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 2011

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 (together, the "Group") for the year ended 31 December 2011 together with the relevant comparative figures.

FINANCIAL HIGHLIGHT

- Turnover reached HK$4.39 billion with an increase of 67%.
- Profit attributable to equity owners reached HK$209 million with an increase of 27%.
- Total gas sales and transmission volume reached 2.91 billion m^3 with an increase of 33%.
- Cash and cash equivalents were HK$2.00 billion with an increase of 69% compared with 31 December 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	3	**4,390,955**	2,626,007
Cost of sales		**(3,490,292)**	(2,048,369)
Gross profit		**900,663**	577,638
Other income		**26,882**	8,006
Other (losses)/gains, net		**(30,410)**	16,751
Selling and distribution costs		**(37,785)**	(24,401)
Administrative expenses		**(204,314)**	(132,295)
Operating profit	4	**655,036**	445,699
Interest income		**24,201**	12,879
Finance costs		**(33,098)**	(19,029)
Share of loss of an associate		**–**	(51)
Profit before taxation		**646,139**	439,498
Taxation	5	**(145,757)**	(85,668)
Profit for the year		**500,382**	353,830
Other comprehensive income:			
Currency translation differences		**164,764**	46,780
Total comprehensive income for the year		**665,146**	400,610
Profit for the year attributable to:			
Owners of the Company		**208,932**	164,560
Non-controlling interests		**291,450**	189,270
		500,382	353,830
Total comprehensive income for the year attributable to:			
Owners of the Company		**338,544**	192,728
Non-controlling interests		**326,602**	207,882
		665,146	400,610
Earnings per share for profit attributable to owners of the Company	7		
– Basic (HK cents)		**4.221**	3.352
– Diluted (HK cents)		**4.202**	3.313

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**2,314,583**	1,431,470
Land use rights		**118,860**	77,332
Intangible assets		**1,033,883**	690,282
Interest in a jointly controlled entity		**43,831**	–
Available-for-sale financial assets		**288,095**	190,452
Other non-current assets	8	**224,184**	–
		4,023,436	2,389,536
Current assets			
Inventories		**174,954**	81,066
Deposits, trade and other receivables	8	**448,688**	489,688
Financial assets at fair value through profit or loss		**426,543**	259,243
Time deposits with maturity over three months		**–**	44,460
Cash and cash equivalents		**2,027,915**	1,202,013
		3,078,100	2,076,470
Current liabilities			
Trade and other payables	9	**487,200**	237,046
Receipt in advance		**1,005,382**	638,360
Short-term borrowings		**397,799**	281,113
Current tax payable		**46,414**	30,223
		1,936,795	1,186,742
Net current assets		**1,141,305**	889,728
Total assets less current liabilities		**5,164,741**	3,279,264
Non-current liabilities			
Long-term borrowings		**952,540**	16,380
Deferred tax liabilities		**14,097**	11,207
		966,637	27,587
Net assets		**4,198,104**	3,251,677
Equity			
Equity attributable to owners of the Company			
Share capital		**49,521**	49,509
Reserves		**2,709,954**	2,379,603
		2,759,475	2,429,112
Non-controlling interests		**1,438,629**	822,565
Total equity		**4,198,104**	3,251,677

NOTES:

1 GENERAL INFORMATION

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 the 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. Its subsidiaries are principally engaging in investment in natural gas and energy related business, including but not limited to piped city gas business, pipeline design and construction, as well as transports, distributes, sales of compressed natural gas ("CNG"), liquefied natural gas ("LNG") and liquefied petroleum gas ("LPG") in the North-Western, Yangtze Delta, Xianggan'e, Shandong and Guangdong districts of the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They 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.

(a) Effect of adopting new standards, amendments to standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 January 2011:

HKAS 24 (Revised) "Related party disclosures". It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose (i) the name of the government and the nature of their relationship; (ii) the nature and amount of any individually significant transactions; and (iii) the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The revised standard did not have any significant impact on the consolidated financial statements.

HKAS 1 (Amendment) "Presentation of financial statements". The amendment clarifies that an entity should present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 27 (Amendment) "Consolidated and separate financial statements". The amendment clarifies that the consequential amendments from HKAS 27 made to HKAS 21 "The effect of changes in foreign exchange rates", HKAS 28 "Investments in associates", and HKAS 31 "Interests in joint ventures", apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when HKAS 27 is applied earlier. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 32 (Amendment) "Classification of rights issues". The amendment requires rights issues to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of non-derivative equity. Entities will no longer classify rights issues, for which non-derivative the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity will continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 1 (Amendment) "First-time adoption of Hong Kong Financial Reporting Standard". The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 "Interim financial reporting", it should explain those changes and update the reconciliations between previous GAAP and HKFRS. It allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first HKFRS financial statements are issued. When such remeasurement occurs after the date of transition to HKFRSs but during the period covered by its first HKFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity. Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under HKAS 36 at the date of transition. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 3 (Amendments) "Business combinations". The amendments clarify that (1) entities should apply the rules in HKFRS 3 (not HKFRS 7, HKAS 32 or HKAS 39) to contingent consideration that arose from business combinations with acquisition dates that precede the application of HKFRS 3; (2) only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets; and (3) the application guidance in HKFRS 3 applies to all share based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. These amendments did not have any significant impact on the consolidated financial statements.

HKFRS 7 (Amendment) "Financial instruments: disclosures". The amendment clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. The amendment did not have any significant impact on the consolidated financial statements.

HK (IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments". The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a "debt for equity swap"). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes. The interpretation did not have any significant impact on the consolidated financial statements.

HK (IFRIC)-Int 13 (Amendment) "Customer loyalty programmes". The amendment clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of the award credit is not expected to be redeemed by customers. The amendment did not have any significant impact on the consolidated financial statements.

HK(IFRIC) Int – 14 (Amendment) "Prepayments of a minimum funding requirement". Some entities that are subject to a minimum funding requirement have elected to prepay their pension contributions. The prepaid contributions are recovered through lower minimum funding requirements in future years. The previous version of HK(IFRIC) 14 did not permit the recognition of an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was an unintended consequence of the interpretation, which has been amended to require that an asset is recognised in these circumstances. The amendment to the interpretation did not have any significant impact on the consolidated financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2012 or later periods and have not been early adopted by the Group:

HKAS 1 (Amendment)	Presentations of financial statements [2]
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets [1]
HKAS 19 (Amendment)	Employee benefits [2]
HKAS 27 (Revised 2011)	Separate financial statements [2]
HKAS 28 (Revised 2011)	Associates and joint ventures [2]
HKAS 32 (Amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities [3]
HKFRS 1 (Amendment)	Severe hyperinflation and renewal of fixed dated for the first-time adopters [1]
HKFRS 7 (Amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities [2]
HKFRS 9	Financial instruments [4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [4]
HKFRS 10	Consolidated financial statements [2]
HKFRS 11	Joint arrangements [2]
HKFRS 12	Disclosures of interests in other entities [2]
HKFRS 13	Fair value measurement [2]
HK(IFRIC) – Int 20	Stripping costs in the production phase for surface mine [2]

1 Effective for the Group for annual period beginning 1 January 2012
2 Effective for the Group for annual period beginning 1 January 2013
3 Effective for the Group for annual period beginning 1 January 2014
4 Effective for the Group for annual period beginning 1 January 2015

The Group will apply the above HKFRS, amendments to existing HKFRSs and interpretations of HKFRS from 1 January 2012 or later periods. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether there will be any substantial changes to the Group's significant accounting policies and presentation of financial statements will be resulted.

3 REVENUE AND SEGMENT INFORMATION

The Group's principal activities are sales and distribution of natural gas and other related products and provision of construction and connection services of gas pipelines in the PRC. Turnover for the year comprises the following:

	2011	2010
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**3,548,355**	2,225,563
Sales of LPG	**447,906**	132,247
Gas pipeline connection and construction services income	**394,694**	268,197
	4,390,955	2,626,007

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Board for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection. In 2010, sales of LPG segment did not qualify as a reportable operating segment, its financial information is included in sales of natural gas and other related products segment. In 2011, sales of LPG segment qualifies as a reportable operating segment, its financial information is separately disclosed and the corresponding comparatives have been restated.

The Group has presented the following three reportable segments:

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

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

Inter-segment revenue is eliminated on consolidation. Inter-segment 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 other (losses)/gains, net, interest income, finance costs and share of results of an associate, which is consistent with these in the financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, as the Board does not use this information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

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 2011 and 2010 is set out below.

For the year ended 31 December 2011:

	Sales and distribution of natural gas and other related products *HK$'000*	Sales of LPG *HK$'000*	Gas pipeline construction and connection *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	**3,548,355**	**447,906**	**394,694**	**4,390,955**
Segment results	**520,100**	**5,011**	**175,737**	**700,848**
Interest income				**24,201**
Gains on disposals of financial assets at fair value through profit or loss				**17,783**
Fair value losses on financial assets at fair value through profit or loss				**(48,193)**
Finance costs				**(33,098)**
Unallocated corporate expenses				**(15,402)**
Profit before taxation				**646,139**
Taxation				**(145,757)**
Profit for the year				**500,382**

For the year ended 31 December 2010:

	Sales and distribution of natural gas and other related products	Sales of LPG	Gas pipeline construction and connection	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and results				
Sales to external customers	2,225,563	132,247	268,197	2,626,007
Segment results	343,420	(10,472)	107,158	440,106
Interest income				12,879
Gains on disposals 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

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2010 and 2011.

Analysis of the Group's revenue and results by geographical market has not been presented as over 90.0% of the Group's revenue and business activities are conducted in the PRC.

4 OPERATING PROFIT

Operating profit has been arrived after charging:

	2011 *HK$'000*	2010 *HK$'000*
Staff costs (excluding directors' remuneration)		
Salaries and wages	**126,798**	104,796
Equity-settled share-based payments	**5,329**	5,380
Retirement benefits scheme contributions	**32,127**	14,143
	164,254	124,319
Minimum lease payments under operating leases for leasehold land and buildings	**9,773**	6,490
Cost of inventories recognised as expenses	**3,074,745**	1,878,575
Auditors' remuneration	**1,300**	1,080
Depreciation of property, plant and equipment	**124,950**	97,249
Bad debts written off	**2,274**	3,639
Amortisation of land use rights	**2,527**	2,065
Amortisation of intangible assets	**140**	127
Losses on disposals of property, plant and equipment	**1,175**	3,842
Net exchange losses	**2,980**	1,092

5 TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year (2010: Nil).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in the Mainland China are subject to the PRC corporate income tax rate of 25% (2010: 25%). Certain subsidiaries are entitled to tax concessions and tax relief whereby the profits of those subsidiaries are taxed at a preferential income tax rate of 15% (2010: 15%).

	2011 *HK$'000*	2010 *HK$'000*
Current tax:		
PRC corporate income tax		
– current year	**143,346**	86,792
– over provision in prior years	**–**	(1,599)
Deferred tax	**2,411**	475
Taxation	**145,757**	85,668

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2011 (2010: Nil).

6 DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2011 (2010: Nil).

7 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$208,932,000 (2010: HK$164,560,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,949,503,000 shares (2010: 4,909,840,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$208,932,000 (2010: HK$164,560,000), and the weighted average number of ordinary shares of approximately 4,972,588,000 shares (2010: 4,966,488,000 shares) which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 23,085,000 shares (2010: 56,648,000 shares) and the effect of awarded shares of approximately 23,085,000 shares (2010: Nil) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

8 DEPOSITS, TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables *(Note (a))*	**128,427**	99,320
Advanced to Shuanghe Coal Mine *(Note (b))*	**61,000**	–
Loan to non-controlling interests *(Note (c))*	**12,200**	–
Loan to a third party *(Note (d))*	**24,400**	–
Sub-total	**226,027**	99,320
Prepaid construction costs	**121,451**	–
Prepaid natural gas costs	**124,478**	23,730
Prepaid material and equipment costs	**77,596**	74,511
Other prepayments	**31,022**	20,115
Other receivables	**92,298**	272,012
	672,872	489,688
Less: Non-current portion	**(224,184)**	–
Current portion	**448,688**	489,688

Notes:

(a) At each statement of financial position 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:

	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**115,197**	92,752
Past due but not impaired:		
– 91 to 180 days	**5,574**	3,450
– Over 180 days	**7,656**	3,118
Total	**128,427**	99,320

As at 31 December 2011, trade receivables of approximately HK$13,230,000 (2010: HK$6,568,000) 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.

(b) On 23 September 2011, the Group entered into a finance arrangement to provide various finance services to Shuanghe Coal Mine for a fee no more than 2.5% of committed financing amount. As at 31 December 2011, the Group advanced to Shuanghe Coal Mine amounted to approximately HK$61,000,000 for the construction of assets which will be under a sale and leaseback arrangement resulting in a finance lease to Shuanghe Coal Mine upon the completion of the assets. The amount is interest bearing at 13.0% per annum.

(c) Loan to non-controlling interests is interest free and repayable on demand.

(d) On 12 August 2011, the Group entered into a loan agreement with a third party to support the third party's acquisition of natural gas friendly vehicles. The loan to the third party is unsecured, interest bearing at 4.0% per annum and repayable annually in five equal installments by 11 August 2016.

(e) The carrying amounts of the deposits, trade and other receivables are mainly denominated in Renminbi.

9 TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**229,237**	121,423
Consideration payables	**52,132**	–
Construction cost payables	**126,083**	–
Other payables and accruals	**79,748**	115,623
	487,200	237,046

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

The ageing analysis of trade payables is as follows:

	2011	2010
	HK$'000	*HK$'000*
Current to 90 days	**178,154**	75,315
91 to 180 days	**35,169**	10,735
Over 180 days	**15,914**	35,373
Total	**229,237**	121,423

The carrying amounts of trade and other payables are mainly denominated in Renminbi.

BUSINESS REVIEW

The recovery pace of the global economic conditions has been sluggish because of the problems such as global economic unrest, persistence of the European debt crisis, the economic uncertainties of the United States and Japan and the escalating global inflation. Nevertheless, the natural gas business of the Group has performed well and experienced steady rise in 2011. The Group recorded a turnover of HK$4.391 billion, representing an increase of 67% from last year's HK$2.626 billion. Profit for the Year was HK$500 million. The Group's profit attributable to the owners to the Company was HK$209 million, representing an increase of 27% from last year's HK$165 million. Earnings per share were increased by 26% to HK cents 4.22 from HK cents 3.35 in 2010, which was a double of the increase of 13% from 2009 to 2010. Total gas sales and transmission volume reached 2.905 billion m^3 during the Year, where gas sales volume increased by 25% from last year's 1.273 billion m^3 to current year's 1.585 billion m^3, and gas transmission volume increased by 49% from last year's 824 million m^3 to 1.228 billion m^3. As at 31 December 2011, the Group had total assets of HK$7.102 billion, representing an increase of 59% from HK$4.466 billion at the end of 2010.

The Group has established a total of 80 gas project companies in 31 cities covering 10 provinces scattered into 5 key areas in China, representing an increase of 18 new projects compared to 62 projects at the end of the previous year. The new projects included operation of city gas, pipeline, production and sales of CNG and LNG, sales of LPG and operation of gas stations for automobile. The number of acquired city gas operation rights was increased by 18 to a total of 45 as compared to that of the previous year.

In January 2011, Pingxiang Construction Bureau（萍鄉市建設局）and a wholly-owned subsidiary of the Group established a JV Company 萍鄉市燃氣有限公司. Total investment in the JV Company will reach RMB280 million, equivalent to approximately HK$340 million.

In April 2011, the Group acquired city piped natural gas operation right in 安徽省馬鞍山市承接產業南部轉移示範園區 (Maanshan City Anhui Province Undertaking Industries Southern Relocated Demonstration Zone).

In June 2011, the Group was granted a city piped natural gas operating right in 荷塘區 (Hetang District), 石峰區 (Shifeng District) and 雲龍示範區 (Yunlong Demonstration Zone) in Zhuzhou, Hunan Province. In the same month, the Group and the wholly-owned subsidiary of 青海省發改委 (Reform Commission in Qinghai Province) established a JV Company to engage in natural gas business covering the whole Qinghai Province. In addition, the Group acquired 35% equity interest in 山西國興煤層氣輸配有限公司 (Shanxi Guoxing Coalbed Methane Transmission Co. Limited) held by Kunlun Energy Company Limited, a partner of the Group, so as to allow the transmission and distribution of resources of the Group's coal-bed methane projects in Shanxi to get full support, laying a foundation for the upstream and downstream integrated operation in the future.

In August 2011, the Group was granted the natural gas operation right by Jing'an County in Jiangxi Province.

The Group has newly increased 187,000 residential households, 153 industrial users, and over 900 commercial and other users during the year. The Group has in aggregate increased approximately 423,000 residential households, 606 industrial users, and around 3,200 commercial and other users. 15 project companies were newly incorporated, and 3 project companies were acquired during the year. The Group currently has 2 LNG factories, 20 CNG stations, 2 LNG stations and 20 gate stations. The Group has also newly constructed 197 km of high pressure pipeline, and in aggregate constructed 571 km. The city and courtyard pipeline network was extended by 417 km, and in aggregate 2,788 km.

The Taizhou branch line project in Jiangsu Province, the southern and northern parts of the Nantong Rugao branch line project in Jiangsu Province, and Anyi branch line, Phase I in Jiangxi Province were put into operation in 2011. It is expected that the three new branch lines mentioned above will supply natural gas amounting to 800-1,200 million m^3 per annum for downstream.

BUSINESS PROSPECT

In 2012, focus will be on the following key areas:

1. **Grasp the chance to develop city gas market** – Along with large natural gas pipelines in China being put into operation, the imported natural gas and 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 the support from China government's policies, the prospect for sales of natural gas is promising. The Group will seize opportunities to develop the piped natural gas business with increased efforts. Taking the existing 5 key areas, namely Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggane District, as foundation, the Group will continue to make its way into other areas. According to the Group's Twelfth Five-Year Plan, its annual sales volume will surpass 8 billion m^3 in 2016.

2. **Proactively develop LNG businesses** – The Group owned 2 LNG plants in Xining, Qinghai each has daily processing capacity of 250,000 m^3 and already set up LNG fleets, which allowed end users to enjoy natural gas in areas where pipelines have not been reached. Projects for gas replacing oil in vessels has been formally commenced in June 2011 and attained satisfactory performance. The economic benefits were remarkable, with diesel replacement rate of over 75% and 25% cut in fuel expenses. Leveraging the advantage of the resources of LNG, the Group will further expand LNG distribution, logistics and transportation businesses and actively promote business of gas replacing oil in vehicles and vessels according to market demand. In addition, the Group will establish a network integrating upstream, middle-stream and downstream LNG businesses to be a new source of profit increment.

3. **Construction of natural gas branch lines** – Along with the main line of the West-to-East Gas Supply 2nd Line being put into operation, the Group will proactively seize the opportunity to set up new branch lines other than the five existing branch lines. Apart from bringing stable natural gas transmission revenue, the branch line constructions will also help the development of projects along the down-stream.

4. **Coal-bed gas utilization project** – Pursuant to the agreement signed with PetroChina Coal-bed Methane, two sets of CNG apparatus have been completed for the coal-bed gas project. The coalbed gas produced from scattered wells in the two areas was successfully sold to surrounding areas in the form of CNG. In view of the continuously enhanced technology in developing coal-bed gas in China, a breakthrough in the production capability for coal-bed gas is well in sight.

5. **Sales 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. It is particularly significant in cities and the vast rural areas where there is no supply of piped natural gas, and LPG will serve as a supplement gas source for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Company and its notes and other sections in the annual report for the year ended 2011 ("Year") .

FINANCIAL RESULTS

For the Year, the Group recorded a revenue of HK$4,390,955,000 (2010: HK$2,626,007,000), representing an increase of approximately 67%. The Group's cost of sales was HK$3,490,292,000 (2010: HK$2,048,369,000), representing an increase of approximately 70%. Gross profit amounted to HK$900,663,000 (2010: HK$577,638,000 with an increase of approximately 56%. Profit for the Year was HK$500,382,000 (2010: HK$353,830,000), increased by 41%. The Group's profit attributable to the owners of the Company was HK$208,932,000 million (2010: HK$164,560,000), which recorded an increase of approximately 27%. Basic earnings per share were HK cents 4.221 and HK cents 3.352 for both years respectively.

The revenue of the sales of natural gas amounted to HK$3,548,355,000 representing an increase of 59% as compared with HK$2,225,563,000 in last year and 81% of overall revenue. Gas pipeline construction and connection income amounted to HK$394,694,000 representing an increase of 47% as compared with HK$268,197,000 in last year and 9% of the total revenue. The Group's sales of LPG business turn to profit in 2011, sales revenue of LPG amounted to HK$447,906,000, which represented 10% of the total revenue. The decrease in gross profit margin was mainly attributable to the changes in the income structure of the Group. Excluding the new LPG sales, the overall gross profit margin was 23%, representing an increase of 1% as compared with 22% in the year of 2010.

Certain of the Group's financial assets are classified as fair values through profit or loss. For the Year, the fair value losses on those marked to market financial assets amounted to HK$48,193,000 (2010: a gain of HK$8,143,000). The Group also recognised gains of disposals of financial assets at fair value through profit or loss amounted to HK$17,783,000 (2010: HK$8,601,000) for the year ended 31 December 2011. Excluding the effect of the changes in fair values on and gains on disposals of financial assets at fair value through profit or loss, the Group's profit attributable to owners of the Company would be HK$239,342,000 (2010: HK$147,816,000) which represented an increase of 62% on the Group's natural gas businesses.

During the Year, the Group's total gas sales and transmission volume reached 2,905,000,000 m^3, increased by 33% as compared to 2,183,000,000 m^3 for last year. Total gas sales increased by 25% from last year's 1,273,000,000 m^3 to current year's 1,585,000,000 m^3; whereas transmission volume increased by 49% from 824,000,000 m^3 to the Year's 1,228,000,000 m^3; transportation gas volume was up by 7% from last year's 86,000,000 m^3 to current year's 92,000,000 m^3. Besides, the total sales of LPG amounted to 69.5 thousand tones, which was approximately 83,400,000 m^3.

The Group's administrative expenses for the Year were HK$204,314,000 (2010: HK$132,295,000), increased by 54%. Finance costs increased by 74% from HK$19,029,000 to HK$33,098,000 this year.

FINANCIAL POSITION

The Group remains at a strong financial position. As at 31 December 2011, the Group had cash and cash equivalents of approximately HK$2,027,915,000 (2010: HK$1,202,013,000). The Group's total borrowings amounted to HK$1,350,339,000 (2010: HK$297,493,000), representing bank and other borrowings made for the gas operations in the PRC under a subsidiary of the Group except for the borrowing of HK$700 million from China Petroleum Hong Kong (Holding) Limited. Except for the borrowing from China Petroleum Hong Kong (Holding) Limited, all bank borrowings were unsecured and made in Renminbi with interest rate at 6.5% (2010: 6.2%) per annum. Borrowing from China Petroleum Hong Kong (Holding) Limited is made in Hong Kong Dollars and bearing interest at 3.7% per annum. Save for the borrowings mentioned above, the Group has no other bank borrowings or overdrafts.

As at 31 December 2011, the Group had total assets of HK$7,101,536,000 (2010: HK$4,466,006,000), and among which current assets were HK$3,078,100,000 (2010: HK$2,076,470,000). Total liabilities of the Group were HK$2,903,432,000 (2010: HK$1,214,329,000), and among which current liabilities were HK$1,936,795,000 (2010: HK$1,186,742,000). The net assets amounted to HK$4,198,104,000 (2010: HK$3,251,677,000). The gearing ratio of the Group, measured on the basis of total liabilities as a percentage to total equity, was 69% (2010: 37%). The current ratio of the Group was 1.59 (2010: 1.75) and quick ratio was 1.50 (2010: 1.68). Attention is drawn to the Group's current liabilities which included receipt in advance from natural gas sales of HK$1,005,382,000 (2010: HK$638,360,000). Excluding the receipt in advance, the gearing ratio of the Group reduced to 45% (2010: 18%).

CAPITAL STRUCTURE

During the Year, a total of 1,260,000 share options had been exercised by the employees of the Group. As at 31 December 2011, the issued share capital of the Company was HK$49,521,162.13 divided into 4,952,116,213 shares of HK$0.01 each.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group employed a total workforce of approximately 2,915 (2010: 1,660) where mostly were stationed in the PRC. The staff costs for the Year amounted to HK$164,254,000 (2010: HK$124,319,000). The employees' remuneration, promotion and salaries are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

PLEDGE OF ASSETS

The Group has pledged its equity interest in CCNG (a subsidiary owned as to 51% by the Group) as security for a borrowing of HK$700 million granted by China Petroleum Hong Kong (Holding) Limited.

Apart from the above, no other assets of the Group have been pledged as at 31 December 2011.

CONTINGENT LIABILITY

As at 31 December 2011, the Group has no material contingent liability.

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 2011, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

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

FINAL DIVIDEND

The Board did not recommend the payment of any dividend for the Year (2010: 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 2011, other than those purchased for the Restricted Share Award Scheme by its trustee.

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 2011, the Company was in compliance with the code provisions set out in the CG Code except for the deviations from code provisions A.2.1 and A.4.1.

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

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 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.

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 2011.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. 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 2011.

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

Hong Kong, 20 March 2012

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*