
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Oil And Gas Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CONNECTED TRANSACTION
RE-ELECTION OF DIRECTORS
AND
NOTICE OF SPECIAL GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



Menlo Capital Limited

A notice convening a Special General Meeting of China Oil And Gas Group Limited to be held at World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 February 2011 at 10:30 a.m. is set out on pages 26 to 27 of this circular. Whether or not you intend to attend and/or vote at the Special General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to China Oil And Gas Group Limited's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“CNPC”	China National Petroleum Corporation, a state-owned enterprise established under the laws of the PRC, the controlling shareholder of KunLun Energy
“associates”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors
“Bye-Laws”	the bye-laws of the Company
“Company”	China Oil And Gas Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“CCNG”	中油中泰燃氣投資集團有限公司 (China City Natural Gas Co., Ltd*), a joint venture established in the PRC, 49% equity interest of which are owned by KunLun Energy, 51% equity interest are owned by the Company through the Guarantors
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Equity Pledge Agreement”	the equity pledge agreement to be entered into between the Guarantors (as pledgees), CCNG and the Lender (as pledger), pursuant to which the Guarantors will pledge the 51% equity interest (which is formed through the payment of the actual capital investment (i.e. RMB255,000,000) in CCNG) held in CCNG to the Lender as a security of the Loan
“Financial Assistance”	according to the terms and conditions of the Loan Agreement, the Lender will grant the Loan to the Company which will be secured by the 51% equity interest (which is formed through the payment of the actual capital investment (i.e. RMB255,000,000) by the Guarantors) in CCNG
“Group”	the Company and its subsidiaries

DEFINITIONS

“Guarantors”	Zhongda Industrial Group Inc. and Alta Financial Holdings Limited, companies incorporated in the British Virgin Islands with limited liabilities, are wholly-owned subsidiaries of the Company, holding 26% and 25% equity interest in CCNG respectively
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser” or “Menlo”	Menlo Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Assistance
“Independent Shareholders”	the Shareholders who do not have interest in the Financial Assistance
“Interest Payment Date”	the 21st day of June and the 21st day of December each year
“KunLun Energy”	KunLun Energy Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 135)
“Latest Practicable Date”	17 January 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Lender”	China Petroleum HongKong (Holding) Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of CNPC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LNG”	liquefied natural gas
“Loan”	the grant of the HK\$700,000,000 secured loan to the Company by the Lender in accordance to the Loan Agreement

DEFINITIONS

“Loan Agreement”	the agreement entered into between the Lender, the Company and the Guarantors on 5 January 2011 relating to the Loan
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“SGM”	the special general meeting of the Company to be convened and held at World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 February 2011 at 10:30 a.m.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Repurchases
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



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)

Executive Directors:

XU Tie-liang

(Chairman and Chief Executive Officer)

ZHU Yuan

GUAN Yijun

CHEUNG Shing

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-Executive Directors:

LI Yunlong

SHI Xun-zhi

WANG Guangtian

*Head Office and Principal Place of
Business in Hong Kong:*

Suite 2805, 28th Floor

Sino Plaza

255-257 Gloucester Road

Causeway Bay

Hong Kong

21 January 2011

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION
RE-ELECTION OF DIRECTORS
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 5 January 2011, the Board announced that the Company entered into the Loan Agreement with the Lender in relation to the granting of the Loan to the Company by the Lender.

The purpose of this circular is to provide you with information in respect of (1) the Loan Agreement; (2) re-election of Directors; and (3) to give you the notice of SGM.

* For identification purposes only

LETTER FROM THE BOARD

THE LOAN AGREEMENT

Date : 5 January 2011

Parties

Borrower : the Company

Lender : China Petroleum HongKong (Holding) Limited

Guarantors : (1) Zhongda Industrial Group Inc.
(2) Alta Financial Holdings Limited

As the Lender is a wholly-owned subsidiary of CNPC (the ultimate controlling corporation of the 49% equity interest in CCNG), hence, is a connected person of the Company.

Terms of the Loan Agreement:

Principal Amount : HK\$700,000,000

Interest : annual interest rate of 3.7%, payable at the Interest Payment Date half yearly

Term : five years from the first drawdown of the Loan

Guarantee : the Guarantors, upon the “Conditions Precedent” below is fulfilled, such which is equivalent to actual capital investment paid in the formation of the equity interest in the capital of CCNG to be pledged by the Guarantors to the Lender

Drawdown Period : the entire amount of the Loan will be drawn within ninety days (both dates inclusive) upon the fulfillment of the “Conditions Precedent” set out below. With the consent of the Lender, the drawdown period may be extended once, for a period of not exceeding two months

Drawdown : the Loan can be drawdown in one time or no more than three times, the minimum drawdown amount should be HK\$10,000,000 each time, or a multiple of that amount

Repayment : all outstanding amount of the Loan and the interest should be repayable on the date of the fifth anniversary of the first drawdown date. During the Loan period, early repayment of the Loan may be made by giving ten days prior notice.

Conditions Precedent

Drawdown of the Loan is conditional upon fulfillment of the following conditions precedent:

- (1) according to the reasonable judgment by the Lender, without the present of any significant events or circumstances in the international and Hong Kong financial markets affecting the Company or the financial conditions of the Guarantors or its compliance or implementation of the Loan Agreement;

LETTER FROM THE BOARD

- (2) any event of default does not occur, or would not occur at drawdown, and the representations and warranties made by the Company in the Loan documents remain true and accurate in all respect at the drawdown date;
- (3) the Lender would have received the following documents, in the form and content up to the satisfaction of the Lender:
 - (i) certified copy of the certificate of incorporation (or business licence) and bye-laws/articles of association of the Company, the Guarantors and CCNG;
 - (ii) certified copy of the minutes of the Board meeting of the Company approving the Loan Agreement and the transactions contemplated thereunder;
 - (iii) certified copy of the minutes of the special general meeting of the Company approving the Loan Agreement and the transactions contemplated thereunder;
 - (iv) certified copy of the minutes of the meeting of the board of directors of the Guarantors approving the Loan Agreement and Equity Pledge Agreement and the transactions contemplated thereunder;
 - (v) the Equity Pledge Agreement having been executed and in force, and has completed the equity pledge registration with the registration authority;
 - (vi) the latest audited financial statements of the Company;
 - (vii) the verification report issued by a Chinese accounting firm proving that the Guarantors has paid in full the amount of the registered capital in CCNG; and
 - (viii) other documents relating to any matters contemplated under the Loan Agreement that may be requested by the Lender; and
- (4) the Lender has received the drawdown notice from the Company.

The Loan Agreement will be terminated if the conditions precedent fails to be fulfilled within 120 days after the date of the Loan Agreement.

REASONS FOR ENTERING INTO THE LOAN AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in natural gas investment and energy related business. The Group invests and sets up 61 gas projects in ten different provinces in the PRC, which are located at cities such as Xining, Liling, Nanjing, Yangzhou, Nantong, Taizhou and Chaozhou etc.

LETTER FROM THE BOARD

The Group, over years of continuous development, has become an integrated natural gas energy company. Its business scope spans over city gas pipeline and infrastructure design and construction, provision of technical support, gas selling and distribution, city gas management, vehicle modification for gas application, and operation of natural gas stations and liquefied natural gas productions plants in the PRC. The Group is endeavored to explore both up-stream and down-stream energy-related businesses with an aim to maximizing return to its shareholders.

The Group has established two LNG processing plants with a daily liquefaction capacity of 50 million m³ in Qinghai Province, the PRC. LNG plants have been able to supply gas to the places without gas pipeline network, and can also be used as emergency standby gas channels. At the same time, the Group has formed a team of over 100 vehicles in the fleet of LNG logistics, it provides the Group's existing LNG supply with transportation services.

The Group has begun the construction of LNG filling stations in Binzhou City of Shandong Province, Nanjing City of Jiangsu Province and Maanshan City of Anhui Province; has also started to modify the LNG supply system for the inland navigation vessels in Shandong Province and Jiangsu Province; and has also entered into contracts with long-distance passenger buses and public buses to set up joint venture, in order to prepare for the sale and transportation of automotive LNG and maintenance services in areas of east and south China

In line with the significant expansion in the LNG business by the Group, at the same time, making full use of the advantages of the Group's partner – CNPC is with a number of LNG terminals and with the guarantee of LNG resources, entering into the Loan Agreement provides additional funds for the Group to meet the need of the LNG business of the Group in the future. The Group will further build more LNG filling stations in various provinces in the PRC, it co-operate the downstream LNG business development at the same time, the existing LNG logistics team will need to be increase by multiples to meet the downstream demand of LNG. The Group will also take the opportunity of the lack of resources in the present in the PRC, promote the LNG marketing extensively, contact and communicate closely in all respect, in order to bring the LNG business bigger and stronger. The Group will enter into further agreement with the partner, if and when necessary, the Company will comply with the Listing Rules to make further announcement and obtain shareholders' approval, when appropriate.

LNG is safe, with high fuel energy density, has excellent environmental friendly effect, with relatively small size of station, with low running cost, easy to implement large-scale promotion, more importantly, can reduce the environmental pollution, has an obvious social and economic benefits. According to the Five-by-Twelve plan of the PRC, energy saving and waste reduction is one of the key topics, therefore, the development of the LNG business of the Group not only get support from the local government of different areas and is also coupled with the relevant polices, taking the advantage of the resources of the partner, the Group has absolute confidence in providing one-step services for different users with the upstream and downstream LNG business, including logistics, transportation and other relevant supporting, laying down a good basis for the popularization of LNG.

LETTER FROM THE BOARD

LISTING RULES IMPLICATION

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Lender is a wholly-owned subsidiary of CNPC (the ultimate controlling corporation of the 49% equity interest in CCNG). Accordingly, it is a connected person of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined in the Listing Rules) are less than 25%, the Financial Assistance constitutes a connected transaction for the Company under the Listing Rules. Pursuant to Rule 14A.63 of the Listing Rules, the Financial Assistance is subject to the reporting, announcement and the Independent Shareholders' approval requirements.

An Independent Board Committee comprising the independent non-executive Directors has been established to advise the Independent Shareholders on the terms of the Loan Agreement. The Company has appointed Menlo Capital Limited as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Financial Assistance. The Directors (including the independent non-executive Directors) consider that the Loan Agreement is entered into on normal and general commercial terms of the Company, and the terms of the Loan Agreement are arrived after arm's length negotiation between the Company and the Lender, are normal, fair and reasonable commercial terms and in the interest of the Group and the Shareholders as a whole.

Each of CNPC, the Lender and their respective associates (should they have any shareholding in the Company) will be abstained from voting at the SGM on the resolution relating to the Financial Assistance. To the best of the knowledge of the Directors information and belief after having made reasonable enquiries, each of CNPC and the Lender and their respective associates does not have interest in the Shares.

None of the Directors is interested in the Loan Agreement and the transactions contemplated thereunder, and therefore none of them was required to abstain from voting in respect of the Board resolutions to approve the Loan Agreement and the transactions contemplated thereunder.

RE-ELECTION OF DIRECTORS

The Board currently consists of seven Directors, namely Mr. Xu Tie-liang, Mr. Zhu Yuan, Ms. Guan Yijun, Mr. Cheung Shing, Mr. Shi Xun-zhi, Mr. Li Yunlong and Mr. Wang Guangtian.

Mr. Zhu Yuan and Ms. Guan Yijun were appointed by the Board on 10 September 2010. Pursuant to Bye-law 86(2) of the Bye-Laws, they are subject to retirement at the first general meeting after their appointment and therefore they shall retire and, being eligible, offer themselves for re-election at the SGM.

Details of the above-mentioned Directors proposed to be re-elected at the SGM are set out in Appendix I to this circular.

LETTER FROM THE BOARD

SPECIAL GENERAL MEETING

Set out on pages 26 to 27 of this circular is a notice convening the SGM to consider and, if appropriate, to approve the ordinary resolutions relating to the Loan Agreement and re-election of Directors.

A form of proxy for use at the SGM is enclosed herewith. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.49(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. As such, all the resolutions set out in the notice of SGM will be voted by poll.

GENERAL

An Independent Board Committee comprising Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian (all being the independent non-executive Directors) has been established to advise the Independent Shareholders as to whether the terms of the Loan Agreement and the Equity Pledge Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation to the Independent Shareholders in relation to the Financial Assistance; and (ii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 12 to 19 of this circular in connection with the Financial Assistance.

The Board considers that the ordinary resolutions in relation to the re-election of Directors to the proposed at the SGM are in the best interests of the Company and the Shareholders. Accordingly, the Board recommends the Shareholders to vote in favour of such resolutions at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the appendix to this circular.

LETTER FROM THE BOARD

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

21 January 2011

To the Independent Shareholders

Dear Sir or Madam

CONNECTED TRANSACTION

We refer to the circular issued by the Company to the Shareholders dated 21 January 2011 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

Menlo Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect thereof. We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser set out in its letter of advice, we consider that the terms of the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Loan Agreement at the SGM.

Yours faithfully

Independent Board Committee

LI Yunlong

SHI Xun-zhi

WANG Guantina

Independent non-executive Directors

* For identification purposes only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from Menlo Capital Limited in connection with the connected transaction which has been prepared for the purpose of inclusion in this circular:



Menlo Capital Limited
Room 1807, West Tower, Shun Tak Centre
168 Connaught Road Central, Hong Kong

21 January 2011

*To the Independent Board Committee and the Independent Shareholders of
China Oil And Gas Group Limited*

Dear Sirs,

CONNECTED TRANSACTION FINANCIAL ASSISTANCE

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the connected transaction in relation to the Financial Assistance, details of which are set out in the “Letter from the Board” in the circular (the “Circular”) issued by the Company to the Shareholders dated 21 January 2011 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Company announced that on 5 January 2011, the Company entered into the Loan Agreement with the Lender in relation to the granting of the Loan to the Company by the Lender.

The Financial Assistance and as all of the applicable percentage ratios (as defined in the Listing Rules) are less than 25% constitutes a connected transaction for the Company under the Listing Rules. Pursuant to the Listing Rules, the Financial Assistance is subject to the reporting, announcement and the Independent Shareholders’ approval requirements.

The Independent Board Committee, comprising Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Wang Guangtian, being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Loan Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and whether the Financial Assistance is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant, and have assumed that the statements made were true, accurate and complete at the time they were made and continue to be true on the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our view and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent investigation into the business and affairs of the Company. We have taken all reasonable steps pursuant to the Listing Rules which include the following:

- (a) obtaining all the information and documents relevant to an assessment of the fairness and reasonableness of the terms of the Loan Agreement, including but not limited to, the announcement of the Company dated 5 January 2011, the Letter from the Board, the Loan Agreement, the annual reports of the Company for the years ended 31 December 2008 and 31 December 2009 as well as the interim report of the Company for the six months ended 30 June 2010;
- (b) reviewing the performance and financial situation of the Company as well as the reasons and background of entering into the Loan Agreement and the Transactions contemplated thereunder; and
- (c) confirming that no valuation report is relevant to the Loan Agreement and the Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The Board announced on 5 January 2011, that the Company entered into the Loan Agreement with the Lender in relation to the granting of the Loan to the Company by the Lender.

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to and the Loan Agreement and the Financial Assistance contemplated thereunder, we have considered the following principal factors and reasons:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

I. Background and Reasons for Entering into the Loan Agreement

THE COMPANY AND THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in natural gas investment and energy related business. The Group invests and sets up 61 gas projects in ten different provinces in the PRC, which are located at cities such as Xining, Liling, Nanjing, Yangzhou, Nantong, Taizhou and Chaozhou etc.

The Group, over years of continuous development, has become an integrated natural gas energy company. Its business scope spans over city gas pipeline and infrastructure design and construction, provision of technical support, gas selling and distribution, city gas management, vehicle modification for gas application, and operation of natural gas stations and liquefied natural gas productions plants in the PRC. The Group is endeavored to explore both up-stream and down-stream energy-related businesses with an aim to maximizing return to its shareholders.

REASONS FOR AND BENEFITS FOR ENTERING INTO THE LOAN AGREEMENT

The Group has established two LNG processing plants with a daily liquefaction capacity of 50 million m³ in Qinghai Province, the PRC. LNG plants have been able to supply gas to the places without gas pipeline network, and can also be used as emergency standby gas channels. At the same time, the Group has formed a team of over 100 vehicles in the fleet of LNG logistics, it provides the Group's existing LNG supply with transportation services.

The Group has begun the construction of LNG filling stations in Binzhou City of Shandong Province, Nanjing City of Jiangsu Province and Maanshan City of Anhui Province; has also started to modify the LNG supply system for the inland navigation vessels in Shandong Province and Jiangsu Province; and has also entered into contracts with long-distance passenger buses and public buses to set up joint venture, in order to prepare for the sale and transportation of automotive LNG and maintenance services in areas of east and south China.

In line with the significant expansion in the LNG business by the Group, at the same time, making full use of the advantages of the Group's partner – CNPC is with a number of LNG terminals and with the guarantee of LNG resources, entering into the Loan Agreement provides additional funds for the Group to meet the need of the LNG business of the Group in the future. The Group will further build more LNG filling stations in various provinces in the PRC, it co-operate the downstream LNG business development at the same time, the existing LNG logistics team will need to be increase by multiples to meet the downstream demand of LNG. The Group will also take the opportunity of the lack of resources in the present in the PRC, promote the LNG marketing extensively, contact and communicate closely in all respect, in order to bring the LNG business bigger and stronger. The Group will enter into further agreement with the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

partner, if and when necessary, the Company will comply with the Listing Rules to make further announcement and obtain shareholders' approval, when appropriate.

LNG is safe, with high fuel energy density, has excellent environmental friendly effect, with relatively small size of station, with low running cost, easy to implement large-scale promotion, more importantly, can reduce the environmental pollution, has an obvious social and economic benefits. According to the Five-by-Twelve plan of the PRC, energy saving and waste reduction is one of the key topics, therefore, the development of the LNG business of the Group not only get support from the local government of different areas and is also coupled with the relevant polices, taking the advantage of the resources of the partner, the Group has confidence in providing one-step services for different users with the upstream and downstream LNG business, including logistics, transportation and other relevant supporting, laying down a good basis for the popularization of LNG.

The main reasons and advantages for utilising the Financial Assistance provided by the Lender are as follows:–

1. the Financial Assistance will facilitate the expansion the LNG business, including the building of the LNG filling stations, and expanding the LNG logistics team in various cities in the PRC, which is expected to increase the return to the Group;
2. the Directors confirmed that the interest rate of 3.7% offered by the Lender under the Financial Assistance is more favourable than all the other indicative offers available from the existing independent commercial bankers of the Company as at the date of Loan Agreement; and
3. the Lender, a connected person of the Company, has a better understanding of Group and the pledged equity interest of CCNG than the independent commercial banks which results as the most favourable loan interest rate and the earliest firm offer offered by the Lender.

Accordingly, we are of the view that the Financial Assistance is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. LOAN AGREEMENT

Date : 5 January 2011

Parties

Borrower : the Company

Lender : China Petroleum HongKong (Holding) Limited

Guarantors : (1) Zhongda Industrial Group Inc.

(2) Alta Financial Holdings Limited

As the Lender is a wholly-owned subsidiary of CNPC (the ultimate controlling corporation of the 49% equity interest in CCNG), hence, is a connected person of the Company.

Terms of the Loan Agreement

Principal Amount : HK\$700,000,000

Interest : annual interest rate of 3.7%, payable at the Interest Payment Date half yearly

Term : five years from the first drawdown of the Loan

Guarantee : the Guarantors, upon the “Conditions Precedent” below is fulfilled, such which is equivalent to actual capital investment paid in the formation of the equity interest in the capital of CCNG to be pledged by the Guarantors to the Lender

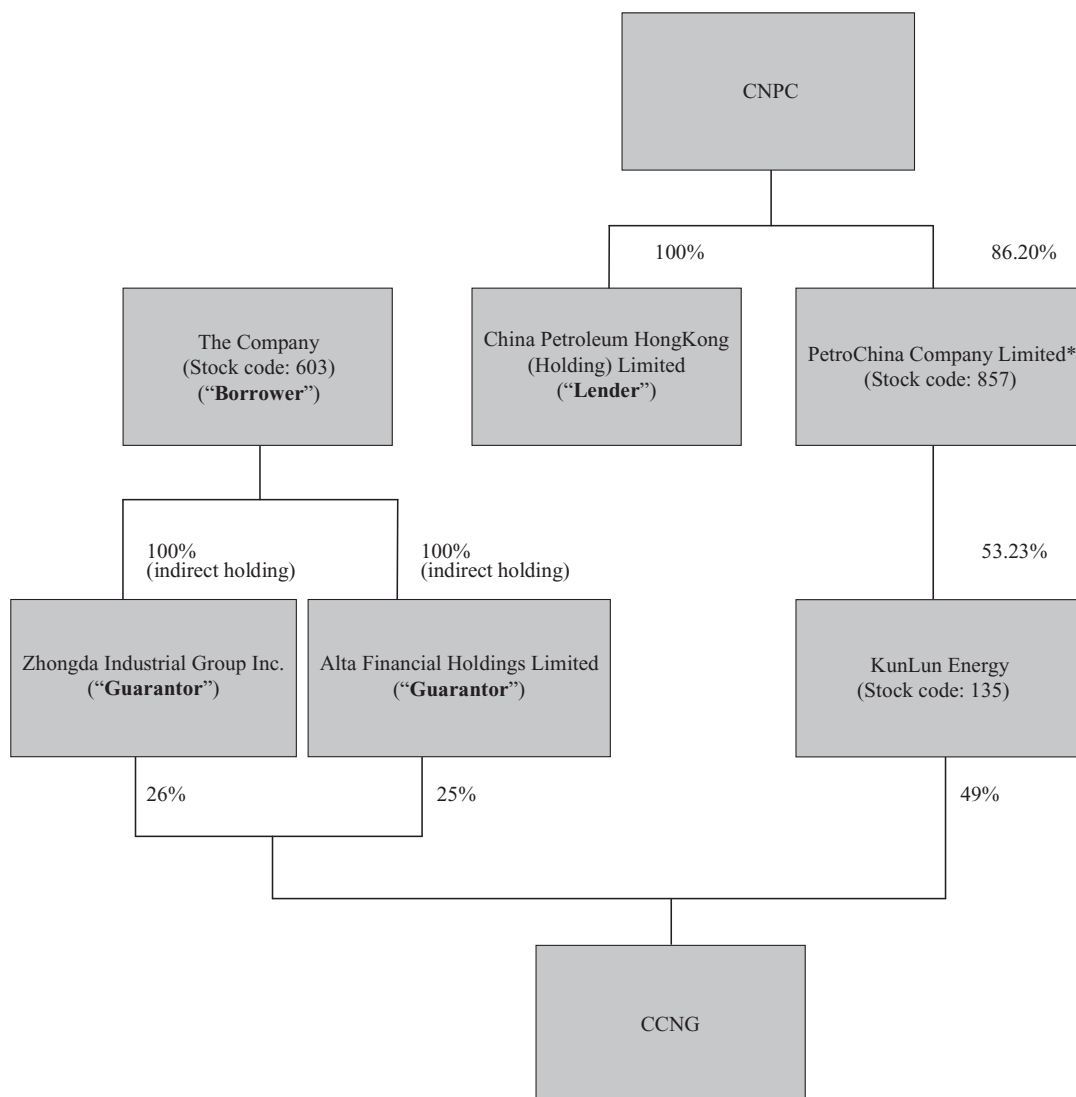
Drawdown Period : the entire amount of the Loan will be drawn within ninety days (both dates inclusive) upon the fulfillment of the “Conditions Precedent” set out below. With the consent of the Lender, the drawdown period may be extended once, for a period of not exceeding two months

Drawdown : the Loan can be drawdown in one time or no more than three times, the minimum drawdown amount should be HK\$10,000,000 each time, or a multiple of that amount

Repayment : all outstanding amount of the Loan and the interest should be repayable on the date of the fifth anniversary of the first drawdown date. During the Loan period, early repayment of the Loan may be made by giving ten days prior notice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The parties to the Loan Agreement



* For identification purpose only

We have reviewed all the terms and conditions precedent of the Loan Agreement and have not found any irregular terms. We are of the view that the terms of the Loan Agreement are on normal commercial basis and also fair and reasonable so far as the interests of the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. Financial Effects of the Financial Assistance

The Company is an investment holding company and its subsidiaries are principally engaged in natural gas investment and energy related business. Based on the audited accounts of the Group for the year ended 31 December 2009, the Group achieved an annual turnover of approximately HK\$1,721 million (2008: approximately HK\$1,471 million) with total comprehensive income of approximately HK\$250.7 million (2008: approximately HK\$227.9 million). The interim report of the Company for the six months ended 30 June 2010 indicated that the half-year turnover was approximately HK\$1,102 million with the total comprehensive income of approximately HK\$194.5 million. Accordingly, it is reasonable for the Directors to anticipate a further growth of the sales turnover and the total comprehensive income of the Group after utilising the additional funds for business expansion under the Financial Assistance.

Under the Financial Assistance, the Lender offers the annual interest rate of 3.7% for the outstanding Loan to the Company which is more favorable than the rates proposed by the existing independent commercial bankers of the Company in the range of 5.0% to 6.0%. Accordingly, the less amount interest expenses to be incurred in the five years under the Financial Assistance, as compared with the possible bank loan, is expected to have a positive effect to the comprehensive income of the Group.

The provision of the Loan to the Company by the Lender constitutes financial assistance. We are of the view that such the Financial Assistance can improve the liquidity of the Company upon the drawdown of the Loan.

OPINION

Conclusively, we are of the view that:

1. the expansion the LNG business, including the building of the LNG filling stations, and expanding the LNG logistics team in various cities in the PRC, is expected to increase the return to the Group which is in the interest of the Company and the Shareholders as a whole;
2. the Lender, a connected person of the Company, has a better understanding of Group and the pledged equity interest of CCNG than other independent commercial banks which results as an earliest firm offer with the most favour loan interest rate offered to the Company;
3. the Financial Assistance can improve the liquidity of the Company;
4. the provision of the Guarantee for the Loan is in the ordinary and usual course of business of the Company;
5. the terms of the Loan Agreement and the Financial Assistance contemplated thereunder are on normal commercial basis; and
6. the terms of the Loan Agreement including the most favourable interest rate are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered all the factors and reasons stated above, we are of the view that the entering into the Loan Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. We are also of the view that the terms of the Loan Agreement are on normal commercial basis as well as fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to approve the Loan Agreement and the Financial Assistance contemplated thereunder at the special general meeting.

Yours faithfully,
For and on behalf of
Menlo Capital Limited
Michael Leung
Director

The following set out the details of Mr. ZHU Yuan and Ms. GUAN Yijun, the Directors who will retire and, being eligible, offer themselves for re-election at the SGM pursuant to the Bye-law 86(2) of the Bye-Laws.

Mr. Zhu Yuan, aged 57, was appointed as the senior vice president of the Company on 4 November 2009 and an executive Director on 10 September 2010. He graduated from China University of Mining And Technology in 1987. He is a senior accountant and is a pipelined gas expert of China Petroleum Pipeline Bureau (中國石油天然氣管道局). He is engaged in oil and gas industries for over 40 years. He served successively for the Second Engineering Company of China Petroleum Pipeline Bureau (中國石油天然氣管道局第二工程公司) as finance minister, chief accountant, deputy general manager, to preside over the company's daily operation, and business and financial management for more than 10 years. Since 2002, he has been the deputy general manager of CCNG. He is responsible for day-to-day operations and project investment, formation, operation, management, etc. He also acts as the chairman of Liling China Oil And Gas Co., Ltd. (醴陵中油燃氣有限公司), Hunan China Oil And Gas Co., Ltd. (湖南中油燃氣有限公司), Qinghai Zhongtai China Oil And Gas Co., Ltd. (青海中泰中油燃氣有限公司), Nanchang China Oil And Gas Co. Ltd. (南昌中油燃氣有限公司), Pingxiang China Oil And Gas Company Limited (萍鄉中油燃氣有限公司) (all are subsidiaries of the Company) and etc. He has deep research and extensive experience in investment and operation of the usage of natural gas, city gas, and liquefied natural gas projects. Mr. Zhu did not hold any directorships in any other listed public companies in the past three years.

Mr. Zhu has not been appointed for a specific length of service but he will be subject to retirement at the next general meeting after his appointment and thereafter subject to retirement by rotation at least once every three years at the annual general meeting of the Company in accordance with the Bye-laws of the Company. Mr. Zhu is entitled to a total annual emolument of HK\$120,000 and discretionary bonus and is recommended by the remuneration committee and determined by the Board with reference to the prevailing market conditions.

Mr. Zhu does not have any relationship with any Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. He is interested in 1,500,000 share options in the Company. Save as disclosed above, he does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Ms. Guan Yijun, aged 46, was appointed as the vice president of the Company on 1 September 2006 and an executive Director on 10 September 2010. She graduated from Changchun Normal University in 1985. She was ever been newspaper financial journalist, editor and general manager of industrial companies in oil and gas fields, she has been engaged in business management for almost 18 years. She is currently a supervisor of CCNG, the chairman of Nanjing Jiening China Oil And Gas Co., Ltd. (南京潔寧燃氣有限公司) and director of several subsidiaries of the Company. Ms. Guan has extensive business operation management experiences. Ms. Guan did not hold any directorships in any other listed public companies in the past three years.

Ms. Guan has not been appointed for a specific length of service but she will be subject to retirement at the next general meeting after her appointment and thereafter subject to retirement by rotation at least once every three years at the annual general meeting of the Company in accordance with the Bye-laws of the Company. Ms. Guan is entitled to a total annual emolument of HK\$120,000 and discretionary bonus and is recommended by the remuneration committee and determined by the Board with reference to the prevailing market conditions.

Ms. Guan is the spouse of Mr. Xu Tie-liang (the Chairman and the Chief Executive Officer of the Company), and therefore, is deemed to be interested in 321,018,300 and 776,500,000 ordinary shares of the Company held by Mr. Xu through Sino Advance Holdings Limited and Sino Vantage Management Limited pursuant to Part XV of the SFO. Save as disclosed above, Ms. Guan does not have any relationship with any Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company and does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed herein, there are no other matters related to the above appointment of Directors need to be brought to the attention of the Shareholders or are required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below:

Long positions in ordinary shares of the Company

Name of Director	Capacity	Long Position/ Short Position	Number of Shares held	Approximate percentage of shareholding
Xu Tie-liang	Interest in a controlled corporation	Long Position	321,018,300 (Note 1)	6.484%
	Interest in a controlled corporation	Long Position	776,500,000 (Note 2)	15.684%
Guan Yijun	Interest of spouse	Long Position	1,097,518,300	22.168%

Notes:

- These 321,018,300 Shares are held through Sino Advance Holdings Limited ("Sino Advance"), a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Sino Best International Group Limited ("Sino Best") (a company incorporated in the British Virgin Islands with limited liability) which in turn is wholly and beneficially owned by Mr. Xu Tie-liang.

2. These 776,500,000 Shares are held through Sino Vantage Management Limited (“Sino Vantage”), a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Sino Best which in turn is wholly and beneficially owned by Mr. Xu Tie-liang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or the chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company has been notified of the following interests, being 5% or more of the Company’s issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Interest in ordinary shares of the Company

Name of Shareholder	Capacity	Long Position/ Short Position	Number of Shares held	Approximate percentage of shareholding
Sino Advance	Beneficial owner	Long Position	321,018,300 (Note)	6.484%
Sino Vantage	Beneficial owner	Long Position	776,500,000 (Note)	15.684%
Sino Best	Interest in controlled corporations	Long Position	1,097,518,300 (Note)	22.168%
New Stamina Investments Limited	Beneficial Owner	Long Position	275,000,000	5.555%

Name of Shareholder	Capacity	Long Position/ Short Position	Number of Shares held	Approximate percentage of shareholding
Lo Chung	Interest in controlled corporation	Long Position	275,000,000	5.555%
	Family interest	Long Position	17,400,000	0.351%

Note: These are also included as interest of controlled corporations of Mr. Xu Tie-laing, as disclosed under the heading “Directors’ and chief executive’s interests and short positions in securities of the Company and its associated corporations” above.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS’ INTERESTS IN THE GROUP’S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

On 26 November 2010, Sino Invent Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement with Sino Advance in relation to the acquisition of 800 shares, which represent 8.0% equity interest in Sino Director Limited from Sino Advance for a consideration of HK\$190,000,000. Details of the above acquisition were set out in the announcements of the Company dated 7 June 2010, 17 June 2010 and 26 November 2010.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors, directly or indirectly, had any interest in any assets which have since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

There is no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant to the business of the Group.

5. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited financial statements of the Company were made up.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

7. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Menlo	A licenced corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

Menlo has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Menlo:

- (a) did not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2009, being the date to which the latest published consolidated financial statements of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the Loan Agreement will be available for inspection during business hours at the head office and principal place of business of the Company at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date of this circular.

NOTICE OF SPECIAL GENERAL MEETING



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a Special General Meeting of China Oil And Gas Group Limited (the “Company”) will be held at World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 15 February 2011 at 10:30 a.m. to for the purpose of considering and, if thought fit, with or without modification, the following ordinary resolutions:

1. **“THAT:–**

- (i) the loan agreement dated 5 January 2011 entered into between China Petroleum HongKong (Holding) Limited (the “**Lender**”), the Company (as borrower), Zhongda Industrial Group Inc. and Alta Financial Holdings Limited (as guarantors) (the “**Loan Agreement**”) (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) relating to the granting of a HK\$700,000,000 loan to the Company by the Lender which will be secured by the 51% equity interest (which is formed through the payment of the actual capital investment (i.e. RMB255,000,000) in 中油中泰燃氣投資集團有限公司 (China City Natural Gas Co., Ltd*) (“**CCNG**”) held in CCNG, and the transaction contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified; and
- (ii) the directors of the Company (the “**Directors**”) be and are hereby authorized to do all other acts and things and execute all documents which they consider necessary or expedient for the implementation of and giving effect to the Loan Agreement and the transactions contemplated thereunder.”

2. **“THAT** Mr. Zhu Yuan be and is hereby re-elected as an executive Director of the Company and to authorize the board of Directors to fix his remuneration.”

3. **“THAT** Mr. Guan Yijun be and is hereby re-elected as an executive Director of the Company and to authorize the board of Directors to fix her remuneration.”

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

Hong Kong, 21 January 2011

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by this notice shall be entitled to appoint proxy to attend and vote in his stead in accordance with the Bye-Laws of the Company. A proxy need not be a member of the Company but must be present in person to represent the member.
2. A form of proxy for use at the above meeting is enclosed.
3. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof should they so wish.
4. With respect to resolutions no. 2 and 3 of this notice, Mr. Zhu Yuan and Ms. Guan Yijun shall retire from the office of directorship and shall offer themselves for re-election in accordance with the Company's Bye-Laws. Details of the retiring Directors which are required to be disclosed under the Listing Rules are set out in the circular of the Company dated 21 January 2011.
5. As at the date of this notice, the board of Directors of the Company comprises of seven Directors, including three 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. Shi Xun-zhi, Mr. Li Yunlong and Mr. Wang Guangtian.

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