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 2012

ANNUAL RESULTS

The board (the "Board") of Directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 together with the relevant comparative figures.

FINANCIAL HIGHLIGHTS

- Profit attributable to owners of the Company reached HK$366 million with an increase of 75%.
- Total assets of the Group reached HK$9,188 million with an increase of 29% compared with 31 December 2011.
- Cash and cash equivalents were HK$2,417 million with an increase of 19% compared with 31 December 2011.
- Final dividend of HK cent 0.65 per share was recommended by the Board.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	3	**4,889,428**	4,390,955
Cost of sales		**(3,786,974)**	(3,490,292)
Gross profit		**1,102,454**	900,663
Other income		**34,513**	16,057
Other gains/(losses)		**54,675**	(30,410)
Selling and distribution costs		**(44,822)**	(37,785)
Administrative expenses		**(248,213)**	(204,314)
Operating profit	4	**898,607**	644,211
Interest income		**76,943**	35,026
Finance costs		**(38,011)**	(33,098)
Share of loss of a jointly controlled entity		**(1,156)**	–
Share of loss of an associate		**(597)**	–
Profit before taxation		**935,786**	646,139
Taxation	5	**(201,600)**	(145,757)
Profit for the year		**734,186**	500,382
Other comprehensive income:			
Currency translation differences		**47,735**	164,764
Fair value changes from available-for-sale financial assets		**22,385**	–
Other comprehensive income, net of tax		**70,120**	164,764
Total comprehensive income for the year		**804,306**	665,146
Profit for the year attributable to:			
Owners of the Company		**365,705**	208,932
Non-controlling interests		**368,481**	291,450
		734,186	500,382
Total comprehensive income for the year attributable to:			
Owners of the Company		**412,241**	338,544
Non-controlling interests		**392,065**	326,602
		804,306	665,146
Earnings per share for profit attributable to owners of the Company	7		
– Basic (HK cents)		**7.396**	4.221
– Diluted (HK cents)		**7.343**	4.202

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**2,952,712**	2,314,583
Land use rights		**140,093**	118,860
Intangible assets		**1,046,333**	1,033,883
Interest in an associate		**6,843**	–
Interest in a jointly controlled entity		**43,393**	43,831
Available-for-sale financial assets		**523,674**	288,095
Other non-current assets		**404,754**	224,184
		5,117,802	4,023,436
Current assets			
Inventories		**224,577**	174,954
Deposits, trade and other receivables	8	**563,044**	448,688
Financial assets at fair value through profit or loss		**134,398**	426,543
Time deposits with maturity over three months		**731,762**	–
Cash and cash equivalents		**2,416,911**	2,027,915
		4,070,692	3,078,100
Current liabilities			
Trade and other payables	9	**569,423**	487,200
Receipt in advance		**1,146,758**	1,005,382
Short-term borrowings		**1,160,868**	397,799
Current tax payable		**67,786**	46,414
		2,944,835	1,936,795
Net current assets		**1,125,857**	1,141,305
Total assets less current liabilities		**6,243,659**	5,164,741
Non-current liabilities			
Long-term borrowings		**1,196,000**	952,540
Deferred tax liabilities		**20,829**	14,097
		1,216,829	966,637
Net assets		**5,026,830**	4,198,104
Equity			
Equity attributable to owners of the Company			
Share capital		**49,654**	49,521
Reserves		**3,130,137**	2,709,954
		3,179,791	2,759,475
Non-controlling interests		**1,847,039**	1,438,629
Total equity		**5,026,830**	4,198,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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. 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") and liquefied natural gas ("LNG") of the People's Republic of China (the "PRC"). The Company and its subsidiaries are collectively referred to the "Group".

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 2012:

HKFRS 7 (Amendment) "Financial instruments: Disclosures". The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The amendment 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 2013 or later periods and have not been early adopted by the Group:

HKAS 19 (Amendment)	Employee benefits [1]
HKAS 27 (Revised 2011)	Separate financial statements [1]
HKAS 28 (Revised 2011)	Associates and joint ventures [1]
HKAS 32 (Amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities [2]
HKFRS 7 (Amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities [1]
HKFRS 9	Financial instruments [3]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [3]
HKFRS 10	Consolidated financial statements [1]
HKFRS 11	Joint arrangements [1]
HKFRS 12	Disclosures of interests in other entities [1]
HKFRS 13	Fair value measurement [1]

1 Effective for the Group for annual period beginning 1 January 2013
2 Effective for the Group for annual period beginning 1 January 2014
3 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 2013 or later periods. The Group anticipates that the application of the above new, revised or amended standards and interpretations have no material impact on the results and the financial position of the Group.

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. Revenue for the year comprises the following:

	2012	2011
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**4,309,717**	3,548,355
Sales of liquefied petroleum gas	**84,197**	447,906
Gas pipeline connection and construction services income	**495,514**	394,694
	4,889,428	4,390,955

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the 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 three reportable segments:

– sales and distribution of natural gas and other related products

– sales of liquefied petroleum gas

– gas pipeline construction and connection

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

The executive directors assess the performance of the business segments based on profit before taxation without allocation of other gains/(losses), net, interest income, finance costs, share of loss of a jointly controlled entity and other unallocated corporate expenses, which is consistent with these in the financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, as the executive directors do 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 executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

For the year ended 31 December 2012:

	Sales and distribution of natural gas and other related products *HK$'000*	**Sales of liquefied petroleum gas** *HK$'000*	**Gas pipeline construction and connection** *HK$'000*	**Group** *HK$'000*
Segment revenue and results				
Sales to external customers	4,309,717	84,197	495,514	4,889,428
Segment results	648,716	(7,255)	217,758	859,219
Interest income				76,943
Other gains/(losses)				54,675
Finance costs				(38,011)
Share of loss of a jointly controlled entity				(1,156)
Share of loss of an associate				(597)
Unallocated corporate expenses				(15,287)
Profit before taxation				935,786
Taxation				(201,600)
Profit for the year				734,186

For the year ended 31 December 2011:

	Sales and distribution of natural gas and other related products	Sales of liquefied petroleum gas	Gas pipeline construction and connection	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue and results				
Sales to external customers	3,548,355	447,906	394,694	4,390,955
Segment results	519,693	5,011	175,737	700,441
Interest income				35,026
Other gains/(losses)				(30,410)
Finance costs				(33,098)
Unallocated corporate expenses				(25,820)
Profit before taxation				646,139
Taxation				(145,757)
Profit for the year				500,382

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2012 and 2011.

Analysis of the Group's revenue and results by geographical market has not been presented as over 90% of the Group's revenue and business activities are conducted in the PRC.

Substantially all of the non-current assets are located in the PRC.

4 OPERATING PROFIT

Operating profit has been arrived after (crediting)/charging the following items:

	2012	2011
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration):		
Salaries and wages	**156,332**	126,798
Equity-settled share-based payments	**4,853**	5,329
Retirement benefits scheme contributions	**44,365**	32,127
	205,550	164,254
Cost of inventories recognised as expense	**3,238,575**	3,074,745
Auditors' remuneration	**1,534**	1,300
Depreciation of property, plant and equipment	**155,087**	124,950
Amortisation of land use rights	**4,079**	2,527
Amortisation of intangible assets	**659**	140

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 (2011: Nil).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in Mainland China are subject to the PRC corporate income tax rate at 25% (2011: 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% (2011: 15%).

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax – current year	**195,099**	143,346
Deferred tax	**6,501**	2,411
Taxation	**201,600**	145,757

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2012 (2011: Nil).

6 DIVIDEND

	2012	2011
	HK$'000	*HK$'000*
Final dividend proposed at HK cent 0.65 (2011: nil) per share	**32,275**	–

Note:

At the meeting on 12 March 2013, the Board proposed a final dividend attributable to owners of the Company in respect of 2012 of HK cent 0.65 per share amounting to a total of approximately HK$32,275,000. The amount is based on approximately 4,965,406,000 shares in issue as at 12 March 2013. These consolidated financial statements do not reflect this dividend payable as the final dividend were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of contributed surplus in the year ending 31 December 2013 when approved at the forthcoming Annual General Meeting (2011: nil).

Included in the proposed final dividend an amount of approximately HK$122,000, being the dividend to be distributed to the shares held by the trustee for the benefits of the eligible grantees under the restricted share award scheme of the Company adopted on 4 November 2011.

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$365,705,000 (2011: HK$208,932,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,944,502,000 shares (2011: 4,949,503,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$365,705,000 (2011: HK$208,932,000), and the weighted average number of ordinary shares of approximately 4,980,319,000 shares (2011: 4,972,588,000 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 35,487,000 shares (2011: 23,085,000 shares) and the effect of awarded shares of approximately 330,000 shares (2011: nil) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

8 DEPOSITS, TRADE AND OTHER RECEIVABLES

As at 31 December 2012, included in deposits, trade and other receivables is the balance of trade receivables amounted to HK$146,658,000 (2011: HK$128,427,000).

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:

	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**133,824**	115,197
Past due but not impaired:		
– 91 to 180 days	**6,646**	5,574
– Over 180 days	**6,188**	7,656
Total	**146,658**	128,427

As at 31 December 2012, trade receivables of approximately HK$12,834,000 (2011: HK$13,230,000) 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

As at 31 December 2012, included in trade and other payables is the balance of trade payables amounted to HK$167,394,000 (2011: HK$229,237,000). The ageing analysis of trade payables is as follows:

	2012	2011
	HK$'000	*HK$'000*
Current to 90 days	**124,124**	178,154
91 to 180 days	**17,538**	35,169
Over 180 days	**25,732**	15,914
Total	**167,394**	229,237

BUSINESS REVIEW

In 2012, facing amid complicated and volatile economic conditions and market competition, the Group devoted effort on market development and enhancing management, together with our motivated employees, the Group successfully maintained its rapid growth in various business. The Group recorded a revenue of HK$4,889 million, representing an increase of 11% from last year. Profit for the year was HK$734 million, of which, the Group's profit attributable to the owners to the Company was HK$366 million, representing a jump of 75% from HK$209 million of 2011. Total gas sales and transmission volume reached 3.761 billion m^3 during the Year, where gas sales volume increased by 22% to 1.930 billion m^3 and gas transmission volume increase by 41% to 1.731 billion m^3 from last year. As at 31 December 2012, the Group had total assets of HK$9,188 million, representing an increase of 29%, and net assets at the end of 2012 was HK$5,027 million, representing an increase of 20%.

City gas projects

During 2012, the Group fully utilized its advantages in resources and management, actively selected projects, and achieved a significant result in market development. 10 project companies were newly incorporated, and 1 project company was acquired and 6 city gas exclusive operating rights were granted in Zhanhua County of Shandong, Shangji town, Zunyi County of Guizhou, Dongtai City of Jiangsu, Haian County of Jiangsu, Zhuzhou City of Hunan and Ledu Industrial Park of Qinghai. Currently, the Group has established a total of 91 gas project companies in 14 provinces of China and possessed 51 city gas exclusive operating rights. The Group completed new connections to 100,940 residential households, and 1,209 industrial, commercial and other users during the year, and had aggregate connections to approximately 523,400 residential households, and 4,690 industrial, commercial and other users. The city and courtyard pipeline network was extended by 977 km, and in aggregate 4,428 km.

Promotion of LNG business

The Group established a special LNG leading group and achieved remarkable result in LNG business. To speed up the promotion and use of gas instead of oil, the Group established demonstration project for "Converting vehicles to natural gas" in Chenzhou of Hunan, Shaoguan of Guangdong and Binzhou of Shandong and demonstration project for "Converting vessels to natural gas" in the basins of Gan River in Jiangxi. As of 31 December 2012, 1,600 LNG vehicles were developed, and there were 4,100 vehicles with the intention for conversion; 5 LNG vessels in the Gan River basin were converted and commenced operation and 10 trial vessels were in the progress of conversion. The Group has been planning for the construction of LNG stations in Qinghai, Guangdong and Shandong. The Group also expanded the scale of the logistics fleat by acquired a number of mobile LNG fueling tankers and transport vehicles to strengthen the LNG transport and distribution capacity.

Natural gas branch line projects

During 2012, as an operator for the construction and operation of natural gas branch pipelines, the Group completed the construction of Zouping natural gas utilization project, Gaoqing – Binzhou High-tech Zone pipeline project, Xining piped city network, the Gan River branch pipeline, Xinyi high-pressure pipeline and Pingdong Economic Zone high-pressure pipeline. 251 km new high-pressure pipeline was added in the year, and 822 km was completed in aggregate, with a total designed transmission capacity of 11.7 billion m^3 per year. It is planned that approximately over 200 km of branch lines will be constructed in 2013.

Station projects

The Group currently has 2 LNG plants, 29 CNG stations, 6 LNG stations, 1 L/CNG station, 10 stations under construction (including 9 CNG stations and 1 LNG station) and over 10 stations under preparation, all expected to be completed by the end of 2013.

BUSINESS PROSPECT

The natural gas business of the Group is now in period with abundant strategic opportunities for rapid development. The main reasons are:

1. The enhanced natural gas supplies capacity. The outbreak of the international financial crisis and the breakthrough in U.S. shale gas development had made a significant impact on the supply pattern of global natural gas market and displayed a trend of decrease in the correlation of natural gas spot price and oil prices. The further enhancement in the global natural gas supply capability could fully satisfy the needs of economic development. According to the signed contracts, the amount of annual imported natural gas of China will reach approximately 93.5 billion m^3 in 2015. Domestic natural gas production maintains rapid growth for ten years and the supply capability will reach 176 billion m^3 in 2015.

2. Rapid growth in natural gas demand in China. With the in-depth development of urbanization in China, the demand for natural gas will be further enhanced by the expanding urban population. The speed up of the natural gas development and the increase in proportion of natural gas in the China primary energy consumption pattern could significantly reduce the emission of greenhouse gases such as carbon dioxide and other pollutants such as fine particulate and achieve the targets of energy conservation and emission reduction and environment improvement, which was the realistic choice for China to achieve the optimal adjustment in energy structure and the urgent need of strengthening energy conservation and emission reduction. Currently, natural gas accounted for 4.6% in the primary energy consumption of China, which was far from the average international level of 23.8%. During the Twelfth Five year period, it was expected that the average annual additional natural gas consumption will be over 20 billion m^3 and reach 230 billion m^3 in 2015. The natural gas population in city and county of China will reach approximately 250 million or 18% of the total population in 2015.

3. Enhancement of the natural gas infrastructure capability in China. As of the end of 2011, natural gas trunk pipelines reached 50,000 km. During the Twelfth Five-Year period, newly built natural gas pipelines (including branch lines) will reach 44,000 km and the transmission capacity of the newly built pipelines will reach 150 billion m^3 per year. Working volume of gas storage facilities will reach 22 billion m^3 and account for 9% of the total natural gas consumption in 2015. The storage capacity for urban emergency and supply adjustments will reach 1.5 billion m^3. At the end of the Twelfth Five-Year period, the main artery of West to East, Sichuan to East Gas Transmission, Shaanxi-

Beijing Pipeline and Coastal Main pipeline will be initially formed and connecting the nationwide trunk pipeline network of four major strategic import channels, major production areas, consumption areas and gas storage facilities, thus forming a gas supply landscape of multi-gas supply, multi-way adjustments and smooth and safe supply.

4. Sufficient LNG supply in China. Currently, 6 LNG terminals were built in China with an annual handling volume of 30 million tones. During the Twelfth Five-Year period, about 30 LNG factories will be built in China with an aggregate daily handling scale of 40 million m^3.

5. After years of development, the Group gained extensive experience in market development and management, and owned a pool of technical, professional and management talents, at the same time, with the joint venture with China Petroleum, the Group possessed advantage of natural gas resources, which jointly laid a solid foundation for the Group's development.

2013 is a critical year for the Group to implement the development planning for the Twelfth Five-Year Plan. The Group will insist on the "one body with two wings" strategy, that is taking city gas as the body and natural gas branch line construction and operation and LNG business as the two wings, and stick to the Twelfth Five-Year development plan. It will adopt a result oriented approach, taking the market as the key while basing on good management and emphasizing on safety. In this way, the Group will endeavor to become a first class gas enterprise through actively expanding its market and enhancing management standard. In 2013, the Group will closely monitor the construction of branch pipelines, and increase sales and volume of projects which have commenced operation as soon as possible with focus on gas usage by households and industrial and commercial users. For projects completed recently, we will seek to build up their scale of gas supply quickly. We will target Guangxi, Fujian, Gansu, Shaanxi and Xinjiang as our key market, and focus on major project in Gan River of Jiangxi that are in line with the natural gas utilisation policy and advance such projects with great effort. Meanwhile, the Group will coordinate the LNG business and the market development of city gas, and leverage on the LNG business to secure city gas operation rights and at the same time promote the steady development of LNG business with the operation rights. For regions not yet covered by our pipelines, we will seize and cultivate the market with LNG and develop LNG business inside and outside the regions at a fast pace. The Group will focus on strengthening the cooperation with public transportation, long-distant transportation, shipping and logistics companies, and accelerate the construction of LNG demonstration projects to build up the business arising from using natural gas to replace oil.

Future Business Strategies

In order to maintain the Group's sustainability and presentation of value over the longer term, the Group will continue to look for suitable investment opportunities and projects in other areas characterised by stable cash inflows and simple management mechanism.

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 2012 ("Year").

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Final Dividend

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 29 April 2013 ("2013 AGM") a final dividend of HK cent 0.65 (2011: Nil) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Wednesday, 8 May 2013. The final dividend will amount to approximately HK$32,275,140 (2011: Nil).

Closure of Register of Members

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Friday, 26 April 2013 to Monday, 29 April 2013 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 25 April 2013.

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 7 May 2013 to Wednesday, 8 May 2013 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration no later than 4:30 p.m. on Monday, 6 May 2013.

FINANCIAL RESULTS

For the Year, the Group recorded a revenue of HK$4,889 million (2011: HK$4,391 million), representing an increase of approximately 11%. The Group's cost of sales was HK$3,787 million (2011: HK$3,490 million), representing an increase of approximately 9%. Gross profit amounted to HK$1,102 million (2011: HK$901 million) with an increase of approximately 22%. The Group's profit attributable to the owners of the Company was HK$366 million (2011: HK$209 million), which recorded an increase of approximately 75%. Basic earnings per share were HK cents 7.40 and HK cents 4.22 for the two years respectively, representing an increase of 75% compared with the same period of last year.

The revenue of the sales of natural gas amounted to HK$4,310 million representing an increase of 21% as compared with HK$3,548 million in last year and 88% of overall revenue. Gas pipeline construction and connection income amounted to HK$496 million representing an increase of 26% as compared with HK$395 million in last year and 10% of the total revenue. The increase in gross profit margin by 2% to 23% was mainly attributable to the changes in the income structure of the Group, in particular, the Group paid more emphasis on the development of the sales and distribution of natural gas business.

During 2012, the Group's total gas sales, transmission and transportation volume reached 3,761 million m^3, increased by 29% as compared to 2,905 million m^3 for last year. Total gas sales increased by 22% from last year's 1,585 million m^3 to the Year's 1,930 million m^3; whereas transmission volume increased by 41% from 1,227 million m^3 to 1,731 million m^3; transportation gas volume was up by 9% from last year's 92 million m^3 to current year's 100 million m^3.

The Group's administrative expenses for the Year were HK$248 million (2011: HK$204 million), representing approximately 5% of the total revenue of the Group. Finance cost increased by 15% to HK$38 million from last year's HK$33 million.

FINANCIAL POSITION

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$2,417 million (2011: HK$2,028 million). The Group's total borrowings amounted to HK$2,357 million (2011: HK$1,350 million. All bank borrowings were unsecured with average interest rate at 3.1% (2011: 6.5%) per annum. Save for the borrowings mentioned above, the Group has no other bank borrowings or overdrafts.

As at 31 December 2012, the Group had total assets of HK$9,188 million (2011: HK$7,102 million), and among which current assets were HK$4,071 million (2011: HK$3,078 million). Total liabilities of the Group were HK$4,162 million (2011: HK$2,903 million), and among which current liabilities were HK$2,945 million (2011: HK$1,937 million). The debt ratio of the Group, measured on the basis of total liabilities as a percentage to total assets, was 45% (2011: 41%). The current ratio of the Group was 1.38 (2011: 1.59) and quick ratio was 1.31 (2011: 1.50). Attention is drawn to the Group's current liabilities which included receipt in advance of approximately HK$1,147 million (2011: HK$1,005 million).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed a total workforce of approximately 3,435 (2011: 2,915) where mostly were stationed in the PRC. The staff costs for the Year amounted to HK$206 million (2011: HK$164 million). 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 part of its equity interest (actual capital investment at the time of drawdown) in China City Natural Gas Co., Ltd. ("CCNG"), a subsidiary owned as to 51% by the Group, as security for a borrowing of HK$700,000,000 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 2012.

CONTINGENT LIABILITY

The Group has no material contingent liability as at 31 December 2012.

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 2012, 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.

CAPITAL STRUCTURE

The Company announced on 20 March 2012 the proposal relating to the reduction of the share premium from approximately HK$1,964,143,000 to HK$1,564,143,000 by cancelling the amount of HK$400,000,000 standing to the credit of the share premium account of the Company, with part of the credit arising therefrom being applied towards offsetting the entire amount of the accumulated losses of the Company 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 annual general meeting of the Company held on 9 May 2012 ("2012 AGM"). Details of the proposal are set out in the circular of the Company dated 5 April 2012.

During the Year, a total of 13,290,000 share options had been exercised by the employees of the Group.

As at 31 December 2012, the issued share capital of the Company was HK$49,654,062.13 divided into 4,965,406,213 shares of HK$0.01 each.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all our staff for their dedication and hard work and to our shareholders for their continuous support.

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 2012, other than those purchased by its trustee for the Restricted Share Award Scheme adopted on 4 November 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with all code provisions set out in the Former CG Code except for the deviations from code provisions A.2.1 and A.4.1, which are explained below.

Code provision A.2.1 of the Former 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 Former 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 from office by rotation at least once every three years in accordance with the Bye-laws of the Company (the "Bye-laws").

During the period from 1 April 2012 to 31 December 2012, the Company has also complied with the code provisions set out in the New CG Code except for the deviations from code provisions A.5.5, A.6.7, D.1.4 and E.1.2, which are explained below.

Code provision A.5.5 of the New CG Code requires that where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent. Such information has not been included in the circular to the shareholders of the Company dated 5 April 2012 which provided the information in respect of the resolutions proposed for re-election of independent non-executive Directors.

Code provision A.6.7 of the New CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2012 AGM due to their engagement in their own official business.

Code provision D.1.4 of the New CG Code requires that issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors (except that Mr. Xu Tie-liang entered into a service contract with the Company on 30 August 2006 for an initial fixed term of two years and his appointment shall continue thereafter until it is terminated pursuant to the terms under the service contract). However, the Directors shall be subject to retirement by rotation in accordance with the Bye-Laws. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Code provision E.1.2 of the New CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Wang Guangtian, the chairman of the Nomination Committee, did not attend the 2012 AGM due to his engagement in his own official business.

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions as set out in the Former CG Code and the New CG Code during the year ended 31 December 2012.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with Corporate Governance Code and Corporate Governance Report 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 2012.

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

Hong Kong, 12 March 2013

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*