中油燃氣集團有限公司

CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)

Stock Code: 603

ANNUAL REPORT

2010

Contents

ENTERPRISE CULTURE

OUR CULTURE

- Integrity
- Rewards
- Excellency
- Harmony

OUR VISION

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

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.

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!

Financial Highlights

	Notes	31.12.2010	31.12.2009	(+/-)	31.12.2008	(+/-)
Turnover (HK$ million)		**2,626**	1,721	53%	1,471	17%
Gross Profit (HK$ million)		**578**	408	42%	352	16%
Total Sales on Gas Volume (million m^3)		**1,273**	965	32%	815	18%
Total Transmission and Transportation Gas Volume (million m^3)		**910**	824	10%	409	101%
Profit for the Year (HK$ million)		**354**	253	40%	187	35%
Profit attributable to equity holders of the Company (HK$ million)		**165**	132	25%	73	81%
Earnings per share (HK cents)		**3.35**	2.96	13%	1.75	69%
Total Assets (HK$ million)		**4,466**	3,365	33%	2,793	20%
Net Assets (HK$ million)		**3,252**	2,223	46%	1,904	17%
Net Assets Value per share (HK cents)	*(a)*	**65.69**	49.86	32%	42.70	17%
Cash per share (HK cents)	*(b)*	**24.28**	24.00	1%	16.40	46%
EBITDA (HK$ million)		**558**	403	39%	292	38%

Notes:

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

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

Operation Map

Strong operations in 5 key markets

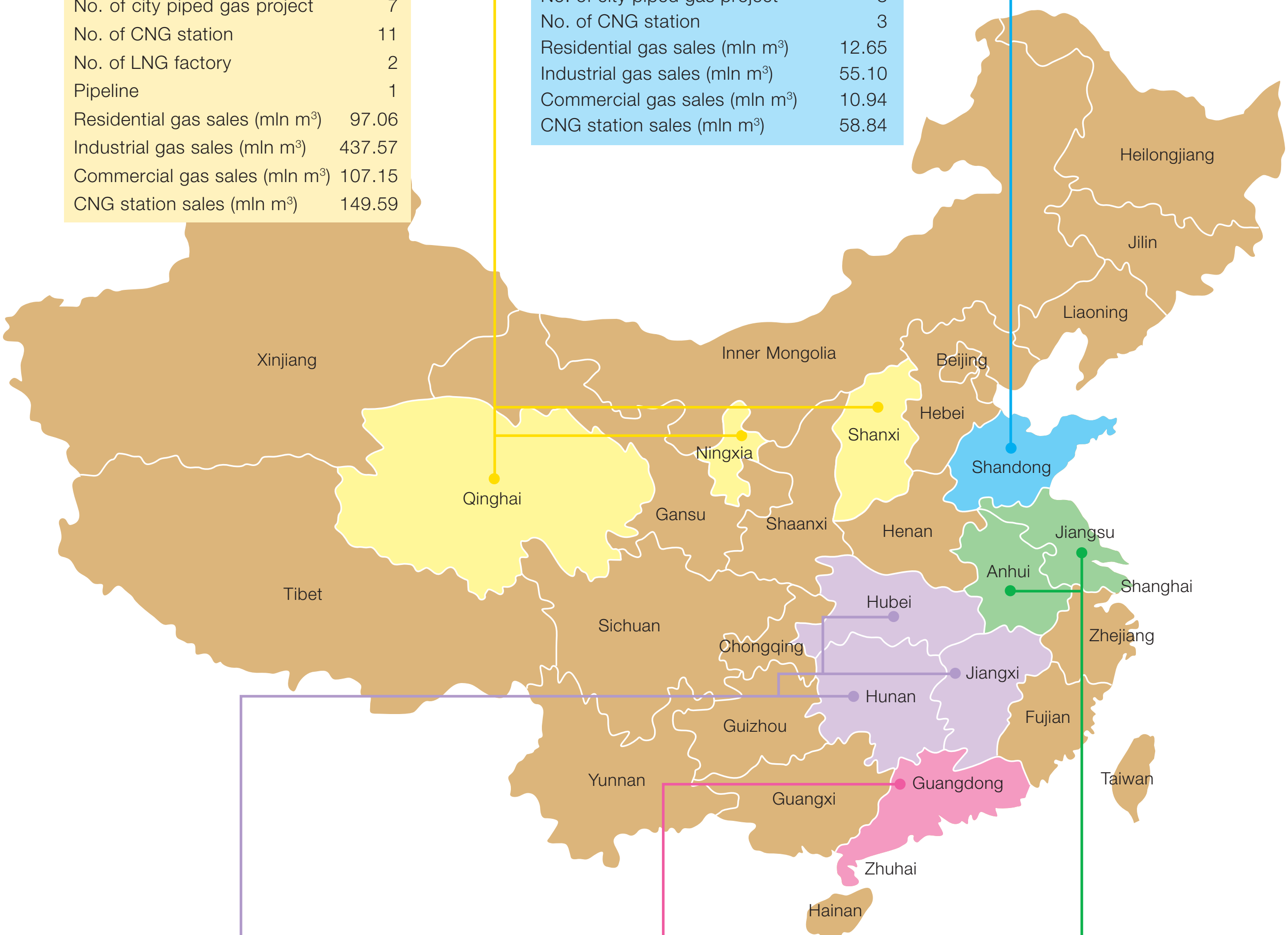
The Group has established 62 project companies in 21 cities, 5 key areas in 10 provinces, and owns 27 city gas franchise operation rights

North Western district (Qinghai, Ningxia, Shanxi)

Population (mln)	45.2
New connections	9,110
Accumulated connections	119,826
No. of city piped gas project	7
No. of CNG station	11
No. of LNG factory	2
Pipeline	1
Residential gas sales (mln m^3)	97.06
Industrial gas sales (mln m^3)	437.57
Commercial gas sales (mln m^3)	107.15
CNG station sales (mln m^3)	149.59

Yellow River Delta district (Shandong)

Population (mln)	94.2
New connections	18,476
Accumulated connections	74,045
No. of city piped gas project	8
No. of CNG station	3
Residential gas sales (mln m^3)	12.65
Industrial gas sales (mln m^3)	55.10
Commercial gas sales (mln m^3)	10.94
CNG station sales (mln m^3)	58.84



Xianggan'e district (Hunan, Jiangxi, Hubei)

Population (mln)	173.3
New connections	19,545
Accumulated connections	40,196
No. of city piped gas project	8
No. of CNG station	3
Pipeline	1
Residential gas sales (mln m^3)	6.65
Industrial gas sales (mln m^3)	170.30
Commercial gas sales (mln m^3)	4.30
CNG station sales (mln m^3)	6.02

Guangdong district

Population (mln)	82.3
New connections	849
Accumulated connections	879
No. of city piped gas project	3
Residential gas sales (mln m^3)	0.03
Industrial gas sales (mln m^3)	21.51
CNG station sales (mln m^3)	0.1

Yangtze Delta district (Jiangsu, Anhui)

Population (mln)	144.2
New connections	2,508
Accumulated connections	3,387
No. of city piped gas project	6
No. of CNG station	3
Residential gas sales (mln m^3)	0.05
Industrial gas sales (mln m^3)	35.53
Commercial gas sales (mln m^3)	37.75
CNG station sales (mln m^3)	61.59

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").

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With 27 secured franchise operation rights, the Group has built up city pipeline networks which offer stable and sufficient natural gas resources to local household, industrial, commercial and other users.

As a non-pipeline natural gas provider, the Group has established 2 LNG factories in Qinghai Province which is now within the top of People's Republic of China ("PRC") in terms of its processing capacity. Meanwhile, the Group has also built certain 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 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.

Together, the Group has developed natural gas transport and logistics enterprises in the PRC. 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.

FIVE MAIN DISTRICTS

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 2 LNG plants in Qinghai China Oil and Gas and Xining China Oil Corporation with daily processing capacity of 250,000m^3 each, have allowed end users to enjoy natural gas in areas where pipelines have not been reached.

Yangtze Delta District（長三角區域）:

Our Group has successfully landed our feet along Jiangdu-Nantong Pipeline（江都－南通管線）i.e. Yangzhou, Taizhou and Nantong projects, as well as a few towns, development zones, and industrial parks. The natural gas mother station and a number of CNG stations in Nanjing and Maanshan have been put into operation. In 2011, another 3 CNG stations will be put into operations. In addition, we were granted the franchise operation rights of gas businesses in Lishui Economic and other development zones, achieving sound economic results. Other then the Taizhou-Jiangyan-Dainan branch line project, the Group is building the Nantong-Rugao-Haian branch line within this district as well.

Xianggan'e District（湘贛鄂區域）:

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 West-to-East Gas Supply and line（西氣東輸二線）, 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. None but not least, the new gas company, Pinyxiang Natural Gas Company Limited, is formed with Pingxiang Peoples Government, where this project company is expected to bring in highlights to the Group in 2011.

Corporate Profiles

Shandong District (黃三角區域):

Started 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. Numbers of CNG and LNG stations are expected to put into operation in the year of 2011. Together with the gas machinery and dual-fuel machinery used for inland canal ships in Shandong Province, this district will graduatily lead the Group into a different natural gas operations level.

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 constructed LNG reception stations in order to realize our gas supply as early as possible and to develop the surrounding natural gas markets. Our Group has 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.

BOARD OF DIRECTORS

Executive Directors
XU Tie-liang *(Chairman & Chief Executive Officer)*
ZHU Yuan
GUAN Yijun
CHEUNG Shing

Independent Non-Executive Directors
LI Yunlong
SHI Xun-zhi
WANG Guangtian

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
WANG Guangtian

REMUNERATION COMMITTEE

LI Yunlong *(chairman)*
WANG Guangtian
CHEUNG Shing

NOMINATION COMMITTEE

WANG Guangtian *(chairman)*
LI Yunlong
CHEUNG Shing

AUDITOR

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

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2 Church Street
Hamilton HM 11
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

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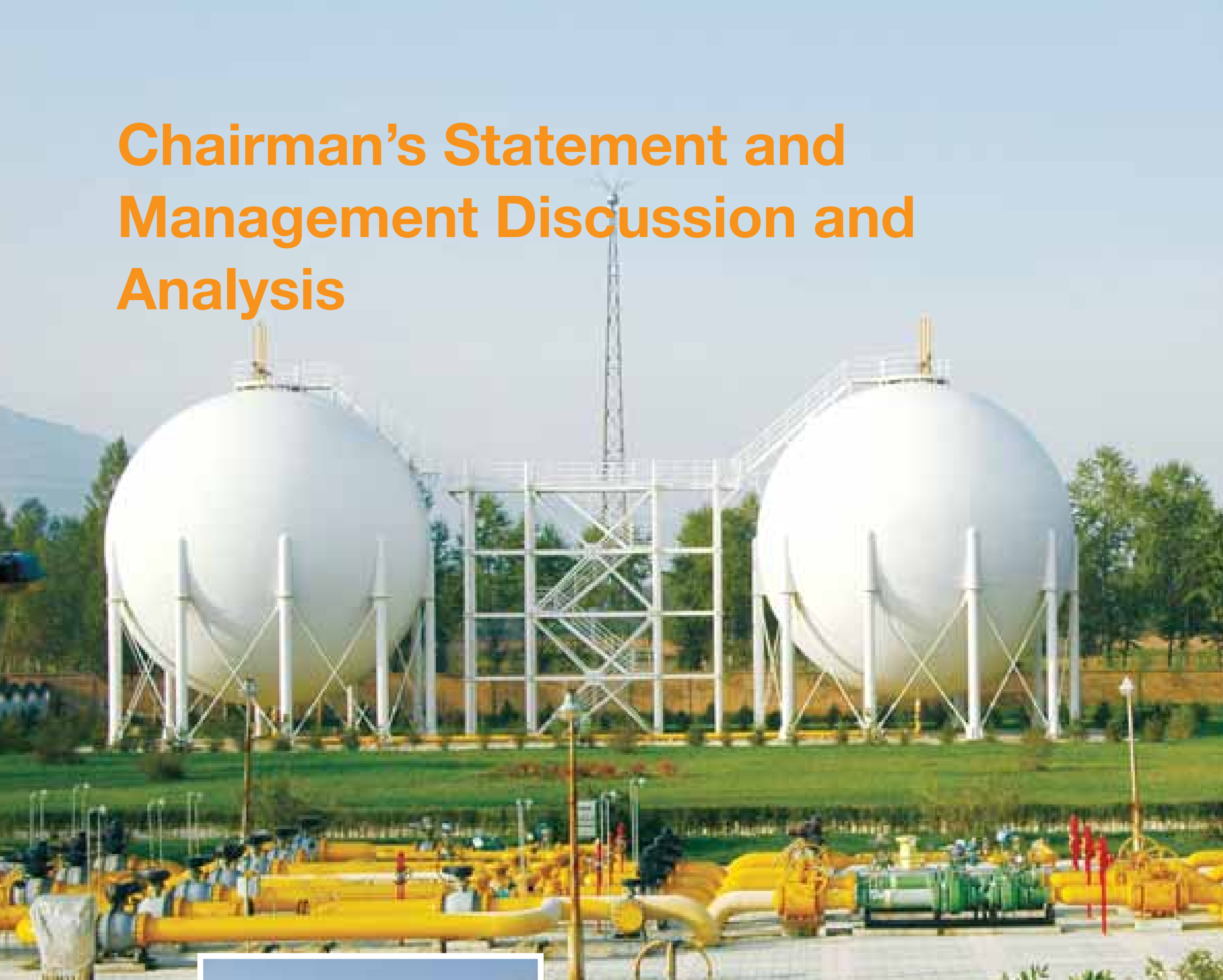
Chairman's Statement and Management Discussion and Analysis



Chairman's Statement and Management Discussion and Analysis

In 2010, under the leadership of the Board, all our staff in China Oil And Gas Group Limited worked hard with untiring efforts to overcome difficulties and made our efforts for expansion, such that businesses on all fronts recorded steady advancement and obtained splendid achievements.

BUSINESS REVIEW

In 2010, the Group recorded a turnover of HK$2.63 billion, representing an increase of 53% from last year's HK$1.72 billion. Profit for the Year was HK$354 million. The Group's profit attributable to the shareholders was HK$165 million, representing an increase of 25% from last year's HK$132 million. Earnings per share increased by 13% to HK3.35 cents from HK2.96 cents in 2009. Total gas sales and transmission volume reached 2.183 billion m^3 in 2010, where gas sales volume increased by 32% from last year's 965 million m^3 to current year's 1.273 billion m^3

and transmission volume increased by 10% from last year's 824 million m^3 to 910 million m^3. As at the end of 2010, the Group had total assets of HK$4.47 billion, representing an increase of 33% from HK$ 3.36 billion at the end of 2009.

The Group has established a total of 62 gas project companies in 21 cities, scattered into 5 key areas within 10 provinces in China, and owns 27 city gas franchise operation rights. The Group collaborated with Kunlun Energy Company Limited ("Kunlun Energy") under PetroChina Company Limited ("PetroChina"), CNPC Kunlun Natural Gas Company Limited (中石油昆侖燃氣有限公司) ("Kunlun Gas"), CNPC Kunlun Natural Gas Exploitation Company Limited (中石油昆崙天然氣利用有限公司) ("Kunlun Exploitation") and PetroChina Coalbed Methane Co. Ltd. (中石油煤層氣有限責任公司) ("PetroChina Coalbed Methane") and established friendly cooperation relationships with them, thereby effectively reinforcing our control over natural gas resource and securing our advantage in natural gas resources, which has underpinned our sustained steady growth of operating results as well as development and exploration in the gas market.

Chairman's Statement and Management Discussion and Analysis

In January 2010, the Group concluded a cooperation agreement with PetroChina Coalbed Methane, a wholly-owned subsidiary of PetroChina through China City Natural Gas Investment Group Co., Ltd (中油中泰燃氣投資集團有限公司) ("CCNG"), a subsidiary of the Group, to obtain 20-year exclusive centralized wholesale rights for 2 areas in Daning County and Baode County in Shanxi Province, where the coal bed methane reserve was estimated to be over 150 billion m^3.

In March 2010, CCNG successfully acquired 60% equity interest in Yinchuan Yongning Natural Gas Company Limited.

In April 2010, CCNG entered into a Cooperation Agreement with Kunlun Exploitation, pursuant to which both parties have agreed to co-operate with each other to jointly develop natural gas exploitation and gas stations businesses in various cities or areas where the parties considered in possession of required conditions.

In June 2010, the Group's wholly-owned subsidiary entered into a Tenancy Agreement with a term of twenty years with PetroChina Anhui Sale Branch Company and will cooperate in the construction of gas and oil stations in Maanshau, Anhui Province.

In July 2010, the Group successfully formed Pingxiang Natural Gas Company Limited with Pingxiang People's Government, Jiangxi Province, which is controlled by the Group. Its area of operation covers the whole administration districts of Pingxiang City.

In September 2010, CCNG through the acquisition of the franchise operation rights of natural gas, successful break through into Caidian District, Wuhan City and Xiantao City.

In October 2010, the Group entered into a Marine Diesel-Gas Copromotional Agreement with Jinan Diesel Machinery Co. Ltd. (濟南柴油機股份有限公司) ("Jinan Diesel"), pursuant to which the parties would co-operate on a pilot project for the gas machinery and the dual fuel machinery used for inland canal ships in China for a term of 5 years.

The Group has newly developed approximately 50,000 residential households, 113 industrial users, and around 220 public construction and other users during the year. The Group has in aggregate developed approximately 236,000 residential households, 460 industrial users, and around 2,000 public construction and other users. 8 project companies were newly incorporated, and 5 project companies were acquired during the year.

BUSINESS PROSPECT

In 2011, although the city gas market in China confronts with a complex and changing economic situation, increasingly fierce competition among industry players and unstable world situation, by virtue of its outstanding operation management team, natural gas resource advantage and friendly cooperation relationships with business partners and local governments in various areas, the Group shall be able to capitalize on the golden opportunities emerged in the light of the Chinese Government's advocates to save energy and reduce emission during the Twelfth Five-Year Plan, to augment urbanization and to keep the Chinese economy under sustainable and steady development. We are confident in maintaining the Group's rapid and steady development of businesses on all fronts and focus will be on the following key areas:

First, we will put more efforts in the exploration of city piped natural gas business. Along with West-to-East Gas Supply 2nd Line (西氣東輸二線) and Sino-Burma Line (中緬線) being put into operation, the imported LNG will be entering China gradually, which implies that there will be substantial increase in the supply of natural gas resources in the next few years. Coupled with China's national policies to save energy and reduce emission, and to promote clean energies actively, the prospect for sales of natural gas is promising. The Group will seize opportunities to develop the piped natural gas business with well-planned organization and increased efforts. Taking the Group's existing 5 key areas, namely Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggane District, as foundation, we will make our way into other areas. According to the Group's the Twelfth Five-Year Plan, its annual sales volume will surpass 8 billion m^3 after 2016.

Second, we are to consolidate and develop LNG and CNG businesses. The Group will enhance its management, explore more business potentials, stabilize the gas source to secure the sustained steady development of its existing LNG and CNG businesses, and will further expand related logistics and transportation businesses according to market demand.

The third key task is the construction of natural gas branch line. The Group has constructed two branch lines each in Qinghai Province and Hunan Province respectively. In 2010, one-third of the Taizhou-Jiangyan-Dainan branch line in Jiangsu Province, the Nantong Rugao (南通如皋)-Haian (海安) branch line in Jiangsu Province was ready for operation and the Anyi (安義)-Nanchang (南昌) branch line, Phase I in Jiangxi Province is basically completed. Apart from bringing stable transmission revenue, the branch line constructions also make management relatively easier and simpler, and help the Group's development of projects along the down-stream. It is expected the above three branch lines will have a capacity of 0.8-1.2 billion m^3 per year for the down stream gas supplies.

The fourth is to construct coal-bed gas utilization projects. Pursuant to the agreement signed with PeroChina Coal-bed Methane, two sets of CNG apparatus have been completed for the coal-bed gas project. Coalbed gas utilization projects have realized CNG transitional gas supply and operation at the end of 2010. The coalbed gas produced from scattered wells in the two areas was successfully sold to surrounding areas in the form of CNG.

Fifth, we are to develop down-stream sale of LPG. Pursuant to the agreement concluded between the Group and Kunlun Gas, Kunlun Gas will provide the Group with price-competitive LPG resource. LPG is so far the major gas source in China with over 60% market share, and is particularly significant in cities and the vast rural areas where there is no supply of piped natural gas. In view of the severe shortage of natural gas resources in China, LPG will serve as a supplement gas source for the Group, providing more choices to our end users, and opening new opportunities for our market development.

Chairman's Statement and Management Discussion and Analysis

2011 is the first year for the Group to implement the "Twelfth Five-Year" development plan. Under the guidance of the development strategy of "One Body with Two Wings" (with piped natural gas as the main business to be supported by coalbed gas, LNG and LPG) raised by the Board, we will center around the "Twelfth Five-Year" development plan and aim at making itself a famous professional gas company in China. Through increasing sales and supply volume, rationalizing prices and enhancing internal management, we will further adjust our industrial structure, and complete our industrial layout of "One Body with Two Wings". We will continue to develop large complete projects and projects for gas replacing oil in vessels, enhance the existing projects and expand regional natural gas market. Leveraging on the coalbed gas and LNG resources of our business partners, the Group will actively explore coalbed gas, LNG distribution and related logistics and transportation to gradually form new areas for profit growth. We will adhere to our aims, namely, making profits for our shareholders; creating future for our employees; realising values for our customers and shaping our society with prosperity. We will continue our efforts and work together towards our goals, so as to strive for greater achievements.

The following discussions should be read in conjunction with the audited consolidated financial statements of the Group and the notes to the financial statements contained in the annual report and other sections for the Year ended 2010.

FINAL DIVIDEND

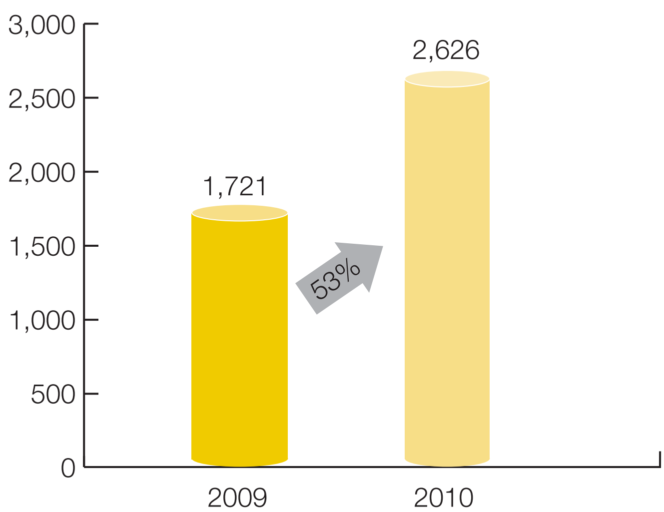
The Board did not recommend any dividend for the Year (2009: HK$Nil).

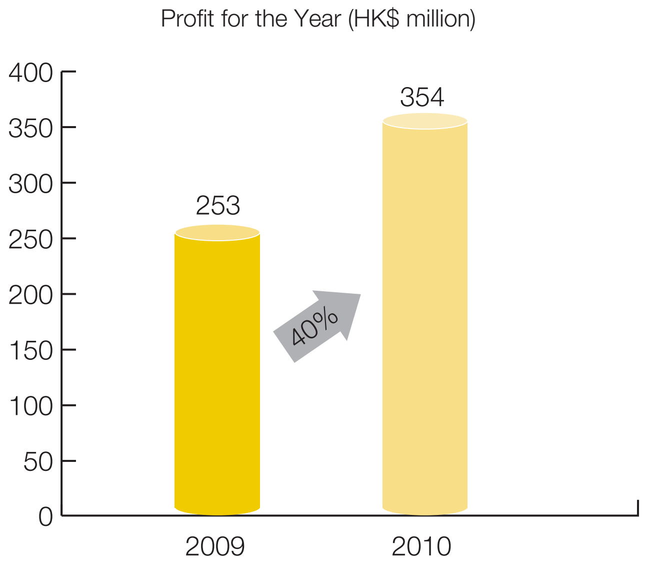
FINANCIAL RESULTS

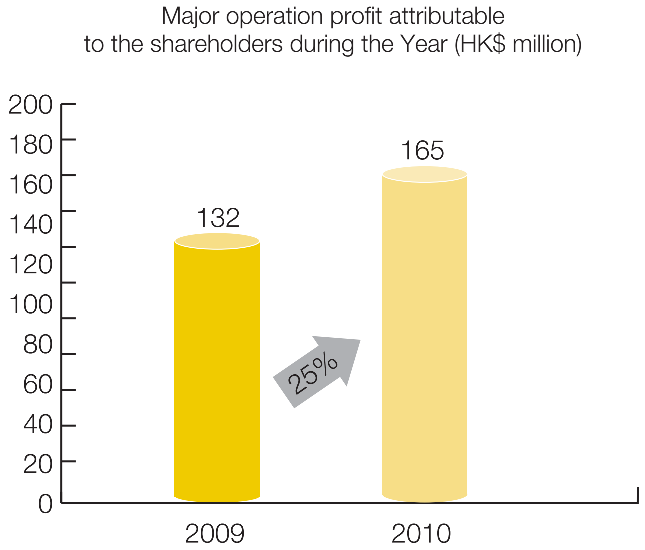
For the Year ended, the Group recorded a turnover of HK$2,626,007,000 (2009: HK$1,721,138,000), representing an increase of approximately 53%. The Group's cost of sales was HK$2,048,369,000 (2009: HK$1,312,676,000) representing an increase of approximately 56%. Gross profit amounted to HK$577,638,000 (2009: HK$408,462,000) with an increase of approximately 41%. Profit for the Year was HK$353,830,000 (2009: HK$252,772,000), increased by 40%.

The Group's profit attributable to the shareholders was HK$164,560,000 (2009: HK$132,090,000), which recorded an increase of approximately 25%. Basic earnings per share were 3.352 cents and 2.963 cents for both periods, respectively.

Turnover (HK$ million)





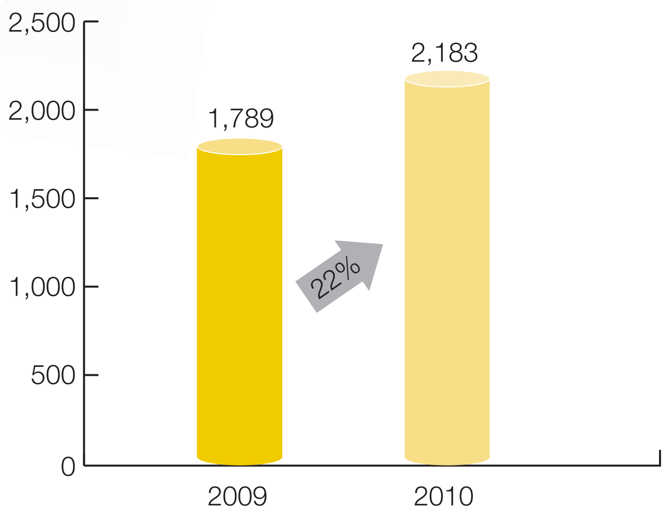


Pursuant to the Hong Kong Accounting Standards (the "HKAS"), the movement of fair values of all financial derivative instruments of the Group shall be reflected in the income statement. For the year ended 2010, the financial instruments were written up to market value amounted to HK$8,143,000 (2009: HK$1,164,000). The Group also recorded a gain on disposal of financial assets amounted to HK$8,601,000 (2009: HK$30,210,000). During 2010, the Group recognized interest income of HK$12,879,000 (2009: HK$3,211,000). After the reconciliation of the above issues, the profit attributable to shareholders in 2010 will be HK$134,937,000 (2009: HK$97,505,000) which represented an increase of 38% on the Group's natural gas businesses.

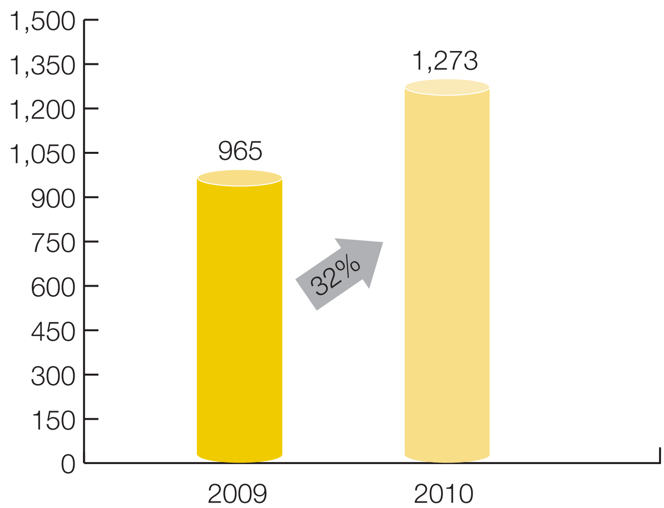
Chairman's Statement and Management Discussion and Analysis

BUSINESS REVIEW

Total Gas Sales & Transmission Volume (million m³)



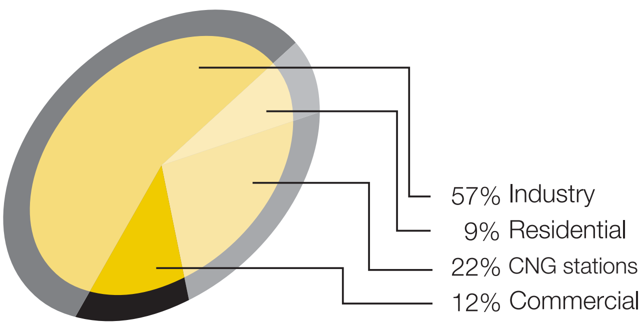
Total Gas Sales (million m³)



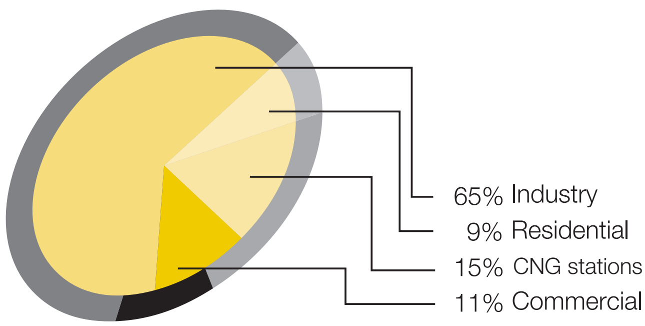
FINANCIAL RESULTS

During the Year, the Group's total gas sales and transmission volume reached 2.183 billion cubic meters (m^3), increased by 22% as compared to 1.789 billion m^3 for last year. Total gas sales increased by 32% from last year's 965 million m^3 to current year's 1.273 billion m^3; whereas transmission and logistic volume increased by 10% from 824 million m^3 to the Year's 910 million m^3. Among the gas consumption, 5% (2009: 3%) was commercial consumption; 57% (2009: 65%) was industrial consumption; 9% (2009: 9%) was household consumption; 22% (2009: 15%) was CNG stations; and 7% (2009: 8%) was supplied by our LNG plants.

2010



2009



The Group's operating and administrative expenses for the Year are HK$132,295,000 (2009: HK$109,808,000), increased by 21%. Finance costs increased by 14% from 2009's HK$16,703,000 to HK$19,029,000 this year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total workforce of approximately 1,660 (2009: 1,410) where mostly were stationed in the PRC. The staff costs for the year amounted to HK$124,319,000 (2009: HK$93,945,000). 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

No asset of the Group has been pledged as at 31 December 2010.

CONTINGENT LIABILITY

As at 31 December 2010, 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 2010, the Group has no litigation.

LIQUDITY AND FINANCIAL RESOURCES

Except as disclosed in the note 36 to consolidated financial statements, the Group did not incur or commit any material investment or capital expenditure.

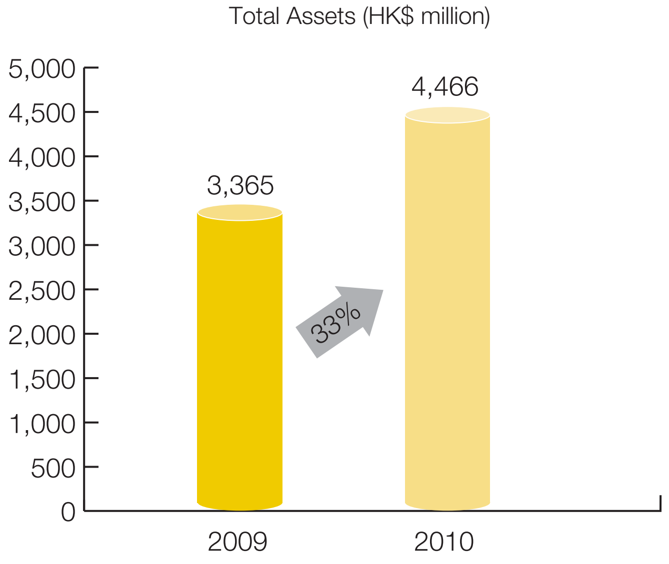
BORROWINGS

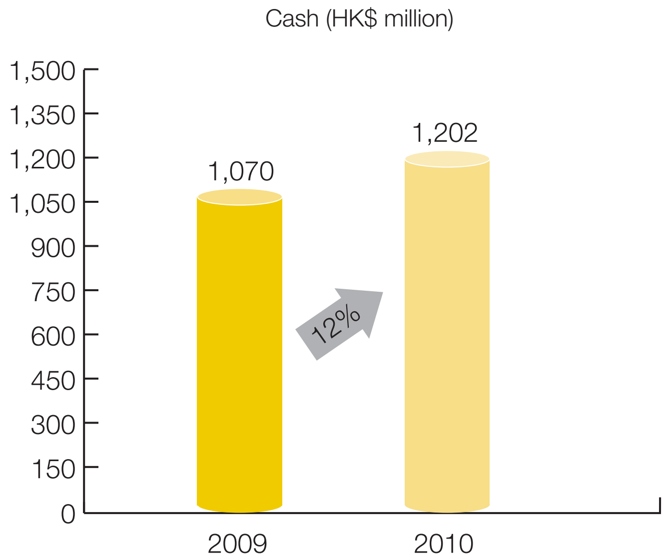
As at 31 December 2010, the Group's total borrowing amounted to HK$297,493,000 (2009: HK$390,132,000), representing bank borrowings and loans made for the gas operations in the PRC, a decrease of 24% as compared to 2009. All bank loans were unsecured and made in Renminbi with interest rate at 5.31% to 6.22% (2009: 5.94%) per annum. Other unsecured borrowings amounted to HK$29,563,000 (2009: HK$32,796,000) and bearing interest at 2.28% to 2.55% (2009: 2.28% to 2.55%).

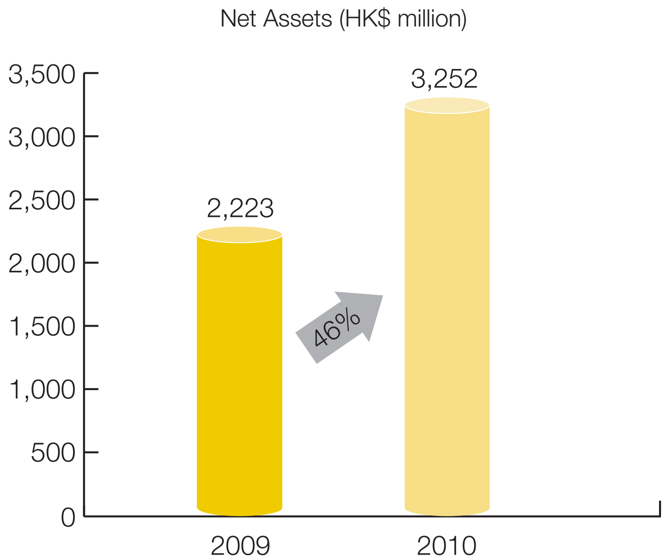
Save for the borrowings mentioned above, the Group has no other bank loans, overdraft or borrowings.

CAPITAL STRUCTURE

As at 31 December 2010, the Group had total assets of HK$4,466,000,000 (2009: HK$3,365,000,000), and among which current assets were HK$2,076,000,000 (2009: HK$1,444,000,000). The Group remained at a strong financial position, cash and cash equivalents amounted to HK$1,202,000,000 (2009: HK$1,070,000,000) and were mostly denominated in Hong Kong dollars and Renminbi. Total liabilities of the Group were HK$1,214,000,000 (2009: HK$1,142,000,000), and current liabilities were HK$1,187,000,000 (2009: HK$1,080,000,000). The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 37% (2009: 51%). The current ratio of the Group was 1.75 (2009: 1.34) and quick ratio was 1.68 (2009: 1.29).







In January 2010, the Company entered into a placing and subscription agreement with Deutsche Bank for a top-up placing and subscription of 500,000,000 shares of the Company. The entire top-up placing and subscription of new shares was completed in February 2010, and the Company has issued 500,000,000 shares and raised net proceeds of approximately HK$606 million.

The Company announced on 20 January 2010 the proposal relating to the reduction of the share premium from approximately HK$1,968,998,000 to HK$1,368,998,000 by cancelling the amount of HK$600,000,000 standing to the credit of the share premium account of the Company, with part of the credit arising there from being applied towards offsetting the entire amount of the accumulated losses of the Company as at 5 March 2010 and the remaining balance being credited to the contributed surplus account of the Company. A special resolution for approving the aforesaid proposal was passed by the shareholders of the Company at the special general meeting of the Company held on 4 March 2010. Details of the proposal are set out in the circular of the Company dated 1 February 2010.

Chairman's Statement and Management Discussion and Analysis

In May 2010, the Company repurchased a total of 7,000,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.86 to HK$0.89 per share in the open market for an aggregate consideration of HK$6,098,000. The above ordinary shares were subsequently cancelled.

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

Xu Tie-liang
Chairman

Hong Kong, 18 March 2011

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Mr. Xu Tie-liang, aged 47, was appointed as an executive Director and the Chairman of the Company on 30 August 2006. He was also appointed as the Chief Executive Officer of the Company on 4 November 2009. He is a director of various subsidiaries of the Company. Mr. Xu graduated from Xi'an Shiyou University (西安石油大學) majoring in finance and accounting, and he is 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 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 the 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.

There is no service contract between the Company and Mr. Xu and no agreement 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 of Directors of the Company (the "Board") with reference to the recommendation of the Remuneration Committee of the Company (the "Remuneration Committee"), the performance of the Group and the prevailing market conditions.

EXECUTIVE DIRECTORS

Mr. Zhu Yuan, aged 58, was appointed as an executive Director of the Company on 10 September 2010. He was also appointed as the senior vice president of the Company on 4 November 2009. He graduated from China University of Mining And Technology in 1987. He is a senior accountant and is a pipelined gas expert of China Petroleum Pipeline Bureau (中國石油天然氣管道局). He is engaged in oil and gas industries for over 40 years. He served successively for the Second Engineering Company of China Petroleum Pipeline Bureau (中國石油天然氣管道局第二工程公司) as finance minister, chief accountant, deputy general manager, to preside over the company's daily operation, and business and financial management for more than 11 years. Since 2002, he has been the deputy general manager of China City Natural Gas Co., Ltd. (中油中泰燃氣集團投資有限責任公司), a 51% subsidiary of the Company. He is responsible for day-to-day operations and project investment, formation, operation, management, etc. He also acts as the chairman of Liling China Oil And Gas Co., Ltd. (醴陵中油燃氣有限公司), Hunan China Oil And Gas Co., Ltd. (湖南中油燃氣有限公司), Qinghai Zhongtai China Oil And Gas Co., Ltd. (青海中泰中油氣有限公司), Nanchang China Oil And Gas Co. Ltd. (南昌中油燃氣有限公司), Pingxiang China Oil And Gas Company Limited (萍鄉中油燃氣有限公司) (all are subsidiaries of the Company) and etc. He has deep research and extensive experience in investment and operation of the usage of natural gas, city gas, and liquefied natural gas projects. Mr. Zhu did not hold directorships in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Zhu and no agreement 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. Zhu is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Ms. Guan Yijun, aged 46, was appointed as an executive Director of the Company on 10 September 2010. She was appointed as the vice president of the Company on 1 September 2006. She graduated from Changchun Normal University in 1985. She was a newspaper financial journalist, editor and general manager of industrial companies in oil and gas fields, she has been engaged in business management for almost 18 years. She is currently a supervisor of China City Natural Gas Co., Ltd. (中油中泰燃氣集團投資有限責任公司), a 51% subsidiary of the Company, the chairman of Nanjing Jiening China Oil And Gas Co., Ltd. (南京潔寧燃氣有限公司) and director of certain subsidiaries of the Company. Ms. Guan has extensive business operation management experiences. Ms. Guan did not hold any directorships in other listed public companies in the past three years.

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

Mr. Cheung Shing, aged 58, was appointed as an executive Director of the Company on 13 January 2006. He is a director of certain subsidiaries of the Company. He is also a member of each of the Remuneration Committee and the Nomination Committee of the Company (the "Nomination Committee"). He worked in 中國石油齊魯石化煉油廠, 中國石油勝利油田, 中原油田 and has ever been a management economist of China National Petroleum Corporation (中國石油天然氣集團) 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. Mr. Cheung has been the deputy chairman and an executive director of Sino Union Energy Investment Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is currently a visiting lecturer of Jiangxi University of Finance and Economics, the vice president of Hong Kong General Association of International Investment and the deputy director of 中國石油商務理事會. 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 no agreement 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. Cheung is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Xun-zhi, aged 76, 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 (the "Audit Committee"). 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 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 CNPAAlberta Petroleum Center (中國加拿大阿爾伯特石油中心) and was responsible for the oil and gas works between China and Russia, and worked on the overseas petroleum exploration and development as well as international cooperation work. He is currently the vic-president of Northeast Asian Gas And Pipeline Forum and the president of Asia Gas & Pipeline Cooperation Research Center of China. Mr. Shi did not hold directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Shi and no agreement 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 every three years in accordance with the Bye-laws. Mr. Shi is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Biographical Details of Directors

Mr. Li Yunlong, aged 59, was appointed as an independent non-executive Director of the Company on 18 April 2008. He is the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. 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 15 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 consultant of various companies in the PRC, and an independent director of Sichuan Xichang Electric Power Co., Ltd. (四川西昌電力股份有限公司), a company listed on the Shanghai Stock Exchange. He is being national financial expert of The Ministry of Science and Technology of the PRC. He has extensive experience in legal, accounting, auditing and finance aspects. Save as disclosed above, Mr. Li did not hold directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Li and no agreement 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 at least once every three years 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, the performance of the Group and the prevailing market conditions.

Mr. Wang Guangtian, aged 47, was appointed as an independent non-executive Director of the Company on 4 November 2009. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee. He holds a master's degree in world economics from the Hebei University and has over 27 years of experience in financial and administrative management. He is currently a vice president of Guofu Group and a director and the general manager of Guofu (Hong Kong) Holdings Limited. He is also currently an independent non-executive director of ENN Energy Holdings Limited (formerly known as 'XinAo Gas Holdings Limited'), a company listed on the Stock Exchange. Save as aforesaid, Mr. Wang did not hold directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Wang, and his term of appointment is two years commenced on 4 November 2009. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Wang is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

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 2010 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 36 to 115.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: HK$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 116. This summary does not form part of the consolidated 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 2010 is set out in note 7 to the consolidated 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 consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year under review, together with the reasons therefor, are set out in note 31 to the consolidated 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 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the 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 2010, the Company repurchased 7,000,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.86 to HK$0.89 per share on the Stock Exchange. Details of the repurchases are as follows:

Month of repurchase	Number of ordinary shares	Price per ordinary share Highest	Lowest	Aggregate consideration paid
May 2010	7,000,000	HK$0.89	HK$0.86	HK$6,098,000

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 2010.

DISTRIBUTABLE RESERVES

As at 31 December 2010, no reserve of the Company was available for distribution to the 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:

	2010	2009
	%	%
Purchases		
– the largest supplier	**57.3**	59.6
– five largest suppliers combined	**93.8**	97.9
Turnover		
– the largest customer	**3.6**	4.3
– five largest customers combined	**12.1**	10.3

None of the Directors or any of their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (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.

Report of the Directors

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 & Chief Executive Officer)*	
CHEUNG Shing	
ZHU Yuan	(Appointed on 10 September 2010)
GUAN Yijun	(Appointed on 10 September 2010)
QU Guo-hua	(Retired on 20 May 2010)

Independent Non-Executive Directors

LI Yunlong	
SHI Xun-zhi	
WANG Guangtian	
PENG Long	(Resigned on 10 September 2010)

In accordance with Bye-law 87(1), Messrs Xu Tie-liang, Cheung Shing and Shi Xun-zhi shall retire from office as Directors by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 6 May 2011 ("2011 AGM") and being eligible, offered 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 arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2011 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

Save as disclosed above, 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 any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2010, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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, 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	Approximately percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	6.484%
	Interest in a controlled corporation	Long position	2	776,500,000	15.684%
Guan Yijun	Interest of spouse	Long position		1,097,518,300	22.168%
Zhu Yuan	Beneficial owner	Long position	3	1,500,000	0.030%

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 and is wholly-owned by Sino Best International Group Limited ("Sino Best") (a company incorporated in the British Virgin Islands with limited liability) which in turn is wholly and beneficially owned by Mr. Xu Tie-liang.

2. These 776,500,000 ordinary shares of the Company are held through Sino Vantage Management Limited ("Sino Vantage"), a company incorporated in the British Virgin Islands and is wholly-owned by Sino Best which in turn is wholly and beneficially owned by Mr. Xu Tie-liang.

3. These 1,500,000 shares are derived from the interest in 1,500,000 share options granted by the Company, details of which as set out in note 33 to the audited financial statements.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the 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 2010.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2010, 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	Approximately percentage of the Company's issued share capital
Sino Advance	Beneficial owner	Long position	1	321,018,300	6.484%
Sino Vantage	Beneficial owner	Long position	1	776,500,000	15.684%
Sino Best	Interest in controlled corporations	Long position	1	1,097,518,300	22.168%
New Stamina Investments Limited ("New Stamina")	Beneficial owner	Long position	2	275,000,000	5.555%
Lo Chung	Interest in controlled corporations	Long position	2	275,000,000	5.555%
	Family interest	Long position	3	17,400,000	0.351%

Notes:

1. Sino Advance and Sino Vantage are wholly-owned by Sino Best which in turn are wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares and 776,500,000 ordinary shares of the Company held through Sino Advance and Sino Vantage.

2. 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 held through New Stamina.

3. These 17,400,000 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 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2010, the Group has the following connected transactions:

1. On 8 October 2010, the Company and Jinan Diesel entered into a Marine Diesel-Gas Co-promotional Agreement (the "Agreement"), pursuant to which the parties would co-operate to try out the gas machinery and the dual fuel machinery used for inland canal ships in China for a period of 5 years commencing from 1 January 2011 and expiring on 31 December 2015, subject to termination as stipulated under the Agreement.

The ultimate holding company of Kunlun Energy (stock code: 135), 中國石油天然氣集團公司 (China National Petroleum Corporation) ("CNPC") holds 60% interest in Jinan Diesel through its wholly-owned subsidiary. CCNG is a 51% indirectly owned subsidiary of the Company, the remaining 49% equity interest of which are held by Kunlun Energy. Accordingly, Jinan Diesel is a connected person (as defined in the Listing Rules) of the Company.

Pursuant to the Agreement, the Company would purchase from Jinan Diesel five sets of engine, gas tank and LNG gasification plant for gas machinery and dual fuel machinery and would be responsible for the installation according to the specifications at the purchase price of not more than RMB1,000,000 per set, totalling not more than RMB5,000,000, for installation in inland canal vessels for experimental demonstration and promotional purposes.

2. On 26 November 2010, Sino Advance, a company wholly-owned by Sino Best, which in turn is wholly and beneficially owned by Mr. Xu Tie-liang, the Chairman of the Board, and therefore a connected person of the Company as defined under the Listing Rules, as vendor and Sino Invent Holdings Limited ("Sino Invent"), an indirect wholly-owned subsidiary of the Company, as purchaser (the "Purchaser") entered into an agreement for the sale and purchase of 800 shares in the Sino Director Limited (the "Target Company"), which represent 8.0% equity interests in the Target Company at a total consideration of HK$190,000,000.

Non-exempt continuing connected transactions

The following continuing connected transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules:

1. 馬鞍山高佳能源有限公司 (Maanshan Gaojia Energy Resources Company Limited) ("Maanshan Company"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with 中國石油天然氣股份有限公司安徽銷售分公司 (PetroChina Company Limited Anhui Sale Branch Company) ("PetroChina Anhui"), a branch company of PetroChina (a connected person of the Company as defined under the Listing Rules), pursuant to which, Maanshan Company shall lease from PetroChina Anhui portion of the land (as described in the announcement of the Company dated 1 June 2010) for the investment in construction of gas supply of the Lvyou Dadao Stations, the Xiangshan Stations and the Hunan East Road Stations.

   The aggregate rental paid/to be payable by Maanshan Company to PetroChina Anhui is RMB2,000,000 per annum, whereby RMB650,000 for Lvyou Dadao Stations, RMB700,000 for Xiangshan Stations and RMB650,000 for Hunan East Road Stations. The rental shall be payable upon commencement of operations of the respective oil and gas stations.

   The annual cap for the rental to PetroChina Anhui for the financial year ended 31 December 2010 is RMB2,000,000.

   The actual rental to PetroChina Anhui for the year ended 31 December 2010 is RMB Nil.

Continuing connection transactions – exclusive strategic framework agreement for the provision of coalbed methane

2. On 11 January 2010, CCNG entered into an exclusive strategic co-operation framework agreement (the "Strategic Co-Operation Framework Agreement") with 中石油煤層氣有限責任公司 ("PetroChina CBM") pursuant to which CCNG and PetroChina CBM agreed to co-operate with each other in development and sale of Coalbed Methane ("CBM") to be explored in the areas of DaLing-JiXian and BaoDe in Shanxi Province, the PRC for a term of 30 years and Petrochina CBM agreed to supply CBM to CCNG and/or its subsidiaries annually.

   As PetroChina CBM is a wholly-owned subsidiary of PetroChina (a non-wholly owned subsidiary of CNPC and the controlling shareholder of Kunlun Energy), accordingly PetroChina CBM is an associate of PetroChina and a connected person of the Company;

The cap for the purchase of CBM pursuant to the Strategic Co-Operation Framework Agreement for the financial year ended 31 December 2010 is RMB40 million.

There was no fee paid to PetroChina CBM for the provision of CBM for the year ended 31 December 2010.

Continuing connected transactions – provision of natural gas

3. Certain subsidiaries of the Group have, since 2001, entered into the natural gas supply contracts (being the Qingyun Contract dated 23 December 2002, the Liling Contract dated 26 December 2001, the Huimin Contract dated 23 December 2002, the Xining Contract dated 28 April 2001, the Binzhou Contract dated 1 February 2002, the Anhui Contract dated 30 November 2004 and the Jiangdu Contract dated 25 December 2008) ("Natural Gas Supply Contracts") with PetroChina or its branch companies pursuant to which natural gas was supplied to various subsidiaries of the Group by PetroChina Group.

   The caps in respect of the supply of natural gas pursuant to the Natural Gas Supply Contracts for the year ended 31 December 2010 are as follows:

Qingyun Contract	RMB27 million
Liling Contract	RMB360 million
Huimin Contract	RMB30 million
Xining Contract	RMB872 million
Binzhou Contract	RMB134 million
Anhui Contract	RMB67 million
Jiangdu Contract	RMB240 million

   The actual fees paid/payable pursuant to the Natural Gas Supply Contracts for the year ended 31 December 2010 are as follows:

Qingyun Contract	RMB16 million
Liling Contract	RMB275 million
Huimin Contract	RMB25 million
Xining Contract	RMB703 million
Binzhou Contract	RMB126 million
Anhui Contract	RMB35 million
Jiangdu Contract	RMB1 million

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

1. in the ordinary and usual course of the Group's business;

2. on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

3. have been carried out in accordance with the terms of the agreement governing such transactions.

The Auditor of the Company has reviewed the above continuing connected transactions and provided a letter to the Company confirming that the above continuing connected transactions:

(i) have received the approval of the Board;

(ii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iii) have not exceeded the respective annual cap amount as set out in the relevant announcements.

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 30 to 34 of the annual report.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Wang Guangtian. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2010.

AUDITOR

A resolution will be submitted to the 2011 AGM to re-appoint Ting Ho Kwan & Chan as auditor of the Company.

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

Hong Kong, 18 March 2011

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2010, the Company was in compliance with the code provisions set out in the CG Code except for the deviations from code provisions A.2.1 and A.4.1.

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

Code provision A.4.1. of the CG Code provides that non-executive Directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors (except Mr. Wang Guangtian) are not appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the Bye-laws.

Save as the aforesaid and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code. 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 seven Directors including four executive Directors and three independent non-executive Directors:

Executive Directors

Mr. XU Tie-liang *(Chairman & Chief Executive Officer)*
Mr. ZHU Yuan
Ms. GUAN Yijun
Mr. CHEUNG Shing

Independent Non-Executive Directors

Mr. LI Yunlong
Mr. SHI Xun-zhi
Mr. WANG Guangtian

Save for Ms. Guan Yijun is the spouse of Mr. Xu Tie-liang, 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 19 to 21 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 Company does not have a separate chairman and chief executive officer and Mr. Xu Tie-liang currently performs these two roles. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Non-executive Directors

The three independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, finance and petroleum. 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 considered each of them is independent under Rule 3.13 of the Listing Rules.

The independent non-executive Directors (except Mr. Wang Guangtian) are not appointed for specific term and are subject to retirement by rotation in accordance with the Bye-laws.

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 2010, the Board held 18 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	18/18
QU Guo-hua*	8/8
ZHU Yuan#	4/4
GUAN Yijun#	4/4
CHEUNG Shing	18/18
LI Yunlong	18/18
SHI Xun-zhi	18/18
WANG Guangtian	18/18
PENG Long+	13/14

* Mr. Qu Guo-hua retired on 20 May 2010, 8 meetings were held before his retirement.

\# Mr. Zhu Yuan and Ms. Guan Yijun were appointed on 10 September 2010, 4 meetings were held after their appointment.

\+ Mr. Peng Long resigned on 10 September 2010, 14 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 the Nomination Committee with written terms of reference on 15 March 2006 and currently consists of two independent non-executive Directors, namely Mr. WANG Guangtian (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 2010, the Nomination Committee held 2 meetings to assess the independency of the independent non-executive Directors, to consider the appointment of new Directors and re-election of Directors.

Name of member	Number of attendance
WANG Guangtian	2/2
LI Yunlong	2/2
CHEUNG Shing	2/2
PENG Long*	1/2

* Mr. Peng Long resigned on 10 September 2010, 2 meetings were held before his resignation.

REMUNERATION OF DIRECTORS

The Company established 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) and Mr. WANG Guangtian, 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 2010, the Remuneration Committee held 2 meetings for making recommendation of the remuneration of the proposed new Directors and reviewed the remuneration packages of the Directors and senior management.

Name of member	Number of attendance
LI Yunlong	2/2
WANG Guangtian	2/2
CHEUNG Shing	2/2
PENG Long*	2/2

* Mr. Peng Long resigned on 10 September 2010, 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 consolidated financial statements.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The Audit Committee of the Company comprises three independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. SHI Xun-zhi and Mr. WANG Guangtian.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the quarterly, 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 on 13 January 2006 are aligned with the code provisions set out in the CG Code.

The Audit Committee meets the external auditor 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 2010, the Audit Committee held 2 meetings.

Name of member	Number of attendance
LI Yunlong	2/2
SHI Xun-zhi	2/2
WANG Guangtian	2/2
PENG Long*	2/2

* Mr. Peng Long resigned on 10 September 2010, 2 meetings were held before his resignation.

During the year ended 31 December 2010, the Audit Committee reviewed the annual and interim results of the Group, 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.

AUDITOR'S REMUNERATION

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

Services rendered	Fee paid/payable HK$'000
Audit services	1,080
Non-audit services	100
	1,180

Corporate Governance Report

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 manner:

- 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 2010 annual general meeting of the Company to answer questions of the meeting.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period which gives 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 2010, 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 are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2010, 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.

TO THE SHAREHOLDERS OF CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Oil And Gas Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 36 to 115, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's presentation of the consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows 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, 18 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Turnover	6	**2,626,007**	1,721,138
Cost of sales		**(2,048,369)**	(1,312,676)
Gross profit		**577,638**	408,462
Other income and gains, net	8	**37,636**	44,969
Selling and distribution costs		**(24,401)**	(21,521)
Administrative expenses		**(132,295)**	(109,808)
Operating profit		**458,578**	322,102
Finance costs	9	**(19,029)**	(16,703)
Share of loss of an associate		**(51)**	(18)
Profit before taxation		**439,498**	305,381
Taxation	12	**(85,668)**	(52,609)
Profit for the year	13	**353,830**	252,772
Other comprehensive income:			
Exchange differences on translating foreign operations		**46,780**	(2,056)
Total comprehensive income for the year		**400,610**	250,716
Profit attributable to:			
Equity holders of the Company	15	**164,560**	132,090
Non-controlling interests		**189,270**	120,682
		353,830	252,772
Total comprehensive income attributable to:			
Equity holders of the Company		**192,728**	130,916
Non-controlling interests		**207,882**	119,800
		400,610	250,716
Earnings per share	16		
– Basic		**3.352 cents**	2.963 cents
– Diluted		**3.313 cents**	2.960 cents

The notes on pages 43 to 115 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	*17*	**1,431,470**	1,213,519
Leasehold land and land use rights	*18*	**77,332**	72,095
Goodwill	*19*	**683,443**	627,068
Other intangible assets	*20*	**6,839**	5,127
Interest in an associate	*22*	**–**	2,461
Available-for-sale financial assets	*23*	**190,452**	452
Total non-current assets		**2,389,536**	1,920,722
Current assets			
Inventories	*24*	**81,066**	54,040
Financial assets at fair value through profit or loss	*25*	**259,243**	57,537
Deposits, trade and other receivables	*26*	**489,688**	262,603
Fixed deposits held at banks with maturity over three months	*27*	**44,460**	–
Cash and cash equivalents	*27*	**1,202,013**	1,069,717
Total current assets		**2,076,470**	1,443,897
Current liabilities			
Trade and other payables	*28*	**875,406**	727,109
Bank and other borrowings	*29*	**281,113**	338,540
Current tax payable		**30,223**	14,225
Total current liabilities		**1,186,742**	1,079,874
Net current assets		**889,728**	364,023
Total assets less current liabilities		**3,279,264**	2,284,745
Non-current liabilities			
Bank and other borrowings	*29*	**16,380**	51,592
Deferred tax liabilities	*30*	**11,207**	10,405
Total non-current liabilities		**27,587**	61,997
Net assets		**3,251,677**	2,222,748

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	*31*	**49,509**	44,579
Reserves		**2,379,603**	1,587,493
		2,429,112	1,632,072
Non-controlling interests		**822,565**	590,676
Total equity		**3,251,677**	2,222,748

The consolidated financial statements were approved and authorised for issue by the Board of directors on 18 March 2011.

Xu Tie-liang
DIRECTOR

Cheung Shing
DIRECTOR

The notes on pages 43 to 115 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Other intangible assets	*20*	**1,702**	-
Interests in subsidiaries	*21*	**1,696,556**	1,147,675
		1,698,258	1,147,675
Current assets			
Other receivables		**7,034**	1
Cash and cash equivalents	*27*	**97,597**	56,831
Total current assets		**104,631**	56,832
Current liabilities			
Other payables		**4,080**	4,020
Net current assets		**100,551**	52,812
Net assets		**1,798,809**	1,200,487
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	*31*	**49,509**	44,579
Reserves	*32*	**1,749,300**	1,155,908
Total equity		**1,798,809**	1,200,487

The financial statements were approved and authorised for issue by the Board of directors on 18 March 2011.

Xu Tie-liang
DIRECTOR

Cheung Shing
DIRECTOR

The notes on pages 43 to 115 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company										
The Group	Issued share capital	Share premium account	Capital redemption reserve	Capital reserve	Other reserve	Exchange fluctuation reserve	Share option reserve	Retained profits/ (Accumulated losses)	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	44,579	1,968,998*	893*	23,626*	–*	47,546*	–*	(586,818)*	1,498,824	405,004	1,903,828
Change in equity for 2009:											
Exchange differences on translating foreign operations	–	–	–	–	–	(1,174)	–	–	(1,174)	(882)	(2,056)
Profit for the year	–	–	–	–	–	–	–	132,090	132,090	120,682	252,772
Total comprehensive income for the year	–	–	–	–	–	(1,174)	–	132,090	130,916	119,800	250,716
Bonus shares issued on capitalisation of retained profits by a subsidiary	–	–	–	57,854	–	–	–	(57,854)	–	–	–
Equity-settled share-based payments	–	–	–	–	–	–	2,332	–	2,332	–	2,332
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	85,872	85,872
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(20,000)	(20,000)
At 31 December 2009	44,579	1,968,998*	893*	81,480*	–*	46,372*	2,332*	(512,582)*	1,632,072	590,676	2,222,748
Change in equity for 2010:											
Exchange differences on translating foreign operations	**–**	**–**	**–**	**–**	**–**	**28,168**	**–**	**–**	**28,168**	**18,612**	**46,780**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**164,560**	**164,560**	**189,270**	**353,830**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**28,168**	**–**	**164,560**	**192,728**	**207,882**	**400,610**
Repurchase of own shares	**(70)**	**(6,028)**	**70**	**–**	**–**	**–**	**–**	**(70)**	**(6,098)**	**–**	**(6,098)**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**5,405**	**–**	**5,405**	**–**	**5,405**
Non-controlling interests arising from acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,874**	**22,874**
Capital injection by non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,934**	**11,934**
Dividend paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(29,995)**	**(29,995)**
Changes in the ownership interests in subsidiaries that do not result in a loss of control	**–**	**–**	**–**	**–**	**(473)**	**57**	**–**	**–**	**(416)**	**19,194**	**18,778**
Shares issued upon placement of shares, net of issuing expenses	**5,000**	**600,421**	**–**	**–**	**–**	**–**	**–**	**–**	**605,421**	**–**	**605,421**
Set-off against accumulated losses	**–**	**(600,000)**	**–**	**–**	**–**	**–**	**–**	**600,000**	**–**	**–**	**–**
At 31 December 2010	**49,509**	**1,963,391***	**963***	**81,480***	**(473)***	**74,597***	**7,737***	**251,908***	**2,429,112**	**822,565**	**3,251,677**

* These reserve accounts comprise the consolidated reserves of HK$2,379,603,000 (2009: HK$1,587,493,000) in the consolidated balance sheet.

The notes on pages 43 to 115 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Cash flows from operating activities		
Profit for the year	**353,830**	252,772
Adjustments for:		
Taxation	**85,668**	52,609
Finance costs	**19,029**	16,703
Interest income	**(12,879)**	(3,211)
Dividend income from listed securities	**(167)**	(942)
Share of loss of an associate	**51**	18
Bad debts written off	**3,639**	219
Equity-settled share-based payments	**5,405**	2,332
Amortisation of other intangible assets	**127**	56
Impairment losses of available-for-sale financial assets	**–**	47
Depreciation of property, plant and equipment	**97,249**	79,045
Amortisation of leasehold land and land use rights	**2,065**	1,675
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**3,842**	1,832
Gain on disposal of a subsidiary	**(7)**	–
Gain on disposal of financial assets at fair value through profit or loss	**(8,601)**	(30,210)
Fair value gains on financial assets at fair value through profit or loss	**(8,143)**	(1,164)
	541,108	371,781
Changes in working capital:		
Increase in financial assets at fair value through profit or loss	**(184,955)**	(6,646)
Increase in inventories	**(23,212)**	(5,587)
(Increase)/decrease in deposits, trade and other receivables	**(214,923)**	62,443
Increase in trade and other payables	**113,928**	173,238
Cash generated from operations	**231,946**	595,229
Taxation paid	**(69,641)**	(56,306)
Net cash generated from operating activities	**162,305**	538,923

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities			
Interest received		**12,879**	3,211
Dividend received		**167**	942
Purchases of property, plant and equipment and leasehold land and land use rights		**(251,121)**	(343,732)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**1,890**	9,160
Purchases of other intangible assets		**(1,739)**	(1,384)
Purchases of available-for-sale financial assets		**(190,000)**	–
Net cash outflow on acquisition of an associate	*22*	**–**	(2,479)
Proceeds from liquidation of an associate	*22*	**2,270**	–
Net cash outflow on acquisition of subsidiaries	*34(a)*	**(70,445)**	–
Net cash inflow from disposal of a subsidiary	*34(b)*	**5,350**	–
Changes in the ownership interests in subsidiaries	*34(c)*	**18,778**	–
Placements of fixed deposits held at banks with maturity over three months	*27*	**(44,460)**	–
Capital injection by non-controlling shareholders		**11,934**	85,872
Net cash used in investing activities		**(504,497)**	(248,410)
Cash flows from financing activities			
Interest paid		**(19,029)**	(16,703)
Proceeds from placing and issue of shares, net of issuing expenses		**605,421**	–
New borrowings raised		**245,700**	433,465
Repayment of borrowings		**(350,582)**	(348,026)
Dividend paid to non-controlling shareholders		**(29,995)**	(20,000)
Payment for repurchase of own shares		**(6,098)**	–
Net cash generated from financing activities		**445,417**	48,736
Net increase in cash and cash equivalents		**103,225**	339,249
Cash and cash equivalents at beginning of the year		**1,069,717**	731,151
Effect of foreign exchange rate changes		**29,071**	(683)
Cash and cash equivalents at end of the year	*27*	**1,202,013**	1,069,717

The notes on pages 43 to 115 are an integral part of these financial statements.

1. GENERAL

China Oil And Gas Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 40.

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 consolidated 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 certain available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value. A summary of significant accounting policies adopted by the Group is set out in note 3.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, 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 period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from 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 consolidated 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.

(a) Basis of consolidation

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

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

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests"), represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loan from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 3(m) or 3(n) depending on the nature of the liability.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group losses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial assets (see note 3(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 3(c)).

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses, unless the investments are classified as held for sale (or included in a disposal group that is classified as held for sale). The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

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

(c) 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 statement of comprehensive income 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 loss 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.

(d) Intangible assets

(i) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(k)(ii)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 3 (k)(ii)).

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

(d) Intangible assets *(continued)*

(i) Goodwill (continued)

Internal and external sources of information are reviewed at each balance sheet date to identify indications that goodwill may be impaired. If any such indication exists, its recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in profit or loss whenever the carrying amount of goodwill, or the cash-generating unit to which it belongs, exceeds its recoverable amount. An impairment loss on goodwill is not reversed.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

(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 ranging from 30 to 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 any accumulated impairment losses and is not amortised.

(iv) Computer operating system

Computer operating system is shown at historical cost. Computer operating system has definite useful lives and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of computer operating system over its estimated useful lives of 10 years.

(e) 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. Property, plant and equipment include leasehold land classified as financial leases. Please refer to note (3)(f) for the accounting policy on leasehold land classified as finance leases. 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 profit or loss during the financial year in which they are incurred.

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:

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

(e) Property, plant and equipment *(continued)*

Leasehold land and buildings	4%-8% on the straight-line basis or remaining lease period of the land where applicable
Leasehold improvements	Over the lease terms
Plant and machinery	5%-33.3% on the straight-line basis
Pipelines	5% on the straight-line basis
Motor vehicles	10%-20% on the straight-line basis
Furniture, fixtures and equipment	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 statement of comprehensive income 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.

(f) 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 under operating lease and finance lease arrangements are stated at cost and are amortised over the period of the lease on the straight-line basis to profit or loss.

(g) Financial assets

Regular purchases and sales of financial assets are recognised on the trade date when the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 consolidated balance sheet at fair value. A financial asset is classified in this category, if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. 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.

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

(g) Financial assets *(continued)*

(ii) Held-to-maturity investments

Investment in debt securities with fixed or determinable payments and fixed maturity that the Group has the positive 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 are subsequently carried at amortised cost using the effective interest method. 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 'Deposits, trade and other receivables' and 'Cash and cash equivalents and fixed deposits held at banks' in the consolidated balance sheet.

(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 consolidated balance sheet at fair value. Gain or loss on fair value changes of available-for-sale financial assets is recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except for impairment losses and foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss.

When the available-for-sale financial assets are derecognised, the cumulative gain or loss is reclassified from equity to 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 in equity and there is objective evidence that the asset is impaired, the cumulative loss is recognised from equity to 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.

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

(g) Financial assets *(continued)*

(iv) Available-for-sale financial assets (continued)

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.

(h) 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 recognised 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.

(i) 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.

(j) 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)*

(k) 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: 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:

- significant financial difficulty of the debtor;
- 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 debtor; 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 investment in an associate recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note (ii) below. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note (ii) below.
- 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 carried at cost 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)*

(k) 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 in the fair value reserve is reclassified to 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 in other comprehensive income.

  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 allowance account. When the Group 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.

(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 (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.

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

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

- 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.

- 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.

(l) Cash and cash equivalents

Cash and cash equivalents comprises cash at banks and on hand, demand deposits with banks 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.

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

(m) 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 in note 3(r), 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.

(n) 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 profit or loss 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.

(o) 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.

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

(o) Foreign currency translation *(continued)*

(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 profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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 recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

(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 profit or loss 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 in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve.

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 recognised in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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)*

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 and distribution of natural gas

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

(iii) Gas pipeline construction and connection fee income

Gas pipeline construction and connection fee income is recognised when the relevant construction 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) 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)*

(q) Employee benefits

(i) Retirement benefit costs

In accordance with the rules and regulations in the People's Republic of China (the "PRC"), the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group also 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 profit or loss 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 the share option reserve within equity. The fair value is measured at grant date using the Black-Scholes-Merton Option Pricing 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 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 share option 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 share option 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 share option 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)*

(r) 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

Provisions 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)*

(s) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using the tax rates enacted or substantively enacted at the balance sheet date. 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 associate, 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.

(t) 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. Other borrowing costs are expensed in profit or loss in the period in which they are incurred. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of such borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) 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. Payment made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease.

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

(v) Related parties

For the purposes of these consolidated 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.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 3 (revised 2008)	Business combinations
Amendments to HKAS 27	Consolidated and separate financial statements
Amendments to HKFRS 5	Non-current assets held for sale and discontinued operations - plan to sell the controlling interest in a subsidiary
Amendments to HKAS 39	Financial instruments: Recognition and measurement - Eligible hedged items
Improvements to HKFRSs (2009)	
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(Int) 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The amendments to HKAS 39 and the issuance of HK(Int) 5 have had no material impact on the Group's financial statements as the amendment and the interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

– The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

– The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

– As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  (a) Transactions costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  (b) If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

(d) If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

(e) In addition to Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

– As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010.

(a) If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposal, respectively.

(b) If the Group losses control of a subsidiary, the transactions will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendments to HKFRS 5, if at the balance sheet date, the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

– In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

(b) If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have been restated.

Other changes in accounting policies which are relevant to Group's financial statements are as follows:

– As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 44).

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 consolidated 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) Key assumption and other key sources of estimation uncertainty

Certain key assumptions and risk factors in respect of the financial risk management are set out in note 41. Other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as follows:

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

(a) Key assumption and other key sources of estimation uncertainty *(continued)*

(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) Income tax

The Group 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 period in which such determination is made.

(b) Critical judgements in applying the Group'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 short-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 gas pipeline connection and construction services, sales and distribution of natural gas and other related products. Analysis of the Group's turnover for the year is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Sales and distribution of natural gas and other related products	**2,357,810**	1,506,108
Gas pipeline connection and construction services income	**268,197**	215,030
	2,626,007	1,721,138

7. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection. The Group has presented the following two reportable segments:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

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

Intersegment revenue is eliminated on consolidation. Intersegment sales and transactions are conducted in accordance with the terms mutually agreed between the parties.

The Board assesses the performance of the business segments based on profit before taxation without allocation of finance income/(costs) and share of loss of an associate, which is consistent with these in the financial statements.

Information regarding the Group's reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

Business segments

For the year ended 31 December 2010:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results			
Sales to external customers	2,357,810	268,197	2,626,007
Segment results	332,948	107,158	440,106
Interest income			12,879
Gain on disposal of financial assets at fair value through profit or loss			8,601
Fair value gains on financial assets at fair value through profit or loss			8,143
Finance costs			(19,029)
Share of loss of an associate			(51)
Unallocated corporate expenses			(11,151)
Profit before taxation			439,498
Taxation			(85,668)
Profit for the year			353,830

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2010:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Unallocated HK$'000	Group HK$'000
Segment assets and liabilities				
Assets				
Segment assets	1,986,198	90,629	–	2,076,827
Goodwill				683,443
Unallocated corporate assets				1,705,736
Consolidated total assets				4,466,006
Liabilities				
Segment liabilities	850,504	151,257	–	1,001,761
Unallocated corporate liabilities				212,568
Consolidated total liabilities				1,214,329
Other information				
Capital additions	250,138	983	–	251,121
Depreciation	95,867	535	847	97,249
Amortisation of leasehold land and land use rights	2,026	39	–	2,065
Amortisation of other intangible assets	127	–	–	127

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results			
Sales to external customers	1,506,108	215,030	1,721,138
Segment results	229,120	74,821	303,941
Interest income			3,211
Gain on disposal of financial assets at fair value through profit or loss			30,210
Fair value gains on financial assets at fair value through profit or loss			1,164
Impairment losses of available-for-sale financial assets			(47)
Finance costs			(16,703)
Share of loss of an associate			(18)
Unallocated corporate expenses			(16,377)
Profit before taxation			305,381
Taxation			(52,609)
Profit for the year			252,772

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Unallocated HK$'000	Group HK$'000
Segment assets and liabilities				
Assets				
Segment assets	1,407,729	83,779	–	1,491,508
Goodwill				627,068
Interest in an associate				2,461
Unallocated corporate assets				1,243,582
Consolidated total assets				3,364,619
Liabilities				
Segment liabilities	748,501	196,087	–	944,588
Unallocated corporate liabilities				197,283
Consolidated total liabilities				1,141,871
Other information				
Capital additions	336,322	6,170	1,240	343,732
Depreciation	78,204	167	674	79,045
Amortisation of leasehold land and land use rights	1,627	48	–	1,675
Amortisation of other intangible assets	56	–	–	56

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2009 and 2010.

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of the Group's revenue and business activities are conducted in the PRC.

8. OTHER INCOME AND GAINS, NET

	The Group	
	2010	2009
	HK$'000	HK$'000
Interest income	**12,879**	3,211
Dividend income from listed securities	**167**	942
Others	**7,839**	9,442
Other income	**20,885**	13,595
Gain on disposal of financial assets at fair value through profit or loss	**8,601**	30,210
Fair value gains on financial assets at fair value through profit or loss	**8,143**	1,164
Gain on disposal of a subsidiary (note 34(b))	**7**	–
Gains, net	**16,751**	31,374
	37,636	44,969

9. FINANCE COSTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Interest on:		
Bank borrowings	**18,038**	16,029
Other borrowings		
– wholly repayable within five years	**950**	–
– not wholly repayable within five years	**–**	651
Securities trading account	**41**	23
	19,029	16,703

10. DIRECTORS' REMUNERATION

	The Group	
	2010	2009
	HK$'000	HK$'000
Fees	**443**	360
Salaries, allowances and benefits in kind	**4,053**	5,247
Retirement benefits scheme contributions	**45**	12
Equity-settled share-based payments	**25**	–
	4,566	5,619

Details of remuneration of directors for the year ended 31 December 2010 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
Executive directors:					
Xu Tie-liang	–	3,141	12	–	3,153
Qu Guo-hua (retired on 20 May 2010)	–	233	14	–	247
Cheung Shing	–	197	–	–	197
Guan Yijun (appointed on 10 September 2010)	–	248	4	–	252
Zhu Yuan (appointed on 10 September 2010)	–	234	15	25	274
Independent non-executive directors:					
Shi Xun-zhi	120	–	–	–	120
Peng Long (resigned on 10 September 2010)	83	–	–	–	83
Li Yun-long	120	–	–	–	120
Wang Guang-tian	120	–	–	–	120
Total	443	4,053	45	25	4,566

During the year, no remuneration was waived by any executive directors (2009: HK$Nil).

10. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the year ended 31 December 2009 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000	Total HK$'000
Executive directors:					
Xu Tie-liang	–	4,204	12	–	4,216
Qu Guo-hua	–	782	–	–	782
Cheung Shing	–	261	–	–	261
Independent non-executive directors:					
Shi Xun-zhi	120	–	–	–	120
Peng Long	120	–	–	–	120
Li Yun-long	100	–	–	–	100
Wang Guang-tian (appointed on 4 November 2009)	20	–	–	–	20
Total	360	5,247	12	–	5,619

11. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remunerations in the Group, one (2009: two) was directors of the Company whose emoluments is included in the disclosures in note 10 above. The emoluments of the remaining four (2009: three) individuals were as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,873**	2,026
Equity-settled share-based payments	**2,708**	697
Retirement benefits scheme contributions	**60**	12
	4,641	**2,735**

The number of employees whose remuneration fell within the following band was as follows:

	Number of employees	
	2010	2009
HK$Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–

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 years ended 31 December 2010 and 2009.

12. TAXATION

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, certain subsidiaries in the Mainland China are entitled to tax concessions and tax relief whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation of the Group's subsidiaries in the Mainland China are calculated using the applicable preferential income tax rates granted to these subsidiaries.

12. TAXATION *(continued)*

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year (2009: HK$Nil).

	The Group	
	2010	2009
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax		
– current year	**–**	–
– overprovision in prior years	**–**	(2,054)
Taxation outside Hong Kong		
– current year	**86,792**	50,097
– overprovision in prior years	**(1,599)**	–
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences (note 30)	**475**	4,566
Taxation charge	**85,668**	52,609

Reconciliation between tax expense and accounting profit at applicable tax rates:

	The Group	
	2010	2009
	HK$'000	HK$'000
Profit before taxation	**439,498**	305,381
Tax calculated at the applicable rates in the tax jurisdictions concerned	**106,266**	71,840
Tax effect of income not subject to taxation	**(3,876)**	(7,779)
Tax effect of expenses not deductible for tax purpose	**11,684**	10,817
Overprovision of current tax in prior years	**(1,599)**	(2,054)
Tax effect of tax concessions	**(26,807)**	(20,215)
Taxation charge	**85,668**	52,609

13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	The Group	
	2010	2009
	HK$'000	HK$'000
Staff costs (excluding directors' remuneration (note 10)):		
Salaries and wages	**104,796**	83,385
Equity-settled share-based payments	**5,380**	2,332
Retirement benefits scheme contributions	**14,143**	8,228
	124,319	93,945
Minimum lease payments under operating leases for leasehold land and buildings	**6,490**	6,347
Auditors' remuneration	**1,080**	1,088
Depreciation of property, plant and equipment	**97,249**	79,045
Bad debts written off	**3,639**	219
Amortisation of leasehold land and land use rights	**2,065**	1,675
Amortisation of other intangible assets	**127**	56
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**3,842**	1,832
Impairment losses of available-for-sale financial assets	**–**	47
Loss on exchange, net	**1,092**	114

14. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2009: HK$Nil).

15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of HK$6,406,000 (2009: HK$74,923,000) which has been dealt with in the financial statements of the Company.

16. EARNINGS PER SHARE

(a) Basic earnings per share

	2010 HK Cents per share	2009 HK Cents per share
Basic earnings per share	**3.352**	2.963

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year:

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to equity holders of the Company used in the calculation of basic earnings per share	**164,560**	132,090

	2010 Number of shares	2009 Number of shares
Weighted average number of ordinary shares in issue for the purposes of basic earnings per share	**4,909,839,775**	4,457,856,213

16. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

	2010 HK Cents per share	2009 HK Cents per share
Diluted earnings per share	**3.313**	2.960

The diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares which is the weighted average number of shares in issue during the year plus the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised.

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to equity holders of the Company used in the calculation of diluted earnings per share	**164,560**	132,090

	2010 Number of shares	2009 Number of shares
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	**4,909,839,775**	4,457,856,213
Effect of deemed issue of shares under the Company's share option scheme	**56,648,389**	4,423,516
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,966,488,164**	4,462,279,729

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Pipelines	Construction in progress	Motor vehicles	Furniture, fixtures and equipment	Tools and moulds	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost									
At 1 January 2009	74,125	379	145,489	554,020	203,606	147,838	30,100	6,045	1,161,602
Currency realignment	(153)	–	(299)	(1,141)	(419)	(300)	(61)	(12)	(2,385)
Reclassification	39,903	–	75,153	(99,637)	–	(7,163)	(9,065)	809	–
Additions	2,157	–	96,855	15,844	178,867	10,709	2,684	2,339	309,455
Transfers	49,604	–	56,147	207,385	(325,269)	–	1,892	734	(9,507)
Disposals	(3,303)	–	(6,297)	(568)	–	(1,145)	(1,255)	(20)	(12,588)
At 31 December 2009	162,333	379	367,048	675,903	56,785	149,939	24,295	9,895	1,446,577
Currency realignment	5,094	–	11,519	21,212	1,782	4,603	757	311	45,278
Reclassification	346	–	(3,616)	6,115	–	–	(5,318)	2,473	–
Acquisition of subsidiaries	2,912	–	4,474	7,782	21,071	1,462	315	557	38,573
Additions	8,722	–	6,213	4,475	208,022	10,676	3,584	4,390	246,082
Transfers	43,729	–	13,342	52,294	(110,740)	–	6	1,369	–
Disposals	–	(379)	(1,873)	(7,172)	–	(1,478)	(135)	(331)	(11,368)
At 31 December 2010	223,136	–	397,107	760,609	176,920	165,202	23,504	18,664	1,765,142
Accumulated depreciation and impairment losses									
At 1 January 2009	8,785	379	9,587	112,091	–	18,046	7,576	973	157,437
Currency realignment	(18)	–	(20)	(231)	–	(35)	(15)	(2)	(321)
Reclassification	1,301	–	13,378	(14,056)	–	(412)	(581)	370	–
Charge for the year	8,494	–	18,087	27,478	–	21,257	2,515	1,214	79,045
Eliminated on disposals	(52)	–	(1,190)	(23)	–	(716)	(1,108)	(14)	(3,103)
At 31 December 2009	18,510	379	39,842	125,259	–	38,140	8,387	2,541	233,058
Currency realignment	581	–	1,250	3,931	–	1,150	262	80	7,254
Reclassification	–	–	2,272	(1,414)	–	–	(2,149)	1,291	–
Acquisition of subsidiaries	125	–	228	733	–	430	90	141	1,747
Charge for the year	11,194	–	28,465	30,453	–	22,303	2,397	2,437	97,249
Eliminated on disposals	–	(379)	(399)	(3,400)	–	(1,213)	(92)	(153)	(5,636)
At 31 December 2010	30,410	–	71,658	155,562	–	60,810	8,895	6,337	333,672
Net book value									
At 31 December 2010	192,726	–	325,449	605,047	176,920	104,392	14,609	12,327	1,431,470
At 31 December 2009	143,823	–	327,206	550,644	56,785	111,799	15,908	7,354	1,213,519

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

All leasehold land and buildings are situated outside Hong Kong and are held under medium term leases.

Note: As at 31 December 2010, plant and machinery and furniture, fixtures and equipment were reclassified and shown under separate headings of leasehold land and buildings, pipelines 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.

18. LEASEHOLD LAND AND LAND USE RIGHTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost		
At beginning of the year	**75,795**	36,262
Currency realignment	**2,379**	(75)
Additions	**5,039**	34,277
Transfer	**–**	7,245
Disposals	**–**	(1,914)
At end of the year	**83,213**	75,795
Accumulated amortisation and impairment losses		
At beginning of the year	**3,700**	2,437
Currency realignment	**116**	(5)
Amortisation for the year	**2,065**	1,675
Written back on disposals	**–**	(407)
At end of the year	**5,881**	3,700
Net book value		
At end of the year	**77,332**	72,095

The Group's interests in leasehold land and land use rights are situated outside Hong Kong with medium term leases.

19. GOODWILL

	The Group	
	2010	2009
	HK$'000	HK$'000
Cost		
At beginning of the year	**627,068**	627,258
Currency realignment	**2,885**	(190)
Acquisition of subsidiaries (note 34(a))	**53,490**	–
At end of the year	**683,443**	627,068
Accumulated impairment losses		
At beginning and end of the year	**–**	–
Carrying amount		
At end of the year	**683,443**	627,068

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 of 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 discount rates in the range of 8.3% to 15.5%. The discount rates used reflects specific risks relating to the business. The above value-in-use calculations as at 31 December 2010 were carried out by an independent professional valuer, Roma Appraisals Limited.

20. OTHER INTANGIBLE ASSETS

The Group

	(Note a) Exclusive rights HK$'000	(Note b) Club membership HK$'000	(Note c) Computer operating system HK$'000	Total HK$'000
Cost				
At 1 January 2009	2,107	1,929	–	4,036
Currency realignment	(4)	–	–	(4)
Additions	908	–	476	1,384
At 31 December 2009	3,011	1,929	476	5,416
Currency realignment	94	–	15	109
Additions	–	1,702	37	1,739
At 31 December 2010	3,105	3,631	528	7,264
Accumulated amortisation and impairment losses				
At 1 January 2009	234	–	–	234
Currency realignment	(1)	–	–	(1)
Charge for the year	52	–	4	56
At 31 December 2009	285	–	4	289
Currency realignment	9	–	–	9
Charge for the year	76	–	51	127
At 31 December 2010	370	–	55	425
Carrying amount				
At 31 December 2010	2,735	3,631	473	6,839
At 31 December 2009	2,726	1,929	472	5,127

20. OTHER INTANGIBLE ASSETS *(continued)*

The Company

	(Note b) Club membership HK$'000
Cost	
At 1 January 2009 and 31 December 2009	–
Addition	1,702
At 31 December 2010	1,702
Accumulated impairment losses	
At 1 January 2009 and 31 December 2009	–
Charge for the year	–
At 31 December 2010	–
Carrying amount	
At 31 December 2010	1,702
At 31 December 2009	–

Notes:

a: The exclusive rights were acquired by two subsidiaries to operate in gas pipeline infrastructure and natural gas supply services in Nanjing and Nanchang for 30 years and 48 years respectively.

b: The club membership arising from the investments of club membership in the PRC which has indefinite useful life and is tested annually for impairment.

c: The computer operating system was acquired by a subsidiary which has a definite useful life of 10 years.

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**1,737,875**	1,188,521
Amounts due to subsidiaries	**(7,020)**	(8,847)
	1,730,856	1,179,675
Allowance for impairment of doubtful debts	**(34,300)**	(32,000)
	1,696,556	1,147,675

The amounts due from/(to) subsidiaries are unsecured, interest-free (except for the amount due from 南昌中油燃氣有限責任公司 is interest bearing at 5% per annum) 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$36,214,000 (2009: HK$139,672,000) were impaired. The amount of allowance was HK$34,300,000 as at 31 December 2010 (2009: HK$32,000,000). It is assessed that a portion of these 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:

	The Company	
	2010	2009
	HK$'000	HK$'000
At beginning of the year	**32,000**	538,500
Impairment loss reversed	**(9,000)**	–
Impairment loss recognised	**11,300**	20,500
Uncollectable amounts written off	**–**	(527,000)
At end of the year	**34,300**	32,000

22. INTEREST IN AN ASSOCIATE

	The Group 2010 HK$'000	2009 HK$'000
Share of net assets:		
At beginning of the year	**2,250**	–
Currency realignment	**71**	–
Addition	**–**	2,268*
Share of loss of an associate	**(51)**	(18)
Proceeds from liquidation	**(2,270)#**	–
At end of the year	**–**	2,250
Amount due from an associate	**–**	211*
	–	2,461
Net cash inflow/(outflow) on liquidation/(acquisition) of an associate	**2,270#**	(2,479)*

The amount due from an associate was unsecured, interest free and had no fixed term of repayment.

Details of the Group's associate as at 31 December 2009 together with its summarised financial information are as follows:

Name	Registered capital	Country of incorporation	Principal activities	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Loss HK$'000	Percentage of interest held indirectly
江蘇潔寧金港燃氣有限公司	RMB5,000,000	PRC	Operation of natural gas station	5,859	233	–	(46)	40

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2010	2009
	HK$'000	HK$'000
Listed equity investments outside Hong Kong, at fair value	**2**	2
Unlisted debt securities in Hong Kong, at cost	**450**	450
Unlisted equity securities outside Hong Kong, at cost (note)	**190,000**	–
	190,452	452

Note: On 26 November 2010, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with Sino Advance Holdings Limited ("Sino Advance"), a company wholly owned by Sino Best International Group Limited, which is wholly and beneficially owned by Mr. Xu Tie-liang, the Chairman and executive director of the Company, to acquire 8% of the issued share capital of Sino Director Limited ("Sino Director"), a company wholly owned by Sino Advance, at a consideration of HK$190 million. Sino Director indirectly holds 70% equity interest of 山東雙合煤礦有限公司 which is the beneficial owner of the mining rights granted by The Bureau of Land and Resources of Shandong Province.

As at 31 December 2010, the fair value of listed equity investments outside Hong Kong of approximately HK$2,000 (2009: HK$2,000), for which no impairment loss (2009: HK$47,000) was made in current financial year.

Unlisted 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.

24. INVENTORIES

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**24,862**	20,062
Work-in-progress	**42,201**	27,232
Finished goods and natural gas	**14,003**	6,746
	81,066	54,040

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount of inventories sold	**1,878,575**	1,148,337

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2010	2009
	HK$'000	HK$'000
Listed equity investments, at fair value:		
– Hong Kong	**41,876**	57,313
– Overseas	**4,882**	224
	46,758	57,537
Other unlisted financial instruments, at fair value	**212,485**	–
	259,243	57,537

As at 31 December 2010, none of the above financial assets at fair value through profit or loss (2009: HK$5,750,000) were pledged to a financial creditor to secure general facilities granted to the Group.

26. DEPOSITS, TRADE AND OTHER RECEIVABLES

	The Group	
	2010	2009
	HK$'000	HK$'000
Trade receivables	**99,320**	100,950
Other receivables, deposits and prepayments	**390,368**	161,653
	489,688	262,603

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

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

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

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

The ageing analysis of trade receivables is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**92,752**	73,942
Past due but not impaired:		
– 91 to 180 days	**3,450**	232
– Over 180 days	**3,118**	26,776
Total	**99,320**	100,950

As at 31 December 2010, trade receivables of HK$6,568,000 (2009: HK$27,008,000) 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.

27. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**1,101,511**	921,692	**58,506**	8,806
Short term bank deposits	**100,502**	148,025	**39,091**	48,025
Cash and cash equivalents in the balance sheets and consolidated statement of cash flows	**1,202,013**	1,069,717	**97,597**	56,831
Deposits with banks with more than three months to maturity when placed	**44,460**	–	**–**	–
	1,246,473	1,069,717	**97,597**	56,831

The interest rate for short term bank deposits was approximately 0.14%-1.71% (2009: 0.007%-0.07%) per annum. The deposits have a maturity of ranging from 14 to 90 days.

27. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS *(continued)*

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

	The Group		The Company	
	2010	2009	**2010**	2009
AUD dollars	**2,000**	–	**–**	–
Euro dollars	**26,000**	26,000	**–**	–
US dollars	**32,952,000**	–	**5,018,000**	–

28. TRADE AND OTHER PAYABLES

	The Group	
	2010	2009
	HK$'000	HK$'000
Trade payables	**121,423**	158,616
Other payables and accruals	**753,983**	568,493
	875,406	727,109

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

The ageing analysis of trade payables is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Current to 90 days	**75,315**	98,846
91 to 180 days	**10,735**	6,856
Over 180 days	**35,373**	52,914
Total	**121,423**	158,616

29. BANK AND OTHER BORROWINGS

	The Group	
	2010	2009
	HK$'000	HK$'000
Non-current		
Bank borrowings – unsecured	**16,380**	21,554
Other borrowings – unsecured	**–**	30,038
	16,380	51,592
Current		
Bank borrowings – unsecured	**251,550**	335,782
Other borrowings – unsecured	**29,563**	2,758
	281,113	338,540
Total bank and other borrowings	**297,493**	390,132

The bank and other borrowings are repayable as follows:

	Bank borrowings		Other borrowings	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**251,550**	335,782	**29,563**	2,758
Between 1 and 2 years	**8,190**	5,672	**–**	–
Between 2 and 5 years	**8,190**	15,882	**–**	–
Wholly repayable within 5 years	**267,930**	357,336	**29,563**	2,758
Over 5 years	**–**	–	**–**	30,038
	267,930	357,336	**29,563**	32,796

Notes:

(i) As at 31 December 2010, the interest rates for bank borrowings are in the range of 5.31% to 6.22% (2009: 5.94%) per annum.

(ii) The unsecured other borrowings of approximately HK$29,563,000 (2009: HK$32,796,000) are interest bearing at rates in the range of 2.28% to 2.55% (2009: 2.28% to 2.55%) per annum.

29. BANK AND OTHER BORROWINGS *(continued)*

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

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**16,380**	21,554	**13,585**	16,795
Other borrowings	**–**	30,038	**–**	25,592
	16,380	51,592	**13,585**	42,387

The fair values are based on cash flows discounted using a rate based on the effective interest rate of 6.43% (2009: 6.43%) per annum.

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

30. DEFERRED TAX LIABILITIES

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

	The Group		
	Accelerated depreciation allowances	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2009	5,851	–	5,851
Currency realignment	(12)	–	(12)
(Credited)/charged to consolidated statement of comprehensive income during the year (note 12)	(953)	5,519	4,566
At 31 December 2009	4,886	5,519	10,405
Currency realignment	154	173	327
(Credited)/charged to consolidated statement of comprehensive income during the year (note 12)	(132)	607	475
At 31 December 2010	4,908	6,299	11,207

The Group has tax losses arising from Hong Kong operations of HK$6,467,000 (2009: HK$6,467,000) that are agreed by the Inland Revenue Department and are 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.

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2009, 31 December 2009 and 31 December 2010	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2009 and 31 December 2009	4,457,856,213	44,579
Placing of shares (note a)	500,000,000	5,000
Share repurchased (note b)	(7,000,000)	(70)
Ordinary shares of HK$0.01 each at 31 December 2010	4,950,856,213	49,509

The movements in share capital were as follows:

(a) On 26 January 2010, the Company had entered into the Placing and Subscription Agreement with the Placing Agent (Deutsche Bank AG, Hong Kong Branch), the Vendors (Sino Advance Holdings Limited and Sino Vantage Management Limited) and Mr. Xu Tie-liang. Pursuant to which the Placing Agent had agreed, on a fully-underwritten basis and as agent of the Vendors, to place up to 500,000,000 existing shares at a price of HK$1.25 per share to not fewer than 6 independent professional or institutional investors. In addition, pursuant to the Placing and Subscription Agreement, the Vendors have conditionally agreed to subscribe for the Subscription Shares at HK$1.25 (before deduction of cost of the Placing) per Subscription Share. The net proceeds of approximately HK$605,421,000 from the Subscription, out of which HK$5,000,000 and HK$600,421,000 were recorded in share capital and share premium respectively, are intended to be used for investment and development of principal activities in natural gas and coalbed methane business. On 2 February 2010, the placing of existing shares and subscription of new shares were completed.

(b) 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
May 2010	7,000,000	HK$0.89	HK$0.86	HK$6,098,000

The above ordinary shares were subsequently cancelled. The premium paid on the repurchase of the shares of HK$6,028,000 (2009: HK$Nil) was charged to share premium account. The issue share capital of the Company was reduced by the nominal value of these repurchased shares of HK$70,000 (2009: HK$Nil) and the equivalent amount was transferred to the capital redemption reserve.

32. RESERVES

The Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	1,967,798	893	–	49,753	(789,945)	1,228,499
Equity-settled share-based payments	–	–	2,332	–	–	2,332
Loss for the year	–	–	–	–	(74,923)	(74,923)
At 31 December 2009	1,967,798	893	2,332	49,753	(864,868)	1,155,908
Shares issued upon placement of shares, net of issuing expenses	600,421	–	–	–	–	600,421
Repurchase of own shares	(6,028)	70	–	–	(70)	(6,028)
Set-off against accumulated loss	(600,000)	–	–	–	600,000	–
Equity-settled share-based payments	–	–	5,405	–	–	5,405
Loss for the year	–	–	–	–	(6,406)	(6,406)
At 31 December 2010	1,962,191	963	7,737	49,753	(271,344)	1,749,300

Note 1: 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.

Note 2: The share premium account of the Company is distributable in the form of fully paid bonus shares. During the year, a special resolution was passed on the special general meeting to approve the cancellation of the amount of HK$600,000,000 standing to the credit of the share premium account of the Company towards offsetting the accumulated losses of the Company. The reduction of share premium was complied with the Companies Act 1981 of Bermuda.

33. 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).

In order to motivate and reward the Company's staff, on 30 July 2009, the Company had granted to certain eligible participants (but not including any director, chief executive or substantial shareholder of the Company, or an associate of any of them) of the Company share options to subscribe for an aggregate of 100,000,000 ordinary shares of HK$0.01 each in share capital of the Company, under the share option scheme adopted by the Company on 31 January 2002 (the 10% general limit under the said share option scheme has been refreshed pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 22 September 2006), subject to acceptance by the grantees.

33. SHARE OPTION SCHEMES *(continued)*

(i) The terms and conditions of the share options granted are as follows:

Date of offer to grant option	Exercise price	Number of option '000 shares	Vesting condition	Contractual life of option
Option granted to employees:				
– on 30 July 2009	HK$0.43	30,000	Vesting from 31 July 2011	Expire at the close of business on 30 July 2012
– on 30 July 2009	HK$0.43	30,000	Vesting from 31 July 2012	Expire at the close of business on 30 July 2013
– on 30 July 2009	HK$0.43	40,000	Vesting from 31 July 2013	Expire at the close of business on 30 July 2014
Total share options		100,000		

(ii) The number and weighted average exercise prices of the share options are as follows:

	2010 Weighted average exercise price	**2010** Number of option '000 shares	2009 Weighted average exercise price	2009 Number of option '000 shares
Outstanding at 1 January	**HK$0.43**	**100,000**	–	–
Granted	**–**	**–**	HK$0.43	100,000
Forfeited	**HK$0.43**	**(2,400)**	–	–
Exercised	**–**	**–**	–	–
Expired	**–**	**–**	–	–
Outstanding at 31 December	**HK$0.43**	**97,600**	HK$0.43	100,000
Exercisable at 31 December	**–**	**–**	–	–

No option was exercised during the years 2010 and 2009.

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 2.68 years (2009: 3.68 years).

33. SHARE OPTION SCHEMES *(continued)*

(iii) The following table discloses details of the Company's share options held by a director and employees during the year:

	Date of grant	Exercise price per share HK$	Exercisable period	Number of option ('000 shares) Outstanding at 1 January 2010	Transfer during the year	Forfeited during the year	Outstanding at 31 December 2010
Director of the Company (Note)	30 July 2009	0.43	31 July 2011 to 30 July 2012	–	450	–	450
	30 July 2009	0.43	31 July 2012 to 30 July 2013	–	450	–	450
	30 July 2009	0.43	31 July 2013 to 30 July 2014	–	600	–	600
				–	1,500	–	1,500
Employees	30 July 2009	0.43	31 July 2011 to 30 July 2012	30,000	(450)	(720)	28,830
	30 July 2009	0.43	31 July 2012 to 30 July 2013	30,000	(450)	(720)	28,830
	30 July 2009	0.43	31 July 2013 to 30 July 2014	40,000	(600)	(960)	38,440
				100,000	(1,500)	(2,400)	96,100
Total				100,000	–	(2,400)	97,600

Note: Mr. Zhu Yuan ("Mr. Zhu") is an employee of a subsidiary of the Company and has been granted share options in 2009. On 10 September 2010, Mr. Zhu has been appointed as an executive director of the Company. In accordance with the adopted Share Option Scheme, Mr. Zhu is still entitled to the granted share option benefit. To reflect appropriate category of participant, Mr. Zhu was then reclassified from employee to director.

33. SHARE OPTION SCHEMES *(continued)*

(iv) Fair values of share options and assumptions

The estimate of the fair value of the share options granted is calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Share options granted on 30 July 2009
Share price	HK$0.42
Exercise price	HK$0.43
Expected volatility	81.57%-89.26%
Expected option life (in years)	2-4
Risk free rate	1.32%-2.42%
Dividend yield	Nil

The Black-Scholes-Merton Option pricing Model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility was determined by using the historical volatilities of the Company over the expected option period.

The Group recognised the staff cost of HK$5,405,000 for the year ended 31 December 2010 (2009: HK$2,332,000) in relation to share options granted by the Company on 30 July 2009.

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

Particulars of the assets and liabilities acquired are as follows:

	2010 HK$'000	2009 HK$'000
Property, plant and equipment	36,826	–
Inventories	2,118	–
Trade and other receivables	10,855	–
Cash and cash equivalents	51,079	–
Trade and other payables	(9,970)	–
Non-controlling interests	(22,874)	–
	68,034	–
Goodwill on acquisition (note 19)	53,490	–
	121,524	–
Purchase consideration	121,524	–
Less: Cash and cash equivalents acquired	(51,079)	–
Net cash outflow on acquisition	70,445	–

In 2010, the acquired subsidiaries contributed HK$109,779,000 revenue and HK$15,651,000 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 2010, total revenue of the Group for the year would have been HK$109,779,000, and Group's profit before taxation for the year would have been HK$15,651,000.

(b) Disposal of a subsidiary

Details of the subsidiary disposed of during the year are set out below:

	2010 HK$'000	2009 HK$'000
Other receivables	5,343	–
Gain on disposal of a subsidiary (note 8)	7	–
	5,350	–
Net cash inflow arising on disposal:		
Cash consideration received	5,350	–

34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(c) Changes in the ownership interests in subsidiaries that do not result in a loss of control

(i) In February 2010, two of the subsidiaries of the Company, Hong Kong China Oil And Gas Group Limited and China City Natural Gas Investment Group Co., Ltd ("CCNG") disposed of its 25% and 24% equity interests in 江都中油燃氣有限責任公司 to a non-controlling shareholder for a consideration of RMB10,000,000 and RMB9,600,000 respectively (totally equivalent to HK$22,932,000).

Upon completion of the above disposal, the Group's effective interest in 江都中油燃氣有限責任公司 was decreased from 76.00% to 38.75%. Consequently, the Group recognised an increase in non-controlling interests of HK$22,758,000.

(ii) In June 2010, two of the subsidiaries of the Company, China Oil And Gas (Shandong) Company Limited and CCNG acquired additional 9% and 11% equity interests in 南通中油燃氣有限責任公司 for a consideration of RMB1,620,000 and RMB1,980,000 respectively (totally equivalent to HK$4,154,000).

Upon completion of the above acquisition, the Group's effective interest in 南通中油燃氣有限責任公司 was increased from 60.40% to 75.01%. Consequently, the Group recognised a decrease in non-controlling interests of HK$3,564,000.

35. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2010, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**6,393**	2,682
After one year but within five years	**11,477**	1,472
After five years	**36,863**	1,891
	54,733	6,045

36. CAPITAL COMMITMENTS

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Property, plant and equipment:		
Contracted, but not provided for	**4,698**	1,270
Establishment and acquisition of subsidiaries:		
Authorised, but not contracted for	**281,601**	62,581
Contracted, but not provided for	**699,192**	384,000
	985,491	447,851

37. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2010, 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$35,100,000 (2009: HK$277,928,000) and HK$Nil (2009: HK$22,688,000) respectively and the Group does not have any significant contingent liabilities.

In the opinion of the directors, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair values of the above financial guarantees are insignificant as at 31 December 2010 and 2009.

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Apart from those disclosed elsewhere in the consolidated financial statements, the Group has also entered into the following significant related party transactions with the following related parties during the year, together with balances with them as at 31 December 2010, are as follows:

	2010	2009
	HK$'000	HK$'000
Company controlled by a director:		
Acquisition of available-for-sale financial assets (Note a)	**190,000**	–
Associate:		
Balance due to the Group (Note b)	**–**	211

Note a: In the opinion of the directors of the Company, the transaction was carried out in the ordinary course of business and in accordance with the terms of the underlying agreement. Details refer to note 23 to the consolidated financial statements.

Note b: The balance was unsecured, interest free and repayable on demand.

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(continued)*

Other transactions with related parties

(i) One of the Company's directors has given guarantee to the bank to obtain general banking facilities granted to the Company.

(ii) On 11 January 2010, a subsidiary of the Company, CCNG entered into the Exclusive Strategic Co-Operation Framework Agreement ("Agreement") with 中石油煤層氣有限責任公司 ("PetroChina CBM") pursuant to which CCNG and PetroChina CBM agreed to co-operate with each other in development and sale of coalbed methane to be explored in the areas of DaLing-JiXian and BaoDe in Shanxi Province, the PRC for a term of 30 years and PetroChina CBM agreed to supply coalbed methane to CCNG and/or its subsidiaries annually.

PetroChina CBM is a wholly-owned subsidiary of 中國石油天然氣股份有限公司 ("PetroChina") and PetroChina is a non-wholly owned subsidiary of 中國石油天然氣集團公司 ("CNPC") and the controlling shareholder of Kunlun Energy Company Limited ("Kunlun Energy") (49% equity interest in CCNG), accordingly PetroChina CBM is a connected person of the Company. The cap for the purchase of coalbed methane pursuant to the Agreement for the year ended 31 December 2010 is RMB40 million.

In addition, certain subsidiaries of the Group have, since 2001, entered into the Natural Gas Supply Contracts ("Contracts") with PetroChina or its subsidiaries pursuant to which natural gas was supplied to various subsidiaries of the Group by PetroChina or its subsidiaries.

Details of the above Agreement and Contracts are set out in the Company's announcement dated 11 January 2010.

(iii) On 1 June 2010, 馬鞍山高佳能源有限公司 ("馬鞍山高佳能源"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with 中國石油天然氣股份有限公司安徽銷售分公司 ("安徽銷售分公司"), a branch company of PetroChina, pursuant to which, 馬鞍山高佳能源 should lease the land from 安徽銷售分公司 for the investment in the construction of gas supply of the Lvyou Dadao Stations, the Xiangshan Stations and the Hunan East Road Stations as described in the Company's announcement dated 1 June 2010. The aggregate rental to be payable by 馬鞍山高佳能源 to 安徽銷售分公司 is RMB2,000,000 per annum, whereby RMB650,000 for Lvyou Dadao Stations, RMB700,000 for Xiangshan Stations and RMB650,000 for Hunan East Road Stations. The rental should be payable upon commencement of the operation of the respective gas stations. Up to the balance sheet date, no rental was paid or payable to 安徽銷售分公司 as the above stations were not yet commenced the operation.

(iv) On 8 October 2010, the Company entered into a Marine Diesel-Gas Co-promotional Agreement (the "Agreement") with 濟南柴油機股份有限公司 (Jinan Diesel Machinery Co., Ltd.) ("Jinan Diesel"), pursuant to which the parties would co-operate to try out the gas machinery and the dual fuel machinery used for inland canal ships in China for a period of 5 years commencing from 1 January 2011 and expiring on 31 December 2015, subject to termination as stipulated under the Agreement.

The ultimate holding company of Kunlun Energy, CNPC holds 60% interest in Jinan Diesel through its wholly-owned subsidiary. CCNG is a 51% indirectly owned subsidiary of the Company, the remaining 49% equity interest of which are held by Kunlun Energy. Accordingly, Jinan Diesel is a connected person of the Company.

Pursuant to the Agreement, the Company would purchase from Jinan Diesel five sets of engine, gas tank and LNG gasification plant for gas machinery and dual fuel machinery and would be responsible for the installation according to the specifications at the purchase price of not more than RMB1,000,000 per set, totalling not more than RMB5,000,000, for installation in inland canal vessels for experimental demonstration and promotional purposes.

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(continued)*

Compensation of key management personnel

The key management personnel of the Group are the directors of the Company. The remuneration of the key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends. Details of the remuneration paid to them are set out in note 10 to the consolidated financial statements.

39. 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 profit or loss 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.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

40. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

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
Hong Kong China Oil And Gas Group Limited	Hong Kong	HK$1	100	–	Investment holding
Alta Financial Holdings Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100	Investment holding
Best On Development Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Real Million Investments 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
濱州中油中泰燃氣有限公司 (Formerly known as: 濱州賽德天然氣壓縮技術有限公司)	PRC	US$2,530,000	–	100	Operation and construction of natural gas station

40. PARTICULARS OF THE PRINCIPAL 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	Indirectly	Principal activities
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$187,500,000	–	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	–	100	Transportation services
Star Charm Holdings Limited	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Majestic International Limited	Hong Kong	HK$10,000	–	100	Investment holding
西寧市天環能源有限公司	PRC	HK$2,500,000	–	100	Operation of natural gas station
西寧中油燃氣技術開發有限公司	PRC	RMB5,000,000	–	79.3	Operation of natural gas station

40. PARTICULARS OF THE PRINCIPAL 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	–	80.4	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	–	75	Trading of natural gas and gas pipeline construction
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

40. PARTICULARS OF THE PRINCIPAL 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	Indirectly	Principal activities
China City Natural Gas Investment Group Co., Ltd (Formerly known as: China City Natural Gas Co., Ltd)	PRC	RMB400,151,974	–	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
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

40. PARTICULARS OF THE PRINCIPAL 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	Indirectly	Principal activities
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	–	38.8	Trading of natural gas and gas pipeline construction
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	RMB30,000,000	–	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	RMB10,000,000	–	51	Trading of natural gas and gas pipeline construction

40. PARTICULARS OF THE PRINCIPAL 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	Indirectly	Principal activities
青海東部中油燃氣有限公司	PRC	RMB10,000,000	–	26	Trading of natural gas and gas pipeline construction
青海中油管道燃氣有限公司	PRC	RMB20,000,000	–	51	Natural gas transmission through pipeline
海安中油燃氣有限責任公司	PRC	RMB10,000,000	–	51	Gas pipeline design and construction, natural gas transmission through pipeline
安義中油燃氣有限責任公司	PRC	RMB36,000,000	–	51	Trading of natural gas and gas pipeline construction
南京潔城能源投資有限公司	PRC	RMB8,000,000	–	55	Construction of natural gas-related projects
China Oil and Gas (Guangdong) Investment Company Limited	PRC	US$12,000,000	–	100	Investment holding
Sino Invent Holdings Limited	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
濱州中油燃氣濱北有限責任公司	PRC	RMB2,000,000	–	35	Trading of natural gas
潮安縣華明燃氣有限公司	PRC	RMB12,000,000	–	41	Trading of natural gas
無棣中油燃氣有限責任公司	PRC	RMB10,000,000	–	41	Natural gas transmission through pipeline

40. PARTICULARS OF THE PRINCIPAL 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	Indirectly	Principal activities
中油中泰煤層氣利用吉州有限責任公司	PRC	RMB20,000,000	–	51	Trading of natural gas and gas pipeline construction
銀川中油精誠燃氣有限責任公司 (Formerly known as: 永寧縣精誠天然氣有限公司)	PRC	RMB12,000,000	–	31	Gas pipeline design and construction, natural gas transmission through pipeline
泰州中油管輸天然氣有限公司	PRC	US$6,700,000	–	41	Gas pipeline design and construction, natural gas transmission through pipeline
鄒平中油燃氣有限責任公司	PRC	RMB17,000,000	–	42	Trading of natural gas and gas pipeline construction
濱州中油燃氣高新有限責任公司	PRC	RMB10,000,000	–	51	Trading of natural gas and gas pipeline construction
濱州中油中泰燃氣設備制造有限責任公司	PRC	RMB20,000,000	–	51	Design, produce and trading of natural gas-related equipment
濱州中油中泰燃氣儀表有限公司	PRC	RMB8,000,000	–	36	Design, produce and trading of natural gas-related equipment
濱州中油中泰管業有限公司	PRC	RMB10,000,000	–	38	Design, produce and trading of natural gas-related equipment

40. PARTICULARS OF THE PRINCIPAL 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	
南京潔藍燃氣有限公司	PRC	RMB10,000,000	–	100	Consultancy
南京中大燃氣有限公司	PRC	RMB10,000,000	–	100	Consultancy
西寧中油商貿有限公司	PRC	RMB900,000	–	41	Trading of natural gas-related equipment

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.

41. FINANCIAL RISK MANAGEMENT

(A) Financial instruments by categories

The Group

	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
2010					
Available-for-sale financial assets	*23*	**190,452**	**–**	**–**	**–**
Financial assets at fair value through profit or loss	*25*	**–**	**259,243**	**–**	**–**
Deposits, trade and other receivables		**–**	**–**	**198,122**	**–**
Cash and cash equivalents and fixed deposits held at banks	*27*	**–**	**–**	**1,246,473**	**–**
Trade and other payables		**–**	**–**	**–**	**(228,459)**
Bank and other borrowings	*29*	**–**	**–**	**–**	**(297,493)**
		190,452	**259,243**	**1,444,595**	**(525,952)**
2009					
Amount due from an associate	*22*	–	–	211	–
Available-for-sale financial assets	*23*	452	–	–	–
Financial assets at fair value through profit or loss	*25*	–	57,537	–	–
Deposits, trade and other receivables		–	–	193,860	–
Cash and cash equivalents and fixed deposits held at banks	*27*	–	–	1,069,717	–
Trade and other payables		–	–	–	(273,067)
Bank and other borrowings	*29*	–	–	–	(390,132)
		452	57,537	1,263,788	(663,199)

41. FINANCIAL RISK MANAGEMENT *(continued)*

(A) Financial instruments by categories *(continued)*

The Company

	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
2010					
Amounts due from subsidiaries	*21*	**–**	**–**	**1,703,575**	**–**
Other receivables		**–**	**–**	**7,034**	**–**
Cash and cash equivalents	*27*	**–**	**–**	**97,597**	**–**
Amounts due to subsidiaries	*21*	**–**	**–**	**–**	**(7,020)**
Other payables		**–**	**–**	**–**	**(4,080)**
		–	**–**	**1,808,206**	**(11,100)**
2009					
Amounts due from subsidiaries	*21*	–	–	1,156,521	–
Other receivables		–	–	1	–
Cash and cash equivalents	*27*	–	–	56,831	–
Amounts due to subsidiaries	*21*	–	–	–	(8,847)
Other payables		–	–	–	(4,020)
		–	–	1,213,353	(12,867)

(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 2010 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.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 23) and financial assets at fair value through profit or loss (note 25). Other than unlisted debt and equity securities held for strategic purposes, all of these investments are listed. Most of the Group's listed investments are listed on the Stock Exchange. 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. As the Group's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the Group's financial position.

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

(iii) Interest rate risk

As the Group has no significant interest-bearing assets, except for short term bank deposits (note 27), 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 29.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk as the interest rate risk exposure is not significant. 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 2010, 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 taxation by approximately HK$2,679,000 (2009:HK$3,573,000). 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 2009.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, available-for-sale financial assets and financial assets at fair value through profit or loss with a maximum exposure equal to the carrying amounts of these financial instruments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the consolidated 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 profit or loss. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 26.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

Except for the financial guarantees given by the Group as set out in note 37, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 37.

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

41. 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	Total contractual undiscounted cash flow	Less than 1 year or on demand	Between 1 to 2 years	Between 2 to 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010						
Trade payables	**121,423**	**121,423**	**121,423**	**–**	**–**	**–**
Other payables	**107,036**	**107,036**	**107,036**	**–**	**–**	**–**
Bank borrowings	**267,930**	**283,627**	**265,853**	**8,887**	**8,887**	**–**
Other borrowings	**29,563**	**30,285**	**30,285**	**–**	**–**	**–**
	525,952	**542,371**	**524,597**	**8,887**	**8,887**	**–**
2009						
Trade payables	158,616	158,616	158,616	–	–	–
Other payables	114,451	114,451	114,451	–	–	–
Bank borrowings	357,336	377,037	353,649	6,155	17,233	–
Other borrowings	32,796	33,527	2,821	–	–	30,706
	663,199	683,631	629,537	6,155	17,233	30,706

41. FINANCIAL RISK MANAGEMENT *(continued)*

(C) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of the financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement.

The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active market for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
2010				
Available-for-sale financial assets:				
– Listed equity investments	**2**	**–**	**–**	**2**
Financial assets at fair value through profit or loss:				
– Listed equity investments	**46,758**	**–**	**–**	**46,758**
– Unlisted financial instruments	**–**	**212,485**	**–**	**212,485**
	46,760	**212,485**	**–**	**259,245**
2009				
Available-for-sale financial assets:				
– Listed equity investments	2	–	–	2
Financial assets at fair value through profit or loss:				
– Listed equity investments	8,474	49,063	–	57,537
	8,476	49,063	–	57,539

During the year, there were no transfers between instruments in Level 1 and Level 2.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(C) Fair values *(continued)*

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009.

(D) Estimation of fair values

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price (i.e. level 1 – highest level). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The Group uses a variety of methods and makes assumptions that are based on marked conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date (i.e. level 2).

The carrying values less allowance for impairment of current receivables and of current payables are a reasonable approximation of their fair values. Estimated discounted cash flows at the current market interest rate are used to determine fair value for these financial instruments (i.e. level 3 – lowest level).

42. 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.

43. EVENTS AFTER THE BALANCE SHEET DATE

(a) 深圳市普道環保科技有限責任公司

On 13 September 2010, a subsidiary of the Company, CCNG entered into a sale and purchase agreement with independent third parties to acquire the entire 100% equity interest of 深圳市普道環保科技有限責任公司 at a consideration of RMB278,000,000. Deposit of RMB83,400,000 had been paid and included in other receivables. At the balance sheet date, the Group had the capital commitment of RMB194,600,000 in respect of the above acquisition.

43. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(b) 萍鄉市燃氣有限公司

On 31 January 2011, a subsidiary of the Company, China Oil And Gas (Ping Xiang) Company Limited ("Ping Xiang COG") entered into a joint venture agreement with 萍鄉市建設局, pursuant to which Ping Xiang COG and 萍鄉市建設局 agreed to establish a joint venture company 萍鄉市燃氣有限公司 (the name of which is subject to the approval by the business registration) ("JV Company") in the PRC with the registered capital of RMB100,000,000. Pursuant to the joint venture agreement, Ping Xiang COG agreed to contribute RMB51,000,000 in cash to the JV Company. At the balance sheet date, the Group had the capital commitment of the aforesaid amount in respect of establishment of the joint venture company under "Authorised but not contracted for".

(c) 中油中泰煤層氣利用吉州有限責任公司

Pursuant to the articles of the subsidiary, 中油中泰煤層氣利用吉州有限責任公司, the Group is committed to further contribute the amount of RMB30,000,000 to this subsidiary before February 2012.

(d) Fund raising by loan agreement with the connected person

On 5 January 2011, the Company had entered into the loan agreement with China Petroleum HongKong (Holding) Limited ("CPHL") in relation to the granting of the loan of HK$700,000,000 to the Company to provide additional funds for the Group to meet the need of the liquefied natural gas business in the future. CPHL is a wholly-owned subsidiary of CNPC (the ultimate controlling corporation of the 49% equity interest in the subsidiary, CCNG.).

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these consolidated 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 2010 and which have not been early adopted in these consolidated 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.

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

		Effective for accounting periods beginning on or after
Revised HKAS 24	Related Party Disclosures	1 January 2011
HKFRS 9	Financial Instruments	1 January 2013
Improvements to HKFRSs 2010		1 July 2010 or 1 January 2011
Amendments to HKAS 12	Income Taxes	1 January 2012

45. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 March 2011.

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 2010 HK$'000	Year ended 31 December 2009 HK$'000	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
RESULTS					
Turnover	**2,626,007**	1,721,138	1,471,364	677,372	369,914
Profit before taxation	**439,498**	305,381	221,128	129,447	73,646
Taxation	**(85,668)**	(52,609)	(34,085)	(15,639)	(7,319)
Profit for the year from continuing operations	**353,830**	252,772	187,043	113,808	66,327
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	**–**	–	–	–	1,824
Profit for the year	**353,830**	252,772	187,043	113,808	68,151
Attributable to:					
Equity holders of the Company	**164,560**	132,090	73,025	72,622	57,342
Non-controlling interests	**189,270**	120,682	114,018	41,186	10,809
	353,830	252,772	187,043	113,808	68,151
ASSETS AND LIABILITIES					
TOTAL ASSETS	**4,466,006**	3,364,619	2,792,668	2,186,411	492,520
TOTAL LIABILITIES	**(1,214,329)**	(1,141,871)	(888,840)	(644,226)	(159,953)
TOTAL EQUITY	**3,251,677**	2,222,748	1,903,828	1,542,185	332,567
NON-CONTROLLING INTERESTS	**822,565**	590,676	405,004	287,013	21,213