,660**	**–**	–	–
Amortisation of other intangible assets	**41**	**–**	–	–

7. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2006: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	Cents per share	*Cents per share*
Basic earnings per share		
From continuing operations	**2.07**	2.95
From discontinued operations	**–**	0.10
Total basic earnings per share	**2.07**	3.05

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

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	HK$'000	*HK$'000*
Profit for the year/period attributable to equity holders of the Company	**72,622**	57,342
Profit for the year/period from discontinued operations used in the calculation of basic earnings per share from discontinued operations	**–**	(1,824)
Earnings used in the calculation of basic earnings per share from continuing operations	**72,622**	55,518

	01.01.2007 To 31.12.2007	01.08.2005 To 31.12.2006
	Number of shares	*Number of shares*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,510,968,433**	1,881,535,286

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to equity holders of the Company of HK$80,465,000 and the weighted average of 4,160,968,433 ordinary shares in issue during the year, calculated as follows:

	01.01.2007 To 31.12.2007 ***HK$'000***
Profit for the year attributable to equity holders of the Company (basic)	**72,622**
Effect of interest accrued on liability component of convertible notes	**7,843**
Profit for the year attributable to equity holders of the Company (diluted)	**80,465**

	01.01.2007 To 31.12.2007 ***Number of shares***
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,510,968,433**
Effect of conversion of convertible notes	**650,000,000**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,160,968,433**

9. DEPOSITS, TRADE AND OTHER RECEIVABLES

	2007 ***HK$'000***	2006 *HK$'000*
Trade receivables	**92,540**	41,940
Other receivables, deposits and prepayments	**109,745**	54,619
	202,285	96,559

The directors consider that the carrying amounts of deposits, trade and other receivables approximate to their fair values.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
Renminbi	**86,562,068**	41,677,000

At each of the balance sheet date, the Group's allowances for impairment of trade receivables were individually determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowances were recognised. All of the trade and other receivables are expected to be received or recognised as expense within one year.

The Group allows an average credit period ranging from 60 to 90 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

The ageing analysis of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**45,070**	15,927
91 to 180 days	**1,235**	213
Over 180 days	**46,235**	25,800
Total	**92,540**	41,940

The ageing analysis of trade receivables that are not impaired is as follows:

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**45,070**	15,927
Past due but not impaired	**47,470**	26,013
Total	**92,540**	41,940

As at 31 December 2007, trade receivables of HK$47,470,000 (2006: HK$26,013,000) that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The ageing analysis of these receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
91 to 180 days	**1,235**	213
Over 180 days	**46,235**	25,800
Total	**47,470**	26,013

10. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**61,229**	21,609
Other payables and accruals	**254,933**	74,310
	316,162	95,919

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
Renminbi	**57,273,953**	21,473,000

The ageing analysis of trade payables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**39,809**	7,736
91 to 180 days	**5,991**	371
Over 180 days	**15,429**	13,502
Total	**61,229**	21,609

11. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2007, one of the subsidiaries of the Company, China City Natural Gas Co., Ltd. ("CCNG") provided financial guarantees on loan facilities granted to another subsidiary of the Company, 醴陵中油燃氣有限責任公司 to the extent of RMB44,000,000 (2006: HK$70,039,000 (RMB69,600,000)) and the Group does not have any other significant contingent liabilities.

In the opinion of the directors, the fair values of the above financial guarantees are insignificant as at 31 December 2007 and 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For comprehension of the financial results, please note that (i) the Group had increased its equity interest in CCNG to 51%, therefore CCNG had become a subsidiary of the Group and the results of which were fully consolidated into the Group's results since July 2007. Prior to July, CCNG was a jointly controlled entity of the Group, and proportionate consolidation accounting was adopted to proportionately consolidate its results. Moreover, this annual results is of 12 months ended 31 December 2007, whereas, given the Group had changed its financial year end date from 31 July to 31 December, the last corresponding annual result was of 17 months from 1 August 2005 to 31 December 2006 (the "Last Period").

During the Period, the Group recorded a turnover of approximately HK$677 million and the turnover of Last Period was approximately HK$370 million, ceteris paribus, on a year-to-year basis, turnover of the Group was increased by about 51%. The reason for such increase was mainly due to the increase in sale of piped natural gas, and the additional contribution from the new projects. The Group's profit attributed to the shareholder was approximately HK$72.6 million for the Period, and approximately HK$57.3 million for Last Period, increased by about 80% on a year-to-year basis. Fully diluted earning per share was HK$1.9 cents.

BUSINESS REVIEW

During the Period, the Group's total gas sales volume reached 580 million cubic meter (m^3), increased by 21% on a year to year basis as compared to 480 million m^3 for the Last Period, among the gas consumption, 53% (2006: 47%) was commercial and industrial consumption; 28% (2006: 35%) was government and public utility consumption; 9% (2006: 9%) was household consumption and 11% (2006: 9%) was supplied to traffic. Overall gross margin were improved from 22% to 25% due to the slight increase in the gas selling price and better gross margin of the CNG stations business. The Group's turnover contributed by CCNG amounted to HK$599 million accounting for 88% of the total turnover of the Group, where addition of HK$78 million were contributed by the new projects mainly from the CNG stations business and Nanchang gas project.

The Group's operating and administrative expenses for the Period was approximately HK$64 million (Last Period: HK$33.1 million); year-to-year increased by 46% due to the increase in the due diligent and marketing expenses for acquiring new projects and developing new markets including the absorption of the start up costs of the new projects. Finance costs were also increased due to absorption of the associated financial costs of approximately HK$7.2 million derived from the liabilities portion of the convertible notes in the principal amount of HK$156 million issued during the Period, where actual coupon interest for the convertible notes was HK$0.6 million.

Business development

2007 was the springboard for the development of the Group's gas business. Since the business restructuring in 2006, we together with our business partner – CPP and CCNG completely focus on the Group's natural gas market development.

In July 2007, the Group increased its equity interest in its major piped city gas operation joint venture, CCNG, from 50% to 51%, hence CCNG had become a subsidiary of the Group. The 1% increase is meaningful and significant to the Group. It represents the unanimous consensus between the Group and CPP on the future development and strategy of the natural gas business, and more important it represents the trust, confidence and support from our business partner – CPP.

During the Period, the Group, through CCNG, increased its equity interest in Liling China Oil and Gas Co. Ltd. from 40% to 60%. The Liling gas operation is fast growing and will become another successful piped gas project. The Group had largely increased its gas supply during the Period; gas sale volume of Liling gas operation achieved 100 million m^3 of which over 95% was supplied to the ceramic industry.

By acquisition of the CNG stations projects, the Group broadened its business into the CNG stations business, commenced CNG operations in Shandong, Anhui, and Nanjing. The Group's CNG gas stations had gas sale volume of approximately 65 million m^3 accounting for 11% of the Group total gas sale volume. The CNG stations business will have more contribution in 2008, since some of the stations were only running for a few months, and there will be five more stations coming into operation, while the Nanjing gas operation had also secured the supply of natural gas to a local commercial and industrial district.

The Group had also completed the construction of its LNG plant in Qinghai with trial production commenced at the end of the Period. The Group's market position was further enhanced as the LNG production together with newly formed gas transportation and logistic services greatly increased the mobility and coverage of our natural gas supply for markets and areas without the reach of gas pipelines, and the Group was able to extend its city gas business to Jiangxi Nanchang and Pingxiang, and Jiangsu Rugao.

The Group also acquired two important new piped gas projects in Qinghai Gan He Industrial district (甘河工業區) and Guangdong Chaozhou. Industries like ceramic, chemical fertilizer, and steel which have huge demand for natural gas will be the key customers. Starting to supply gas in 2010, the aggregate gas volume of these 2 projects could exceed 2 billion m^3 annually, whereas the Group had already secured sufficient gas supply for these projects.

Business Prospects

Along with China's strong economy development, the energy demand will remain high and continue to increase, where natural gas has gradually become a major green energy source in the PRC, and according to the country planning, the application of natural gas is expected to boost up to 17% of total energy consumption by 2010. Large amount of imported gas will be supplied to China and major gas pipelines including the 2nd Western-to-Eastern Pipeline and the Sichuan-to-East Pipeline projects are confirmed for this mission.

We see the next five years would be the second evolution for China's natural gas development since the first western-to-eastern pipeline project. It will also be an evolution for the Group's natural gas business since the formation of our first gas business joint venture with CPP. Our goal is clear, we will adhere to our business strategy for horizontally and vertically expansion, rationalized on our strength and advantages in reliable gas sources, experience and expertise, connections and support from our partners to seize this opportunity to develop the Group as a leading gas and energy company, and play a major part in China's natural gas market.

Employees and Remuneration Policy

As at 31 December 2007, the Group employed a total workforce of approximately 480 (2006: 340) among which 9 employees (2006: 9) were stationed in Hong Kong and the remaining were stationed in the PRC. The staff costs for the year amounted to approximately HK$17.6 million (2006: HK$9.44 million). The employees' remuneration, promotion and salary are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

Pledge of Assets

As at 31 December 2007, certain pipelines and the operation right of one of the gas operations in the PRC were pledged to secure a bank loan of approximately HK$77 million (2006: HK$10 million).

Contingent Liability

As at 31 December 2007, CCNG provided a financial guarantee on a loan granted to its subsidiary to the extent of approximately RMB44 million (2006: HK$70 million).

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

Foreign Exchange and Interest Rate Exposure

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

Litigation

As at 31 December 2007, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

Capital Investment Commitments

In December 2006, the Group entered into an agreement with New Stamina Investments Limited ("New Stamina") to acquire 80% of Plentigreat Holdings Limited ("Plentigreat") at the consideration of HK$133 million of which HK$67 million was settled in cash and HK$66 million was settled by the issue of convertible notes of the Company ("Nanjing CNG Acquisition"). The Plentigreat group is engaged in the investments and operation of CNG stations business in Nanjing and Jiangsu. The Nanjing CNG Acquisition was completed in February 2007.

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 in 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 was a connected and major transaction which had been duly approved by the independent shareholders of the Company in May 2007. Vast China Group is principally engaged in the investments and operation of CNG gas stations business in Anhui Maanshan.

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

In June 2007, CCNG entered into an agreement to acquire an addition 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 agreements with independent third parties to acquire the entire equity interest of Ming Sheng Hong Kong Limited (which holds 76.35% interest in Nanchang Ruisheng Natural Gas Co., Limited (lately renamed as 'Nanchang China Oil and Gas Co., Ltd.') ("Nanchang Ruisheng") and 80% interest in Changbei Ruisheng Natural Gas Co., Limited at a total consideration of RMB60.4 million, and CCNG acquires the 23.65% equity interest in Nanchang Ruisheng at a total consideration of RMB8.1 million. The total consideration of RMB68.5 million was settled in cash ("Nanchang Acquisition"). The Nanchang Acquisiton was completed in October 2007.

The Company 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 Rugao government 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.

On 27 November 2007, CCNG and Chaozhou Development Department of Guangdong entered into the Chaozhou City Gas Framework Agreement, pursuant to which, Chaozhou Government shall grant to CCNG an operation right for the operation of city natural gas in Chaozhou city on the condition of secured supply of natural gas for Chaozhou. Afterward, on 5 December 2007, the People's Government of Chaozhou, Guangdong and Petrochina Company Limited ("Petrochina") entered into the Gas Supply Framework Agreement, pursuant to which, Petrochina agrees to supply two billion m^3 natural gas to Chaozhou annually and CCNG shall be the exclusive gas operator for the downstream sale and distribution of the natural gas in Chaozhou. The Group agreed, through CCNG, to invest and develop the piped natural gas project in Chaozhou. The total investment of the Chaozhou gas project is estimated to be RMB800 million to RMB1 billion over different stages.

Subsequent to the balance sheet date, CCNG acquired the piped gas project in Qinghai Gan He Industrial district, the investment for this project is estimated to be approximately RMB200 million and will supply gas mainly to the large industrial customers.

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

Borrowings

In February 2007, the Company issued convertible note in the principal amount of HK$66 million to New Stamina at a conversion price of HK$0.24 per share convertible into 275,000,000 new shares of HK$0.01 each in the capital of the Company as part of the consideration for the Nanjing CNG Acquisition.

In March 2007, the Company issued convertible note in the principal amount of HK$90 million to Sino Vantage at a conversion price of HK$0.24 per share convertible into 375,000,000 new shares of HK$0.01 each in the capital of the Company to Sino Vantage as part of the consideration for the Ahnui CNG Acquisition.

As at 31 December 2007, the Group had total borrowings of approximately HK$159 million (2006: HK$52.8 million), representing the bank borrowings and loans for the gas operations of CCNG, of which approximately HK$77 million represented bank borrowings secured by one of the gas operation right and its pipelines, and HK$31.2 million was unsecured loan bearing interest from 2.28% to 2.55% per annum, and HK$35 million was unsecured loan bearing an effective interest of 4.78% repayable in 5 years.

Save for the borrowings of CCNG and the convertible notes, the Group has no other bank loans, overdraft or borrowings.

Capital Structure

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 proceeds of approximately HK$104 million was raised.

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

In 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 proceeds of approximately HK$640 million.

As at 31 December 2007, the Group had total assets of approximately HK$2.2 billion (2006: HK$492.5 million), and current assets were approximately HK$1.1 billion (2006: HK$306 million) of which cash and bank balance was HK$840 million. Total liabilities of the Group was approximately HK$644 million (2006: HK$160 million), and current liabilities were approximately HK$414 million (2006: HK$119 million). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 43% (2006: 48%). The current ratio of the Group was 2.62 (2006: 2.58) and quick ratio was 2.56 (2006: 2.51).

In October and November 2007, the Company repurchased a total of 12,440,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.78 to HK$0.81 per share in the open market for an aggregate amount of approximately HK$9.9 million.

FINAL DIVIDEND

The Board does not recommend any dividend for the Period (2006: Nil).

2008 ANNUAL GENERAL MEETING

The 2008 Annual General Meeting of the Company ("2008 AGM") will be held on Monday, 26 May 2008.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2008 AGM, the register of members of the Company will be closed from Thursday, 22 May 2008 to Monday, 26 May 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than

4:30 p.m. on Wednesday, 21 May 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2007, the Company purchased 12,440,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.78 to HK$0.81 per share on The Stock Exchange of Hong Kong (the "Stock Exchange"). Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Lowest	Aggregate purchase consideration
		HK$	*HK$*	*HK$*
October 2007	1,860,000	0.81	0.80	1,492,000
November 2007	10,580,000	0.80	0.78	8,398,254
Total:	12,440,000			9,890,254

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 year ended 31 December 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 year ended 31 December 2007, the Company was in compliance with the code provisions set out in the CG Code except that code provision A.4.1 of the CG Code provides that the non-executive Directors should be appointed for a specific term. The non-executive Directors of the Company were not appointed for a specific term but they 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 year ended 31 December 2007.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") in 1998. The Audit Committee of the Company currently comprises four independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. CHEUNG Man Yau, Timothy, Mr. SHI Xun-zhi and Mr. PENG Long. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2007.

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

Hong Kong, 25 April 2008

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

* *For identification purpose only*