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 2014

ANNUAL RESULTS

The board (the "Board") of Directors (the "Directors") of China Oil And Gas Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2014 together with the relevant comparative figures.

Financial and Operational Highlights

- Revenue was HK$7,698 million, representing an increase of 20%
- Sales of natural gas increased by 12% to 2,506 million m^3
- Total assets up by 27% to HK$15,467 million

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014**	2013
		HK$'000	*HK$'000*
Revenue	*3*	**7,697,811**	6,439,825
Cost of sales		**(6,544,604)**	(4,985,630)
Gross profit		**1,153,207**	1,454,195
Other income		**47,657**	37,575
Other gains/(losses), net		**50,430**	(18,132)
Selling and distribution costs		**(61,775)**	(57,719)
Administrative expenses		**(332,583)**	(218,235)
Operating profit	*4*	**856,936**	1,197,684
Interest income		**125,371**	99,603
Finance costs		**(135,860)**	(114,674)
Share of profit/(loss) of a joint venture		**9,228**	(3,212)
Share of loss of an associate		**(1,512)**	(861)
Profit before taxation		**854,163**	1,178,540
Taxation	*5*	**(217,565)**	(240,945)
Profit for the year		**636,598**	937,595
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(144,762)**	111,235
Fair value changes from available-for-sale financial assets		**(11,033)**	(16,042)
Other comprehensive (loss)/income, net of tax		**(155,795)**	95,193
Total comprehensive income for the year		**480,803**	1,032,788
Profit for the year attributable to:			
Owners of the Company		**308,650**	401,494
Non-controlling interests		**327,948**	536,101
		636,598	937,595
Total comprehensive income for the year attributable to:			
Owners of the Company		**152,855**	451,663
Non-controlling interests		**327,948**	581,125
		480,803	1,032,788
Earnings per share for profit attributable to owners of the Company	*7*		
– Basic (HK cents)		**6.234**	8.142
– Diluted (HK cents)		**6.195**	8.062

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	**2014**	2013
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**6,883,531**	3,712,892
Exploration and evaluation assets		**222,655**	–
Land use rights		**253,663**	192,365
Intangible assets		**1,071,912**	1,072,227
Interest in an associate		**4,650**	6,162
Interest in a joint venture		**50,459**	41,231
Available-for-sale financial assets		**585,211**	835,011
Other non-current assets		**968,436**	870,710
Deferred tax assets		**5,643**	–
		10,046,160	6,730,598
Current assets			
Inventories		**195,603**	185,926
Deposits, trade and other receivables	*8*	**1,474,664**	921,344
Financial assets at fair value through profit or loss		**53,859**	145,812
Current tax recoverable		**31,867**	–
Time deposits with maturity over three months		**973,739**	795,427
Cash and cash equivalents		**2,691,557**	3,377,551
		5,421,289	5,426,060
Current liabilities			
Trade and other payables	*9*	**1,680,480**	859,804
Receipt in advance		**1,229,109**	1,006,593
Short-term borrowings		**808,379**	708,500
Current tax payable		**137,664**	105,572
		3,855,632	2,680,469
Net current assets		**1,565,657**	2,745,591
Total assets less current liabilities		**11,611,817**	9,476,189

	2014	2013
	HK$'000	*HK$'000*
Non-current liabilities		
Long-term borrowings	**–**	954,000
Senior notes	**4,978,675**	2,672,082
Deferred tax liabilities	**419,090**	23,960
Other non-current liabilities	**121,303**	–
	5,519,068	3,650,042
Net assets	**6,092,749**	5,826,147
Equity		
Equity attributable to owners of the Company		
Share capital	**52,996**	50,007
Reserves	**3,548,111**	3,497,373
	3,601,107	3,547,380
Non-controlling interests	**2,491,642**	2,278,767
Total equity	**6,092,749**	5,826,147

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 energy related business in various regions in the People's Republic of China ("PRC") and West Central Alberta, Canada, including but not limited to 1) piped city gas business, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG"); and 3) development, production and sale of oil and gas and other upstream energy resources. The Company and its subsidiaries are collectively referred to the "Group".

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

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.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

(a) Effect of adopting amendments to standards and new interpretation

The following amendments to standards and new interpretation are mandatory for the financial year beginning 1 January 2014:

Amendment to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets
Amendments to HKFRS 10, 11 and 12	Transition guidance
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendment	Investment entities
HKAS 39 Amendment	Novation of derivatives and continuation of hedge accounting
HK(IFRIC)-Int 21	Levies

The adoption of the amendments to existing standards and new interpretation did not have any material impact on the preparation of the Group's financial statements.

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

The following new standards, amendments and improvements to existing standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKFRS 10, 12 and HKAS 28	Investment entities: Applying the consolidation exception[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
HKFRS 9	Financial Instruments[4]
Annual Improvements Project	Annual Improvements to 2010-2012 Cycle[1]
Annual Improvements Project	Annual Improvements to 2011-2013 Cycle[1]
Annual Improvements Project	Annual Improvements to 2012-2014 Cycle[2]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 January 2018

The Group is assessing the impact of these new standards, amendments and improvements to existing standards and will apply them once they are effective.

(c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Group's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

3 REVENUE AND SEGMENT INFORMATION

The Group's principal activities are the sales and distribution of natural gas, crude oil and other related products and provision of construction and connection services of gas pipelines in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

	2014	2013
	HK$'000	*HK$'000*
Sales and distribution of natural gas and other related products	**6,296,143**	5,398,517
Gas pipeline connection and construction services income	**1,077,009**	1,041,308
Revenue from exploitation and production of crude oil and natural gas	**324,659**	–
	7,697,811	6,439,825

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, gas pipeline construction and connection; and exploitation and production of crude oil and natural gas.

The Group has presented the following three reportable segments for the year ended 31 December 2014:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

– exploitation and production of crude oil and natural gas

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), interest income, finance costs, share of profit/(loss) of a joint venture, share of loss of an associate 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 2014 and 2013 is set out below.

For the year ended 31 December 2014:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	**6,296,143**	**1,077,009**	**324,659**	**7,697,811**
Segment results	**378,941**	**482,491**	**60,871**	**922,303**
Interest income				**125,371**
Other gains, net				**46,385**
Finance costs				**(135,860)**
Share of profit of a joint venture				**9,228**
Share of loss of an associate				**(1,512)**
Unallocated corporate expenses				**(111,752)**
Profit before taxation				**854,163**
Taxation				**(217,565)**
Profit for the year				**636,598**

For the year ended 31 December 2013:

	Sales and distribution of natural gas and other related products *HK$'000*	Gas pipeline construction and connection *HK$'000*	Exploitation and production of crude oil and natural gas *HK$'000*	Group *HK$'000*
Segment revenue and results				
Sales to external customers	5,398,517	1,041,308	–	6,439,825
Segment results	779,373	451,580	–	1,230,953
Interest income				99,603
Other losses, net				(18,132)
Finance costs				(114,674)
Share of loss of a joint venture				(3,212)
Share of loss of an associate				(861)
Unallocated corporate expenses				(15,137)
Profit before taxation				1,178,540
Taxation				(240,945)
Profit for the year				937,595

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2014 and 2013.

Analysis of the Group's assets by geographical market for the years ended 31 December 2014 and 2013 is set out below:

Assets

	2014		2013	
	Total assets	**Additions to non-current assets**	Total assets	Additions to non-current assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**2,094,294**	**1,899**	2,130,751	789
Mainland China	**10,027,192**	**1,525,298**	8,997,691	1,564,004
Canada	**2,646,141**	**323,840**	–	–
Total	**14,767,627**	**1,851,037**	11,128,442	1,564,793
Unallocated				
Interest in an associate	**4,650**		6,162	
Interest in a joint venture	**50,459**		41,231	
Deferred tax assets	**5,643**		–	
Available-for-sale financial assets	**585,211**		835,011	
Financial assets at fair value through profit or loss	**53,859**		145,812	
Total assets	**15,467,449**		12,156,658	

4 OPERATING PROFIT

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

	2014	2013
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration):		
Salaries and wages	**282,769**	207,567
Equity-settled share-based payments	**59**	2,717
Retirement benefits scheme contributions	**44,529**	37,380
	327,357	247,664
Minimum lease payments under operating leases for leasehold land and buildings	**14,041**	14,929
Cost of inventories recognised as expense	**5,674,154**	4,407,747
Depreciation and depletion of property, plant and equipment	**363,732**	187,032
Amortisation of land use rights	**5,651**	3,070
Amortisation of intangible assets	**1,442**	1,398
Losses/(gains) on disposals of property, plant and equipment	**547**	(1,116)

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 (2013: 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% (2013: 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% (2013: 15%).

Taxation on overseas (other than Hong Kong and PRC) profits has been calculated on the estimated assessable profits for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

	2014	2013
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**222,168**	238,318
Overseas taxation	**(28,089)**	–
Underprovision in prior years	**10,860**	–
	204,939	238,318
Deferred tax	**12,626**	2,627
Taxation	**217,565**	240,945

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2014 (2013: Nil).

6 DIVIDEND

	2014	2013
	HK$'000	*HK$'000*
Final dividend proposed by way of bonus issue of one bonus share for every ten shares (2013: HK cent 0.72 per share) *(Note)*	**5,300**	36,005

Note:

A final dividend relating to the year ended 31 December 2013 amounted to HK$38,014,000 was fully paid on 21 May 2014.

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 26 May 2015 ("2015 AGM") a final dividend by way of bonus issue of new share of HK$0.01 each (the "Share") on the basis of one bonus Share for every ten shares (2013: cash dividend of HK cent 0.72 per Share) whose names appear on the register of members of the Company on Tuesday, 2 June 2015 ("Record Date") (the "Bonus Issue"). The final dividend in 2013 amounted to approximately HK$36,005,000.

The Bonus Issue will be credited as fully paid by way of capitalisation of an amount of approximately HK$5,300,000 in the share premium account of the Company.

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$308,650,000 (2013: HK$401,494,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,950,778,000 shares (2013: 4,931,092,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$308,650,000 (2013: HK$401,494,000), and the weighted average number of ordinary shares of approximately 4,982,548,000 shares (2013: 4,979,945,000 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 13,979,000 shares (2013: 46,865,000 shares), share warrants of approximately 15,930,000 (2013: Nil) and the effect of awarded shares of approximately 1,861,000 shares (2013: 1,988,000 shares) 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 2014, included in deposits, trade and other receivables is the balance of trade receivables amounted to HK$758,349,000 (2013: HK$372,414,000).

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:

	2014	2013
	HK$'000	*HK$'000*
Neither past due nor impaired	**678,647**	342,859
Past due but not impaired:		
– 91 to 180 days	**29,129**	18,716
– Over 180 days	**50,573**	10,839
Total	**758,349**	372,414

9 TRADE AND OTHER PAYABLES

As at 31 December 2014, included in trade and other payables is the balance of trade payable amounted to HK$662,265,000 (2013: HK$386,462,000).

The ageing analysis of trade payables is as follows:

	2014	2013
	HK$'000	*HK$'000*
Current to 90 days	**554,963**	334,299
91 to 180 days	**37,651**	24,012
Over 180 days	**69,651**	28,151
Total	**662,265**	386,462

RESULTS

The Group has experienced an extraordinarily strenuous year in 2014. After the PRC National Development and Reform Commission ("NDRC") increased the city gate natural gas price, the Xining Government in Qinghai Province has not instantly approved to adjust the downstream tariff. This has led the Group to suffer substantial margin squeeze of that area. However, that government has recently issued its approval to pass through the natural gas price adjustments to the designated users with effect from 15 March 2015 on the price hike in July 2013. Moreover, the oil price has been dropped significantly by the end of 2014, which leaded to a decrease of the price competitiveness on the natural gas sales. Despite the above difficulties, the Group has recorded a total revenue of HK$7,698 million in 2014, with an increase of 20% compared with HK$6,440 million in 2013. With the aforesaid difficulties, profit for the year attributable to the owners of the Group in 2014 was HK$309 million, with a 23% decrease as compared to 2013. As of 31 December 2014, total assets of the Group amounted to HK$15,467 million, or a growth of 27%; net asset value was HK$6,093 million, an increase of 5%.

BUSINESS REVIEW

NATURAL GAS BUSINESS

Under the natural gas business, the Group has established a total of 109 natural gas project companies in 15 provinces and autonomous regions in China with 64 concession rights as at 31 December 2014.

Sales and distribution of natural gas and other related products

For the year ended 31 December 2014, the Group's total gas sales volume reached 2,506 million m^3, representing an increase of 12% as compared to 2013; gas transmission volume increased 51% from 377 million m^3 to 569 million m^3 in 2014; and transportation volume up 6% to 132 million m^3.

Gas sales volume to residential users was 598 million m^3 (2013: 487 million m^3); to industrial, commercial and other users was 1,487 million m^3 (2013: 1,366 million m^3); and to gas stations was 422 million m^3 (2013: 394 million m^3), representing an increase of 23%, 9% and 7% respectively.

Gas pipeline construction and connection income

The Group has completed new connections to 161,780 residential users and 1,096 industrial, commercial and other users during the year. As at the end of the year, accumulated connections of the Group were approximately 836,800 residential users and 6,600 industrial, commercial and other users representing an increase of 24% and 20% respectively as compared to 2013. It is anticipated that the number of new users will maintain stable growth in the future. With the increased in the number of new users, the Group will continue to trigger more channels for the sales of natural gas and provide services to more natural gas end-users, which will lay a solid foundation for the sales of natural gas by the Group in the future.

Development of natural gas distribution business

During 2014, focusing on coast and riverfront markets and centered on the existing scope of businesses, the Group conducted intensive research and development in respect of the periphery of key natural gas pipelines. The Group has obtained 4 city gas concession rights in Yangxin county, Hubei Province, Wuxi-Xinyi Industrial Park in Xinyi City, Jiangsu Province, Anren County, Chenzhou City, Hunan Province and Shenlun Town, Taizhou City, Jiangsu Province. Developed more than 10 new gas stations projects, including Guangzhou Panyu and Nansha LNG refueling stations, Henan Sanmenxia CNG primary station, Changbei L/CNG refueling station, Nantong Hongjiang L/CNG refueling station, Nantong vehicles hub L/CNG refueling station, Xining Mafang oil and gas station and Xining east exit oil and gas station. The Group continued to promote the application of LNG business of "gas in substitution of oil" by selecting key areas and closely monitoring the LNG projects in Jiangsu Province and along the Ganjiang River in Jiangxi Province, and progresses were made in gas used by modified vessels, gas used by modified vehicles and LNG point-to-point projects. In 2014, the Group extended approximately 103 km of new high pressure pipelines, forming a high pressure pipeline network of 1,033 km, which pushed the development of downstream projects effectively. The city and courtyard pipeline network extended by 932 km in 2014, reaching an aggregate length of 5,833 km. The Group will make persistent efforts to obtain new gas projects and promote the development of natural gas distribution business.

EXPLOITATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS BUSINESS

The Company entered into an agreement with independent third parties on 20 June 2014 to acquire 100% equity interest of Baccalieu Energy Inc. ("Baccalieu") at a consideration of Canadian Dollar ("CAD") 235.5 million, which became a wholly-owned subsidiary of the Group.

According to a reserve report prepared by GLJ Petroleum Consultants, Baccalieu has proven reserves of approximately 18.2 million barrels of oil equivalent (63% is light oil and NGLs, 37% is natural gas) and proven plus probable reserves of approximately 25.2 million barrels of oil equivalent (63% is light oil and NGLs, 37% is natural gas) as of 31 December 2014.

In 2014, the average daily production of Baccalieu was 4,266 barrels of oil equivalent (67% is light oil and NGLs, 33% is natural gas). The average operating netback was CAD43.97 per barrel of oil equivalent.

Baccalieu possesses energy business in production, a very experienced management team with proven track record and stable production assets portfolio with considerable potential for growth. The financial results of Baccalieu has been consolidated into the Group since the second half of 2014.

SENIOR NOTES AND CREDIT RATINGS

In November 2014, the Company issued US$300 million senior notes bearing an interest rate of 5.0% per annum payable semi-annually in arrear due 2020 at par. Moody's Investors Service maintained the Company a credit rating of "Ba1", Standard & Poor's maintained the Company a credit rating of "BB+", reflecting the Company's solid and stable financial position and operational prospects.

BUSINESS PROSPECT

The growth of the economy of China will continue towards a "New Normal" development mode which pays more attention to the environment and the sustainability of growth. As the central government carries out comprehensive reform deepening and promulgates the related energy development strategies and measures for improving the atmospheric environment, the results of the structural adjustment of energy of China will gradually be seen, clean energy has become the main force in the energy structural adjustment, more utilization of natural gas has become a realistic choice to achieve energy structural adjustment.

In 2014, NDRC of China announced the "National Plan for Tackling Climate Change (2014-2020)". According to this plan, by 2020 the proportion of natural gas consumption in primary energy consumption will rise from the current 5% to over 10%, the consumption volume will jump from the current level of approximately 180 billion m^3 to 360 billion m^3, the substantial increase in demand for natural gas will bring good opportunities for the long term development of the natural gas downstream distribution sector.

On 28 February 2015, NDRC of China announced the adjustment of gas price of existing volume and incremental volume, so as to achieve the same price ceiling of natural gas for non-residential users of all provinces, this is favourable for creating an environment for fair market competition, and lay a good foundation for the adopting market mechanism for natural gas pricing, also this allows the price advantages of natural gas in relation to comparable types of energy to continue as the state's support of the development of the natural gas industry. Consequently, the Group keeps an optimistic attitude towards the prospect of the natural gas distribution sector in China in which the Group is engaged.

2014 is a crucial year for the Group to realise its development strategy of vertical integration of upstream and downstream operations. Since the conventional oil and gas resources in the PRC are relatively deficient, for a long time the Group has been actively seeking for overseas valuable oil and gas resources, in order to form the strategic objective of vertical integration of upstream and downstream operations. In June 2014, the Group successfully acquired Baccalieu, which was a key step in the implementation of that strategy. Faced with the market environment of falling international oil prices and the prices sustaining at a low range, the Group will maintain a modest drilling program, focusing on the production of light oil which has high economic benefits. At the same time, it will seize the good development opportunities presented by the undervalued oil prices, and actively seek valuable oil and gas interests and reserves.

Looking ahead, faced with new opportunities and challenges, the Group will continue to strengthen the management and operation level of the Company, further optimise the management models, enhance management efficiency; continue to devote more efforts to expand the market, actively expand into new projects on the basis of the current investment portfolio and business model; use the advantages of the coordinated development of the upstream and downstream operations of the Group to make it to become a comprehensive energy group which will be trusted by its clients, respected by the society and with good management and which will continue to create value for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and its notes and other sections in the annual report for the year ended 2014.

Financial Review

For the year ended 31 December 2014, the Group recorded revenue of HK$7,698 million, a growth of 20% over 2013. The Group's cost of sales was HK$6,545 million (2013: HK$4,986 million), representing an increase of 31%. Due to the government of Qinghai Province has not instantly approved to adjust the downstream tariff as instructed by NDRC, the Group's revenue growth is less than the growth of cost of sales. However, the Xining government has issued its approval to pass through the natural gas price adjustments to the designated users with effect from 15 March 2015.

Revenue for the year combining by three segments, namely (1) sales and distribution of natural gas and other related products (2) gas pipeline construction and connection and (3) exploitation and production of crude oil and natural gas, amounted to HK$6,296 million, HK$1,077 million and HK$325 million respectively and representing a year-to-year increase of 17%, 3% and exploitation and production of crude oil and natural gas was from the newly acquired Baccalieu since the acquisition date of 20 June 2014. Sales and distribution of natural gas continued to be the Group's main source of income and constituted 82% of the total revenue (2013: 84%).

The Group's selling and distribution costs increased by 7% to approximately HK$62 million from HK$58 million in 2013. The increase was in line with the Group's new project companies set up during the year and new concession rights. The Group placed great emphasis on the effectiveness and appropriateness of sales strategies and successfully controlled its selling and distribution costs at 0.8% (2013: 0.9%) of the total revenue.

Administrative expenses has been increased by 52% to HK$333 million due to acquisition of Baccalieu during the year and the related transaction costs.

Finance costs net of capitaisation has been increased from last year's HK$115 million to current year's HK$136 million, which was mainly constituted by coupon interest on our senior notes issued on 25 April 2013 and 11 November 2014. The Group's weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as at 31 December 2014 was 5.2% (2013: 4.9%).

Liquidity, Financial and Capital Resources

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. On 25 April 2013, the Company issued US$350 million senior notes bearing an interest rate of 5.25% per annum payable semi-annually in arrear due 2018 at par and on 11 November 2014, the Company issued another US$300 million senior notes bearing an interest rate of 5% per annum payable semi-annually in arrear due 2020 at par. The Company repaid a HK$700 million other borrowing during the year. As at 31 December 2014, the Group's total indebtedness (including bank borrowings, other borrowings and senior notes) amounted to HK$5,787 million (2013: HK$4,335 million).

As at 31 December 2014, the Group had cash and cash equivalents and time deposits with maturity over three months of approximately HK$3,665 million (2013: HK$4,173 million). Total assets of HK$15,467 million (2013: HK$12,157 million), and among which current assets were HK$5,421 million (2013: HK$5,426 million). Total liabilities of the Group were HK$9,375 million (2013: HK$6,331 million), and among which current liabilities were HK$3,856 million (2013: HK$2,680 million).

The Group's debt-to-asset ratio, measured on the basis of total indebtedness divided by total assets was 37% (2013: 36%). The current ratio (current assets divided by current liabilities) of the Group was 1.41 times (2013: 2.02 times). The financial and liquidity of the Group has remained at a healthy and stable position.

Employees and Remuneration Policy

At the end of 2014, the Group employed a total of 3,828 (2013: 3,643) full-time employees, where mostly were stationed in the PRC. Total staff cost for the year amounted to HK$327 million (2013: HK$248 million). The Group remunerates its employees based on their performance, working experience and the prevailing market wage level. The total remuneration of the employees consisted of basic salary, cash bonus and share-based incentives.

Pledge of Assets

At the end of the year, 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") as security for an other borrowing of HK$700 million. After the statement of financial position date, the pledged part of CCNG equity interest has been released as the Company has repaid the other borrowing in full during the year.

As at 31 December 2014, certain financial assets at fair value through profit or loss and available-for-sale financial assets of the Group are pledged as securities for certain banking facilities of the Group.

Contingent Liabilities

The Group has no material contingent liability as at 31 December 2014.

Financial Management and Treasury Policy

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

The Group conducts its business primarily in Renminbi. The Group's certain bank deposits are denominated in Hong Kong dollars, Renminbi and United States dollars, and the Group's offshore bank loans and senior notes are denominated in Renminbi, United States dollars and Canadian dollars.

Other than those disclosed, the Group does not have any material exposures to foreign exchange fluctuations. The Group does not have a foreign currency hedging policy. However, the Group monitors its foreign currency exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting a significant foreign currency hedging policy in the future.

Litigation

As at 31 December 2014, the Group has no litigation.

Capital Structure

During the year, a total of 48,860,000 share options had been exercised by the employees and one director of the Group at the exercise price of HK$0.43 per Share and 250,000,000 Shares had been issued under the share award scheme.

As at 31 December 2014, the issued share capital of the Company was HK$52,995,762 divided into 5,299,576,213 Shares with a nominal value of HK$0.01 each.

FINAL DIVIDEND BY WAY OF BONUS ISSUE OF SHARES

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Tuesday, 26 May 2015 ("2015 AGM") a final dividend by way of bonus issue of new share of HK$0.01 each (the "Share") on the basis of one bonus Share for every ten shares (2013: cash dividend of HK cent 0.72 per Share) whose names appear on the register of members of the Company on Tuesday, 2 June 2015 ("Record Date") (the "Bonus Issue"). The final dividend in 2013 amounted to approximately HK$36,005,000.

The Bonus Issue will be credited as fully paid by way of capitalisation of an amount of approximately HK$5,300,000 in the share premium account of the Company.

Assuming that no further Shares will be issued or repurchased on or before the Record Date, on the basis of 5,299,576,213 existing Shares in issue as the date of this announcement, 529,957,621 Shares will be issued under the Bonus Issue representing 10% of the existing issued share capital as at the date of this announcement. After the completion of the Bonus Issue, there will be a total of 5,829,533,834 Shares in issue as enlarged by the Bonus Issue. The Bonus Shares will be credited as fully paid at par value by way of capitalization of an amount of approximately HK$5,300,000 in the share premium account of the Company pursuant to the Bonus Issue.

Conditions of the Bonus Issue

The Bonus Issue is conditional upon:-

(i) the passing of an ordinary resolution by the shareholders of the Company at the 2015 AGM for approving the Bonus Issue;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Shares; and

(iii) compliance with the relevant legal procedures and requirements (if any) under the applicable laws of Bermuda and the Bye-Laws of the Company ("Bye-Laws") to effect the Bonus Issue.

Reasons and Benefits for the Bonus Issue

The Board proposes the Bonus Issue in recognition of the shareholders' continual supports to the Company. The Board believes that the Bonus Issue will also enhance the liquidity of the Shares in the market and thereby enlarge the shareholder and capital base of the Company.

Overseas Shareholders

The Company will make enquiry and, if necessary, seek legal advice(s) from overseas counsel(s) on the applicable procedural requirements for extending the Bonus Issue to the shareholders whose addresses as shown on the register of members of the Company on the Record Date are outside Hong Kong ("Overseas Shareholders"). Upon such enquiry, if the Board is of the view that the exclusion of the Overseas Shareholders is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, the bonus Shares will not be issued to those Overseas Shareholders, i.e. the Non-Qualifying Shareholders. In such circumstances, arrangements will be made for the Bonus Shares, which would otherwise have been issued to the Non-Qualifying Shareholders, if any, to be sold in the market as soon as practicable after dealings in the bonus Shares commence. Any net proceeds of sale, after deduction of the related expenses, will be distributed in Hong Kong dollars to the Non-Qualifying Shareholders, if any, pro-rata to their respective shareholdings and remittances therefore will be posted to them, at their own risk, unless the amount falling to be distributed to any such persons is less than HK$100, in which case it will be retained for the benefit of the Company.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Bonus Shares.

A circular containing, amongst other things, further information on the Bonus Issue, and, where applicable, explanation for the exclusion of Overseas Shareholders, together with a notice convening the 2015 AGM, will be dispatched to the Shareholders as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2015 AGM, the register of members of the Company will be closed from Friday, 22 May 2015 to Tuesday, 26 May 2015 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2015 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, 21 May 2015.

For determining the entitlement of the shareholders to the proposed final dividend by way of Bonus Issue, the register of members of the Company will be closed from Monday, 1 June 2015 to Tuesday, 2 June 2015 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed Bonus Issue, 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 not later than 4:30 p.m. on Friday, 29 May 2015.

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 2014, other than those purchased by the trustee for the Restricted Share Award Scheme.

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 Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2014, the Company was in compliance with the relevant code provisions set out in the CG Code except for the deviations as explained below.

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 caliber 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 from office by rotation at least once every three years in accordance with the Bye-Laws.

Code provision A.6.7 of the 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. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2014 annual general meeting of the Company held on 29 May 2014 ("2014 AGM") by the reason of their engagement in their own official business.

Code provision D.1.4 of the CG Code requires that the Company 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 for Mr. Xu Tie-liang). 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 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. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Mr. Li Yunlong, the chairman of each of the Audit Committee and the Remuneration Committee of the Company, and Mr. Wang Guangtian, the chairman of the Nomination Committee of the Company, did not attend the 2014 AGM due to their engagement in their 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 CG Code during the year ended 31 December 2014.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with Corporate Governance 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 2014.

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.

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

Hong Kong, 30 March 2015

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*