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中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

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 year ended 31 December 2009 together with the relevant comparative figures.

Financial Highlight

- Profit attributable to shareholders increased by approximately 81% to HK$132,090,000.
- Earnings per share increased by approximately 69.3% to HK cents 2.963.
- Total gas sales and transmission volume increased by 46.2%, reached 1.789 billion m^3.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Turnover		**1,721,138**	1,471,364
Cost of sales		**(1,312,676)**	(1,119,397)
Gross profit		**408,462**	351,967
Other income and gains, net		**44,969**	17,784
Selling and distribution costs		**(21,521)**	(16,507)
Administrative expenses		**(109,808)**	(110,115)
Operating profit		**322,102**	243,129
Finance costs		**(16,703)**	(24,489)
Share of (losses)/profits of associates		**(18)**	2,488
Profit before taxation		**305,381**	221,128
Taxation	4	**(52,609)**	(34,085)
Profit for the year	5	**252,772**	187,043
Other comprehensive income:			
Exchange differences on translating foreign operations		**(2,056)**	40,807
Total comprehensive income for the year		**250,716**	227,850
Profit attributable to:			
Equity holders of the Company		**132,090**	73,025
Minority interests		**120,682**	114,018
		252,772	187,043
Total comprehensive income attributable to:			
Equity holders of the Company		**130,916**	95,665
Minority interests		**119,800**	132,185
		250,716	227,850
Earnings per share	7		
– Basic		**2.963 cents**	1.750 cents
– Diluted		**2.960 cents**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment		**1,213,519**	1,004,165
Leasehold land and land use rights		**72,095**	33,825
Goodwill		**627,068**	627,258
Other intangible assets		**5,127**	3,802
Interest in an associate		**2,461**	–
Available-for-sale financial assets		**452**	499
Total non-current assets		**1,920,722**	1,669,549
Current assets			
Inventories		**54,040**	46,286
Financial assets at fair value through profit or loss		**57,537**	19,517
Deposits, trade and other receivables	8	**262,603**	326,165
Cash and cash equivalents		**1,069,717**	731,151
Total current assets		**1,443,897**	1,123,119
Current liabilities			
Trade and other payables		**727,109**	555,099
Bank and other borrowings		**338,540**	240,573
Current tax payable		**14,225**	22,568
Total current liabilities		**1,079,874**	818,240
Net current assets		**364,023**	304,879
Total assets less current liabilities		**2,284,745**	1,974,428

	Notes	**2009**	2008
		HK$'000	*HK$'000*
Non-current liabilities			
Bank and other borrowings		**51,592**	64,749
Deferred tax liabilities		**10,405**	5,851
Total non-current liabilities		**61,997**	70,600
Net assets		**2,222,748**	1,903,828
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**44,579**	44,579
Reserves		**1,587,493**	1,454,245
		1,632,072	1,498,824
Minority interests		**590,676**	405,004
Total equity		**2,222,748**	1,903,828

NOTES:

1. GENERAL

China Oil and Gas Group Limited (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. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group as follows:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Amendments)	Consolidated and Separate Financial Statements – Cost of investment in a Subsidiary, Jointly Controlled Entity or Associate
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
Amendments to HKFRS 7, Financial instruments	Disclosures – Improving Disclosures about Financial Statements
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs (2008)
HK(IFRIC)-Int 9 & HKAS 39	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfer of Assets from Customers

The adoption of the above new or revised HKFRS had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been made.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The chief operating decision makers of the Group are the Group's executive directors. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, no business and geographical segment information is presented because the Group is engaged in one business segment which is derived from natural gas business and the Group's revenue is mainly generated in the PRC and almost all of its assets are located in the PRC. However, information reported to the Group's executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection. The Group's reportable segments under HKFRS 8 are therefore as follows:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

No operating segments have been aggregated to form the above reportable segments.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transactions are conducted in accordance with the terms mutually agreed between the parties. The amounts reported for the prior year have been restated in conformity with the current year's presentation.

The Board assesses the performance of the business segments based on profit before taxation without allocation of finance income/(costs) and share of profits/(losses) of associates, which is consistent with these in the financial statements.

Information regarding the Group's reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

Business segments

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Group *HK$'000*
Segment revenue and results			
Sales to external customers	**1,506,108**	**215,030**	**1,721,138**
Segment results	**229,120**	**74,821**	**303,941**
Interest income			**3,211**
Gain on disposal of financial assets at fair value through profit or loss			**30,210**
Fair value gains on financial assets at fair value through profit or loss			**1,164**
Impairment losses of available-for-sale financial assets			**(47)**
Finance costs			**(16,703)**
Share of loss of an associate			**(18)**
Unallocated corporate expenses			**(16,377)**
Profit before taxation			**305,381**
Taxation			**(52,609)**
Profit for the year			**252,772**

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Unallocated *HK$'000*	Group *HK$'000*
Segment assets and liabilities				
Assets				
Segment assets	**1,407,729**	**83,779**	**–**	**1,491,508**
Goodwill				**627,068**
Interest in an associate				**2,461**
Unallocated corporate assets				**1,243,582**
Consolidated total assets				**3,364,619**
Liabilities				
Segment liabilities	**748,501**	**196,087**	**–**	**944,588**
Unallocated corporate liabilities				**197,283**
Consolidated total liabilities				**1,141,871**
Other information				
Capital additions	**336,322**	**6,170**	**1,240**	**343,732**
Depreciation	**78,204**	**167**	**674**	**79,045**
Amortisation of leasehold land and land use rights	**1,627**	**48**	**–**	**1,675**
Amortisation of other intangible assets	**56**	**–**	**–**	**56**

For the year ended 31 December 2008:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Group *HK$'000*
Segment revenue and results			
Sales to external customers	1,330,302	141,062	1,471,364
Segment results	214,221	50,782	265,003
Interest income			13,798
Loss on disposal of financial assets at fair value through profit or loss			(2,779)
Fair value losses on financial assets at fair value through profit or loss			(16,950)
Impairment losses of available-for-sale financial assets			(1,043)
Finance costs			(24,489)
Share of profits of associates			2,488
Unallocated corporate expenses			(14,900)
Profit before taxation			221,128
Taxation			(34,085)
Profit for the year			187,043

For the year ended 31 December 2008:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Unallocated *HK$'000*	Group *HK$'000*
Segment assets and liabilities				
Assets				
Segment assets	1,288,997	58,142	–	1,347,139
Goodwill				627,258
Unallocated corporate assets				818,271
Consolidated total assets				2,792,668
Liabilities				
Segment liabilities	537,053	102,877	–	639,930
Unallocated corporate liabilities				248,910
Consolidated total liabilities				888,840
Other information				
Capital additions	448,707	216	72	448,995
Depreciation	44,792	161	700	45,653
Amortisation of leasehold land and land use rights	657	–	–	657
Amortisation of other intangible assets	44	–	–	44

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2008 and 2009.

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of the Group's revenue and business activities are conducted 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 25% (2008: 25%) of the assessable profits of 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 year (2008: Nil).

	2009	2008
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax		
– current year	**–**	–
– overprovision in prior years	**(2,054)**	–
Taxation outside Hong Kong	**50,097**	33,997
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	**4,566**	88
Taxation charge	**52,609**	34,085

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense using the domestic taxation rates applicable to the profit of the consolidated companies is as follows:

	2009	2008
	HK$'000	HK$'000
Profit before taxation	**305,381**	221,128
Tax calculated at the domestic tax rate of 16.5% (2008: 16.5%)	**50,388**	36,486
Tax effect of income not subject to taxation	**(28,494)**	(17,318)
Tax effect of expenses not deductible for tax purpose	**23,507**	8,776
Overprovision in profits tax in prior years	**(2,054)**	–
Effect of different tax rates of its subsidiaries	**9,262**	6,141
Taxation charge	**52,609**	34,085

5. PROFIT FOR THE YEAR

This has been arrived at after charging:

	2009 HK$'000	2008 HK$'000
Staff costs (excluding directors' remuneration):		
Salaries and wages	**43,503**	28,043
Equity-settled share-based payments	**2,332**	–
Retirement benefits scheme contributions	**94**	89
	45,929	28,132
Minimum lease payments under operating leases for leasehold land and buildings	**6,347**	4,853
Auditors' remuneration	**1,088**	1,433
Depreciation of property, plant and equipment	**79,045**	45,653
Bad debts written off	**219**	405
Amortisation of leasehold land and land use rights	**1,675**	657
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**1,832**	34
Impairment losses of available-for-sale financial assets	**47**	1,043
Fair value losses on financial assets at fair value through profit or loss	**–**	16,950
Loss on disposal of financial assts at fair value through profit or loss, net	**–**	2,779
Amortisation of other intangible assets	**56**	44
Loss on exchange, net	**114**	1,299
Share of associates' taxation	**–**	246

6. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2008: Nil).

7. EARNINGS PER SHARE

(a) Basic earnings per share

	2009 HK Cents per share	2008 HK Cents per share
Basic earnings per share	**2.963**	1.750

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

	2009	2008
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company	**132,090**	73,025
Earnings used in the calculation of basic earnings per share	**132,090**	73,025

	2009	2008
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,457,856,213**	4,173,757,142

(b) Diluted earnings per share

	2009	2008
	HK Cents per share	HK Cents per share
Diluted earnings per share	**2.960**	N/A

The calculation of the diluted earnings per share for the year is based on the profit attributable to equity holders of the Company of HK$132,090,000 and the weighted average number of 4,462,279,729 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 4,423,516 shares deemed to be issued at no consideration if all outstanding options had been exercised.

	2009
	HK$'000
Profit for the year attributable to equity holders of the Company	**132,090**
Earnings used in the calculation of diluted earnings per share	**132,090**

	2009 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,457,856,213**
Effect of deemed issue of shares under the Company's share option scheme	**4,423,516**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,462,279,729**

Diluted earnings per share for 2008 was not presented as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2008.

8. DEPOSITS, TRADE AND OTHER RECEIVABLES

	2009 *HK$'000*	2008 *HK$'000*
Trade receivables	**100,950**	78,601
Other receivables, deposits and prepayments	**161,653**	247,564
	262,603	326,165

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

At each balance sheet date, the Group's allowance for impairment of trade receivables will individually be determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowance will be recognised. In the opinion of the directors, 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:

	2009 *HK$'000*	2008 *HK$'000*
Current to 90 days	**73,942**	31,591
91 to 180 days	**232**	975
Over 180 days	**26,776**	46,035
Total	**100,950**	78,601

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

	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**73,942**	31,591
Past due but not impaired	**27,008**	47,010
Total	**100,950**	78,601

As at 31 December 2009, trade receivables of HK$27,008,000 (2008: HK$47,010,000) 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 their 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:

	2009	2008
	HK$'000	*HK$'000*
91 to 180 days	**232**	975
Over 180 days	**26,776**	46,035
Total	**27,008**	47,010

All of the other receivables, deposits and prepayments are neither past due nor impaired.

9. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**158,616**	122,964
Other payables and accruals	**568,493**	432,135
	727,109	555,099

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

The ageing analysis of trade payables is as follows:

	2009	2008
	HK$'000	*HK$'000*
Current to 90 days	**98,846**	71,722
91 to 180 days	**6,856**	25,593
Over 180 days	**52,914**	25,649
Total	**158,616**	122,964

10. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2009, two of the subsidiaries of the Company, China City Natural Gas Co., Ltd ("CCNG") and西寧中油燃氣有限責任公司provided financial guarantees on loan facilities granted to other subsidiaries of the Company to the extent of HK$277,928,000 (2008: HK$107,900,000) and HK$22,688,000 (2008: HK$53,995,000) respectively and the Group does not have any significant contingent liabilities.

In the opinion of the directors, the fair values of the above financial guarantees are insignificant as at 31 December 2009 and 31 December 2008.

BUSINESS DEVELOPMENT AND PROSPECTS

Year 2009 is a year of milestone significance in the business development of the Group. During the year and under the leadership of the Board, all our staff worked hard with untiring efforts to overcome the difficulties caused by the financial tsunami in the gas market, such that businesses on all fronts recorded steady advancement, laying a solid foundation for the Group's rapid-expansion and development in leaps and bounds in future.

The Group has established 45 project companies in 19 cities, 5 key areas, 8 provinces, and owns 22 city gas franchise operation rights. In April 2009, the Company entered into an investment agreement with Binzhou City Development and Reform Commission to invest in natural gas utilization projects such as piped city gas, natural gas stations, and natural gas transportation and logistics. In May, the Group secured piped gas franchise operation rights of Lishui Economic Development Zone in Nanjing and city piped gas franchise operation rights of Anyi County, Jiangxi Province. In October, China City Natural Gas Co., Ltd. (中油中泰燃氣有限責任公司) ("CCNG"), a non-wholly owned subsidiary of the Group, acquired Taizhou Tongda Project, which is building a natural gas long-distance pipelines of 90 km in length running from Sihang(寺巷) to Jiangyan(姜堰) and Dainan(戴南) in Taizhou City, Jiangsu Province. The Group has developed over 44 thousand residential users, around 90 industrial users, and around 200 public construction and other users during the year. Also, 8 project companies were newly incorporated. In the just passed March, CCNG successfully acquired 60% equity interest in Yinchuan Yongning Jingcheng Natural Gas Company Limited(銀川市永寧縣精誠天然氣有限公司), thereby expanding the Group's operation coverage from 7 provinces to 8 provinces.

In October 2009, China Petroleum Pipeline Bureau, the Group's original cooperation partner, transferred the 49% equity interest in CCNG held by it to Kunlun Energy Company Limited ("Kunlun Energy") (HK.0135) under PetroChina Company Limited ("PetroChina") (HK.0857). After successful joint equity cooperation between the Group and Kunlun Energy, both parties united as one and intensified investment in CCNG, increasing its share capital to RMB500 million, so as to support CCNG's development in the city gas business of China. In December of the same year, CCNG entered into a strategic cooperation agreement with CNPC Kunlun Natural Gas Company Limited(中石油昆侖燃氣有限公司) ("Kunlun Gas"), a wholly-owned subsidiary of PetroChina, pursuant to which both parties reached consensus on issues such as non-competition, joint development of district market, joint-use of resources of LNG and LPG and so on. Stepping into 2010, CCNG has also concluded a strategic cooperation framework agreement with PetroChina Coalbed Methane Co. Ltd. (中石油煤層氣有限責任公司) ("PetroChina Coalbed Methane"), a wholly-owned subsidiary of PetroChina, to obtain 20-year exclusive centralized wholesale rights for 2 areas in Daning County and Baode County in Shanxi Province, where the coal-bed methane reserve totaled over 150 billion m^3. Against a backdrop severe lack of natural gas resources in China nowadays, the Group's collaborated with Kunlun Energy, Kunlun Gas and PetroChina Coal-bed Methane under PetroChina and established friendly cooperation relationships with them to effectively reinforce our control over natural gas resource and secure natural gas resource advantage, which has secured firmly our sustained steady growth of operating results as well as development and exploration in the gas market.

Looking into 2010, the city gas market in China confronts with a complex and changing economic situation, increasingly fierce competition among industry players and lingering effects of the financial tsunami and other negative factors. However, by virtue of its outstanding operation management team, natural gas resource advantage and friendly cooperation relationships with cooperative partners and local governments in various areas, the Group will be able to capitalize on the golden opportunities emerged in the light of China Government's advocates to save energy and reduce emission, to augment urbanization and to keep China economic in sustained steady development. We are confident in maintaining the Group's rapid and steady development and manage to proceed well with the following key areas:

First, we are to seize opportunities and intensify our efforts to develop and explore city piped natural gas business. Along with West-to-East Gas Supply 2nd Line (西氣東輸二線) and Sino-Burma Line(中緬線) being put into operation, the imported LNG will be entering China gradually in the next few years, which implies that there will be substantial increase in the supply of natural gas resources. Coupled with China's national policies to save energy and reduce emission, and to promote clean energies actively, the prospects for sales of natural gas is promising. The Group will seize opportunities to develop piped natural gas business with meticulous organization and intensified efforts. Taking the Group's existing 5 key areas, namely Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggan District, as foundation, according to the Group's planning, the sales of natural gas in these areas in 2009 of approximately 1 billion m^3, may increase twofold in three years, and threefold in six years, hoping that the Group's yearly sales volume will surpass 8 billion m^3 after 2016.

Second, we are to consolidate and develop LNG and CNG business. The Group will enhance management, excavate potential, stabilize gas source to secure the sustained steady development of its existing LNG and CNG business, and will further expand related logistics and transport business according to market demand.

The third key task is natural gas branch line construction. The Group has constructed two branch lines each in Qinghai Province and Hunan Province respectively. In 2010, the construction of the Group's three branch lines, each in the Taizhou- Jiangyan-Dainan branch line in Jiangsu Province (total length of approximately 90 km), the Nantong Rugao(南通如皋)-Haian(海安) branch line in Jiangsu Province (total length of approximately 45 km) and the Anyi(安義)-Nanchang(南昌) branch line in Jiangxi Province (total length of approximately 45 km) will be successively completed. Apart from bringing stable transmission revenue, the branch line constructions also make management relatively easier and simpler, and help the Group's development of projects along the down-stream. It is expected the demand for natural gas by the markets along the above three branch lines will reach 0.8-1.2 billion m^3 yearly.

The fourth one is to construct coal-bed gas utilization projects. Pursuant to the agreement signed with PeroChina Coal-bed Methane, in order to sell and transport coal-bed gas, the Group plans to build two LNG factories with a daily liquefaction capacity of 1 million m^3 each. During the period of constructing LNG factories, the Group will first sell the gas produced from scattered wells in the two areas in the form of CNG to surrounding areas. It is expected that coal-bed projects can generate revenue for the Company from 2010.

Fifth, we are to develop down-stream sale of LPG. Pursuant to the agreement concluded between the Group and Kunlun Gas, Kunlun Gas will provide the Group with price-competitive LPG resource. LPG is so far the major gas source in China with over 60% market share, particularly significant in cities and vast rural areas where there is no piped natural gas covered. In view of the severe lack of natural gas resources in China, LPG will serve as a supplement gas source for the Group, provide more choices to our end users, and bring new opportunities for our market development.

It is anticipated that the revenue and sales of both year 2010 and 2011 can increase by over about 30% year on year. Meanwhile, the Group will reinforce project management, strengthen mergers and acquisitions, and explore and develop up-stream and down-stream projects related to existing businesses. The Group will never disappoint its shareholders and its staff, but work hard and endeavor to become a first-class gas energy enterprise in China! On behalf of the Board, I would like to express my gratitude to all of our staff for their dedication and hard work and to our shareholders for their continuous support.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the Year ended, the Group recorded a turnover of HK$1,721,138,000 (2008: HK$1,471,364,000), representing an increase of approximately 17%. The Group's cost of sales was HK$1,312,676,000 (2008: HK$1,119,397,000) representing an increase of approximately 17%. Gross profit amounted to HK$408,462,000 (2008: HK$351,967,000) increased by 16.1%. Profit for the Year was HK$252,772,000 (2008: HK$187,043,000), increased by 35%.

The Group's profit attributable to the shareholders was HK$132,090,000 (2008: HK$73,025.000), which recorded a significant increase of approximately 81% as compared to 2008. As a result, the earning per share has been increased by 69.3% from HK cents 1.750 to current year's HK cents 2.963.

Pursuant to the Hong Kong Accounting Standards (the "HKAS"), the movement of fair values of all financial derivative instruments of the Group shall be reflected in the income statement. Therefore, at the year ended 2008, the Group recorded fair value losses on financial assets written down to market value amounted to HK$17,993,000 where in 2009, the financial instruments were written up to market value amounted to HK$1,164,000. Together, the Group recorded a gain on disposal of financial assets amounted to HK$30,210,000 for the year ended 31 December 2009. During 2009, the Group recognised interest income of HK$3,211,000, where in 2008, a total of HK$13,798,000 had been recorded. Two convertible notes have been issued in 2007 and fully converted in 2008. Therefore, at the end of 2008, the fair value reduction of the convertible notes of an amount HK$4,458,000 has been provided, where no such expenses incurred during 2009. After the reconciliation of the above issues, the profit attributable to shareholders in 2009 will be HK$98,669,000 and HK$81,678,000 in 2008, which represented an increase of 21%.

BUSINESS REVIEW

During the Year, the Group's total gas sales and transmission volume reached 1.789 billion cubic meters (m^3), increased by 46.2% as compared to 1.224 billion m^3 for last year. Total gas sales increased by 18.4% from last year's 815 billion m^3 to current year's 965 million m^3; whereas transmission and logistic volume increased by 101.5% from 409 million m^3 to the Year's 824 million m^3. Among the gas consumption, 3% (2008: 1%) was commercial consumption; 65% (2008: 63%) was industrial consumption; 9% (2008: 9%) was household consumption; 15% (2008: 18%) was CNG stations; and 8% (2008: 9%) was supplied by our LNG plants.

The Group's operating and administrative expenses for the Year are HK$109,808,000 (2008: HK$110,115,000), a slightly decrease of 0.3%. Finance costs decreased 32% from 2008's HK$24,489,000 to HK$16,703,000 this year. After the deduction of the liability portion of convertible notes incurred in 2008 (as stated in the previous discussion), finance costs on interest paid to bank and other loans was decreased by 16.6%.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group employed a total workforce of approximately 1,410 (2008: 1,350) where mostly were stationed in the PRC. The staff costs for the year amounted to HK$45,929,000 (2008: HK$28,132,000). 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 2009, no asset of the Group has been pledged.

CONTINGENT LIABILITY

As at 31 December 2009, the Group did not have any significant contingent liabilities.

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 31 December 2009, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

Except as disclosed in note 10 to the financial statements, the Group did not incur or commit any material investment or capital expenditure.

BORROWINGS

As at 31 December 2009, the Group's total borrowings amounted to HK$390,132,000 (2008: HK$305,322,000), representing bank borrowings and loans made for the gas operations in the PRC under CCNG, an increase of 27.78% as compared to 2008. All bank loans were unsecured and made in Renminbi with the interest rate of 5.94%. The unsecured other borrowings of HK$30,038,000 (2008: HK$33,489,000) were interest bearing at 2.28% to 2.55% per annum, and the remaining HK$2,758,000 (2008: HK$13,225,000) portions were bearing an interest rate of 4.78% repayable within 5 years.

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

CAPITAL STRUCTURE

No share movements during the year of 2009.

As at 31 December 2009, the Group had total assets of HK$3,365,000,000 (2008: HK$2,793,000,000), and among which current assets were HK$1,444,000,000 (2008: HK$1,123,000,000). The Group remained at a strong financial position, cash and cash equivalents amounted to HK$1,070,000,000 (2008: HK$731,151,000) and were mostly denominated in Hong Kong dollars and Renminbi. Total liabilities of the Group were HK$1,142,000,000 (2008: HK$888,840,000), and current liabilities were HK$1,080,000,000 (2008: HK$818,240,000). The significant increase of HK$261,760,000 in current liabilities were mainly due to increase in gas prepayment made by users, which also contributed to the increase in cash at the year end. The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 51% (2008: 47%). The current ratio of the Group was 1.34 (2008: 1.37) and quick ratio was 1.29 (2008: 1.32).

In February 2010, the Company issued 500,000,000 shares under the placing and subscription agreement entered among Mr. Xu Tie-liang, the Company, Sino Advance Holdings Limited and Sino Vantage Management Limited and Deutsche Bank AG, Hong Kong Branch on 26 January 2010, and a net proceeds of approximately HK$606 million was received.

As announced by the Company on 20 January 2010, the company proposed to reduce the share premium from approximately HK$1,968,998,000 to HK$1,368,998,000 by cancelling the amount of HK$600,000,000 standing to the credit of the share premium account of the Company, with part of the credit arising there from being applied towards offsetting the entire amount of the accumulated losses of the Company as at 5 March 2010 and the remaining balance being credited to the contributed surplus account of the Company. A special resolution for approving the aforesaid proposal was passed by the shareholders of the Company at the special general meeting of the Company held on 4 March 2010. Details of the proposal are set out in the circular of the Company dated 1 February 2010.

FINAL DIVIDEND

The Board does not recommend any dividend for the Year (2008: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 (the "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 2009, 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 the chairman and chief executive officer should be divided. Following the resignation of Mr. Qu Guo-hua as chief executive officer on 4 November 2009, Mr. Xu Tie-liang, the Chairman of the Company, was appointed as the chief executive officer. 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.

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 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 during the year ended 31 December 2009.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in 1998 with written terms of reference in compliance with the CG Code. The Audit Committee comprises four independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi, Mr. Peng Long and Mr. Wang Guangtian. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2009.

RETIREMENT OF DIRECTOR

The Board announces that Mr. Qu Guo-hua ("Mr. Qu"), an executive Director of the Company, will retire from office as Director by rotation pursuant to Bye-law 87(1) of the Company's Bye-laws. Mr. Qu confirmed to the Company that he will not offer himself for re-election at the 2010 Annual General Meeting of the Company due to his pursuance of his own business.

Mr. Qu confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company.

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

Hong Kong, 8 April 2010

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

* *For identification purpose only*