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 2010

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 2010 together with the relevant comparative figures.

FINANCIAL HIGHLIGHT

- Turnover of 2010 reached HK$2.626 billion with an increase of 53% over 2009.
- Total gas sales and transmission volume for 2010 reached 2.183 billion m^3.
- As at 31 December 2010, net assets were HK$3.252 billion with an increase of 46% over 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010**	2009
		HK$'000	*HK$'000*
Turnover	*3*	**2,626,007**	1,721,138
Cost of sales		**(2,048,369)**	(1,312,676)
Gross profit		**577,638**	408,462
Other income and gains, net		**37,636**	44,969
Selling and distribution costs		**(24,401)**	(21,521)
Administrative expenses		**(132,295)**	(109,808)
Operating profit		**458,578**	322,102
Finance costs		**(19,029)**	(16,703)
Share of loss of an associate		**(51)**	(18)
Profit before taxation		**439,498**	305,381
Taxation	*4*	**(85,668)**	(52,609)
Profit for the year	*5*	**353,830**	252,772
Other comprehensive income:			
Exchange differences on translating foreign operations		**46,780**	(2,056)
Total comprehensive income for the year		**400,610**	250,716
Profit attributable to:			
Equity holders of the Company		**164,560**	132,090
Non-controlling interests		**189,270**	120,682
		353,830	252,772
Total comprehensive income attributable to:			
Equity holders of the Company		**192,728**	130,916
Non-controlling interests		**207,882**	119,800
		400,610	250,716
Earnings per share	*7*		
– Basic		**3.352 cents**	2.963 cents
– Diluted		**3.313 cents**	2.960 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment		**1,431,470**	1,213,519
Leasehold land and land use rights		**77,332**	72,095
Goodwill		**683,443**	627,068
Other intangible assets		**6,839**	5,127
Interest in an associate		**–**	2,461
Available-for-sale financial assets		**190,452**	452
Total non-current assets		**2,389,536**	1,920,722
Current assets			
Inventories		**81,066**	54,040
Financial assets at fair value through profit or loss		**259,243**	57,537
Deposits, trade and other receivables	*8*	**489,688**	262,603
Fixed deposits held at banks with maturity over three months		**44,460**	–
Cash and cash equivalents		**1,202,013**	1,069,717
Total current assets		**2,076,470**	1,443,897
Current liabilities			
Trade and other payables	*9*	**875,406**	727,109
Bank and other borrowings		**281,113**	338,540
Current tax payable		**30,223**	14,225
Total current liabilities		**1,186,742**	1,079,874
Net current assets		**889,728**	364,023
Total assets less current liabilities		**3,279,264**	2,284,745
Non-current liabilities			
Bank and other borrowings		**16,380**	51,592
Deferred tax liabilities		**11,207**	10,405
Total non-current liabilities		**27,587**	61,997
Net assets		**3,251,677**	2,222,748
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**49,509**	44,579
Reserves		**2,379,603**	1,587,493
		2,429,112	1,632,072
Non-controlling interests		**822,565**	590,676
Total equity		**3,251,677**	2,222,748

NOTES:

1. GENERAL

China Oil And Gas Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is at 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 certain available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated 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 HKFRS that are first effective or available for early adoption for the current accounting period of the Group as follows:

HKFRS 3 (revised 2008)	Business combinations
Amendments to HKAS 27	Consolidated and separate financial statements
Amendments to HKFRS 5	Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
Amendments to HKAS 39	Financial instruments: Recognition and measurement – Eligible hedged items
Improvements to HKFRSs (2009)	
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

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. TURNOVER AND SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial 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 has presented the following two reportable segments:

– sales and distribution of natural gas and other related products

3. **TURNOVER AND SEGMENT INFORMATION – CONTINUED**

– 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 Board assesses the performance of the business segments based on profit before taxation without allocation of finance income/(costs) and share of loss of an associate, which is consistent with these in the consolidated 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 2010 and 2009 is set out below.

Business segments

For the year ended 31 December 2010:

	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	**2,357,810**	**268,197**	**2,626,007**
Segment results	**332,948**	**107,158**	**440,106**
Interest income			**12,879**
Gain on disposal of financial assets at fair value through profit or loss			**8,601**
Fair value gains on financial assets at fair value through profit or loss			**8,143**
Finance costs			**(19,029)**
Share of loss of an associate			**(51)**
Unallocated corporate expenses			**(11,151)**
Profit before taxation			**439,498**
Taxation			**(85,668)**
Profit for the year			**353,830**

3. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Business segments – continued

For the year ended 31 December 2010:

	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	**1,986,198**	**90,629**	**–**	**2,076,827**
Goodwill				**683,443**
Unallocated corporate assets				**1,705,736**
Consolidated total assets				**4,466,006**
Liabilities				
Segment liabilities	**850,504**	**151,257**	**–**	**1,001,761**
Unallocated corporate liabilities				**212,568**
Consolidated total liabilities				**1,214,329**
Other information				
Capital additions	**250,138**	**983**	**–**	**251,121**
Depreciation	**95,867**	**535**	**847**	**97,249**
Amortisation of leasehold land and land use rights	**2,026**	**39**	**–**	**2,065**
Amortisation of other intangible assets	**127**	**–**	**–**	**127**

3. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Business segments – continued

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

3. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Business segments – continued

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

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2009 and 2010.

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

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, certain subsidiaries in the Mainland China are entitled to tax concessions and tax relief whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation of the Group's subsidiaries in the Mainland China are calculated using the applicable preferential income tax rates granted to these subsidiaries.

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 (2009: HK$Nil).

	2010	2009
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax		
– current year	**–**	–
– overprovision in prior years	**–**	(2,054)
Taxation outside Hong Kong		
– current year	**86,792**	50,097
– overprovision in prior years	**(1,599)**	–
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences	**475**	4,566
Taxation charge	**85,668**	52,609

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010	2009
	HK$'000	*HK$'000*
Profit before taxation	**439,498**	305,381
Tax calculated at the applicable rates in the tax jurisdictions concerned	**106,266**	71,840
Tax effect of income not subject to taxation	**(3,876)**	(7,779)
Tax effect of expenses not deductible for tax purpose	**11,684**	10,817
Overprovision of current tax in prior years	**(1,599)**	(2,054)
Tax effect of tax concessions	**(26,807)**	(20,215)
Taxation charge	**85,668**	52,609

5. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2010	2009
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration):		
Salaries and wages	**104,796**	83,385
Equity-settled share-based payments	**5,380**	2,332
Retirement benefits scheme contributions	**14,143**	8,228
	124,319	93,945
Minimum lease payments under operating leases for leasehold land and buildings	**6,490**	6,347
Auditors' remuneration	**1,080**	1,088
Depreciation of property, plant and equipment	**97,249**	79,045
Bad debts written off	**3,639**	219
Amortisation of leasehold land and land use rights	**2,065**	1,675
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**3,842**	1,832
Impairment losses of available-for-sale financial assets	**–**	47
Amortisation of other intangible assets	**127**	56
Loss on exchange, net	**1,092**	114

6. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2009: HK$Nil).

7. EARNINGS PER SHARE

(a) Basic earnings per share

	2010	2009
	HK Cents per share	*HK Cents per share*
Basic earnings per share	**3.352**	2.963

7. EARNINGS PER SHARE – CONTINUED

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year:

	2010	2009
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company used in the calculation of basic earnings per share	**164,560**	132,090

	2010	2009
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue for the purposes of basic earnings per share	**4,909,839,775**	4,457,856,213

(b) Diluted earnings per share

	2010	2009
	HK Cents per share	*HK Cents per share*
Diluted earnings per share	**3.313**	2.960

The diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares which is the weighted average number of shares in issue during the year plus the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised.

	2010	2009
	HK$'000	*HK$'000*
Profit for the year attributable to equity holders of the Company used in the calculation of diluted earnings per share	**164,560**	132,090

	2010	2009
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	**4,909,839,775**	4,457,856,213
Effect of deemed issue of shares under the Company's share option scheme	**56,648,389**	4,423,516
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,966,488,164**	4,462,279,729

8. DEPOSITS, TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**99,320**	100,950
Other receivables, deposits and prepayments	**390,368**	161,653
	489,688	262,603

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:

	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**92,752**	73,942
Past due but not impaired:		
– 91 to 180 days	**3,450**	232
– Over 180 days	**3,118**	26,776
Total	**99,320**	100,950

As at 31 December 2010, trade receivables of HK$6,568,000 (2009: HK$27,008,000) 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.

9. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**121,423**	158,616
Other payables and accruals	**753,983**	568,493
	875,406	727,109

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:

	2010	2009
	HK$'000	*HK$'000*
Current to 90 days	**75,315**	98,846
91 to 180 days	**10,735**	6,856
Over 180 days	**35,373**	52,914
Total	**121,423**	158,616

10. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2010, two of the subsidiaries of the Company, China City Natural Gas Investment Group 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$35,100,000 (2009: HK$277,928,000) and HK$Nil (2009: HK$22,688,000) respectively and the Group does not have any significant contingent liabilities.

In the opinion of the directors, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair values of the above financial guarantees are insignificant as at 31 December 2010 and 2009.

BUSINESS DEVELOPMENT AND PROSPECTS

In 2010, under the leadership of the Board, all our staff in China Oil And Gas Group Limited worked hard with untiring efforts to overcome difficulties and made our efforts for expansion, such that businesses on all fronts recorded steady advancement and obtained splendid achievements.

Business Review

In 2010, the Group recorded a turnover of HK$2.63 billion, representing an increase of 53% from last year's HK$1.72 billion. Profit for the Year was HK$354 million. The Group's profit attributable to the shareholders was HK$165 million, representing an increase of 25% from last year's HK$132 million. Earnings per share increased by 13% to HK3.35 cents from HK2.96 cents in 2009. Total gas sales and transmission volume reached 2.183 billion m^3 in 2010, where gas sales volume increased by 32% from last year's 965 million m^3 to current year's 1.273 billion m^3 and transmission volume increased by 10% from last year's 824 million m^3 to 910 million m^3. As at the end of 2010, the Group had total assets of HK$4.47 billion, representing an increase of 33% from HK$ 3.36 billion at the end of 2009.

The Group has established a total of 62 gas project companies in 21 cities, scattered into 5 key areas within 10 provinces in China, and owns 27 city gas franchise operation rights. The Group collaborated with Kunlun Energy Company Limited ("Kunlun Energy") under PetroChina Company Limited ("PetroChina"), CNPC Kunlun Natural Gas Company Limited (中石油昆侖燃氣有限公司) ("Kunlun Gas"), CNPC Kunlun Natural Gas Exploitation Company Limited (中石油昆嵛天然氣利用有限公司) ("Kunlun Exploitation") and PetroChina Coalbed Methane Co. Ltd. (中石油煤層氣有限責任公司) ("PetroChina Coalbed Methane") and established friendly cooperation relationships with them, thereby effectively reinforcing our control over natural gas resource and securing our advantage in natural gas resources, which has underpinned our sustained steady growth of operating results as well as development and exploration in the gas market.

In January 2010, the Group concluded a cooperation agreement with PetroChina Coalbed Methane, a wholly-owned subsidiary of PetroChina through China City Natural Gas Investment Group Co., Ltd ("CCNG"), a subsidiary of the Group, 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 was estimated to be over 150 billion m^3.

In March 2010, CCNG successfully acquired 60% equity interest in Yinchuan Yongning Natural Gas Company Limited.

In April 2010, CCNG entered into a Cooperation Agreement with Kunlun Exploitation, pursuant to which both parties have agreed to co-operate with each other to jointly develop natural gas exploitation and gas stations businesses in various cities or areas where the parties considered in possession of required conditions.

In June 2010, the Group's wholly-owned subsidiary entered into a Tenancy Agreement with a term of twenty years with PetroChina Anhui Sale Branch Company and will cooperate in the construction of gas and oil stations in Maanshau, Anhui Province.

In July 2010, the Group successfully formed Pingxiang Natural Gas Company Limited with Pingxiang People's Government, Jiangxi Province, which is controlled by the Group. Its area of operation covers the whole administration districts of Pingxiang City.

In September 2010, CCNG through the acquisition of the franchise operation rights of natural gas, successful break through into Caidian District, Wuhan City and Xiantao City.

In October 2010, the Group entered into a Marine Diesel-Gas Copromotional Agreement with Jinan Diesel Machinery Co. Ltd. (濟南柴油機股份有限公司), pursuant to which the parties would co-operate on a pilot project for the gas machinery and the dual fuel machinery used for inland canal ships in China for a term of 5 years.

The Group has newly developed approximately 50,000 residential households, 113 industrial users, and around 220 public construction and other users during the year. The Group has in aggregate developed approximately 236,000 residential households, 460 industrial users, and around 2,000 public construction and other users. 8 project companies were newly incorporated, and 5 project companies were acquired during the year.

Business Prospect

In 2011, although the city gas market in China confronts with a complex and changing economic situation, increasingly fierce competition among industry players and unstable world situation, by virtue of its outstanding operation management team, natural gas resource advantage and friendly cooperation relationships with business partners and local governments in various areas, the Group shall be able to capitalize on the golden opportunities emerged in the light of the Chinese Government's advocates to save energy and reduce emission during the Twelfth Five-Year Plan, to augment urbanization and to keep the Chinese economy under sustainable and steady development. We are confident in maintaining the Group's rapid and steady development of businesses on all fronts and focus will be on the following key areas:

First, we will put more efforts in the exploration of 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, which implies that there will be substantial increase in the supply of natural gas resources in the next few years. Coupled with China's national policies to save energy and reduce emission, and to promote clean energies actively, the prospect for sales of natural gas is promising. The Group will seize opportunities to develop the piped natural gas business with well-planned organization and increased efforts. Taking the Group's existing 5 key areas, namely Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggane District, as foundation, we will make our way into other areas. According to the Group's the Twelfth Five-Year Plan, its annual sales volume will surpass 8 billion m^3 after 2016.

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

The third key task is the construction of natural gas branch line. The Group has constructed two branch lines each in Qinghai Province and Hunan Province respectively. In 2010, one-third of the Taizhou-Jiangyan-Dainan branch line in Jiangsu Province, the Nantong Rugao(南通如皋)-Haian(海安) branch line in Jiangsu Province was ready for operation and the Anyi(安義)-Nanchang(南昌) branch line, Phase I in Jiangxi Province is basically 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 above three branch lines will have a capacity of 0.8-1.2 billion m^3 per year for the down stream gas supplies.

The fourth is to construct coal-bed gas utilization projects. Pursuant to the agreement signed with PeroChina Coal-bed Methane, two sets of CNG apparatus have been completed for the coal-bed gas project. Coalbed gas utilization projects have realized CNG transitional gas supply and operation at the end of 2010. The coalbed gas produced from scattered wells in the two areas was successfully sold to surrounding areas in the form of CNG.

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, and is particularly significant in cities and the vast rural areas where there is no supply of piped natural gas. In view of the severe shortage of natural gas resources in China, LPG will serve as a supplement gas source for the Group, providing more choices to our end users, and opening new opportunities for our market development.

2011 is the first year for the Group to implement the "Twelfth Five-Year" development plan. Under the guidance of the development strategy of "One Body with Two Wings" (with piped natural gas as the main business to be supported by coalbed gas, LNG and LPG) raised by the Board, we will center around the "Twelfth Five-Year" development plan and aim at making itself a famous professional gas company in China. Through increasing sales and supply volume, rationalizing prices and enhancing internal management, we will further adjust our industrial structure, and complete our industrial layout of "One Body with Two Wings". We will continue to develop large complete projects and projects for gas replacing oil in vessels, enhance the existing projects and expand regional natural gas market. Leveraging on the coalbed gas and LNG resources of our business partners, the Group will actively explore coalbed gas, LNG distribution and related logistics and transportation to gradually form new areas for profit growth. We will adhere to our aims, namely, making profits for our shareholders; creating future for our employees; realising values for our customers and shaping our society with prosperity. We will continue our efforts and work together towards our goals, so as to strive for greater achievements.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and the notes to the financial statements contained in the annual report and other sections for the Year ended 2010.

FINAL DIVIDEND

The Board did not recommend any dividend for the Year (2009: HK$Nil).

FINANCIAL RESULTS

For the Year ended, the Group recorded a turnover of HK$2,626,007,000 (2009: HK$1,721,138,000), representing an increase of approximately 53%. The Group's cost of sales was HK$2,048,369,000 (2009: HK$1,312,676,000) representing an increase of approximately 56%. Gross profit amounted to HK$577,638,000 (2009: HK$408,462,000) with an increase of approximately 41%. Profit for the Year was HK$353,830,000 (2009: HK$252,772,000), increased by 40%.

The Group's profit attributable to the shareholders was HK$164,560,000 (2009: HK$132,090,000), which recorded an increase of approximately 25%. Basic earnings per share were 3.352 cents and 2.963 cents for both periods, respectively.

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. For the year ended 2010, the financial instruments were written up to market value amounted to HK$8,143,000 (2009: HK$1,164,000). The Group also recorded a gain on disposal of financial assets amounted to HK$8,601,000 (2009: HK$30,210,000). During 2010, the Group recognized interest income of HK$12,879,000 (2009: HK$3,211,000). After the reconciliation of the above issues, the profit attributable to shareholders in 2010 will be HK$134,937,000 (2009: HK$97,505,000) which represented an increase of 38% on the Group's natural gas businesses.

BUSINESS REVIEW

During the Year, the Group's total gas sales and transmission volume reached 2.183 billion cubic meters (m^3), increased by 22% as compared to 1.789 billion m^3 for last year. Total gas sales increased by 32% from last year's 965 million m^3 to current year's 1.273 billion m^3; whereas transmission and logistic volume increased by 10% from 824 million m^3 to the Year's 910 million m^3. Among the gas consumption, 5% (2009: 3%) was commercial consumption; 57% (2009: 65%) was industrial consumption; 9% (2009: 9%) was household consumption; 22% (2009: 15%) was CNG stations; and 7% (2009: 8%) was supplied by our LNG plants.

The Group's operating and administrative expenses for the Year are HK$132,295,000 (2009: HK$109,808,000), increased by 21%. Finance costs increased by 14% from 2009's HK$16,703,000 to HK$19,029,000 this year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total workforce of approximately 1,660 (2009: 1,410) where mostly were stationed in the PRC. The staff costs for the year amounted to HK$124,319,000 (2009: HK$93,945,000). 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

No asset of the Group has been pledged as at 31 December 2010.

CONTINGENT LIABILITY

As at 31 December 2010, 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 2010, the Group has no litigation.

LIQUDITY AND FINANCIAL RESOURCES

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

BORROWINGS

As at 31 December 2010, the Group's total borrowing amounted to HK$297,493,000 (2009: HK$390,132,000), representing bank borrowings and loans made for the gas operations in the PRC, a decrease of 24% as compared to 2009. All bank loans were unsecured and made in Renminbi with interest rate at 5.31% to 6.22% (2009: 5.94%) per annum. Other unsecured borrowings amounted to HK$29,563,000 (2009: HK$32,796,000) and bearing interest at 2.28% to 2.55% (2009: 2.28% to 4.78%).

Save for the borrowings mentioned above, the Group has no other bank loans, overdraft or borrowings.

CAPITAL STRUCTURE

As at 31 December 2010, the Group had total assets of HK$4,466,000,000 (2009: HK$3,365,000,000), and among which current assets were HK$2,076,000,000 (2009: HK$1,444,000,000). The Group remained at a strong financial position, cash and cash equivalents amounted to HK$1,202,000,000 (2009: HK$1,070,000,000) and were mostly denominated in Hong Kong dollars and Renminbi. Total liabilities of the Group were HK$1,214,000,000 (2009: HK$1,142,000,000), and current liabilities were HK$1,187,000,000 (2009: HK$1,080,000,000). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 37% (2009: 51%). The current ratio of the Group was 1.75 (2009: 1.34) and quick ratio was 1.68 (2009: 1.29).

In January 2010, the Company entered into a placing and subscription agreement with Deutsche Bank for a top-up placing and subscription of 500,000,000 shares of the Company. The entire top-up placing and subscription of new shares was completed in February 2010, and the Company has issued 500,000,000 shares and raised net proceeds of approximately HK$606 million.

The Company announced on 20 January 2010 the proposal relating to the reduction of 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.

In May 2010, the Company repurchased a total of 7,000,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.86 to HK$0.89 per share in the open market for an aggregate consideration of HK$6,098,000. The above ordinary shares were subsequently cancelled.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 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 Highest	Lowest	Aggregate consideration paid
May 2010	7,000,000	HK$0.890	HK$0.860	HK$6,098,000

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 2010.

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 throughout the year.

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 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. The Board believes that vesting the roles of both Chairman and chief executive officer of the Group 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 2010.

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 three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Wang Guangtian. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2010.

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

Hong Kong, 18 March 2011

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Xu Tie-liang (Chairman and Chief Executive Officer), Mr. Zhu Yuan, Ms. Guan Yijun and Mr. Cheung Shing; and three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian.

* *For identification purpose only*