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

2008 Annual Report

ENTERPRISE CULTURE

OUR CULTURE:

- Integrity
- Rewards
- Excellency
- Harmony

OUR MISSION:

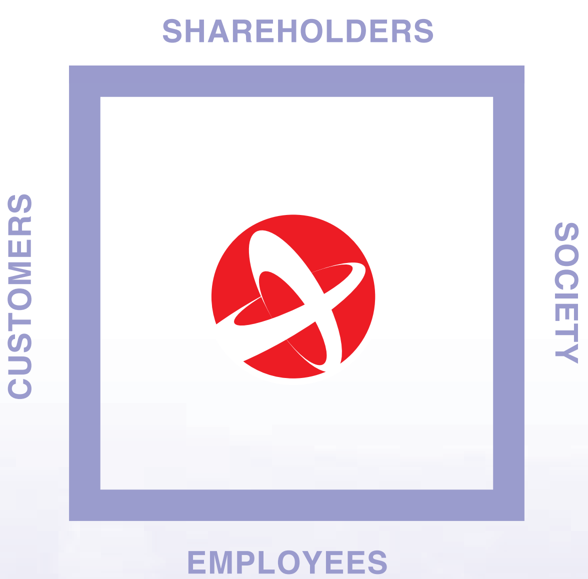
Developing environmental friendly energy to secure sustainable development and make contributions to our future.

OUR OBJECTIVES:

Create values for our customers;
Create profits for our shareholders;
Create future for our employees;
Create prosperity for our society.

OUR VISION:

Turning the Group into an internationally influential enterprise which produces environmental friendly and clean energy.



In order to achieve greater success for our Group's future, we work our objectives like a four-equal-sides square, each side has to make progress simultaneously!

Contents

Financial Highlights

	Notes	**2008**	2007	Change
Turnover (HK$ million)		**1,471**	677	+ 117.3%
Total Sales on Gas Volume (million M^3)		**815**	578	+ 41.0%
Total Transmission and Transportation Gas Volume (million M^3)		**409**	111	+ 268.5%
Profit for the year (HK$ million)		**187**	114	+ 64.0%
Total Assets (HK$ million)		**2,793**	2,186	+ 27.8%
Earnings per share (HK cents)		**1.75**	2.07	– 15.4%
Net Assets Value per share (HK cents)	(a)	**42.7**	40.4	+ 5.7%
Cash per share (HK cents)	(b)	**16.4**	22.0	– 25.5%
Return on Average Equity (%)	(c)	**4.24**	7.75	– 45.3%
Price Earnings ratio	(d)	**11.43**	35.75	– 68.0%
Price to Book ratio	(e)	**46.84**	183.2	– 74.4%

Notes:

(a) $\dfrac{\text{Net assets}}{\text{Issued and fully paid ordinary shares}}$

(b) $\dfrac{\text{Cash and cash equivalent}}{\text{Issued and fully paid ordinary shares}}$

(c) $\dfrac{\text{Profit attributable to equity holders of the Company}}{\text{Average equity attributable to equity holders of the Company}}$

(d) $\dfrac{\text{Market value per share as at 31 December}}{\text{Earnings per share}}$

(e) $\dfrac{\text{Market value per share as at 31 December}}{\text{Net assets value per share}}$

Operation Map

District	Location	Operation
North-Western district	Qinghai: Xining	City Piped Gas, CNG stations, LNG factory, Logistics services
Shandong district	Shandong: Qingyun, Binzhou	City Piped Gas, CNG stations
Xianggan district	Hunan: Liling, Changsha; Jiangxi: Nanchang, Pingxiang	City Piped Gas, CNG stations, LNG factory, Logistics services
Yangtze Delta district	Jiangsu: Nanjing, Yangzhou, Taizhou, Nantong Anhui: Maanshan	City Piped Gas, CNG stations, Logistics services
Guangdong district	Guangdong: Chaozhou, Zhuhai, Yingde	City Piped Gas, Logistics services

Corporate Profiles

China Oil And Gas Group Limited (the "Company") (stock code: 603) and its subsidiaries (the "Group") are principally engaged in investment in natural gas and energy related business. Gas operations of the Group include piped city gas business, pipeline design and construction, as well as transports, distributes, sales of compressed natural gas ("CNG") and liquefied natural gas "("LNG").

With our business partner China Petroleum Pipeline Bureau ("CPP"), we founded China City Natural Gas Co., Ltd ("CCNG") in 2002. Together, we invest, develop, and operate natural gas businesses in Shandong Province, Hunan Province, Qinghai Province, Anhui Province, Jiangxi Province, Jiangsu Province, and Guangdong Province of the People's Republic of China ("PRC").

By taking advantages of the secured natural gas resource, professional expertise and management techniques of CPP, high quality and efficient natural gas distribution networks of CCNG; together with the capital strength as a Hong Kong listed company, the Group has grasped the enormous business opportunities presented by the rapid growth of natural gas industry. Through successful investments, acquisitions and restructurings in various areas in the PRC, the Group has manifested its strong competitiveness in the natural gas industry.

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With secured franchise operation rights of gas in 16 cities, the Group has built up city pipeline networks which offer stable and sufficient natural gas resources to local household, industrial and commercial users.

As a non-pipeline natural gas provider, the Group has established a LNG processing factory in Qinghai Province which is now come up on top within the PRC in terms of its processing capacity. Meanwhile, the Group has built four CNG primary stations to ensure our supply of natural gas is secured and stable all year round. These facilities support supplies of natural gas to cities not yet covered by the pipeline networks and are treated as emergency backup gas sources for our Group.

As a major national operator of natural gas stations for automobile natural gas filling, the Group has built dozens of natural gas stations across the country. Automobiles can be converted into natural gas operation system by adding a simple machine by paying an affordable fee. Some of the provinces will provide subsidy to automobile owners who are willing to convert their automobile into natural gas operating system. With supports from the PRC governments, our Group is offering inexpensive, clean and environmental friendly natural gas energy to the transportation sector.

The Group has also developed natural gas transport and logistics enterprises in the PRC. In Nanjing, Xining, Pingxiang, Zhuhai, and Maanshan, the Group has already set up LNG and CNG fleets which reinforced the mobility and coverage of our natural gas supplies.

Year by year, consumption of natural gas has been increased rapidly in the percentage among the energy consumption within the PRC. Our Group will cherish this opportunity and undoubtedly elaborate our advantages by strengthening our core businesses horizontally and vertically in all efforts to establish the greatest results for our shareholders and paying back to our society.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
XU Tie-liang *(Chairman)*
QU Guo-hua *(Chief Executive Officer)*
CHEUNG Shing

Independent Non-Executive Directors
LI Yunlong
SHI Xun-zhi
PENG Long

COMPANY SECRETARY

CHAN Yuen Ying Stella, *ACIS, ACS, MHKIoD*

AUTHORISED REPRESENTATIVES

XU Tie-liang
CHAN Yuen Ying Stella

AUDIT COMMITTEE

LI Yunlong *(Chairman)*
SHI Xun-zhi
PENG Long

REMUNERATION COMMITTEE

LI Yunlong *(Chairman)*
PENG Long
CHEUNG Shing

NOMINATION COMMITTEE

PENG Long *(Chairman)*
LI Yunlong
CHEUNG Shing

AUDITORS

Ting Ho Kwan & Chan

PRINCIPAL REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2805, 28th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

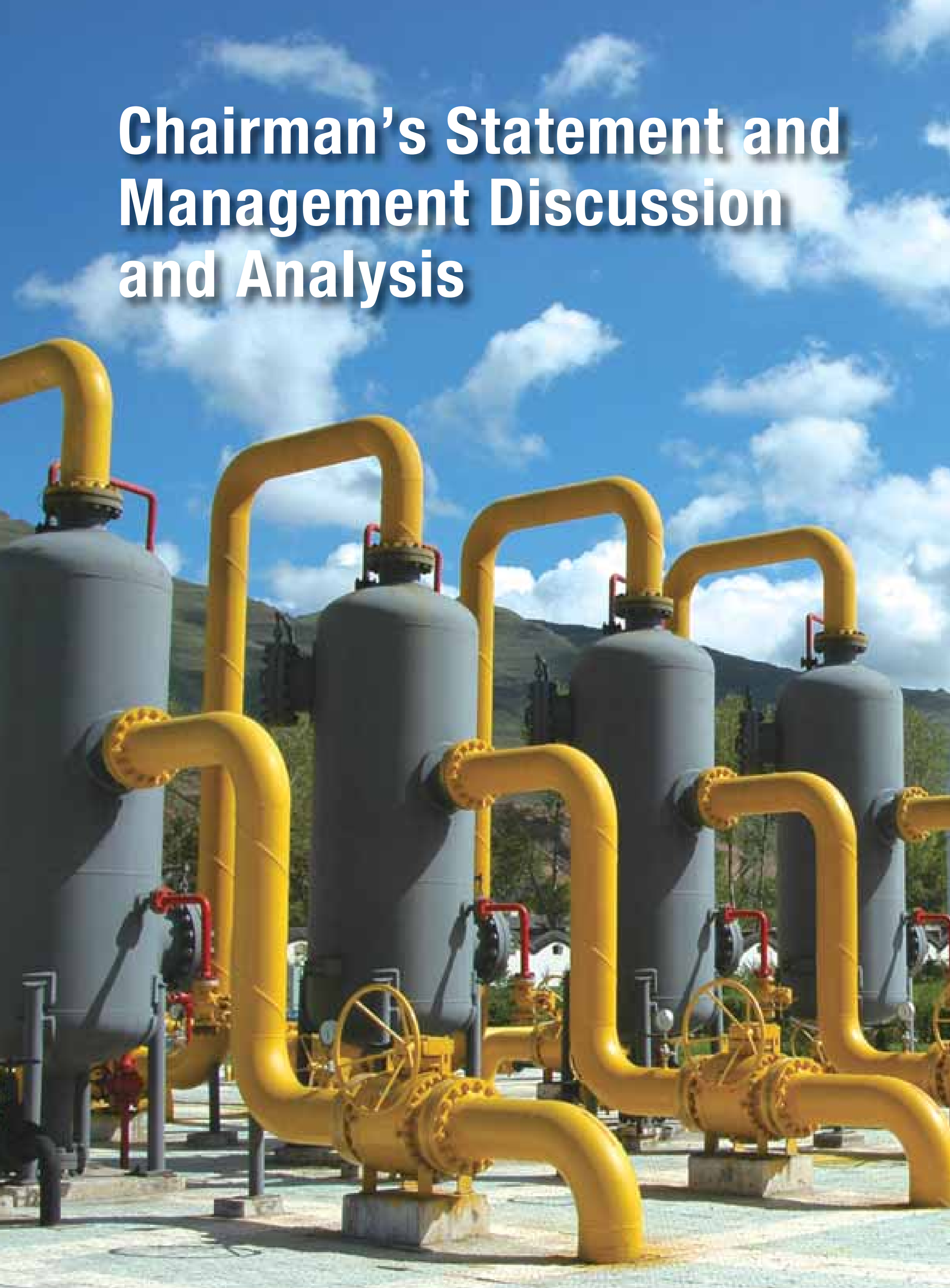
603

WEBSITE AND E-MAIL ADDRESS

Website: http://www.hk603.com

E-mail: info@hk603.com

Chairman's Statement and Management Discussion and Analysis



Chairman's Statement and Management Discussion and Analysis

Dear Shareholders,

I am pleased to present the annual audited results of China Oil And Gas Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2008 (the "Year") on behalf of the board of Directors of the Company (the "Board"). I would like to express our heartfelt regards to all shareholders of the Company (the "Shareholders") on behalf of the Board and all staff members.

The Group is principally engaged in investments in, and the operation and management of the natural gas and energy related business. Gas operations of the Group include piped city gas business, CNG stations business, LNG business, pipeline design and construction, gas transportation and logistics service in the PRC.

The snowstorms and Sichuan earthquake occurred in the PRC, with the global financial tsunami that drained out the world's economy had made 2008 an extraordinary year. Even though business environment was not easy, our management did not find these as drawbacks, but saw them as challenges to ourselves and value-added opportunities. During the Year, our Group had encountered various significant challenges and difficulties in our operations, including the pressure aroused regarding the demand of natural gas resources, competitions among other gas companies and safety concerns. Yet, our management remained calm and confident in facing all these challenges.

BUSINESS DEVELOPMENT AND PROSPECTS

During 2008, we made our investment decisions as prudent as in prior years. We continued our focus on the core operation, piped city natural gas business, while at the same time, introduced additional manpower in the development of compressed natural gas ("CNG") stations, liquefied natural gas ("LNG") factories and the gas transportation/logistic services simultaneously. In geographical circumstances, we started our natural gas business in the North-Western district initially. Up to date, we have already extended our operations to Shandong district, Xianggan district, Yangtze delta district, and even Guangdong district. Accordingly, I am glad to announce that our Group has received distinguished progress, which we have surpassingly completed our targets set at the beginning of the Year.

Up to date, our Group has obtained 37 ownership of natural gas projects which scattered in 7 provinces and 15 cities. By the end of 2008, 7 new gas project corporations have been incorporated within our Group, they are Qinghai China Oil and Gas (LNG) Project, Liling China Oil Compressed Natural Gas (CNG) Project, Nanchang LNG Reception Station Project, Pingxiang CNG Reception Station Project as well as LNG and CNG fleet with 70 trailers and over 100 tank wagons have been put into operation. Our Group has focused in 5 key areas regarding market development which has achieved substantial progress.

North-Western District (西北區域):

Based on the foundation of Xining China Oil Corporation, in view of the opportunity from Se-Ning-Lan Multi-Track Construction (澀寧蘭複線), Qinghai China Oil Ganhe Industrial Park Gas Corporation and Qinghai China Oil East Gas Corporation have been incorporated one after another, and Qinghai China Oil Pipeline Corporation has been reorganised. In particular, the LNG project of Qinghai China Oil and Gas with daily processing capacity of 250,000m^3, has guaranteed the gas source in developing our Group's coastal market after it's put into production.

Yangtze Delta District (長三角區域):

Our Group has arranged its market development staffs to perform discreet surveys on three cities along Jiangdu-Nantong Pipeline (江都－南通管線) i.e. Yangzhou, Taizhou and Nantong, as well as the 8 municipalities, 10 counties and 36 township development areas and industrial zones alone this pipeline. We have received satisfactory results that we have signed 5 cooperation framework agreements with a few towns, development zones, and industrial parks. The natural gas mother station and a number of vehicles refueling stations in Nanjing and Maanshan have been put into operation. In addition, we were granted the franchise operation rights of gas businesses in Lishui Economic and Technological Development Zone, achieving sound economic results. Leveraging on the advantages of natural gas resources, our Group will strive to increase market share, and try to obtain the franchise operation rights of gas businesses in more areas of the district and construct an additional number of vehicles refueling stations in the future.

Xianggan District (湘贛區域):

In elaborating our resources advantage of Xiangli Branch Line (湘醴支線), we have built our supply base in Liling that we can actively expand outwards. From Liling, we begin to develop new projects and at the same time continue to improve the sale capacity and market share of CNG and LNG. In view of an excellent opportunity of an exclusive outlet of Xi'er Line Project (西二線項目), Nanchang China Oil Corporation has expanded projects along the branch lines. Pinxiang China Oil Corporation has actively and stably pushed forwards the Liling-Pingxiang Natural Gas Pipeline project.

Shandong District (山東區域):

Begining with Binzhou China Oil Corporation, our Group plans the development of the natural gas market in Shandong area in an unified way. With the opportunity of pipeline construction of PetroChina in Shandong area, it has gradually strengthened and improved the existing projects, actively expanded our operations toward the surrounding areas and kept a powerful trend of development.

Chairman's Statement and Management Discussion and Analysis

Guangdong District (廣東區域):

The natural gas reception of Chaozhou China Gas Corporation from West-to-East Gas Supply 2nd Line (西氣東輸二線) has created favorable conditions. Chaozhou and Yinde China Gas Corporation have sped up the construction of LNG reception station in order to realize our gas supply as early as possible and to develop the surrounding natural gas markets. Our Group has planned to set up a LNG distribution team and establish a sales network of Guangdong LNG, and at the same time, develop the corresponding natural gas markets and realised a win-win situation of both sale and development by leveraging LNG sale advantage.

In light of a lack of natural gas resources and the undersupply situation, the Group and its business partners worked together to capitalise on their advantage on resources, allowing various natural gas businesses to achieve new development and new breakthroughs. As such, the Group planned to focus on developing the exploration and utilisation of different types of new clean energy, such as energy produced from coal, as well as upper- and lower-stream businesses in connection with the natural gas business.

The following discussions should be read in conjunction with the audited financial statements of the Group and the notes to the financial statements contained in this annual report and other sections for the Year ended 2008.

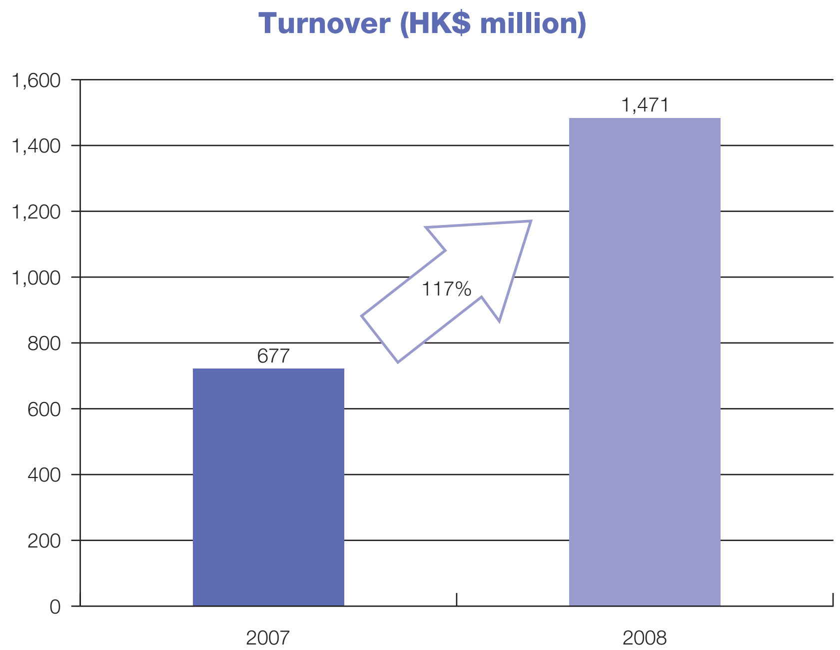
FINAL DIVIDEND

The Board does not recommend any dividend for the Year (2007: Nil).

FINANCIAL RESULTS

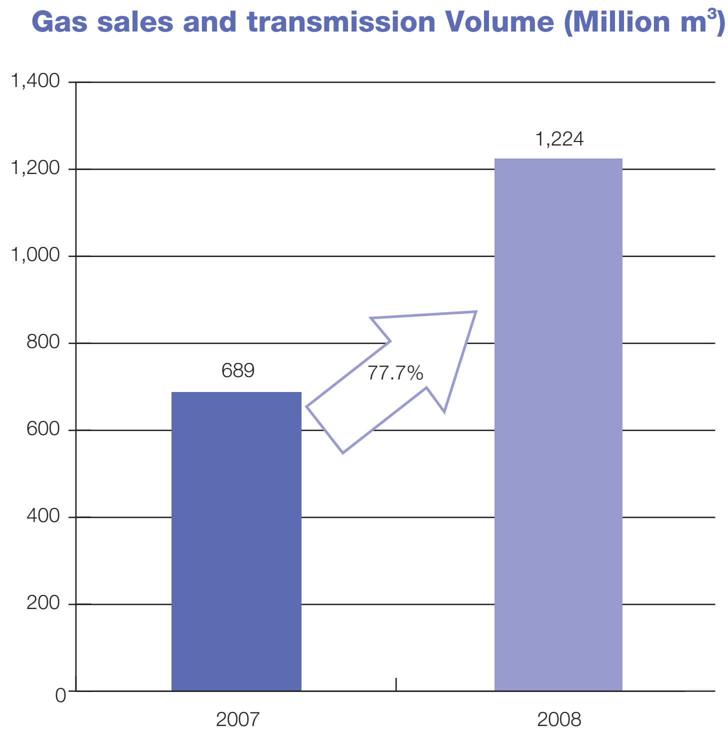
For the Year ended, the Group recorded a turnover of HK$1,471,364,000 (2007: HK$677,372,000), representing an increase of approximately 117.2%. The Group's cost of sales was HK$1,119,397,000 (2007: HK$507,685,000) representing an increase of approximately 120.5%. Gross profit amounted to HK$351,967,000 (2007: HK$169,687,000) increased by 107.2%. Profit for the Year was HK$187,043,000 (2007: HK$113,808,000), increased by 64.3%.

One of the major reasons for these significant increases is the Group increased its equity interest in China City Natural Gas Co., Ltd ("CCNG") to 51%, consequently CCNG had become a subsidiary of the Group and the results of which were fully consolidated into the Group's results starting in July 2007. Other reasons that trigger these significant increases include the increase in sale of piped natural gas, the begin of LNG factory operation in Qinghai, together with the natural gas transport and logistics services, at the beginning of the Year, and projects invested in prior years have begun to yield.



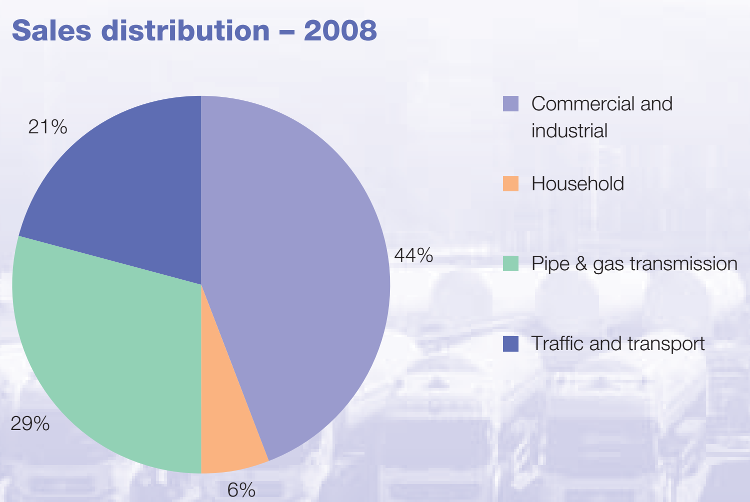
The Group's profit attributed to the shareholders was HK$73,025,000 (2007: HK$72,622,000), which recorded a slightly increase of approximately 1% as compared to 2007. With the conversion of two convertible notes during the Year, the total ordinary shares of the Company have been increased by 650,000,000 Shares and caused a decrease of 15.4% of the earnings per share from HK cents 2.07 to the Year's HK cents 1.75.

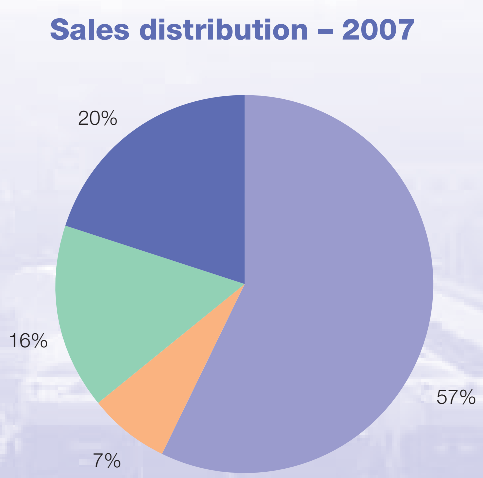
Pursuant to the new Hong Kong Accounting Standards (the "HKAS") adopted in 2007, the movement of fair values of all financial derivative instruments of the Group shall be reflected in the income statement. During 2007, the Company issued two convertible notes in the principal amount of HK$66,000,000 and HK$90,000,000 respectively at a conversion price of HK$0.24 per share, which were fully converted in 2008. As such, the Group recognised a reduction of fair value of HK$4,049,000 (2007: HK$7,239,000) on the income statement for the unrealised interest on the convertible notes. In addition, fair value losses on financial assets written down to market value amounted to HK$17,993,000 in 2008 (2007: HK$4,660,000). Excluding the changes in such non-cash deductions, the Group's profit for the year was HK$209,085,000 (2007: HK$125,707,000) and profit attributable to shareholders was HK$95,067,000 (2007: HK$84,521,000), representing an increase by 66.3% and 12.5% respectively. Other than these deductions on complying with HKAS, our Group recorded interest income of HK$13,798,000 in 2008, with a significant decrease of approximately 38.3% as compared to HK$22,365,000 in 2007. Included in other income and gains also recorded a gain recognised due to the disposal of financial assets in 2007. As a result, other income and gains in 2008 was only HK$17,784,000 (2007: HK$53,790,000), decreased by approximately 67.0% as compared to that of 2007.



BUSINESS REVIEW

During the Year, the Group's total gas sales and transmission volume reached 1.224 billion cubic meters (m^3), increased by 77.7% as compared to 689 million m^3 for last year. Total gas sales increased by 41% from last year's 578 million m^3 to current year's 815 million m^3; whereas transmission and transport increased by 268.5% from 111 million m^3 to the Year's 409 million m^3. Among the gas consumption, 44% (2007: 57%) was commercial and industrial consumption; 6% (2007: 7%) was household consumption; 29% (2007: 16%) was pipes gas transmission; and 21% (2007: 20%) was supplied to traffic and transport. The significant increase in sales volume was mostly contributed by the newly acquired piped gas transmission company, where our piped gas transmission increased from 111 million m^3 in 2007 to 363 million m^3 in 2008. Customers from the household, commercial and industrial sectors contributed 637 million m^3 in 2008 (2007: 449 million m^3), increased by 41.9%. The remaining increase of sales volume is contributed by the new operation of the LNG factory in Qinghai, CNG gas stations, restructure on some of the PRC operations, and the freshly development on natural gas transport and logistics operations.





The Group's operating and administrative expenses for the Year are HK$110,115,000 (2007: HK$64,037,000). The increase was mainly due to the decrease in fair value of financial assets as mentioned above and as well as the due diligent, marketing expenses for acquiring new projects, and the development of new markets. Finance costs increased from 2007's HK$19,812,000 to HK$24,489,000 this year. The finance costs were derived from the liability portion of the convertible notes, which were fully converted during the Year, and the interest paid on bank and other loans.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Group employed a total workforce of approximately 1,350 (2007: 480) among which 9 employees (2007: 9) were stationed in Hong Kong and the remaining were stationed in the PRC. The staff costs for the year amounted to HK$28,132,000 (2007: HK$17,797,000). The employees' remuneration, promotion and salary are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

PLEDGE OF ASSETS

As at 31 December 2008, no asset of the Group has been pledged (2007: RMB122,451,000).

CONTINGENT LIABILITY

As at 31 December 2008, the Group did not have any significant contingent liabilities.

CURRENCY AND INTEREST RATE EXPOSURE

The Group's sales are denominated in Renminbi, and investments are mostly made in Hong Kong Dollars. The Group does not anticipate material currency exposure and risk, and no currency and interest rate risk management or related hedges were made. Proper policy will be in place when the Board considers appropriate.

LITIGATION

As at 31 December 2008, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

Except as disclosed in note 38 to the financial statements, the Group did not incur or commit any material investment or capital expenditure.

BORROWINGS

On 1 February 2007, the Company issued convertible notes in the principal amount of HK$66,000,000 to an independent third party at a conversion price of HK$0.24 per share convertible into 275,000,000 new shares of HK$0.01 each in the capital of the Company as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN"). On 13 August 2008, the Feb CN was fully converted into 275,000,000 shares of the Company.

On 20 March 2007, the Company issued convertible notes in the principal amount of HK$90,000,000 to Mr. Xu Tie-liang as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") at a conversion price of HK$0.24 per share convertible into 375,000,000 new shares of HK$0.01 each. On 29 April 2008, the Mar CN was fully converted into 375,000,000 shares of the Company at the conversion price of HK$0.24 each.

As at 31 December 2008, the Group's total borrowings amounted to HK$305,322,000 (2007: HK$159,257,000), representing bank borrowings and loans made for the gas operations in the PRC under CCNG, an increase of 91.72% as compared to 2007. All bank loans were unsecured and made in Renminbi with the interest rate of 5.94%. The unsecured other borrowings of HK$33,000,000 were interest bearing at 2.28% to 2.55% per annum, and the remaining HK$13,000,000 portions were bearing an interest rate of 4.78% repayable within 5 years.

Save for the borrowings of CCNG, the Group has no other bank loans, overdraft or borrowings.

CAPITAL STRUCTURE

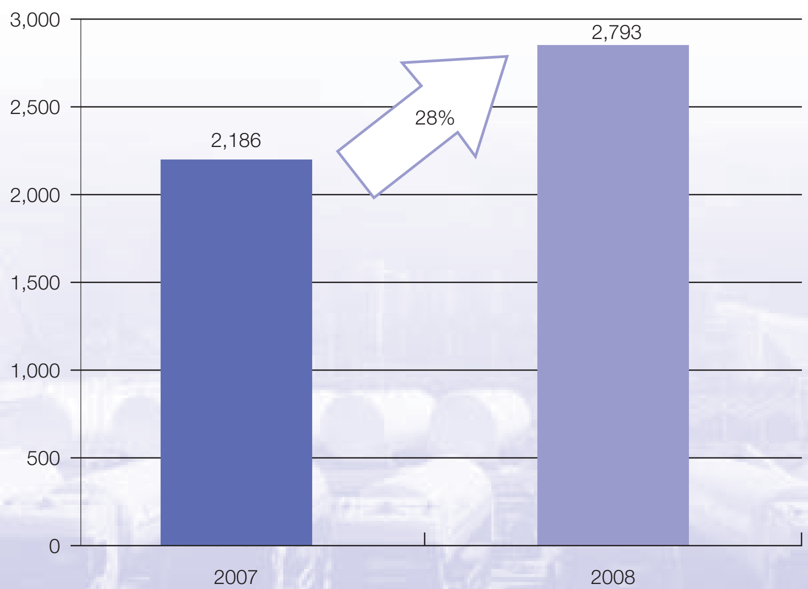
In January 2008, the Company repurchased a total of 1,440,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.395 to HK$0.405 per share in the open market for an aggregate amount of approximately HK$574,500. The above ordinary shares were subsequently cancelled.

On 29 April 2008, the Mar CN has been fully converted into 375,000,000 shares of the Company at the conversion price of HK$0.24 per share.

On 13 August 2008, the Feb CN has been fully converted into 275,000,000 shares of the Company at the conversion price of HK$0.24 per share.

In October 2008, the Company repurchased a total of 7,940,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.102 to HK$0.105 per share in the open market for an aggregate consideration of HK$820,000. The above ordinary shares were subsequently cancelled.

Total Assets (HK$ million)



Chairman's Statement and Management Discussion and Analysis

As at 31 December 2008, the Group had total assets of HK$2,793,000,000 (2007: HK$2,186,000,000), and among which current assets were HK$1,123,000,000 (2007: HK$1,086,000,000). The Group remained at a strong financial position, cash and cash equivalents amounted to HK$731,151,000 (2007: HK$839,166,000) and were mostly denominated in Hong Kong dollars and Renminbi. Total liabilities of the Group were HK$888,840,000 (2007: HK$644,226,000), and current liabilities were HK$818,240,000 (2007: HK$414,364,000). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 47% (2007: 42%). The current ratio of the Group was 1.26 (2007: 2.62) and quick ratio was 1.32 (2007: 2.56).

FUTURE PLANS

The Group has companies at various stages of development, including those relatively matured companies under CCNG, and companies newly established within the past two years such as those located in Nanjing, Maanshan and Binzhou. These new companies are at their initial stage of development and their contributions to the Group are progressing at the present, where the matured companies under CCNG accounted for a substantial majority of the Group's sales recorded in 2008. In this year, we will increase our effort to develop the operation and market of the new companies and fully explore their potential, with the aim of their achieving or even exceeding the contribution made by matured companies to the Group. Meanwhile, as an emerging operation, the commencement of operation of the LNG factory will play a critical role in the Group's expansion into markets without the reach of gas pipelines. We will enhance techniques and further develop our sales network to fully utilise our capacity. We are committed to develop the LNG factory into a leader in the PRC in terms of capacity, as well as into a key contributor to the Group's results.

On 17 April 2009, we entered into a natural gas utilisation projects agreement with Binzhou D&R Commission. Pursuant to the project agreement, our Group agreed to invest in natural gas utilisation projects in Beihoi Xin District and build natural gas stations in certain counties of Binzhou City, Shandong Province, the PRC. The total investment of the Binzhou gas projects is estimated to be RMB150 million, which will be satisfied by the internal resource of the Group.

Year 2009, in spite of the effect of the "Financial Tsunami", once again, our management does not find it as a negative phenomenon, but sees it as an opportunity for our Group's enlargement. We will seize every chance and will determine our decisions in caution against the unstable business environment. Our original city piped natural gas businesses together with the logistics business that has begun in 2008, our Group will continue to aim at moving towards the upstream in the future as we see energy resources will be the most valuable assets of our country in the future. With a full team of professionals and high quality management, I am confident that our Group will strengthen ourselves while going through the downside of the market but at the same time achieves sound and rapid development on the forthcoming year, making a significant progress in our way to become a multi-national enterprise.

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

Xu Tie-liang
Chairman

Hong Kong, 27 April 2009

Biographical Details of Directors

EXECUTIVE DIRECTORS

Mr. Xu Tie-liang, aged 45, was appointed as an executive Director and the Chairman of the Company on 30 August 2006. He is a director of each of the subsidiaries of the Company. Mr. Xu graduated from the Xi'an Shiyou University（西安石油大學）majoring in finance and accounting, and he is also a registered certified public accountant and lawyer in the PRC. He was an independent director of Hua Xia Bank Co., Limited, a company listed on the Shanghai Stock Exchange, and Shandong ShengLi Company Limited, a company listed on Shenzhen Stock Exchange. He was also directors of various companies specializing in investments in oil and energy businesses and provision of legal and management consultancy services. Mr. Xu worked as an accountant in the subsidiaries of China National Petroleum Corporation ("CNPC") and worked in various governmental legal departments in the PRC. He had been the vice chairman and general manager of China Legal Service (Hong Kong) Limited and vice chairman of China Law Magazine Limited. Mr. Xu has extensive experience in investments, merger and acquisition, legal, accounting and finance, and corporate governance aspects. Save as disclosed above, Mr. Xu did not hold directorship in other listed public companies in the past three years.

Upon the expiration of the term of the service contract with the Company on 31 August 2008, there is no service contract between the Company and Mr. Xu. There is no agreement between the Company and Mr. Xu in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company ("Bye-laws"). Mr. Xu is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Xu is interested in 1,096,018,300 shares of the Company which are held through Sino Advance Holdings Limited and Sino Vantage Management Limited, both are wholly and beneficially owned by him, representing approximately 24.59% of the total issued shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO").

Save as disclosed above, Mr. Xu does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Qu Guo-hua, aged 57, was appointed as the chief executive officer and an executive Director of the Company on 30 August 2006. He graduated from South West Petroleum University（西南石油大學）in 1987 and graduated from Air Force Logistic Institute（空軍後勤學院）in July 2000. He is a senior engineer, working for China Petroleum Pipeline Bureau（中國石油天然氣管道局）as a pipeline expert. Mr. Qu is also a representative of the Thirteenth Session of the National People's Congress of Xining and a member of Qinghai Provincial Committee of the Chinese People's Political Consultative Conference. He has been a managing director of China City Natural Gas Co., Ltd, a 51% equity interest owned by the Company, since 2002. He has been working in the subsidiaries of CNPC since 1968, as the chief operating officer and deputy operating manager etc. He is responsible for organising and supervising the ground surface construction works of the oilfields of CNPC and construction works of the long distance pipelines. He participated and organised Shanghai City natural gas distribution and supply work, and the water and gas pipeline construction work for Suzhou Industrial Park as well as construction of large oil storage tank in Zhoushan. Mr. Qu has extensive experience in the petroleum and gas industries, as well as expertise on the construction of oil and gas pipeline network. Mr. Qu did not hold directorship in other listed public companies in the past three years.

Upon the expiration of the term of the service contract with the Company on 31 August 2008, there is no service contract between the Company and Mr. Qu. There is no agreement between the Company and Mr. Qu in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Qu is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Qu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Qu does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Cheung Shing, aged 56, was appointed as an executive Director of the Company on 13 January 2006. He is also a member of each of the Remuneration Committee and the Nomination Committee of the Company. He was a staff of 中國石油齊魯石化煉油廠, the department president of 中國石油勝利油田 and the president of 中國石油中原油田 during the period between 1969 and 1993. He was the chairman of each of 華中(香港)有限公司, 河南省盛華石油化工有限公司 and Liaoning Xinmin Petroleum Company Limited during the period between 1993 and 2004. He is currently a petroleum and natural gas management economist(石油天燃氣集團管理經濟師). Mr. Cheung is currently an executive director and deputy chairman of Sino Union Petroleum & Chemical International Limited, a company listed on the Stock Exchange. Save as disclosed above, Mr. Cheung did not hold directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Cheung, and there is no agreement between the Company and Mr. Cheung in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once in every three years in accordance with the Bye-laws. Mr. Cheung is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Cheung does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Cheung does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Xun-zhi, aged 74, was appointed as an independent non-executive Director of the Company on 30 August 2006. He is a member of the Audit Committee of the Company. He is a deputy minister and a professor senior engineer. He has been awarded the Youth and Mature Scientist with outstanding contributions by the State Council. He graduated from Petroleum Institute of Beijing (renamed as China University of Petroleum, Beijing)(中國石油大學(北京))in 1956 in the profession of petroleum geology. He worked as geology engineer, associate director of the technology division, director of human resources division, supervisor in the Ministry of Petroleum Industry of the PRC (renamed as CNPC), CNPC President's Special Assistant and also a member of the Ninth Chinese People's Political Consultative Conference. He has been the Chairman of CNPC Sino-Russian Oil & Gas Corporation Committee and the chairman of China National Oil & Gas Exploration and Development Corporation(中國石油勘探開發公司)and chairman of CNPA-Alberta Petroleum Center(中國加拿大阿爾伯特石油中心)and is responsible for the pipelines works between China and Russia, and worked on the overseas petroleum exploration and development as well as international cooperation work. He is currently the Co-Chairman of Northeast Asian Gas And Pipeline Forum and the President of Asia Gas & Pipeline Cooperation Research Center of China. Mr. Shi did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Shi, and there is no agreement between the Company and Mr. Shi in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation at least once in every three years in accordance with the Bye-laws. Mr. Shi is entitled to director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Shi does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Shi does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Biographical Details of Directors

Mr. Peng Long, aged 45, was appointed as an independent non-executive Director of the Company on 13 January 2006. He is the chairman of the Nomination Committee of the Company and a member of the Audit Committee and the Remuneration Committee of the Company. He has been the Vice Principal and the Dean of School of International Business, Beijing Foreign Studies University, since August 2007. Mr. Peng is at the same time a director of International Finance and Commerce Institute (IFCI), Beijing Foreign Studies University, Deputy Director of International Business English Studies Committee, China Association of International Trade, independent director of Nanjing Landsea Co. Ltd, and Adjunct Professor in Business School of Beijing University of Posts and Telecommunications. He was also an independent director of Super Shine Co. Ltd, a company listed on the Shenzhen Stock Exchange. Mr. Peng graduated from Institute of Systems Science, Chinese Academy of Science, with a doctor degree offered by Chinese Academy of Science in 1997. He then worked as a post-doctor in Guanghua School of Management, Beijing University, focusing his research on finance, option pricing and finite element method, and enjoyed Government Special Allowance from China State Council. Mr. Peng did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Peng, and there is no agreement between the Company and Mr. Peng in respect of the proposed length of service or prior notice to the either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-laws. Mr. Peng is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Peng does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Peng does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Mr. Li Yunlong, aged 57, was appointed as an independent non-executive Director of the Company on 18 April 2008. He is the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Li graduated from the Accounting School of Zhongnan University of Economics and Law（中南財經政法大學會計學院）with a Bachelor Degree in Economics. Mr. Li is a registered certified public accountant in the PRC and possesses the qualification of PRC senior auditor. Mr. Li had been working at the National Audit Office of the PRC for over 10 years in various audit departments, and he is currently a partner of Hua Wen CPA Ltd（華聞會計師事務所）in the PRC. He is the financial consultants of various companies in the PRC, and an independent director of Tuopai Yeast Liquor Co. Ltd. Sichuan（四川沱牌曲酒股份有限公司）, a company listed on the Shanghai Stock Exchange. He has extensive experience in legal, accounting, auditing and finance aspects. Save as disclosed above, Mr. Li did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Li, and there is no agreement between the Company and Mr. Li in respect of the proposed length of service or prior notice to the either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-laws. Mr. Li is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions.

Mr. Li does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Mr. Li does not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Report of the Directors

The Board of Directors of the Company is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in investments in natural gas and energy related businesses.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 32 to 105.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 106. This summary does not form part of the audited financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2008 is set out in note 7 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 17 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes of the Company are set out in note 33 to the financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year under review, together with the reasons thereof, are set out in note 29 to the financial statements.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 31 January 2002, details of the scheme are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2008, the Company purchased 9,380,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.102 to HK$0.405 per share on the Stock Exchange. Details of the repurchases are as follows:

Month/Year	Number of shares repurchased	Purchase price per share Highest	Lowest	Aggregate purchase consideration
		HK$	HK$	HK$
January 2008	1,440,000	0.405	0.395	574,500
October 2008	7,940,000	0.105	0.102	820,000
Total:	9,380,000			1,394,500

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2008.

DISTRIBUTABLE RESERVES

As at 31 December 2008, no reserve of the Company was available for distribution to shareholders of the Company. In addition, the Company's share premium account will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2008	2007
	%	%
Purchases		
– the largest supplier	**53.5**	22.0
– five largest suppliers combined	**96.7**	37.0
Turnover		
– the largest customer	**4.5**	0.5
– five largest customers combined	**12.5**	2.0

None of the Directors or any of their associates (as defined in the Listing Rules) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

XU Tie-liang *(Chairman)*
QU Guo-hua *(Chief Executive Officer)*
CHEUNG Shing
ZENG Xiao (Resigned on 30 December 2008)

Independent Non-Executive Directors

LI Yunlong (Appointed on 18 April 2008)
SHI Xun-zhi
PENG Long
CHEUNG Man Yau, Timothy (Resigned on 2 June 2008)

In accordance with the Company's Bye-law 87, Mr. Xu Tie-liang and Mr. Cheung Shing shall retire from office as Directors by rotation at the forthcoming annual general meeting to be held on 3 June 2009 ("2009 AGM") and being eligible, offer themselves for re-election.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

The Company entered into a service contract with each of Mr. Xu Tie-liang and Mr. Qu Guo-hua on 30 August 2006 for an initial fixed term of two years commenced on 1 September 2006 and shall continue thereafter until it is terminated pursuant to the terms of the respective service contract. Upon the expiration of the term of the service contract on 31 August 2008, there is no service agreement between the Company and each of Mr. Xu and Mr. Qu.

Save as disclosed above, none of the Directors who are proposed for re-election at the 2009 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significant to the business of the Group to which the Group or its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2008, the interests or short positions of the Directors and chief executives 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 were 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 they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

Interests in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ Short position	*Notes*	Number of ordinary shares held	Percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	7.20%
	Interest in a controlled corporation	Long position	2	775,000,000	17.39%

Notes:

1. These 321,018,300 ordinary shares of the Company are held through Sino Advance Holdings Limited ("Sino Advance"), a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Xu Tie-liang.

2. These 775,000,000 ordinary shares of the Company are held through Sino Vantage Management Limited ("Sino Vantage"), a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Xu Tie-liang.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company which were recorded on the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2008.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Interests in the shares and underlying shares of the Company

Name of shareholder	Capacity	Long position/ Short position	*Notes*	Number of ordinary shares held	Percentage of the Company's issued share capital
Sino Advance	Beneficial owner	Long position	1	321,018,300	7.20%
Sino Vantage	Beneficial owner	Long position	2	775,000,000	17.39%
New Stamina Investments Limited ("New Stamina")	Beneficial owner	Long position	3	275,000,000	7.20%
Lo Chung	Interest in a controlled corporation	Long position	3	275,000,000	7.20%
	Family interest	Long position	4	16,000,000	0.42%

Notes:

1. Sino Advance is a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares of the Company owned by Sino Advance.

2. Sino Vantage is a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 775,000,000 ordinary shares of the Company owned by Sino Vantage.

3. New Stamina is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lo Chung. Hence, Mr. Lo Chung is deemed to be interested in 275,000,000 ordinary shares of the Company owned by New Stamina.

4. These 16,000,000 ordinary shares are held by the spouse of Mr. Lo Chung, and therefore, Mr. Lo Chung is deemed to be interested in these shares.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this report.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 26 to 30 of the annual report.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in 1998. The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi and Mr. Peng Long. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2008.

AUDITORS

BDO McCabe Lo Limited resigned as auditor of the Company on 26 April 2006, and Ting Ho Kwan & Chan were appointed as auditors of the Company to fill the vacancy arising from the resignation of BDO McCabe Lo Limited at a special general meeting of the Company held on 30 May 2006. Save as disclosed above, there were no changes in auditors during the past three years.

A resolution will be submitted to the 2009 AGM to re-appoint Ting Ho Kwan & Chan as auditors of the Company.

On behalf of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

Hong Kong, 27 April 2009

Corporate Governance Report

The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the year ended 31 December 2008, the Company was in compliance with the code provisions set out in the CG Code except that code provision A.4.1 of the CG Code provides that the non-executive Directors should be appointed for a specific term. The non-executive Directors of the Company were not appointed for a specific term but they are subject to the provision for retirement by rotation under the Bye-laws of the Company.

Save as the aforesaid and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the year ended 31 December 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

The Board currently consists of six Directors including three executive Directors and three independent non-executive Directors:

Executive Directors

Mr. XU Tie-liang *(Chairman)*
Mr. QU Guo-hua *(Chief Executive Officer)*
Mr. CHEUNG Shing

Independent Non-executive Directors

Mr. LI Yunlong
Mr. SHI Xun-zhi
Mr. PENG Long

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 16 to 18 under the section headed "Biographical Details of Directors".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Chairman and Chief Executive Officer

The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. Mr. Xu Tie-liang, the Chairman, is in-charge of the management of the Board and strategic planning of the Group. Mr. Qu Guo-hua, the Chief Executive Officer, is responsible for the day-to-day management of the Group's business.

Non-executive Directors

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting and finance. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

The three independent non-executive Directors are not appointed for specific term and are subject to retirement by rotation in accordance with the Bye-laws of the Company.

Board Meetings

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual and interim results.

During the year ended 31 December 2008, the Board held 11 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	**Number of attendance**
XU Tie-liang	11/11
QU Guo-hua	10/11
CHEUNG Shing	11/11
LI Yunlong*	7/8
SHI Xun-zhi	9/11
PENG Long	10/11
ZENG Xiao**	10/11
CHEUNG Man Yau, Timothy***	2/6

* Mr. Li Yunlong was appointed on 18 April 2008, 8 meetings were held after his appointment.

** Mr. Zheng Xiao resigned on 30 December 2008, 11 meetings were held before his resignation.

*** Mr. Cheung Man Yau, Timothy resigned on 2 June 2008, 6 meetings were held before his resignation.

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the natural gas industry and/or other professional area.

The Company established a Nomination Committee (the "Nomination Committee") with written terms of reference on 15 March 2006, and currently consists of two independent non-executive Directors, namely Mr. PENG Long (as chairman) and Mr. LI Yunlong, and one executive Director, namely Mr. CHEUNG Shing.

The function of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the year ended 31 December 2008, the Nomination Committee held two meetings to assess the independency of the independent non-executive Directors, to consider the appointment of new Director and re-election of Directors.

Name of member	Number of attendance
PENG Long	2/2
LI Yunlong*	1/1
CHEUNG Shing	2/2
CHEUNG Man Yau, Timothy**	1/2

* Mr. Li Yunlong was appointed on 18 April 2008, 1 meeting was held after his appointment.

** Mr. Cheung Man Yau, Timothy resigned on 2 June 2008, 2 meeting was held after his resignation.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee (the "Remuneration Committee) with written terms of reference on 13 January 2006, and currently consists of two independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. PENG Long, and one executive Director, namely Mr. CHEUNG Shing.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

During the year ended 31 December 2008, the Remuneration Committee held two meetings for making recommendation of the remuneration of the proposed new Director reviewing the remuneration packages of the Directors and senior management.

Name of member	Number of attendance
LI Yunlong*	1/1
PENG Long	2/2
CHEUNG Shing	2/2
CHEUNG Man Yau, Timothy**	1/2

* Mr. Li Yunlong was appointed on 18 April 2008, 1 meeting was held before his appointment.

** Mr. Cheung Man Yau, Timothy resigned on 2 June 2008, 2 meetings were held before his resignation.

The Company has adopted a share option scheme on 31 January 2002. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under the employment agreements, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in 1998. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. SHI Xun-zhi and Mr. PENG Long.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

The Audit Committee meets the external auditors at least two times a year to discuss any area of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2008, the Audit Committee held two meetings.

Name of member	**Number of attendance**
LI Yunlong*	2/2
PENG Long	2/2
SHI Xun-zhi	2/2
CHEUNG Man Yau, Timothy**	1/1

* Mr. Li Yunlong was appointed on 18 April 2008, 2 meetings were held after his appointment.

** Mr. Cheung Man Yau, Timothy resigned on 2 June 2008, 1 meeting was held before his resignation.

During the year ended 31 December 2008, the Audit Committee reviewed the annual and interim results of the Group together with the auditors of the Company, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules. The Audit Committee noted the existing internal control system of the Group and also noted that review of the same will be carried out annually.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Ting Ho Kwan & Chan, is set out below:–

Services rendered	**Fee paid/payable** HK$
Audit services	1,024,500
Non-audit services	0
	1,024,500

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manners:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Chairman of the Company attended the 2008 annual general meeting of the Company to answer questions of the meeting.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors acknowledges its responsibility to prepare the Company's financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2008, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information is provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2008, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

Independent Auditor's Report

TO THE SHAREHOLDERS OF
CHINA OIL AND GAS GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of China Oil And Gas Group Limited (the "Company") set out on pages 32 to 105, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)

Hong Kong, 27 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	6	**1,471,364**	677,372
Cost of sales		**(1,119,397)**	(507,685)
Gross profit		**351,967**	169,687
Other income and gains, net	8	**17,784**	53,790
Selling and distribution costs		**(16,507)**	(11,676)
Administrative expenses		**(110,115)**	(64,037)
Operating profit		**243,129**	147,764
Finance costs	9	**(24,489)**	(19,812)
Share of profits of associates of a jointly controlled entity		**–**	1,970
Share of profits/(losses) of associates		**2,488**	(475)
Profit before taxation		**221,128**	129,447
Taxation	12	**(34,085)**	(15,639)
Profit for the year	13	**187,043**	113,808
Attributable to:			
Equity holders of the Company	15	**73,025**	72,622
Minority interests		**114,018**	41,186
		187,043	113,808
Earnings per share	16		
– Basic		**1.75 cents**	2.07 cents
– Diluted		**–**	1.93 cents

The notes on pages 41 to 105 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,004,165**	513,578
Leasehold land and land use rights	18	**33,825**	25,526
Goodwill	19	**627,258**	558,305
Other intangible assets	20	**3,802**	1,803
Available-for-sale financial assets	24	**499**	1,542
Total non-current assets		**1,669,549**	1,100,754
Current assets			
Inventories	25	**46,286**	27,292
Financial assets at fair value through profit or loss	26	**19,517**	16,219
Deposits, trade and other receivables	27	**326,165**	202,285
Current tax recoverable		**–**	695
Cash and cash equivalents	28	**731,151**	839,166
Total current assets		**1,123,119**	1,085,657
Total assets		**2,792,668**	2,186,411
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**44,579**	38,172
Reserves		**1,454,245**	1,217,000
		1,498,824	1,255,172
Minority interests		**405,004**	287,013
Total equity		**1,903,828**	1,542,185

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Bank and other borrowings	32	**64,749**	79,110
Convertible notes	33	**–**	145,332
Deferred tax liabilities	34	**5,851**	5,420
Total non-current liabilities		**70,600**	229,862
Current liabilities			
Trade and other payables	35	**555,099**	316,162
Bank and other borrowings	32	**240,573**	80,147
Convertible notes	33	**–**	604
Current tax payable		**22,568**	17,451
Total current liabilities		**818,240**	414,364
Total liabilities		**888,840**	644,226
Total equity and liabilities		**2,792,668**	2,186,411
Net current assets		**304,879**	671,293
Total assets less current liabilities		**1,974,428**	1,772,047

Xu Tie-liang
Director

Qu Guo-hua
Director

The notes on pages 41 to 105 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Interests in subsidiaries	21	**1,272,697**	1,254,652
Current assets			
Cash and cash equivalents	28	**4,381**	8,174
Total assets		**1,277,078**	1,262,826
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**44,579**	38,172
Reserves	31	**1,228,499**	1,074,698
Total equity		**1,273,078**	1,112,870
Non-current liabilities			
Convertible notes	33	**–**	145,332
Current liabilities			
Other payables		**4,000**	4,020
Convertible notes	33	**–**	604
Total current liabilities		**4,000**	4,624
Total liabilities		**4,000**	149,956
Total equity and liabilities		**1,277,078**	1,262,826
Net current assets		**381**	3,550
Total assets less current liabilities		**1,273,078**	1,258,202

Xu Tie-liang
Director

Qu Guo-hua
Director

The notes on pages 41 to 105 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

Group	Issued share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Other capital reserve HK$'000	Convertible notes reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	25,197	989,988	675	11,813	–	4,115	(720,434)	21,213	332,567
Effect of acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	–	–	–	11,813	–	–	(11,813)	190,056	190,056
Shares issued upon placement of shares, net of issuing expenses	9,100	737,289	–	–	–	–	–	–	746,389
Issue of shares in consideration for acquisition of interests in subsidiaries	4,000	92,000	–	–	–	–	–	–	96,000
Repurchase of own shares	(125)	(9,766)	125	–	–	–	(125)	–	(9,891)
Currency realignment	–	–	–	–	–	20,791	–	2,185	22,976
Recognition of equity component of convertible notes	–	–	–	–	17,907	–	–	–	17,907
Acquisition of minority interests	–	–	–	–	–	–	–	(7,361)	(7,361)
Minority interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	49,092	49,092
Dividend paid to minority interests	–	–	–	–	–	–	–	(9,358)	(9,358)
Profit for the year	–	–	–	–	–	–	72,622	41,186	113,808
At 31 December 2007	38,172	1,809,511*	800*	23,626*	17,907*	24,906*	(659,750)*	287,013	1,542,185

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

Group	Issued share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Other capital reserve HK$'000	Convertible notes reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 31 December 2007	38,172	1,809,511*	800*	23,626*	17,907*	24,906*	(659,750)*	287,013	1,542,185
Repurchase of own shares	(93)	(1,301)	93	–	–	–	(93)	–	(1,394)
Currency realignment	–	–	–	–	–	22,640	–	18,167	40,807
Conversion of convertible notes	6,500	160,788	–	–	(17,907)	–	–	–	149,381
Minority interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	11,857	11,857
Dividend paid to minority interests	–	–	–	–	–	–	–	(26,051)	(26,051)
Profit for the year	–	–	–	–	–	–	73,025	114,018	187,043
At 31 December 2008	44,579	1,968,998*	893*	23,626*	–*	47,546*	(586,818)*	405,004	1,903,828

* These reserve accounts comprise the consolidated reserves of HK$1,454,245,000 (2007: HK$1,217,000,000) in the consolidated balance sheet.

The notes on pages 41 to 105 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit for the year		**187,043**	113,808
Adjustments for:			
Taxation		**34,085**	15,639
Finance costs		**24,489**	19,812
Interest income		**(13,798)**	(22,365)
Dividend income		**(370)**	(14)
Share of profits of associates of a jointly controlled entity		**–**	(1,970)
Share of (profits)/losses of associates		**(2,488)**	475
Bad debts written off		**405**	29
Amortisation of other intangible assets		**44**	41
Impairment losses of available-for-sale financial assets		**1,043**	–
Depreciation of property, plant and equipment		**45,653**	27,520
Amortisation of leasehold land and land use rights		**657**	565
Loss on disposal of property, plant and equipment and leasehold land and land use rights		**34**	1,253
Loss/(gain) on disposal of financial assets at fair value through profit or loss		**2,779**	(5,801)
Fair value losses on financial assets at fair value through profit or loss		**16,950**	4,660
		296,526	153,652
Changes in working capital:			
Increase in available-for-sale financial assets		**–**	(450)
(Increase)/decrease in financial assets at fair value through profit or loss		**(23,027)**	20,948
(Increase)/decrease in inventories		**(17,266)**	22,091
(Increase)/decrease in deposits, trade and other receivables		**(85,816)**	51,473
Increase/(decrease) in trade and other payables		**198,022**	(13,077)
Cash generated from operations		**368,439**	234,637
Taxation paid		**(30,837)**	(8,241)
Net cash generated from operating activities		**337,602**	226,396

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Interest received		**13,798**	22,365
Dividend received		**370**	14
Purchases of property, plant and equipment and leasehold land and land use rights		**(448,995)**	(158,066)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**1,104**	1,838
Purchases of other intangible assets		**(1,929)**	–
Net cash outflow on acquisition of subsidiaries	36(a)	**(90,828)**	(481,365)
Net cash outflow on acquisition of associates	23	**(14,426)**	–
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	36(b)	**–**	102,731
Net cash used in investing activities		**(540,906)**	(512,483)
Cash flows from financing activities			
Interest paid		**(21,044)**	(11,969)
New borrowings raised		**253,032**	16,036
Repayment of borrowings		**(128,417)**	(37,451)
Dividend paid to minority interests		**(26,051)**	(9,358)
Proceeds from issue of convertible notes		**–**	156,000
Proceeds from placing and issue of shares, net of issuing expenses		**–**	842,389
Payment for repurchase of own shares		**(1,394)**	(9,890)
Net cash generated from financing activities		**76,126**	945,757

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net (decrease)/increase in cash and cash equivalents		**(127,178)**	659,670
Cash and cash equivalents at beginning of the year		**839,166**	165,417
Effect of foreign exchange rate changes		**19,163**	14,079
Cash and cash equivalents at end of the year	28	**731,151**	839,166

The notes on pages 41 to 105 are an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL

China Oil and Gas Group Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 21.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of 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, are disclosed in note 5.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting year of the Group. Note 4 provides information on initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years, unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

The Group's investments in their associates are accounted for under the equity method of accounting. These associates are entities over which the Group has significant influence over their management, including participation in the financial and operating policy decision, generally accompanying a shareholding of between 20% and 50% of the voting rights and which are neither subsidiaries nor jointly controlled entities.

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any accumulated impairment losses. The consolidated income statement reflects the Group's share of the results of operations of the associates. The Group's interests in their associates include goodwill (net of accumulated impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating parties and whereby the Group together with the parties undertake an economic activity which is subject to joint control and none of the parties has unilateral control over the economic activity.

The Group's interests in jointly controlled entity are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associates/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities respectively. Goodwill on acquisition of subsidiaries is shown separately in the consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses and is not amortised. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Exclusive rights

Exclusive rights are shown at historical cost. Exclusive rights have definite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of exclusive rights over their estimated useful lives of 48 years for natural gas supply services.

(iii) Club membership

Investment in club membership is shown at historical cost. Investment in club membership has indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses and is not amortised.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial year in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Property, plant and equipment, other than construction in progress, are depreciated at the following annual rates sufficient to write off their costs less any accumulated impairment losses and residual values (if any) over their estimated useful lives. The principal annual rates and methods used for this purpose are as follows:

Buildings	4%-8% on the straight line basis
Leasehold improvements	Over the lease terms
Plant and machinery	15% on the reducing balance basis
	5%-33.3% on the straight line basis
Pipelines	5% on the straight line basis
Motor vehicles	25% on the reducing balance basis
	10%-20% on the straight line basis
Furniture, fixtures and equipment	15%-20% on the reducing balance basis
	5%-20% on the straight line basis
Tools and moulds	33.3% on the straight line basis

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Construction in progress represents pipelines under construction and is stated at cost less any accumulated impairment losses, and is not depreciated. Costs comprise direct and indirect incremental costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties. Leasehold land and land use rights relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight line basis to the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Regular purchases and sales of financial assets are recognised on the trade date when the Group commits to purchases or sell the asset. Investments are initially recognised at fair value plus, in the case of the investments other than trading securities, transaction costs. At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired, such as a significant or prolonged decline in the fair value of an investment in an equity investment below its costs. Financial assets other than investments in subsidiaries, associates and jointly controlled entities are further categorised into the following classifications for the measurement after initial recognition.

(i) Financial assets at fair value through profit or loss

Investments in securities held for trading are classified as financial assets at fair value through profit or loss included in current assets and are stated in the balance sheet at fair value. Any attributable transaction costs and gain or loss on the fair value changes of financial assets at fair value through profit or loss are recognised in profit or loss.

(ii) Held-to-maturity investments

Investment in debt securities with fixed or determinable payments and fixed maturity that the Company has the position intention and ability to hold to maturity are classified as held-to-maturity investments, which are measured at amortised cost using the effective interest method, less impairment losses, if any.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise "Deposit, trade and other receivables" and "Cash and cash equivalents" in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(iv) Available-for-sale financial assets

Investments other than those held for trading and held to maturity are classified as available-for-sale financial assets and are stated in the balance sheet at fair value. Gain or loss on fair value changes of available-for-sale financial assets is recognised directly in equity in the fair value reserves, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss.

When the available-for-sale financial assets are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where the available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial assets has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial assets has not been derecognised.

Investments in unquoted equity instruments whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred on such instrument, the amount of impairment loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar instrument. Such impairment losses are not reversed.

Fair value of an instrument on initial recognition is normally the transaction prices, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investments.

After initial recognition, the fair value of an investment quoted in an active market is based on the current bid price and, for investments not quoted in an active market, the Group establishes the fair value of such investment by using a valuation technique where appropriate.

Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis and option pricing models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of raw material is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less all costs to completion and all direct costs to be incurred in selling and distribution. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Trade and other receivables

Trade and other receivables are initially recognised at fair value, and after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

– interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of bad and doubtful debts, and

– short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note (ii) below) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– a significant financial difficulty of the debtors;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtors; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(continued)*

– For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowable account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– land and land use rights classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries, associates and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

– goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities (if any) measured in accordance with accounting policy stated below, trade and other payables are subsequently stated at amortised cost, except for the following payables:

– short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and

– interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

An initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to accumulated losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and the costs, if applicable, can be measured reliably. Revenue is recognised in profit or loss as follows:

(i) Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(ii) Sales of natural gas

Sales of natural gas are recognised when the goods are delivered and title has passed.

(iii) Gas connection fee income

Gas connection fee income is recognised when the relevant connection works are substantially completed and connection services are rendered.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Consultancy fee and transportation income

Consultancy fee and transportation income are recognised when the services are rendered.

(vi) Dividend income

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

(i) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (ie. the guarantor) to make specified payment to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (iii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note (iii) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note (iii) below.

(iii) Other provisions and contingent liabilities

Provision are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax asset is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the year of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenues, expenses, assets, liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing borrowings, tax balances, corporate and financing expenses.

4. THE ADOPTION OF NEW AND REVISED HKFRS

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group as follows:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Note 3 summarise the accounting policies of the Company, after the adoption of these developments to the extent that they are relevant to the Group. The application of these new and revised HKFRS had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective and which have not been early adopted in these financial statements (see note 45).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management makes assumptions, estimates and judgements in the process of applying the Group's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRS. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 19).

(ii) Fair value estimation

The carrying value less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, is a reasonably approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(iii) Income tax

The Company is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(b) Critical judgements in applying the entity's accounting policies

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of such financial asset is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

6. TURNOVER

Turnover represents the net amounts received and receivable for pipe connection services, transportation services and sales of goods and natural gas. Analysis of the Group's turnover for the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover from pipe connection services, transportation services, sales of goods and natural gas	**1,471,364**	677,372

7. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment, and (b) on a secondary segment reporting basis, by geographical segment.

Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Group is principally engaged in investments in the natural and other gas and also energy related business in the PRC.

(a) Business segments

Segment revenues and results

For the years ended 31 December 2008 and 2007, no business segment information in respect of the Group's operation has been presented as all the Group's turnover was derived from natural gas business.

(b) Geographical segments

No geographical segment information in respect of the Group's operation as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

8. OTHER INCOME AND GAINS, NET

	Group	
	2008	2007
	HK$'000	HK$'000
Other income and gains, net		
Consultancy fee income	**–**	8,734
Interest income	**13,798**	22,365
Dividend income from available-for-sale financial assets		
-listed shares in Hong Kong	**370**	14
Gain on disposal of financial assets		
at fair value through profit or loss	**–**	5,801
Gain on exchange	**–**	366
Others	**3,616**	16,510
	17,784	53,790

9. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on:		
Bank borrowings	**14,826**	3,238
Other borrowings		
-not wholly repayable within five years	**–**	270
-wholly repayable within five years	**5,200**	8,441
Securities trading account	**5**	20
Convertible notes (note 33)	**4,458**	7,843
	24,489	19,812

10. DIRECTORS' REMUNERATION

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**332**	360
Salaries, allowances and benefits in kind	**7,209**	5,451
Retirement benefits scheme contributions	**12**	12
	7,553	5,823

10. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the year ended 31 December 2008 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Xu Tie-liang	–	6,000	12	6,012
Qu Guo-hua	–	939	–	939
Zeng Xiao (resigned on 30 December 2008)	–	120	–	120
Cheung Shing	–	150	–	150
Independent non-executive directors:				
Cheung Man Yau, Timothy (resigned on 2 June 2008)	50	–	–	50
Shi Xun-zhi	120	–	–	120
Peng Long	120	–	–	120
Li Yun-long (appointed on 18 April 2008)	42	–	–	42
Total	332	7,209	12	7,553

During the year, no remuneration was waived by any executive directors (2007: Nil).

10. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the year ended 31 December 2007 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Xu Tie-liang	–	4,500	12	4,512
Qu Guo-hua	–	681	–	681
Zeng Xiao	–	120	–	120
Cheung Shing	–	150	–	150
Independent non-executive directors:				
Cheung Man Yau, Timothy	120	–	–	120
Shi Xun-zhi	120	–	–	120
Peng Long	120	–	–	120
Total	360	5,451	12	5,823

11. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remunerations in the Group, two (2007: two) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2007: three) individuals were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,173**	1,850
Retirement benefits scheme contributions	**29**	36
	2,202	1,886

The number of employee whose remuneration fell within the following band were as follows:

	Number of employees	
	2008	2007
HK$ Nil to HK$1,000,000	**3**	3

In addition to the above, there were no share options granted to employees under the Company's share option scheme during the year (2007: Nil).

No emoluments were paid or payable to the above highest paid individuals as an inducement to join the Group or as compensation for loss of office during the financial year ended 31 December 2008 and 2007.

12. TAXATION

Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% (2007: 33%) of the assessable profits of the companies within the Group, except for certain subsidiaries in the PRC being entitled to preferential tax treatments, which are taxed at preferential rate of 18%.

No provision for Hong Kong profits tax has been made for those companies subject to Hong Kong profits tax within the Group as these subsidiaries did not have any assessable profits for the year (2007: Nil).

	Group	
	2008	2007
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax	**–**	–
Taxation outside Hong Kong	**33,997**	15,841
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences (note 34)	**88**	(202)
Taxation charge	**34,085**	15,639

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense using the domestic taxation rates applicable to the profit of the consolidated companies is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Profit before taxation	**221,128**	129,447
Tax calculated at the domestic tax rate of 16.5% (2007: 17.5%)	**36,486**	22,653
Tax effect of income not subject to taxation	**(17,318)**	(32,909)
Tax effect of expenses not deductible for tax purpose	**8,776**	16,337
Effect of different tax rates of its subsidiaries	**6,141**	9,558
Taxation charge	**34,085**	15,639

13. PROFIT FOR THE YEAR

This has been arrived at after charging:

	Group	
	2008	2007
	HK$'000	HK$'000
Staff costs (excluding directors' remuneration (note 10)):		
Salaries and wages	**28,043**	17,638
Retirement benefits scheme contributions	**89**	159
	28,132	17,797
Minimum lease payments under operating leases for leasehold land and buildings	**4,853**	2,998
Auditors' remuneration	**1,433**	1,080
Depreciation of property, plant and equipment	**45,653**	27,520
Bad debts written off	**405**	29
Amortisation of leasehold land and land use rights	**657**	565
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**34**	1,253
Impairment losses of available-for-sale financial assets	**1,043**	–
Fair value losses on financial assets at fair value through profit or loss	**16,950**	4,660
Loss on disposal of financial assets at fair value through profit or loss, net	**2,779**	–
Amortisation of other intangible assets	**44**	41
Loss on exchange, net	**1,299**	–
Share of associates' taxation	**246**	–

14. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2007: Nil).

15. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company dealt with in the financial statements of the Company amounted to HK$12,221,000 (2007: loss of HK$13,334,000).

16. EARNINGS PER SHARE

(a) Basic earnings per share

	2008 **HK cents per share**	2007 HK cents per share
Basic earnings per share	**1.75**	2.07

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2008 **HK$'000**	2007 HK$'000
Profit for the year attributable to equity holders of the Company	**73,025**	72,622
Earnings used in the calculation of basic earnings per share	**73,025**	72,622

	2008 **Number of shares**	2007 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,173,757,142**	3,510,968,433

16. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2008 has not been calculated as there was no dilutive effect during the year (2007: HK cents 1.93).

The calculation of the diluted earnings per share for 2007 was based on the profit attributable to equity holders of the Company of HK$80,465,000 and the weighted average of 4,160,968,433 ordinary shares in issue during the year, calculated as follows:

	2007 HK$'000
Profit for the year attributable to equity holders of the Company (basic)	72,622
Effect of interest accrued on liability component of convertible notes	7,843
Profit for the year attributable to equity holders of the Company (diluted)	80,465

	2007 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,510,968,433
Effect of conversion of convertible notes	650,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,160,968,433

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Tools and moulds HK$'000	Total HK$'000
Cost									
At 1 January 2007	17,308	379	663	106,383	391	4,966	4,918	648	135,656
Currency realignment	1,787	–	101	11,312	543	468	516	67	14,794
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	17,679	–	677	110,326	401	4,267	4,627	662	138,639
Acquisition of subsidiaries	486	–	1,126	130,772	36,739	7,102	1,960	–	178,185
Additions	1,162	–	211	35,205	62,226	34,679	10,519	1,545	145,547
Reclassification (note a)	575	–	–	–	–	143	(729)	11	–
Transfers	2,747	–	–	29,970	(35,326)	–	573	–	(2,036)
Disposals	(262)	–	–	(11)	–	(1,031)	(3,108)	(35)	(4,447)
At 31 December 2007	41,482	379	2,778	423,957	64,974	50,594	19,276	2,898	606,338
Currency realignment	**2,626**	**-**	**176**	**26,840**	**4,113**	**3,072**	**1,193**	**184**	**38,204**
Acquisition of subsidiaries	**12,774**	**-**	**13,483**	**45,250**	**3,406**	**782**	**621**	**69**	**76,385**
Additions	**4,674**	**-**	**1,829**	**6,664**	**322,794**	**93,548**	**9,491**	**3,250**	**442,250**
Transfers	**12,700**	**-**	**127,223**	**51,309**	**(191,681)**	**-**	**500**	**(51)**	**-**
Disposals	**(131)**	**-**	**-**	**-**	**-**	**(158)**	**(981)**	**(305)**	**(1,575)**
At 31 December 2008	**74,125**	**379**	**145,489**	**554,020**	**203,606**	**147,838**	**30,100**	**6,045**	**1,161,602**
Accumulated depreciation and impairment									
At 1 January 2007	1,797	17	321	20,992	–	1,757	1,584	46	26,514
Currency realignment	186	–	36	2,208	–	150	131	5	2,716
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	1,837	–	328	21,441	–	1,407	1,391	49	26,453
Acquisition of subsidiaries	–	–	87	9,002	–	1,453	371	–	10,913
Depreciation	1,532	207	184	19,308	–	3,338	2,402	549	27,520
Reclassification (note a)	15	–	–	127	–	(12)	(130)	–	–
Eliminated on disposals	(19)	–	–	–	–	(761)	(564)	(12)	(1,356)
At 31 December 2007	5,348	224	956	73,078	–	7,332	5,185	637	92,760
Currency realignment	**339**	**-**	**60**	**4,626**	**-**	**444**	**310**	**40**	**5,819**
Acquisition of subsidiaries	**1,745**	**-**	**4,718**	**7,236**	**-**	**174**	**322**	**15**	**14,210**
Depreciation	**1,394**	**155**	**3,853**	**27,151**	**-**	**10,158**	**2,456**	**486**	**45,653**
Eliminated on disposals	**(41)**	**-**	**-**	**-**	**-**	**(62)**	**(697)**	**(205)**	**(1,005)**
At 31 December 2008	**8,785**	**379**	**9,587**	**112,091**	**-**	**18,046**	**7,576**	**973**	**157,437**
Net book value									
At 31 December 2008	**65,340**	**-**	**135,902**	**441,929**	**203,606**	**129,792**	**22,524**	**5,072**	**1,004,165**
At 31 December 2007	36,134	155	1,822	350,879	64,974	43,262	14,091	2,261	513,578

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The analysis of the net book value of buildings is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Outside Hong Kong:		
– long leases	**33,933**	31,688
– medium-term leases	**31,407**	4,446
	65,340	36,134

Notes:

As at 31 December 2008,

(a) Furniture, fixtures and equipment were reclassified and shown under separate headings of leasehold buildings, motor vehicles and tools and moulds respectively. The reclassifications were made at their carrying amounts, with no financial impact on net assets and profit of the Group for the current and prior accounting periods.

(b) Certain gas pipelines at an aggregate cost of RMB Nil (2007: RMB122,451,000) together with the natural gas operation right have been pledged to secure bank borrowings (note 32).

18. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At beginning of the year	**27,145**	4,331
Currency realignment	**1,718**	595
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	**–**	3,750
Acquisition of subsidiaries	**1,222**	5,950
Additions	**6,745**	12,519
Disposals	**(568)**	–
At end of the year	**36,262**	27,145
Accumulated amortisation and impairment losses		
At beginning of the year	**1,619**	465
Currency realignment	**102**	50
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	**–**	509
Acquisition of subsidiaries	**59**	30
Amortisation for the year	**657**	565
At end of the year	**2,437**	1,619
Net book value		
At end of the year	**33,825**	25,526

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Outside Hong Kong on:		
– long leases	**7,022**	7,187
– medium-term leases	**26,803**	18,339
	33,825	25,526

19. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At beginning of the year	**558,305**	58,188
Currency realignment	**4,435**	–
Acquisition of subsidiaries (note 36(a) and 36(b))	**64,518**	500,117
At end of the year	**627,258**	558,305
Accumulated impairment losses		
At beginning and end of the year	**–**	–
Carrying amount		
At end of the year	**627,258**	558,305

In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill arising from acquisition of the subsidiaries by reference to the cash-generating unit's value-in-use and determined that such goodwill has not been impaired. The recoverable amounts for the cash-generating units were determined based on value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering the operation period of the business with a discount rate of 14%. The discount rate used reflects specific risks relating to the business.

20. OTHER INTANGIBLE ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Cost		
At beginning of the year	**1,982**	–
Acquisition of a subsidiary (note a)	**–**	1,926
Currency realignment	**125**	56
Addition (note b)	**1,929**	–
At end of the year	**4,036**	1,982
Accumulated amortisation and impairment losses		
At beginning of the year	**179**	–
Acquisition of a subsidiary	**–**	134
Currency realignment	**11**	4
Charge for the year	**44**	41
At end of the year	**234**	179
Carrying amount		
At end of the year	**3,802**	1,803

Note a: The other intangible asset arising from the acquisition of a subsidiary, 南昌中油燃氣有限責任公司 which was granted with exclusive rights to operate in gas pipeline infrastructure and natural gas supply services for 48 years.

Note b: The other intangible asset arising from the investment of club membership in the PRC which has indefinite useful life and is tested annually for impairment.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**1,834,538**	1,826,523
Amounts due to subsidiaries	**(23,342)**	(5,872)
	1,811,197	1,820,652
Allowance for impairment of doubtful debts	**(538,500)**	(566,000)
	1,272,697	1,254,652

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments. In the opinion of the directors, the amounts due will not be settled or repayable within 12 months from the balance sheet date and are therefore shown as non-current.

The amounts due from subsidiaries of HK$723,186,000 (2007: HK$1,758,449,000) were impaired. The amount of allowance was HK$538,500,000 as at 31 December 2008 (2007: HK$566,000,000). It is assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables mainly relate to subsidiaries which are in financial difficulties and they are of ages over several years. The other amounts due from subsidiaries do not contain impaired assets.

The movements on the allowance for impairment of doubtful debts are as follows:

	Company	
	2008	2007
	HK$'000	HK$'000
At beginning of the year	**566,000**	386,000
Impairment loss recognised	**–**	180,000
Impairment loss reversed	**(27,500)**	–
At end of the year	**538,500**	566,000

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Profaith Group Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
All Praise Investments Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Alta Financial Holdings Limited	British Virgin Islands/Hong Kong	US$1,000	–	100	Investment holding
Best On Development Ltd	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Real Million Investments Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Winner Sheen Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Zhongda Industrial Group Inc.	British Virgin Islands/Hong Kong	US$10,000	–	100	Investment holding
Accelstar Pacific Limited	British Virgin Islands/Hong Kong	US$50,000	–	100	Investment holding
Qingyun Petro-Tech Co. Ltd.	PRC	HK$4,000,000	–	100	Operation of natural gas station
濱洲賽德天然氣壓縮技術有限公司	PRC	US$630,000	–	100	Operation and construction of natural gas station

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
China Oil And Gas (Ping Xiang) Company Limited	PRC	HK$45,000,000	–	100	Trading of natural gas and gas pipeline construction
萍鄉中油物流有限公司	PRC	RMB3,000,000	–	100	Transportation services
Plentigreat Holdings Limited	British Virgin Islands/Hong Kong	US$10,000	–	100	Investment holding
南京潔寧燃氣有限公司	PRC	HK$107,000,000	–	100	Investment holding, construction of natural gas station and trading of natural gas
江蘇永潔燃氣有限公司	PRC	HK$5,000,000	–	100	Operation of natural gas station
江蘇高佳物流有限公司	PRC	RMB28,000,000	–	92.5	Transportation services
Star Charm Holding Limited	British Virgin Islands/Hong Kong	US$50,000	–	100	Investment holding
Majestic International Limited	British Virgin Islands/Hong Kong	HK$10,000	–	100	Investment holding
西寧天環能源有限公司	PRC	HK$2,500,000	–	100	Operation of natural gas station

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
西寧中油技術開發有限公司	PRC	RMB5,000,000	–	79.3	Operation of natural gas station
西寧利和天然氣開發有限公司	PRC	RMB2,815,000	–	70.6	Operation of natural gas station
Vast China Group Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
馬鞍山高佳能源有限公司	PRC	HK$12,000,000	–	100	Operation of natural gas station
安徽中油燃氣有限公司	PRC	RMB18,000,000	–	80.4	Trading of natural gas and gas pipeline construction
馬鞍山中油燃氣物流有限公司	PRC	RMB15,000,000	–	100	Transportation services
China Oil And Gas (Shandong) Company Limited	Hong Kong	HK$1	–	100	Investment holding
南通中油燃氣有限責任公司	PRC	RMB15,000,000	–	40	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Ming Sheng Hong Kong Limited	Hong Kong	HK$6,538	–	100	Investment holding
江西昌北中油燃氣有限責任公司	PRC	HK$20,000,000	–	80	Trading of natural gas and gas pipeline construction
南昌中油燃氣有限責任公司	PRC	RMB20,000,000	–	88.4	Trading of natural gas and gas pipeline construction
China City Natural Gas Co., Ltd	PRC	RMB153,060,000	–	51	Investment holding and trading of natural gas
醴陵中油燃氣有限責任公司	PRC	RMB30,000,000	–	30.6	Trading of natural gas and gas pipeline construction
湖南中油燃氣有限責任公司	PRC	RMB27,000,000	–	30.6	Natural gas transmission through pipeline
濱州中油燃氣有限責任公司	PRC	RMB20,000,000	–	40.8	Trading of natural gas and gas pipeline construction
惠民中油燃氣有限責任公司	PRC	RMB8,000,000	–	50.5	Trading of natural gas and gas pipeline construction
慶雲中油燃氣有限責任公司	PRC	RMB2,000,000	–	50	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
西寧中油燃氣有限責任公司	PRC	RMB65,874,000	–	40.8	Trading of natural gas, gas pipeline construction and operation of natural gas stations
青海中泰中油燃氣技術開發有限公司	PRC	RMB12,000,000	–	45.9	Production and trading of liquefied natural gas
西寧中油城市燃氣工程設計諮詢有限公司	PRC	RMB800,000	–	47.2	Gas pipeline design
西寧中油久安燃氣設備有限公司	PRC	RMB500,000	–	32.6	Trading of gas pipeline materials
青海宏利燃氣管道安裝工程有限責任公司	PRC	RMB15,000,000	–	40.8	Gas pipeline construction
青海中油壓縮天然氣銷售有限公司	PRC	RMB20,000,000	–	40.8	Trading of natural gas
青海中油甘河工業園區燃氣有限公司	PRC	RMB26,000,000	–	60.4	Trading of natural gas and gas pipeline construction
揚州中泰燃氣有限責任公司	PRC	RMB15,000,000	–	80.4	Trading of natural gas and gas pipeline construction
江都中油燃氣有限責任公司	PRC	RMB40,000,000	–	76	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
泰州中油燃氣有限責任公司	PRC	RMB15,000,000	–	51	Trading of natural gas and gas pipeline construction
潮州中油燃氣有限公司	PRC	RMB15,000,000	–	51	Trading of natural gas and gas pipeline construction
中油中泰物流（珠海）有限公司	PRC	RMB10,000,000	–	51	Transportation services
英德中油燃氣有限公司	PRC	RMB1,000,000	–	51	Trading of natural gas and gas pipeline construction
青海東部中油燃氣有限公司	PRC	RMB5,000,000	–	26	Natural gas transmission through pipeline
青海中油管道燃氣有限公司	PRC	RMB20,000,000	–	51	Trading of natural gas and gas pipeline construction

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY

The following amounts represented the Group's proportionate share of the assets, liabilities, revenues and expenses of the jointly controlled entity and were included in the consolidated balance sheet and income statement as a result of proportionate consolidation:

	2008 **HK$'000**	2007 HK$'000
Non-current assets	**–**	–
Current assets	**–**	–
Current liabilities	**–**	–
Non-current liabilities	**–**	–
Minority interests	**–**	–

	01.01.2008 to **31.12.2008** **HK$'000**	01.01.2007 to 30.06.2007 HK$'000
Income	**–**	113,303
Expenses	**–**	(96,232)
Share of profits of associates	**–**	1,970
Minority interests	**–**	(3,738)
Profit for the year	**–**	15,303

Pursuant to the conditional capital injection agreement dated 7 May 2007 entered into between a wholly owned subsidiary, Alta Financial Holdings Limited ("Alta") and a jointly controlled entity of the Company, China City Natural Gas Co., Ltd ("CCNG") in respect of the capital contribution. Alta has agreed to contribute an aggregate sum of RMB20,000,000 to the capital of CCNG. Upon completion of the capital contribution, the Company, through its wholly owned subsidiaries, Alta and Zhongda Industrial Group Inc., effectively owned a total of 51% of the equity interest in CCNG and CCNG then became the subsidiary of the Company (note 21).

23. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	Group 2007 HK$'000
Share of net assets at beginning of the year	–	14,076
Currency realignment	–	1,453
Effect of acquisition of further interest in a jointly controlled entity	–	16,349
Additions	**14,426**	–
Share of profits of associates of a jointly controlled entity	–	1,970
Share of profits/(losses) of associates	**2,488**	(475)
Effect of acquisition of further interests in associates which are then recognised as subsidiaries (note 36(a))	**(16,914)**	(33,373)
Share of net assets at end of the year	–	–

On 14 January 2008, a subsidiary of the Company, 西寧中油燃氣有限責任公司 entered into sale and purchase agreements with certain individual third parties, which are the shareholders of 西寧利和天然氣開發有限公司 and 西寧中油技術開發有限公司. Pursuant to the agreements, 西寧中油燃氣有限責任公司 agreed to acquire 49.73% and 35% registered capital with a consideration of RMB5,640,000 and RMB7,050,000 respectively. The agreements have been completed during the year and these two companies became the associates of the Company. The goodwill arose from the acquisition of these associates amounted to HK$8,221,000.

At the balance sheet date, the Group further acquired the registered capital of these two companies. As a result, the Group owns 70.6% and 79.3% interests in 西寧利和天然氣開發有限公司 and 西寧中油技術開發有限公司 respectively. They became subsidiaries of the Group at the balance sheet date.

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2008 HK$'000	Group 2007 HK$'000
Equity investments listed outside Hong Kong, at fair value	**49**	1,092
Unlisted debt securities in Hong Kong, at cost	**450**	450
	499	1,542

As at 31 December 2008, the fair value of available-for-sale financial assets amounted to HK$49,000 (2007: HK$1,092,000), for which impairment loss of HK$1,043,000 (2007: HK$ Nil) had been made in current financial year.

Unlisted debt securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

25. INVENTORIES

The following is an analysis of inventories at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**38,001**	10,048
Work-in-progress	**4,896**	16,556
Finished goods and natural gas	**3,389**	688
	46,286	27,292

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Listed equity investments, at fair value:		
Hong Kong	**19,517**	16,219

As at 31 December 2008, approximately HK$1,228,000 (2007: HK$3,554,000) of the above financial assets at fair value through profit or loss were pledged to financial creditors to secure general facilities granted to the Group.

27. DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**78,601**	92,540
Other receivables, deposits and prepayments	**247,564**	109,745
	326,165	202,285

The directors consider that the carrying amounts of deposits, trade and other receivables approximate to their fair values.

27. DEPOSITS, TRADE AND OTHER RECEIVABLES *(continued)*

At each of the balance sheet date, the Group's allowances for impairment of trade receivables were individually determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowances were recognised. All of the trade and other receivables are expected to be received or recognised as expense within one year.

The Group allows an average credit period ranging from 60 to 90 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

The ageing analysis of trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**31,591**	45,070
91 to 180 days	**975**	1,235
Over 180 days	**46,035**	46,235
Total	**78,601**	92,540

The ageing analysis of trade receivables that are not impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**31,591**	45,070
Past due but not impaired	**47,010**	47,470
Total	**78,601**	92,540

27. DEPOSITS, TRADE AND OTHER RECEIVABLES *(continued)*

As at 31 December 2008, trade receivables of HK$47,010,000 (2007: HK$47,470,000) that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The ageing analysis of these receivables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
91 to 180 days	**975**	1,235
Over 180 days	**46,035**	46,235
Total	**47,010**	47,470

All other receivables, deposits and prepayments are neither past due nor impaired.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**422,561**	256,611	**4,381**	8,174
Short term bank deposits	**308,590**	582,555	**–**	–
	731,151	839,166	**4,381**	8,174

The interest rate for short term bank deposits was approximately 0.04%–0.3% (2007: 2.5%) per annum. The deposits have a maturity of ranging from 14 to 31 days.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in currencies other than the functional currency of the Company to which they relate:

	Group		Company	
	2008	2007	**2008**	2007
USD	**12,675,000**	12,219,000	**–**	–
Renminbi	**363,272,000**	220,314,000	**–**	–

29. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2007, 31 December 2007 and 31 December 2008	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2007	2,519,676,213	25,197
Placing of shares (note a)	360,000,000	3,600
Issue of shares in consideration for acquisition of interests in subsidiaries (note b)	400,000,000	4,000
Placing of shares (note c)	550,000,000	5,500
Shares repurchased (note d)	(12,440,000)	(125)
Ordinary shares of HK$0.01 each at 31 December 2007	3,817,236,213	38,172
Shares repurchased (note d)	(9,380,000)	(93)
Conversion of convertible notes (note e)	375,000,000	3,750
Conversion of convertible notes (note f)	275,000,000	2,750
Ordinary shares of HK$0.01 each at 31 December 2008	4,457,856,213	44,579

29. SHARE CAPITAL *(continued)*

The movements in share capital were as follows:

(a) On 19 January 2007, the Company allotted and issued 360,000,000 new ordinary shares at a placing price of HK$0.29 per share in accordance with the terms of the placing agreement dated 21 December 2006. Net proceeds from such issue amounted to HK$103,608,000 (after offsetting issuing expenses of HK$792,000), out of which HK$3,600,000 and HK$100,008,000 were recorded in share capital and share premium respectively.

(b) On 15 December 2006, All Praise Investments Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with the vendor to acquire the 100% issued share capital of Vast China Group Limited for a total consideration of HK$186 million, which was to be satisfied as to HK$96 million by the issue of 400,000,000 shares ("consideration shares") at an issue price of HK$0.24 per consideration share and as to the remaining of HK$90 million by the issue of convertible notes with an exercise price of HK$0.24 per conversion share. The consideration shares were issued on 20th March, 2007 upon completion of the acquisition.

(c) On 29 May 2007, the Company allotted and issued 550,000,000 new ordinary shares at a placing price of HK$1.2 per share in accordance with the terms of the placing agreement dated 23 May 2007. Net proceeds from such issue amounted to HK$642,781,000 (after offsetting issuing expenses of HK$17,220,000), out of which HK$5,500,000 and HK$637,281,000 were recorded in share capital and share premium respectively.

(d) The Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	**Number of ordinary shares**	**Price per ordinary share Highest**	**Lowest**	**Aggregate consideration paid**
October 2007	1,860,000	HK$0.810	HK$0.800	HK$1,492,000
November 2007	10,580,000	HK$0.800	HK$0.780	HK$8,398,254
January 2008	1,440,000	HK$0.405	HK$0.395	HK$574,560
October 2008	7,940,000	HK$0.105	HK$0.102	HK$820,080

The above ordinary shares were subsequently cancelled. The premium paid on the repurchase of the shares of HK$1,301,000 (2007:HK$9,766,000) was charged to share premium. The nominal value of the shares repurchased of HK$93,000 (2007: HK$125,000) was transferred to the capital redemption reserve.

29. SHARE CAPITAL *(continued)*

(e) On 29 April 2008, the interest-free convertible notes of principal amount of HK$90 million as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") was fully converted into 375 million shares of the Company at the conversion price of HK$0.24 each.

(f) On 13 August 2008, the convertible notes of principal amount of HK$66 million as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN") was fully converted into 275 million shares of the Company at the conversion price of HK$0.24 each.

30. SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "Scheme") pursuant to a resolution passed by the shareholders on 31 January 2002.

Under the Scheme, the board may at its discretion offer options to any eligible participant who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the Scheme, subject to further refreshment of the limit on the grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders' approval of the Scheme. On 14 August 2002, 9 June 2004 and 22 September 2006, the shareholders of the Company passed an ordinary resolution respectively approving the refreshment of the 10% limit on the grant of options under the Scheme.

The maximum entitlement of each eligible participant in any 12 month-period shall not exceed 1% of the number of shares in issue on the date of offer of an option.

The offer of a grant of options may be accepted within 28 days after the date of the offer, with a consideration of HK$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an eligible participant under the Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer of an option; (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of a share.

The Scheme shall be valid for 10 years from 31 January 2002 to 31 January 2012 (both dates inclusive).

No theoretical value of share option is disclosed as no share option was granted during the current year (2007: Nil).

31. RESERVES

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible notes reserve HK$'000	Other capital reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	988,788	675	–	–	49,753	(788,614)	250,602
Shares issued upon placement of shares, net of issuing expenses	737,289	–	–	–	–	–	737,289
Issue of shares in consideration for acquisition of interests in subsidiaries	92,000	–	–	–	–	–	92,000
Repurchase of own shares	(9,766)	125	–	–	–	(125)	(9,766)
Recognition of equity component of convertible notes	–	–	17,907	–	–	–	17,907
Loss for the year	–	–	–	–	–	(13,334)	(13,334)
At 31 December 2007	1,808,311	800	17,907	–	49,753	(802,073)	1,074,698
Repurchase of own shares	(1,301)	93	–	–	–	(93)	(1,301)
Conversion of convertible notes	160,788	–	(17,907)	–	–	–	142,881
Profit for the year	–	–	–	–	–	12,221	12,221
At 31 December 2008	1,967,798	893	–	–	49,753	(789,945)	1,228,499

Note: The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is currently unable to satisfy. The share premium account of the Company is distributable in the form of fully paid bonus shares.

32. BANK AND OTHER BORROWINGS

	Group	
	2008	2007
	HK$'000	HK$'000
Non-current		
Bank borrowings		
– secured	**–**	36,348
– unsecured	**31,260**	–
Other borrowings-unsecured	**33,489**	42,762
	64,749	79,110
Current		
Bank borrowings		
– secured	**–**	40,592
– unsecured	**227,348**	16,036
Other borrowings-unsecured	**13,225**	23,519
	240,573	80,147
Total bank and other borrowings	**305,322**	159,257

The bank and other borrowings are repayable as follows:

	Bank borrowings		Other borrowings	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**227,348**	56,628	**13,225**	23,519
Between 1 and 2 years	**5,115**	–	**–**	11,482
Between 2 and 5 years	**26,145**	36,348	**33,489**	25,657
Wholly repayable within 5 years	**258,608**	92,976	**46,714**	60,658
Over 5 years	**–**	–	**–**	5,623
	258,608	92,976	**46,714**	66,281

32. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(i) The bank borrowings of HK$Nil (2007: HK$76,940,000) are secured by natural gas operation right and gas pipelines for an aggregate cost of RMB Nil (2007: RMB122,451,000) as set out in note 17 to the financial statements.

(ii) As at 31 December 2008, the interest rate for bank borrowings is 5.94%. (2007: 5.58%)

(iii) The unsecured other borrowings of HK$33,489,000 (2007: HK$31,280,000) are interest bearing at rates in the range of 2.28% to 2.55% per annum for the current financial year and are repayable on the eighth anniversary date from the date of borrowings. The remaining unsecured other borrowings of HK$13,225,000 (2007: HK$35,001,000) are interest bearing at the rate of 4.78% and are repayable within 5 years.

The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**31,260**	36,348	**24,170**	31,897
Other borrowings	**33,489**	42,762	**28,649**	36,452
	64,749	79,110	**52,819**	68,349

The fair values are based on cash flows discounted using a rate based on the effective interest rate of 6.43% (2007: 6.75%).

The carrying amounts of short-term borrowings approximate to their fair values.

33. CONVERTIBLE NOTES

On 1 February 2007, the Company issued convertible notes of principal amount of HK$66 million as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN") to an independent third party. The Feb CN is matured on the second anniversary date from the issued date, entitling the holder to convert up to an aggregate of 275 million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Feb CN is convertible in whole or any part after six months from the issue date at the option of the holder, and is bearing interest of 1% per annum payable semi-annually in arrears.

On 13 August 2008, the Feb CN was fully converted into 275 million shares of the Company at the conversion price of HK$0.24 each.

On 20 March 2007, the Company issued interest-free convertible notes of principal amount of HK$90 million as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") to Mr. Xu Tie Liang ("Mr. Xu"), the chairman and substantial shareholder of the Company. The Mar CN is matured on the second anniversary date from the issued date, entitling the holder to convert up to an aggregate of 375 million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Mar CN is convertible in whole or any part after six months from the issue date at the option of the holder.

On 29 April 2008, the Mar CN was fully converted into 375 million shares of the Company at the conversion price of HK$ 0.24 each.

The fair value of the liability component and equity component of the convertible notes was determined at the issuance date. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. Interest expense of HK$4,458,000 (2007: HK$7,843,000) has been recognised in the income statement in respect of the convertible notes for the year, using the effective interest method by applying the effective interest rate of 6.75% to the liability component. The residue amount, representing the value of the equity component, is included in reserves.

The movement of the liability and equity components of the convertible notes for the year is set out below:

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Liability component at beginning of the year	**145,936**	–
Nominal value of convertible notes issued during the year	**–**	156,000
Equity component	**–**	(17,907)
	145,936	138,093
Interest expense (note 9)	**4,458**	7,843
Interest paid	**(1,013)**	–
	149,381	145,936
Converted during the year	**(149,381)**	–
Liability component at end of the year	**–**	145,936
Portion classified as current liabilities	**–**	604
Long term portion	**–**	145,332

34. DEFERRED TAX LIABILITIES

Details of deferred tax liabilities and amount charged/(credited) to the consolidated income statement are as follows:

	Group Accelerated depreciation allowances	
	2008 **HK$'000**	2007 HK$'000
At beginning of the year	**5,420**	2,646
Currency realignment	**343**	273
Effect on acquisition of further interest in a jointly controlled entity which is then recognised as a subsidiary	**–**	2,703
Charged/(credited) to income statement during the year (note 12)	**88**	(202)
At end of the year	**5,851**	5,420

The Group has tax losses arising from Hong Kong operations of HK$6,467,000 (2007: HK$6,467,000) that are agreed by the Inland Revenue Department and available indefinitely for offsetting against future taxable profits of the Group. Deferred tax assets have not been recognised in respect of these losses as the Group has been making tax losses arising from Hong Kong operations for some time.

35. TRADE AND OTHER PAYABLES

	Group	
	2008 **HK$'000**	2007 HK$'000
Trade payables	**122,964**	61,229
Other payables and accruals	**432,135**	254,933
	555,099	316,162

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

35. TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of trade payables is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**71,722**	39,809
91 to 180 days	**25,593**	5,991
Over 180 days	**25,649**	15,429
Total	**122,964**	61,229

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

Particulars of the assets and liabilities acquired are as follows:

	2008	2007
	HK$'000	HK$'000
Property, plant and equipment	**62,175**	167,272
Leasehold land and land use rights	**1,163**	5,920
Other intangible assets	**–**	1,792
Inventories	**–**	29,864
Trade and other receivables	**22,886**	58,331
Cash and cash equivalents	**162,975**	45,563
Trade and other payables	**(19,527)**	(130,241)
Bank borrowings	**(11,367)**	(68,420)
Minority interests	**(12,106)**	(41,731)
Translation reserves	**–**	(1,249)
	206,199	67,101
Interests in associates previously accounted for (note 23)	**(16,914)**	(33,373)
Goodwill on acquisition (note 19)	**64,518**	493,200
	253,803	526,928
Purchase consideration	**253,803**	526,928
Less: Cash and cash equivalents acquired	**(162,975)**	(45,563)
Net cash outflow on acquisition	**90,828**	481,365

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of subsidiaries *(continued)*

The acquired subsidiaries contributed HK$43,983,000 revenue and HK$1,216,000 to the Group's profit before taxation for the period between the respective dates of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total revenue of the Group for the year would have been HK$1,550,097,000, and profit of the Group for the year would have been HK$220,266,000.

(b) Further Capital Injection to a Jointly Controlled Entity

During the year, the Group has not taken any capital injection to a jointly controlled entity.

In 2007, the Group had taken a further capital injection to a jointly controlled entity which was then recognised as a subsidiary. Details are as follows:

	2008 **HK$'000**	2007 HK$'000
Property, plant and equipment	–	112,186
Leasehold land and land use rights	–	3,241
Interests in associates	–	16,349
Inventories	–	8,038
Trade and other receivables	–	90,196
Cash and cash equivalents	–	124,112
Trade and other payables	–	(92,934)
Deferred tax liabilities	–	(2,703)
Other borrowings	–	(43,686)
Bank borrowings	–	(10,279)
Minority interests	–	(190,056)
	–	14,464
Goodwill on acquisition (note 19)	–	6,917
Purchase consideration	–	21,381
Cash and cash equivalents acquired	–	124,112
Less: Cash paid on acquisition	–	(21,381)
Net cash inflow on acquisition	–	102,731

37. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to five years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**4,042**	2,122
In the second to fifth years, inclusive	**3,528**	2,144
	7,570	4,266

38. CAPITAL COMMITMENTS

The Group had the following capital commitments outstanding not provided for at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Property, plant and equipment:		
Contracted, but not provided for	**22,643**	53,444
Establishment and acquisition of subsidiaries:		
Authorised, but not contracted for	**31,942**	–
Contracted, but not provided for (note 44(a))	**909,392**	904,018
	963,977	957,462

39. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2008, two of the subsidiaries of the Company, CCNG and 西寧中油燃氣有限責任公司 provided financial guarantees on loan facilities granted to other subsidiaries of the Company to the extent of HK$107,990,000 (2007: HK$44,000,000) and HK$53,995,000 (2007: Nil) respectively and the Group does not have any other significant contingent liabilities.

In the opinion of the directors, the fair values of the above financial guarantees are insignificant as at 31 December 2008 and 31 December 2007.

40. TRANSACTION AND BALANCES WITH RELATED PARTIES

Details of the Group's significant balance with the following related party as at 31 December 2008, are as follows:

	2008	2007
	HK$'000	HK$'000
Minority shareholder:		
Balance due to the Group	**5,683,700**	–

The balance is unsecured, interest free and is repayable on demand.

In 2007, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to acquire the entire issued share capital of Vast China Group Limited ("Vast China", together with its subsidiaries, collectively referred to as the "Vast China Group"), a company wholly owned by Sino Vantage Management Limited, a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, at a consideration of HK$196 million.

41. RETIREMENT BENEFITS SCHEME

The Group contributes to the Mandatory Provident Fund Scheme (the "MPF" Scheme) for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the rules of the MPF Scheme, contributions to the scheme by the Group and the employees are calculated as a percentage of employee's relevant income, subject to a cap of monthly relevant income of HK$20,000. The retirement benefit scheme costs charged to income statement represent contributions payable by the Group to the fund. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

In pursuant to the PRC Government regulations, the Group is required to contribute to a Central Pension Scheme in respect of the Group's employees in the PRC and there is no forfeited contribution under the Central Pension Scheme.

42. FINANCIAL RISK MANAGEMENT

(A) Financial instruments

The Group has classified its financial assets and liabilities in the following categories:

	Notes	Available-for-sale financial assets HK$'000	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Financial liabilities at amortised cost HK$'000
2008					
Available-for-sale financial assets	24	**499**	**–**	**–**	**–**
Financial assets at fair value through profit or loss	26	**–**	**19,517**	**–**	**–**
Deposits, trade and other receivables	27	**–**	**–**	**326,165**	**–**
Cash and cash equivalents	28	**–**	**–**	**731,151**	**–**
Trade and other payables	35	**–**	**–**	**–**	**(555,099)**
Bank and other borrowings	32	**–**	**–**	**–**	**(305,322)**
		499	**19,517**	**1,057,316**	**(860,421)**

	Notes	Available-for-sale financial assets HK$'000	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Financial liabilities at amortised cost HK$'000
2007					
Available-for-sale financial assets	24	1,542	–	–	–
Financial assets at fair value through profit or loss	26	–	16,219	–	–
Deposits, trade and other receivables	27	–	–	202,285	–
Cash and cash equivalents	28	–	–	839,166	–
Trade and other payables	35	–	–	–	(316,162)
Bank and other borrowings	32	–	–	–	(159,257)
Convertible notes	33	–	–	–	(145,936)
		1,542	16,219	1,041,451	(621,355)

42. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk arising in the normal course of its business and financial instruments. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw material denominated in the same currency.

There are no significant monetary balances held by the Group companies as at 31 December 2008 that are denominated in a non-functional currency. Currency risk arises on account of monetary assets and liabilities being denominated in a currency that is not the functional currency; however this is not material to the Group as a whole. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

(ii) Price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 24) and financial assets at fair value through profit or loss (note 26). Other than unlisted debt securities held as available-for-sale, all of these investments are listed. Most of the Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of the individual securities compared to that of the Index and other industry indicators, as well as Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The Company is exposed to other price risk in respect of its investments in subsidiaries. The sensitivity to price risk in relation to the investments in subsidiaries cannot be reliably determined due to numerous uncertainties regarding the future development of these subsidiaries.

42. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(a) Market risk (continued)

(iii) Interest rate risk

As the Group has no significant interest-bearing assets, except for short term bank deposits (note 28), the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from bank and other borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's bank and other borrowings are set out in note 32.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowings when it has surplus funds.

At 31 December 2008, it is estimated that a general increase or decrease of 100 basis points in interest rates on RMB denominated borrowings, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately HK$2,586,000 (2007: HK$715,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year until the next annual balance sheet date. The analysis was performed on the same basis for 2007.

(b) Credit risk

The Group's exposure to credit risk is influenced, mainly by the individual characteristics of each customer.

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policy in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the income statement. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 27.

The credit risk on liquid funds is considered negligible, since the counterparties are reputable banks with good quality external credit ratings.

42. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	Total carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year or payable on demand HK$'000	Between 1 to 2 years HK$'000	Between 2 to 5 years HK$'000	Over 5 years HK$'000
2008						
Trade payables	**122,964**	**122,964**	**122,964**	**–**	**–**	**–**
Other payables	**432,135**	**432,135**	**432,135**	**–**	**–**	**–**
Bank borrowings	**258,608**	**278,978**	**245,251**	**10,291**	**23,436**	**–**
Other borrowings	**46,714**	**48,102**	**13,809**	**–**	**34,293**	**–**
	860,421	**882,179**	**814,159**	**10,291**	**57,729**	**–**
2007						
Trade payables	61,229	61,229	61,229	–	–	–
Other payables	254,933	254,933	254,933	–	–	–
Bank borrowings	92,976	94,169	57,821	–	36,348	–
Other borrowings	66,281	68,714	24,645	12,031	26,271	5,767
Convertible notes	145,936	145,936	145,936	–	–	–
	621,355	624,981	544,564	12,031	62,619	5,767

43. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively reviews and manages its capital structure in the light of changes in economic conditions so as to maintain a sound capital position. Total capital is defined as shareholders' equity in the consolidated balance sheet.

Neither the Company nor any of its subsidiaries are subject to either internally or externally imposed capital requirements.

44. POST BALANCE SHEET EVENTS

(a) 潮州中油燃氣有限公司

On 27 November 2007, a subsidiary of the Company, CCNG entered into the Chaozhou City Gas Framework Agreement with Chaozhou Development Department, pursuant to which, Chaozhou Government should grant to CCNG an operation right for the operation of city natural gas in Chaozhou city on the condition of secured supply of natural gas for Chaozhou. The Group agreed, through CCNG, to invest and develop the piped natural gas project in Chaozhou. The total investment of the Chaozhou gas project is estimated to be RMB800,000,000 over different stages.

(b) Investment in Binzhou natural gas utilisation projects

On 17 April 2009, the Company entered into the natural gas utilisation projects agreement with Binzhou D & R Commission. Pursuant to the project agreement, the Group agreed to invest in natural gas utilisation project in Beihai Xin District, Binzhou City, Shandong Province, the PRC. The project is expected to be completed in 2010. The total investment of the Binzhou gas project is estimated to be RMB150,000,000.

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been early adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008 *(continued)*

In addition, the following developments may result in new or amended disclosures in the financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5,effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the Group's first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. HKAS 1 (Revised) will prohibit the presentation of items of income and expenses (i.e. non-owner changes in equity) in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entitles can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2009.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial period/years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Period from 1 August 2005 to 31 December 2006 HK$'000	Year ended 31 July 2005 HK$'000	Year ended 31 July 2004 HK$'000
RESULTS					
Turnover	**1,471,364**	677,372	369,914	200,928	129,987
Profit/(loss) before tax	**221,128**	129,447	73,646	(3,554)	(212,520)
Tax	**(34,085)**	(15,639)	(7,319)	(3,374)	(472)
Profit/(loss) for the year from continuing operations	**187,043**	113,808	66,327	(6,928)	(212,992)
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	**–**	–	1,824	(125,554)	(2,692)
Profit/(loss) for the period/year	**187,043**	113,808	68,151	(132,482)	(215,684)
Attributable to:					
Equity holders of the Company	**73,025**	72,622	57,342	(139,797)	(215,929)
Minority interests	**114,018**	41,186	10,809	7,315	245
	187,043	113,808	68,151	(132,482)	(215,684)
ASSETS AND LIABILITIES					
TOTAL ASSETS	**2,792,668**	2,186,411	492,520	312,415	356,769
TOTAL LIABILITIES	**(888,840)**	(644,226)	(159,953)	(128,680)	(161,007)
TOTAL EQUITY	**1,903,828**	1,542,185	332,567	183,735	195,762
MINORITY INTERESTS	**405,004**	287,013	21,213	12,960	4,161