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 2011

Contents

Enterprise Culture

OUR OBJECTIVES:

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

OUR MISSION:

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

OUR CULTURE:

- Integrity
- Rewards
- Excellency
- Harmony

OUR VISION:

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

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

Financial Highlights

	Notes	2011	2010	(+/-)	2009	(+/-)	2008	(+/-)
Revenue (HK$' million)		**4,391**	2,626	**67%**	1,721	53%	1,471	17%
Gross Profit (HK$' million)		**901**	578	**56%**	408	42%	352	16%
Total Sales on Gas Volume (million M^3)		**1,585**	1,273	**25%**	965	32%	815	18%
Total Transmission Gas Volume (million M^3)		**1,228**	824	**49%**	762	8%	363	110%
Total Transportation Gas Volume (million M^3)		**92**	86	**7%**	62	39%	46	35%
Profit for the Year (HK$' million)		**500**	354	**41%**	253	40%	187	35%
Profit attributable to owners of the Company (HK$' million)		**209**	165	**27%**	132	25%	73	81%
Earnings per share (HK cents)		**4.22**	3.35	**26%**	2.96	13%	1.75	69%
EBITDA	*(a)*	**807**	558	**45%**	403	39%	292	38%
Total Assets (HK$' million)		**7,102**	4,466	**59%**	3,365	33%	2,793	20%
Net Assets (HK$' million)		**4,198**	3,252	**29%**	2,223	46%	1,904	17%
Net Assets Value per share (HK cents)	*(b)*	**56**	49	**14%**	37	32%	34	9%
Cash per share (HK cents)	*(c)*	**41**	24	**71%**	24	–	16	50%

Notes:

(a) Profit for the year + Finance costs + Taxation + Depreciation and amortisation

(b) $$\frac{\text{Net assets – Non-controlling interests}}{\text{Issued and fully paid ordinary shares}}$$

(c) $$\frac{\text{Cash and cash equivalents}}{\text{Issued and fully paid ordinary shares}}$$

Operation Map

Strong operations in 5 key markets

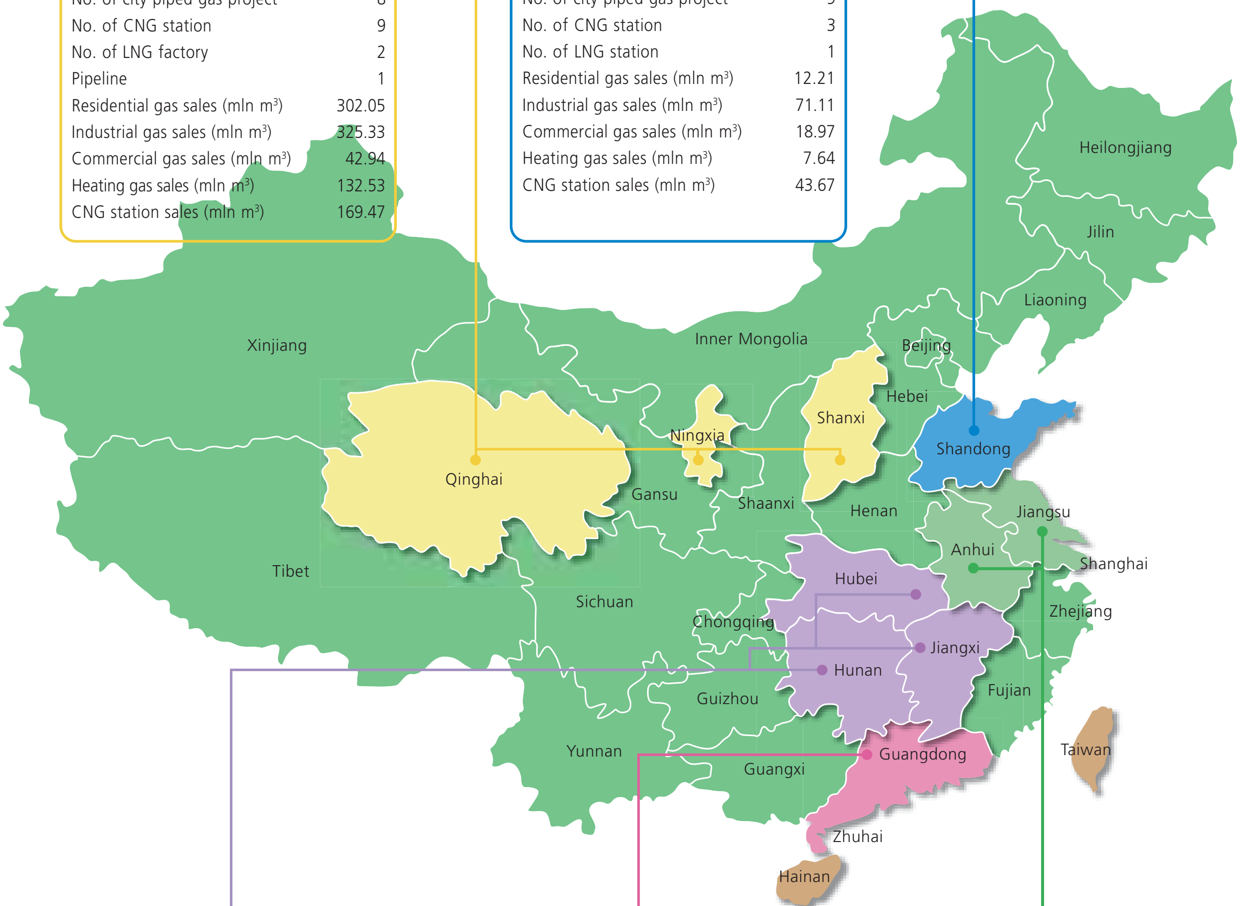
The Group has established 80 project companies in 31 cities, 5 key areas in 10 provinces, and owns 45 city gas operation rights

Western District (Qinghai, Ningxia, Shanxi)

Population (mln)	45.6
New connections	29,213
Accumulated connections	149,039
No. of city piped gas project	8
No. of CNG station	9
No. of LNG factory	2
Pipeline	1
Residential gas sales (mln m^3)	302.05
Industrial gas sales (mln m^3)	325.33
Commercial gas sales (mln m^3)	42.94
Heating gas sales (mln m^3)	132.53
CNG station sales (mln m^3)	169.47

Yellow River Delta District (Shandong)

Population (mln)	106.5
New connections	11,936
Accumulated connections	85,981
No. of city piped gas project	9
No. of CNG station	3
No. of LNG station	1
Residential gas sales (mln m^3)	12.21
Industrial gas sales (mln m^3)	71.11
Commercial gas sales (mln m^3)	18.97
Heating gas sales (mln m^3)	7.64
CNG station sales (mln m^3)	43.67



Xianggan'e District (Hunan, Jiangxi, Hubei)

Population (mln)	177.4
New connections	145,293
Accumulated connections	185,489
No. of city piped gas project	11
No. of CNG station	4
Pipeline	1
Residential gas sales (mln m^3)	30.32
Industrial gas sales (mln m^3)	207.23
Commercial gas sales (mln m^3)	15.75
CNG station sales (mln m^3)	16.03

Pearl Delta District (Guangdong)

Population (mln)	85.6
New connections	658
Accumulated connections	1,537
No. of city piped gas project	4
No. of LNG station	1
Industrial gas sales (mln m^3)	28.45

Yangtze Delta District (Jiangsu, Anhui)

Population (mln)	145.2
New connections	1,134
Accumulated connections	4,523
No. of city piped gas project	8
No. of CNG station	4
Residential gas sales (mln m^3)	0.10
Industrial gas sales (mln m^3)	62.11
Commercial gas sales (mln m^3)	27.05
Heating gas sales (mln m^3)	0.01
CNG station sales (mln m^3)	72.38

Corporate Profiles

China Oil And Gas Group Limited (the "Company") (stock code: 603) and its subsidiaries (together, 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"), liquefied natural gas ("LNG") and liquefied petroleum gas ("LPG").

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With 45 secured 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 are now within the top of People's Republic of China ("PRC") in terms of their processing capacity. Meanwhile, the Group has also built certain CNG primary stations to ensure the supply of natural gas is secured and stable all year round. These facilities support supplies of natural gas to cities not yet covered by pipeline networks and are treated as emergency backup gas sources for the Group.

As a major national operator of natural gas stations for automobile natural gas filling, the Group has built 20 CNG stations and 2 LNG stations across the country. All kinds of automobiles, city buses and long-distance buses 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, the Group is offering inexpensive, clean and environmental friendly natural gas energy to the transportation sector.

As an operator of natural gas branch line business, the Group has already set up five branch lines in Hunan, Qinghai, Jiangsu and Jiangxi Province. Apart from bringing stable natural gas transmission revenue, the branch line constructions will also help the development of projects along the down-stream.

Besides, 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.

FIVE MAIN DISTRICTS

Western District (西部區域):

Based on the foundation of Xining China Oil Corporation, in view of the opportunity from Se-Ning-Lan Multi-Track Construction (澀甯蘭複綫), more than ten companies have been incorporated one after another in Qinghai Province. Also, the Group and the wholly-owned subsidiary of Reform Commission in Qinghai Province (青海發改委) have established a JV Company to engage in natural gas business covering the whole Qinghai Province. In particular, the 2 LNG plants in Qinghai China Oil and Gas and Xining China Oil Corporation with daily processing capacity of 250,000m3 each, have allowed end users to enjoy natural gas in areas where pipelines have not been reached. Meanwhile, the Group successfully acquired a natural gas company in Ningxia Autonomous Region and commenced the coal-bed gas project in Shanxi Province.

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. Besides the natural gas primary station and a number of CNG stations in Nanjing and Maanshan, another 3 CNG stations will be put into operations in the coming year. In addition, we were granted the operation rights of gas businesses in Lishui Economic Development Zone and other three districts, achieving sound economic results. The Group has built two branch lines within this district: the Taizhou-Jiangyan-Dainan branch line (泰州-姜堰-戴南支線) and the Nantong-Rugao-Haian branch line (南通-如皋-海安支線).

Xianggane 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 2nd line (西氣東輸二線), Nanchang China Oil Corporation has expanded projects along the branch lines. We have actively and stably pushed forwards the Liling-Pingxiang Natural Gas Pipeline project. None but not least, the new gas company, Pingxiang Natural Gas Company Limited, has been formed with Pingxiang Peoples Government in 2011.

Yellow River Delta 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 a unified way. With the opportunity of pipeline construction of PetroChina in Shandong area, we have 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, LNG and L/CNG stations are expected to put into operation in the year of 2012. Together with the gas machinery and dual-fuel machinery used for inland canal ships in Shandong Province, this district will gradually lead the Group into a different natural gas operations level.

Pearl Delta District (珠三角區域):

In order to create favorable conditions for the natural gas reception from West-to-East Gas Supply 2nd line (西氣東輸二線), Chaozhou and Yingde China Gas Corporation have set up LNG reception stations and realised gas supply, which also steps up the development of surrounding natural gas markets. Besides, our Group have set up a LNG distribution team and established a LNG sales network in this district. At the same time, by leveraging the advantage of LNG sales, we have developed the corresponding natural gas markets and realised a win-win situation of both sale and development.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

XU Tie-liang *(Chairman and 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

PricewaterhouseCoopers

LEGAL ADVISERS

(As to Hong Kong Law)
LI & Partners

(As to PRC Law)
Beijing Huaao Law & Partners

PRINCIPAL REGISTRARS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton 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

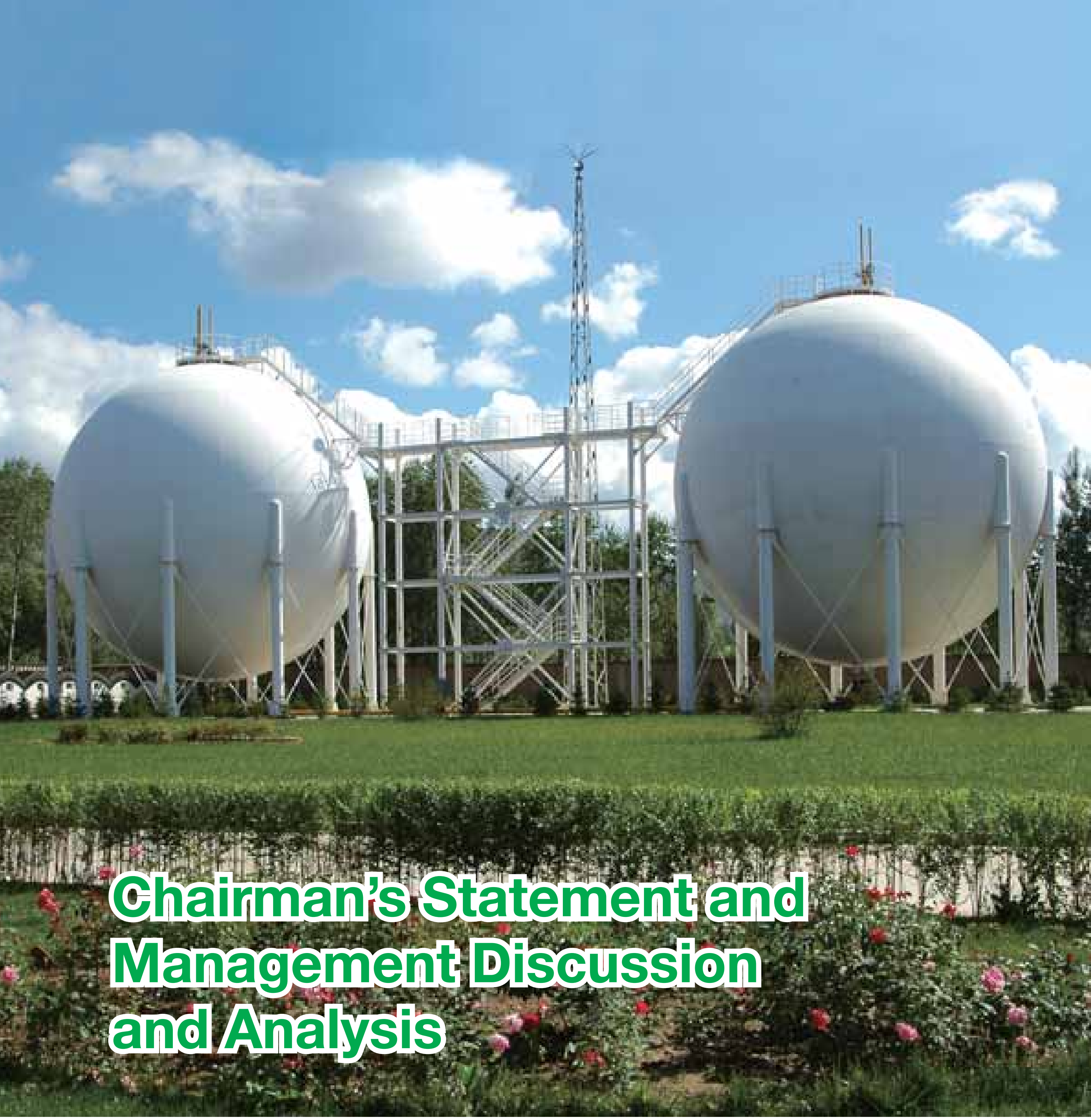
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

603

WEBSITE AND E-MAIL ADDRESS

Website: http://www.hk603.com
E-mail: info@hk603.com



Chairman's Statement and Management Discussion and Analysis

BUSINESS REVIEW

The recovery pace of the global economic conditions has been sluggish because of the problems such as global economic unrest, persistence of the European debt crisis, the economic uncertainties of the United States and Japan and the escalating global inflation. Nevertheless, the natural gas business of the Group has performed well and experienced steady rise in 2011. The Group recorded a turnover of HK$4.391 billion, representing an increase of 67% from last year's HK$2.626 billion. Profit for the year was HK$500 million. The Group's profit attributable to the owners to the Company was HK$209 million, representing an increase of 27% from last year's HK$165 million. Earnings per share were increased by 26% to HK cents 4.22 from HK cents 3.35 in 2010, which was a double of the increase of 13% from 2009 to 2010. Total gas sales and transmission volume reached 2.905 billion m^3 during the Year, where gas sales volume increased by 25% from last year's 1.273 billion m^3 to current year's 1.585 billion m^3, and gas transmission volume increased by 49% from last year's 824 million m^3 to 1.228 billion m^3. As at 31 December 2011, the Group had total assets of HK$7.102 billion, representing an increase of 59% from HK$4.466 billion at the end of 2010.

The Group has established a total of 80 gas project companies in 31 cities covering 10 provinces scattered into 5 key areas in China, representing an increase of 18 new projects compared to 62 projects at the end of the previous year. The new projects included operation of city gas, pipeline, production and sales of compressed natural gas ("CNG") and liquefied natural gas ("LNG"), sales of liquefied petroleum gas ("LPG") and operation of gas stations for automobile. The number of acquired city gas operation rights was increased by 18 to a total of 45 as compared to that of the previous year.

In January 2011, Pingxiang Construction Bureau（萍鄉市建設局）and a wholly-owned subsidiary of the Group established a JV Company 萍鄉市燃氣有限公司. Total investment in the JV Company will reach RMB280 million, equivalent to approximately HK$340 million.

In April 2011, the Group acquired city piped natural gas operation right in 安徽省馬鞍山市承接產業南部轉移示範園區 (Maanshan City Anhui Province Undertaking Industries Southern Relocated Demonstration Zone).

In June 2011, the Group was granted a city piped natural gas operating right in 荷塘區 (Hetang District), 石峰區 (Shifeng District) and 雲龍示範區 (Yunlong Demonstration Zone) in Zhuzhou, Hunan Province. In the same month, the Group and the wholly-owned subsidiary of 青海省發改委 (Reform Commission in Qinghai Province) established a JV Company to engage in natural gas business covering the whole Qinghai Province. In addition, the Group acquired 35% equity interest in 山西國興煤層氣輸配有限公司 (Shanxi Guoxing Coalbed Methane Transmission Co. Limited) held by Kunlun Energy Company Limited, a partner of the Group, so as to allow the transmission and distribution of resources of the Group's coal-bed methane projects in Shanxi to get full support, laying a foundation for the upstream and downstream integrated operation in the future.

In August 2011, the Group was granted the natural gas operation right by Jing'an County in Jiangxi Province.

The Group has newly increased 187,000 residential households, 153 industrial users, and over 900 commercial and other users during the year. The Group has in aggregate approximately 423,000 residential households, 606 industrial users, and around 3,200 commercial and other users. 15 project companies were newly incorporated, and 3 project companies were acquired during the year. The Group currently has 2 LNG factories, 20 CNG stations, 2 LNG stations and 20 gate stations. The Group has also newly constructed 197 km of high pressure pipeline, and in aggregate constructed 571 km. The city and courtyard pipeline network was extended by 417 km, and in aggregate 2,788 km.

The Taizhou branch line project in Jiangsu Province, the southern and northern parts of the Nantong Rugao branch line project in Jiangsu Province, and Anyi branch line, Phase I in Jiangxi Province were put into operation in 2011. It is expected that the three new branch lines mentioned above will supply natural gas amounting to 800-1,200 million m^3 per annum for downstream.

BUSINESS PROSPECT

In 2012, focus will be on the following key areas:

1. **Grasp the chance to develop city gas market** – Along with large natural gas pipelines in China being put into operation, the imported natural gas and 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 the support from China government's policies, the prospect for sales of natural gas is promising. The Group will seize opportunities to develop the piped natural gas business with increased efforts. Taking the existing 5 key areas, namely Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggan'e District, as foundation, the Group will continue to make its way into other areas. According to the Group's Twelfth Five-Year Plan, its annual sales volume will surpass 8 billion m^3 in 2016.

2. **Proactively develop LNG businesses** – The Group owned 2 LNG plants in Xining, Qinghai each has daily processing capacity of 250,000 m^3 and already set up LNG fleets, which allowed end users to enjoy natural gas in areas where pipelines have not been reached. Projects for gas replacing oil in vessels has been formally commenced in June 2011 and attained satisfactory performance. The economic benefits were remarkable, with diesel replacement rate of over 75% and 25% cut in fuel expenses. Leveraging the advantage of the resources of LNG, the Group will further expand LNG distribution, logistics and transportation businesses and actively promote business of gas replacing oil in vehicles and vessels according to market demand. In addition, the Group will establish a network integrating upstream, middle-stream and downstream LNG businesses to be a new source of profit increment.

3. **Construction of natural gas branch lines** – Along with the main line of the West-to-East Gas Supply 2nd Line being put into operation, the Group will proactively seize the opportunity to set up new branch lines other than the five existing branch lines. Apart from bringing stable natural gas transmission revenue, the branch line constructions will also help the development of projects along the down-stream.

4. **Coal-bed gas utilization project** – Pursuant to the agreement signed with PetroChina Coal-bed Methane, two sets of CNG apparatus have been completed for the coal-bed gas project. The coalbed gas produced from scattered wells in the two areas was successfully sold to surrounding areas in the form of CNG. In view of the continuously enhanced technology in developing coal-bed gas in China, a breakthrough in the production capability for coal-bed gas is well in sight.

5. **Sales 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. It is particularly significant in cities and the vast rural areas where there is no supply of piped natural gas, and LPG will serve as a supplement gas source for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

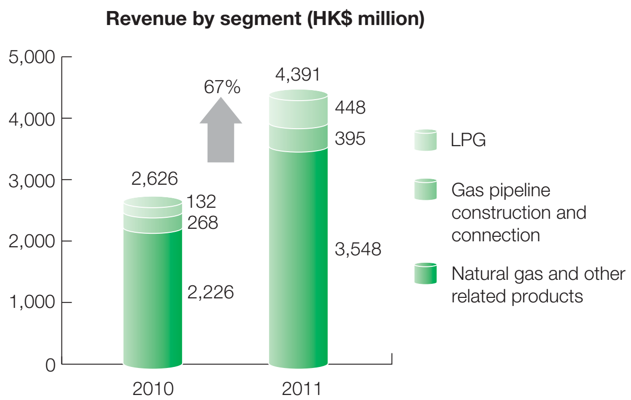
The following discussions should be read in conjunction with the audited consolidated financial statements of the Company and its notes and other sections in the annual report for the year ended 2011 ("Year") .

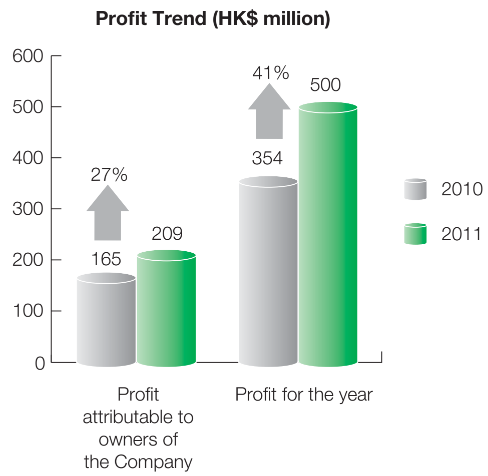
FINAL DIVIDEND

The board of Directors (the "Directors") of the Company (the "Board") did not recommend a payment of any dividend for the Year (2010: Nil).

FINANCIAL RESULTS

For the Year, the Group recorded a revenue of HK$4,390,955,000 (2010: HK$2,626,007,000), representing an increase of approximately 67%. The Group's cost of sales was HK$3,490,292,000 (2010: HK$2,048,369,000), representing an increase of approximately 70%. Gross profit amounted to HK$900,663,000 (2010: HK$577,638,000 with an increase of approximately 56%. Profit for the Year was HK$500,382,000 (2010: HK$353,830,000), increased by 41%. The Group's profit attributable to the owners of the Company was HK$208,932,000 (2010: HK$164,560,000), which recorded an increase of approximately 27%. Basic earnings per share were HK cents 4.221 and HK cents 3.352 for both years respectively.



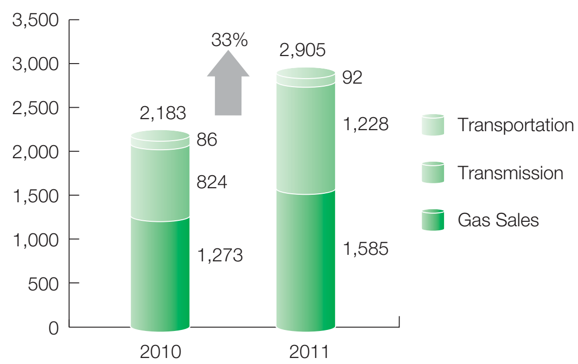


The revenue of the sales of natural gas amounted to HK$3,548,355,000 representing an increase of 59% as compared with HK$2,225,563,000 in last year and 81% of overall revenue. Gas pipeline construction and connection income amounted to HK$394,694,000 representing an increase of 47% as compared with HK$268,197,000 in last year and 9% of the total revenue. The Group's sales of LPG business turn to profit in 2011, sales revenue of LPG amounted to HK$447,906,000, which represented 10% of the total revenue. The decrease in gross profit margin was mainly attributable to the changes in the income structure of the Group. Excluding the new LPG sales, the overall gross profit margin was 23%, representing an increase of 1% as compared with 22% in the year of 2010.

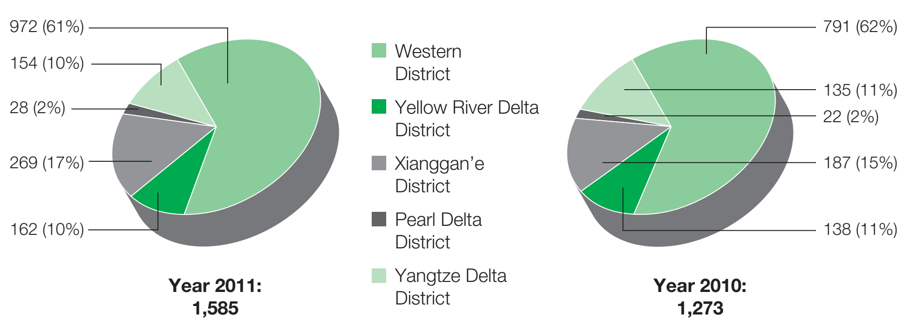
Certain of the Group's financial assets are classified as fair values through profit or loss. For the Year, the fair value losses on those marked to market financial assets amounted to HK$48,193,000 (2010: a gain of HK$8,143,000). The Group also recognised gains on disposals of financial assets at fair value through profit or loss amounted to HK$17,783,000 (2010: HK$8,601,000) for the year ended 31 December 2011. Excluding the effect of the changes in fair values on and gains on disposals of financial assets at fair value through profit or loss, the Group's profit attributable to owners of the Company would be HK$239,342,000 (2010: HK$147,816,000) which represented an increase of 62% on the Group's natural gas businesses.

During the Year, the Group's total gas sales and transmission volume reached 2,905,000,000 m^3, increased by 33% as compared to 2,183,000,000 m^3 for last year. Total gas sales increased by 25% from last year's 1,273,000,000 m^3 to current year's 1,585,000,000 m^3; whereas transmission volume increased by 49% from 824,000,000 m^3 to the Year's 1,228,000,000 m^3; transportation gas volume was up by 7% from last year's 86,000,000 m^3 to current year's 92,000,000 m^3. Besides, the total sales of LPG amounted to 69.5 thousand tones, which was approximately 83,400,000 m^3.

Total Gas Sales & Transmission Volume (million m³)



Gas sales in five key areas (million m³)

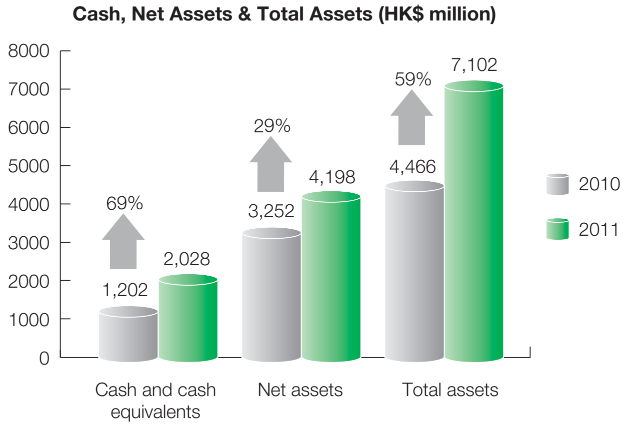


The Group's administrative expenses for the Year were HK$204,314,000 (2010: HK$132,295,000), increased by 54%. Finance costs increased by 74% from HK$19,029,000 to HK$33,098,000 this year.

FINANCIAL POSITION

The Group remains at a strong financial position. As at 31 December 2011, the Group had cash and cash equivalents of approximately HK$2,027,915,000 (2010: HK$1,202,013,000). The Group's total borrowings amounted to HK$1,350,339,000 (2010: HK$297,493,000), representing bank and other borrowings made for the gas operations in the PRC under a subsidiary of the Group except for the borrowing of HK$700,000,000 from China Petroleum Hong Kong (Holding) Limited. Except for the borrowing from China Petroleum Hong Kong (Holding) Limited, all bank borrowings were unsecured and made in Renminbi with interest rate at 6.5% (2010: 6.2%) per annum. Borrowing from China Petroleum Hong Kong (Holding) Limited is made in Hong Kong Dollars and bearing interest at 3.7% per annum. Save for the borrowings mentioned above, the Group has no other bank borrowings or overdrafts.

As at 31 December 2011, the Group had total assets of HK$7,101,536,000 (2010: HK$4,466,006,000), and among which current assets were HK$3,078,100,000 (2010: HK$2,076,470,000). Total liabilities of the Group were HK$2,903,432,000 (2010: HK$1,214,329,000), and among which current liabilities were HK$1,936,795,000 (2010: HK$1,186,742,000). The net assets amounted to HK$4,198,104,000 (2010: HK$3,251,677,000). The gearing ratio of the Group, measured on the basis of total liabilities as a percentage to total equity, was 69% (2010: 37%). The current ratio of the Group was 1.59 (2010: 1.75) and quick ratio was 1.50 (2010: 1.68). Attention is drawn to the Group's current liabilities which included receipt in advance from natural gas sales of HK$1,005,382,000 (2010: HK$638,360,000). Excluding the receipt in advance, the gearing ratio of the Group reduced to 45% (2010: 18%).



EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group employed a total workforce of approximately 2,915 (2010: 1,660) where mostly were stationed in the PRC. The staff costs for the Year amounted to HK$164,254,000 (2010: HK$124,319,000). The employees' remuneration, promotion and salaries are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

PLEDGE OF ASSETS

The Group has pledged its equity interest in China City Natural Gas Co., Ltd.（中油中泰燃氣集團投資有限責任公司）("CCNG") (a subsidiary owned as to 51% by the Group) as security for a borrowing of HK$700,000,000 granted by China Petroleum Hong Kong (Holding) Limited.

Apart from the above, no other assets of the Group have been pledged as at 31 December 2011.

CONTINGENT LIABILITY

As at 31 December 2011, the Group has no material contingent liability.

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 2011, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

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

CAPITAL STRUCTURE

During the Year, a total of 1,260,000 share options had been exercised by the employees of the Group. As at 31 December 2011, the issued share capital of the Company was HK$49,521,162.13 divided into 4,952,116,213 shares of HK$0.01 each.

APPRECIATION

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

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

Hong Kong, 20 March 2012

Biographical Details of Directors

Mr. Xu Tie-liang, aged 48, 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 certain subsidiaries of the Company. Mr. Xu graduated from Xi'an Shiyou University (西安石油大學) and University of International Business and Economics (對外經濟貿易大學) majoring in finance, law and international trade, 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 Ltd., a company listed on the Shenzhen Stock Exchange. He was also directors of various companies, he specialized in investments in oil and energy businesses and provision of legal and management consultancy services since 2002. 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 aspect. Save as aforesaid, 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 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.

Mr. Zhu Yuan, aged 59, was appointed as an executive Director of the Company on 10 September 2010. He was 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 CCNG. He is responsible for day-to-day operations and project investment, formation, operation, management, etc. He also acts as the chairman of Liling China Oil And Gas Co., Ltd. (醴陵中油燃氣有限公司), Hunan China Oil And Gas Co., Ltd. (湖南中油燃氣有限公司), Qinghai Zhongtai China Oil And Gas Co., Ltd. (青海中泰中油燃氣有限公司), Nanchang China Oil And Gas Co. Ltd. (南昌中油燃氣有限公司), Pingxiang China Oil And Gas Company Limited (萍鄉中油燃氣有限公司) (all are subsidiaries of the Company) and etc. He has deep research and extensive experience in investment and operation of the usage of natural gas, city gas and liquefied natural gas projects. Save as aforesaid, 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 47, 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 CCNG, and a director of certain subsidiaries of the Company. Ms. Guan has extensive business operation management experiences. Save as aforesaid, 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 59, 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 China Petroleum Qilu Petrochemical Refinery (中國石油齊魯石化煉油廠), China Petroleum Shengli Oilfield (中國石油勝利油田), China Petroleum Zhongyuan Oilfield (中國石油中原油田) and has ever been a management economist of China National Petroleum Corporation (中國石油天然氣集團公司) ("CNPC") during the period between 1969 and 1993. He was the chairman of each of Wah Chung (HK) Limited 華中(香港)有限公司, Henan Shenghua Petrochemical Co., Ltd. (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 was 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 China Petroleum Business Council (中國石油商務理事會). Save as aforesaid, 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.

Mr. Li Yunlong, aged 60, 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 a 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 aforesaid, 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 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. 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.

Biographical Details of Directors

(continued)

Mr. Shi Xun-zhi, aged 77, was appointed as an independent non-executive Director of the Company on 30 August 2006. He is a member of 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 the Ministry of Petroleum Industry and CNPC, CNPC president's special assistant and also a member of the Ninth Chinese People's Political Consultative Conference. He had 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 the chairman of CNPA Alberta 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 president of Northeast Asian Gas And Pipeline Forum and the president of Asia Gas & Pipeline Cooperation Research Center of China. Save as aforesaid, 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.

Mr. Wang Guangtian, aged 48, 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, 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 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. 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 Company for the year ended 31 December 2011.

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 2011 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 34 to 105.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: 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 consolidated financial statements and reclassified as appropriate, is set out on page 106. This summary does not form part of the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by operating segments and geographical area of operations for the year ended 31 December 2011 is set out in note 6 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 30(a) to the consolidated financial statements.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Old Share Option Scheme") on 31 January 2002 and terminated the same at the special general meeting of the Company held on 23 November 2011, details of the Old Share Option Scheme are set out in note 30(b) to the consolidated financial statements.

The Company adopted a new share option scheme (the "Existing Share Option Scheme") on 23 November 2011 at the special general meeting of the Company held on 23 November 2011, details of the Existing Share Option Scheme are set out in note 30(b) to the consolidated financial statements.

RESTRICTED SHARE AWARD SCHEME

On 4 November 2011, the Board adopted a restricted share award scheme (the "Restricted Share Award Scheme") as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group, details of the Restricted Share Award Scheme are set out in note 30(c) 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

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 2011, other than those purchased for the Restricted Share Award Scheme by its trustee, details of the shares purchased under the Restricted Share Award Scheme are set out in note 30(c) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the amount standing to the credit of the Company's share premium account in the amount of HK$1,964,143,000 may also be distributed in the form of fully paid bonus shares, and the Company's contributed surplus account in the amount of HK$49,753,000 may be distributed under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

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

	2011	2010
	%	%
Purchases		
– the largest supplier	**56.5**	57.3
– five largest suppliers combined	**89.3**	93.8
Turnover		
– the largest customer	**2.4**	3.6
– five largest customers combined	**10.6**	12.1

None of the Directors or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive Directors

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

Independent Non-Executive Directors

LI Yunlong
SHI Xun-zhi
WANG Guangtian

In accordance with Bye-law 87(1), Messrs Zhu Yuan, Li Yunlong and Wang Guangtian shall retire from office as Directors by rotation at the forthcoming annual general meeting of the Company to be held on Wednesday, 9 May 2012 ("2012 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 2012 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 significance 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 2011, 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 of Hong Kong Limited 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	Approximate percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	6.482%
	Interest in a controlled corporation	Long position	2	794,260,000	16.039%
Guan Yijun	Interest of spouse	Long position		1,115,278,300	22.521%
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 794,260,000 ordinary shares of the Company are held through Sino Vantage Management Limited ("Sino Vantage"), a company incorporated in the British Virgin Islands with limited liability 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 are set out in note 30(b) to the consolidated 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 of Hong Kong Limited pursuant to the Model Code as at 31 December 2011.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2011, 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	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Sino Advance *(Note)*	Beneficial owner	Long position	321,018,300	6.482%
Sino Vantage *(Note)*	Beneficial owner	Long position	794,260,000	16.039%
Sino Best *(Note)*	Interest in controlled corporations	Long position	1,115,278,300	22.521%

Note: Sino Advance and Sino Vantage are wholly-owned by Sino Best which in turn is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company held through Sino Advance and Sino Vantage.

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 2011.

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 2011, the Group has the following connected transactions:

1. On 5 January 2011, the Company as borrower entered into a loan agreement with China Petroleum HongKong (Holding) Limited as lender (the "Lender") and Zhongda Industrial Group Inc. and Alta Financial Holdings Limited (wholly-owned subsidiaries of the Company) as guarantors (the "Guarantors") in relation to the granting of a loan in the amount of HK$700,000,000 (the "Loan") to the Company by the Lender at an annual interest rate of 3.7% payable half yearly.

   The Guarantors have pledged 51% equity interest held in CCNG to the Lender as a security of the Loan pursuant to the equity pledge agreement entered into between the Guarantors, CCNG and the Lender on 5 January 2011.

   As the Lender is a wholly-owned subsidiary of CNPC (which indirectly owns approximately 69.52% of the issued share capital of Kunlun Energy Company Limited ("Kunlun Energy") which in turn owns 49% equity interest in CCNG), hence, is a connected person of the Company.

The financial assistance constituted a connected transaction for the Company and was subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.63 of the Listing Rules. A special general meeting of the Company was held on 15 February 2011 and approval was given by the then independent shareholders.

2. On 30 June 2011, CCNG and Kunlun Energy entered into an equity transfer contract, pursuant to which Kunlun Energy agreed to sell and CCNG agreed to acquire 35% equity interest in Shanxi Guoxing Coalbed Methane Transmission for a consideration of RMB35,927,000.

   The transaction contemplated under the above contract constituted a connected transaction for the Company and was subject to reporting and announcement requirements, but was exempted from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules.

Exempt continuing connected transaction

Best Thinker Limited was appointed by the Company as trustee (the "Trustee") for the administration of the Restricted Share Award Scheme adopted by the Company on 4 November 2011. The Trustee is wholly-owned by Mr. Xu Tie-liang, an executive Director, the Chairman and the Chief Executive Officer of the Company. A service fee in an amount of less than HK$1,000,000 annually will be payable by the Company to the Trustee according to the share award trust deed entered into between the Company and the Trustee. The payment of the service fees to the Trustee constitutes a continuing connected transaction for the Company, but is exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A.33(3) of the Listing Rules.

No service fee has been paid to the Trustee for the financial year ended 31 December 2011.

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:

Continuing connected transactions – Tenancy Agreement

1. On 1 June 2010, 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 Company Limited ("PetroChina"), 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.

   As PetroChina Anhui is a branch company of PetroChina which directly owns approximately 65.65% of the issued share capital of KunLun Energy, hence, is a connected person of the Company.

   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 Road 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 2011 is RMB2,000,000.

   No rental payment has been made to PetroChina Anhui for the year ended 31 December 2011.

Continuing connected 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 Coalbed Methane Co., Ltd.) ("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, hence, is 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 2011 is RMB1,300,000,000.

   RMB260,000 was paid to PetroChina CBM for the provision of CBM for the year ended 31 December 2011.

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 I") with PetroChina or its branch companies pursuant to which natural gas was supplied to various subsidiaries of the Group by PetroChina Group.

   The revised caps and actual fees paid or payable in respect of the supply of natural gas pursuant to the Natural Gas Supply Contracts I for the year ended 31 December 2011 are as follows:

	Revised caps RMB'000	Actual fees paid and payable RMB'000
Qingyun Contract	40,000	10,941
Liling Contract	480,000	386,434
Huimin Contract	60,000	25,347
Xining Contract	1,300,000	1,031,762
Binzhou Contract	276,000	193,200
Anhui Contract	120,000	87,277
Jiangdu Contract	288,000	15,212

4. Certain subsidiaries of the Group have entered into the natural gas supply contracts (being the Taizhou Contract dated 18 December 2010, the Nantong Contract dated 24 March 2011, the Xiantao Contract dated 28 January 2002, the Wuhan East Letter of Intent dated 6 September 2011 and the Yinchuan Contract date 12 April 2010) ("Natural Gas Supply Contracts II") with PetroChina or its branch companies pursuant to which natural gas was supplied to various subsidiaries of the Group by PetroChina Group.

The caps and actual fees paid or payable in respect of the supply of natural gas pursuant to the Natural Gas Supply Contracts II for the year ended 31 December 2011 are as follows:

	Caps RMB'000	Actual fees paid and payable RMB'000
Taizhou Contract	95,000	Nil
Nantong Contract	100,000	17,964
Xiantao Contract	80,000	55,322
Wuhan East Letter of Intent	30,000	15,534
Yinchuan Contract	60,000	47,807

Continuing connected transactions – Finance Lease Agreement

5. On 23 September 2011, 恒泰國際融資租賃有限公司(Alta International Finance Lease Limited) ("Alta Financial") as lessor entered into a finance lease agreement with 山東雙合煤礦有限公司Shangdong Shuanghe Coal Mine Limited) ("Shuanghe Coal Mine") as lessee, pursuant to which Alta Financial agreed to provide Shuanghe Coal Mine with finance lease services for the three years ending 31 December 2013.

   As 8% equity interest of Shuanghe Coal Mine is owned by Sino Invent Holdings Limited (an indirect wholly-owned subsidiary of the Company) and 92% equity interest is owned by Sino Advance Holdings Limited (a company indirectly wholly and beneficially owned by the Chairman of the Company) and therefore Shuanghe Coal Mine is a connected person of the Company.

   The annual cap of the finance lease amount to Shuanghe Coal Mine for the financial year ended 31 December 2011 is RMB80,000,000.

   The actual finance lease amount to Shuanghe Coal Mine for the year ended 31 December 2011 is RMB50,000,000.

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 was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 23 to 26 of the Annual Report in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

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 28 to 32 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 2011.

AUDITOR

Ting Ho Kwan & Chan resigned as auditor of the Company on 25 May 2011, and PricewaterhouseCoopers was appointed as auditor of the Company to fill the vacancy arising from the resignation of Ting Ho Kwan & Chan at the special general meeting of the Company held on 16 June 2011. Save as disclosed above, there was no change in auditor during the past three years.

A resolution will be submitted to the 2012 AGM to re-appoint PricewaterhouseCoopers as auditor of the Company.

On behalf of the Board
China Oil And Gas Group Limited

Xu Tie-liang
Chairman

Hong Kong, 20 March 2012

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 2011, 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 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 2011.

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 and 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 16 to 18 under the section headed "Biographical Details of Directors".

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

Chairman and Chief Executive Officer

The 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 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 2011, the Board held 15 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	15/15
ZHU Yuan	15/15
GUAN Yijun	15/15
CHEUNG Shing	15/15
LI Yunlong	15/15
SHI Xun-zhi	15/15
WANG Guangtian	15/15

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 2011, the Nomination Committee held 1 meeting 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	1/1
LI Yunlong	1/1
CHEUNG Shing	1/1

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 2011, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of member	Number of attendance
LI Yunlong	1/1
WANG Guangtian	1/1
CHEUNG Shing	1/1

The Company has adopted the Existing Share Option Scheme on 23 November 2011. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants as incentives or rewards for their contribution to the Group. The Board adopted the Restricted Share Award Scheme on 4 November 2011 as an incentive to recognise the contributions by employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group. Details of the Existing Share Option Scheme and the Restricted Share Award Scheme are set out in notes 30(b) and 30(c) to the consolidated financial statements.

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 11 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 financial statements 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 regularly to discuss any area of concern during the audit. 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 2011, the Audit Committee held 3 meetings.

Name of member	Number of attendance
LI Yunlong	3/3
SHI Xun-zhi	3/3
WANG Guangtian	3/3

During the year ended 31 December 2011, 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, the remuneration paid/payable to the Company's auditor is set out below:-

Services rendered	Fee paid/payable HK$'000
Audit services	1,300
Non-audit services	–
	1,300

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 except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

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 2011 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 consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that year. In preparing the consolidated financial statements for the year ended 31 December 2011, 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 consolidated 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 2011, 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.

羅兵咸永道

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 (together, the "Group") set out on pages 34 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 these consolidated financial statements based on our audit and to report our opinion, 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 2011 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2012

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	6	**4,390,955**	2,626,007
Cost of sales		**(3,490,292)**	(2,048,369)
Gross profit		**900,663**	577,638
Other income	7	**26,882**	8,006
Other (losses)/gains, net	8	**(30,410)**	16,751
Selling and distribution costs		**(37,785)**	(24,401)
Administrative expenses		**(204,314)**	(132,295)
Operating profit	9	**655,036**	445,699
Interest income	10	**24,201**	12,879
Finance costs	10	**(33,098)**	(19,029)
Share of loss of an associate		**-**	(51)
Profit before taxation		**646,139**	439,498
Taxation	12	**(145,757)**	(85,668)
Profit for the year		**500,382**	353,830
Other comprehensive income:			
Currency translation differences		**164,764**	46,780
Total comprehensive income for the year		**665,146**	400,610
Profit for the year attributable to:			
Owners of the Company	14	**208,932**	164,560
Non-controlling interests		**291,450**	189,270
		500,382	353,830
Total comprehensive income for the year attributable to:			
Owners of the Company		**338,544**	192,728
Non-controlling interests		**326,602**	207,882
		665,146	400,610
Earnings per share for profit attributable to owners of the Company	15		
– Basic (HK cents)		**4.221**	3.352
– Diluted (HK cents)		**4.202**	3.313

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,314,583**	1,431,470
Land use rights	17	**118,860**	77,332
Intangible assets	18	**1,033,883**	690,282
Interest in a jointly controlled entity	20	**43,831**	–
Available-for-sale financial assets	21	**288,095**	190,452
Other non-current assets	23	**224,184**	–
		4,023,436	2,389,536
Current assets			
Inventories	22	**174,954**	81,066
Deposits, trade and other receivables	23	**448,688**	489,688
Financial assets at fair value through profit or loss	24	**426,543**	259,243
Time deposits with maturity over three months	25	**–**	44,460
Cash and cash equivalents	25	**2,027,915**	1,202,013
		3,078,100	2,076,470
Current liabilities			
Trade and other payables	26	**487,200**	237,046
Receipt in advance	27	**1,005,382**	638,360
Short-term borrowings	28	**397,799**	281,113
Current tax payable		**46,414**	30,223
		1,936,795	1,186,742
Net current assets		**1,141,305**	889,728
Total assets less current liabilities		**5,164,741**	3,279,264
Non-current liabilities			
Long-term borrowings	28	**952,540**	16,380
Deferred tax liabilities	29	**14,097**	11,207
		966,637	27,587
Net assets		**4,198,104**	3,251,677
Equity			
Equity attributable to owners of the Company			
Share capital	30	**49,521**	49,509
Reserves		**2,709,954**	2,379,603
		2,759,475	2,429,112
Non-controlling interests		**1,438,629**	822,565
Total equity		**4,198,104**	3,251,677

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 March 2012.

Xu Tie-liang	**Cheung Shing**
Director	*Director*

The accompanying notes are an integral part of these consolidated financial statements.

Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Intangible assets	18	**1,702**	1,702
Interests in subsidiaries	19	**1,924,179**	1,696,556
Available-for-sale financial assets	21	**97,643**	–
		2,023,524	1,698,258
Current assets			
Other receivables	23	**8,437**	7,034
Financial assets at fair value through profit or loss	24	**200,814**	–
Cash and cash equivalents	25	**204,559**	97,597
		413,810	104,631
Current liabilities			
Other payables	26	**2,197**	4,080
Net current assets		**411,613**	100,551
Total assets less current liabilities		**2,435,137**	1,798,809
Non-current liabilities			
Long-term borrowings	28	**700,000**	–
Net assets		**1,735,137**	1,798,809
Equity			
Equity attributable to owners of the Company			
Share capital	30	**49,521**	49,509
Reserves	31	**1,685,616**	1,749,300
Total equity		**1,735,137**	1,798,809

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2012.

Xu Tie-liang	**Cheung Shing**
Director	*Director*

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Shares held for share award scheme HK$'000	(Note) Other reserves HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	44,579	1,968,998	–	82,373	46,372	2,332	(512,582)	1,632,072	590,676	2,222,748
Changes 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
Issue of shares upon placement, net of issuing expenses	5,000	600,421	–	–	–	–	–	605,421	–	605,421
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 acquisitions of subsidiaries (Note 32(b))	–	–	–	–	–	–	–	–	22,874	22,874
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	11,934	11,934
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(29,995)	(29,995)
Changes in the ownership interests in subsidiaries that do not result in a loss of control (Note 33)	–	–	–	(473)	57	–	–	(416)	19,194	18,778
Set-off against accumulated losses (Note 31(b))	–	(600,000)	–	–	–	–	600,000	–	–	–
At 31 December 2010	**49,509**	**1,963,391**	**–**	**81,970**	**74,597**	**7,737**	**251,908**	**2,429,112**	**822,565**	**3,251,677**
Change in equity for 2011:										
Exchange differences on translating foreign operations	–	–	–	–	129,612	–	–	129,612	35,152	164,764
Profit for the year	–	–	–	–	–	–	208,932	208,932	291,450	500,382
Total comprehensive income for the year	–	–	–	–	129,612	–	208,932	338,544	326,602	665,146
Issue of shares upon exercise of share options	12	752	–	–	–	(223)	–	541	–	541
Equity-settled share-based payments	–	–	–	–	–	5,508	–	5,508	–	5,508
Shares purchased for share award scheme	–	–	(10,976)	–	–	–	–	(10,976)	–	(10,976)
Non-controlling interests arising from acquisitions of subsidiaries (Note 32(a))	–	–	–	–	–	–	–	–	39,644	39,644
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	321,283	321,283
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	(67,521)	(67,521)
Changes in the ownership interests in subsidiaries that do not result in a loss of control (Note 33)	–	–	–	(3,254)	–	–	–	(3,254)	(3,944)	(7,198)
At 31 December 2011	49,521	1,964,143	(10,976)	78,716	204,209	13,022	460,840	2,759,475	1,438,629	4,198,104

Note: As at 31 December 2011, other reserves mainly comprise capital reserve amounting to HK$81,483,000 (2010: HK$81,480,000).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Cash flows from operating activities		
Profit for the year	500,382	353,830
Adjustments for:		
Taxation	145,757	85,668
Finance costs	33,098	19,029
Interest income	(24,201)	(12,879)
Dividend income from listed securities	(1,583)	(167)
Share of loss of an associate	–	51
Bad debts written off	2,274	3,639
Equity-settled share-based payments	5,508	5,405
Amortisation of other intangible assets	140	127
Depreciation of property, plant and equipment	124,950	97,249
Amortisation of land use rights	2,527	2,065
Losses on disposals of property, plant and equipment	1,175	3,842
Gain on disposal of a subsidiary	–	(7)
Gains on disposals of financial assets at fair value through profit or loss	(17,783)	(8,601)
Fair value losses/(gains) on financial assets at fair value through profit or loss	48,193	(8,143)
	820,437	541,108
Changes in working capital:		
Increase in financial assets at fair value through profit or loss	(197,710)	(184,955)
Increase in inventories	(89,597)	(23,212)
Decrease/(increase) in deposits, trade and other receivables	16,040	(214,923)
(Decrease)/increase in trade and other payables	(3,334)	44,061
Increase in receipt in advance	339,742	69,867
Cash generated from operations	885,578	231,946
Taxation paid	(127,847)	(69,641)
Net cash generated from operating activities	757,731	162,305

Consolidated Statement of Cash Flows

(continued)

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Interest received		24,201	12,879
Dividend received		1,583	167
Purchases of property, plant and equipment, land use rights and prepaid construction costs		(749,442)	(251,121)
Proceeds from disposal of property, plant and equipment		85,306	1,890
Purchases of other intangible assets		(586)	(1,739)
Purchases of available-for-sale financial assets		(97,643)	(190,000)
Proceeds from liquidation of an associate		–	2,270
Acquisition of subsidiaries, net of cash and cash equivalents acquired	32(c)	(345,219)	(70,445)
Proceed received from disposal of a subsidiary		–	5,350
Net cash (paid)/received from changes in the ownership interests in subsidiaries	33(c)	(7,198)	18,778
Decrease/(increase) in time deposits with maturity over three months		44,460	(44,460)
Capital injection by non-controlling interests		160,032	11,934
Net cash used in investing activities		(884,506)	(504,497)
Cash flows from financing activities			
Share issued upon exercise of share options		541	–
Interest paid		(56,955)	(19,029)
Proceeds from placement and issue of shares, net of issuing expenses		–	605,421
New borrowings raised		1,488,564	245,700
Repayment of borrowings		(448,431)	(350,582)
Dividend paid to non-controlling interests		(67,521)	(29,995)
Purchase of own shares for share award scheme		(10,976)	–
Payment for repurchase of own shares		–	(6,098)
Net cash generated from financing activities		905,222	445,417
Net increase in cash and cash equivalents		778,447	103,225
Cash and cash equivalents at 1 January		1,202,013	1,069,717
Effect of foreign exchange rate changes		47,455	29,071
Cash and cash equivalents at 31 December	25	2,027,915	1,202,013

Major non-cash transaction:

During the year, non-controlling interests contributed capital to a subsidiary by way of property, plant and equipment amounting to approximately HK$161,251,000 (2010: Nil).

The accompanying notes are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China Oil And Gas Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business of the Company is at Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. Its subsidiaries are principally engaging in investment in natural gas and energy related business, including but not limited to piped city gas business, pipeline design and construction, as well as transports, distributes, sales of compressed natural gas ("CNG"), liquefied natural gas ("LNG") and liquefied petroleum gas ("LPG") in the Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggan'e District of the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The 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.

(a) Effect of adopting new standards, amendments to standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 January 2011:

HKAS 24 (Revised) "Related party disclosures". It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose (i) the name of the government and the nature of their relationship; (ii) the nature and amount of any individually significant transactions; and (iii) the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The revised standard did not have any significant impact on the consolidated financial statements.

HKAS 1 (Amendment) "Presentation of financial statements". The amendment clarifies that an entity should present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 27 (Amendment) "Consolidated and separate financial statements". The amendment clarifies that the consequential amendments from HKAS 27 made to HKAS 21 "The effect of changes in foreign exchange rates", HKAS 28 "Investments in associates", and HKAS 31 "Interests in joint ventures", apply prospectively for annual periods beginning on or after 1 July 2009, or earlier when HKAS 27 is applied earlier. The amendment did not have any significant impact on the consolidated financial statements.

2 BASIS OF PREPARATION *(continued)*

(a) Effect of adopting new standards, amendments to standards and interpretations *(continued)*

HKAS 32 (Amendment) "Classification of rights issues". The amendment requires rights issues to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of non-derivative equity. Entities will no longer classify rights issues, for which non-derivative the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity will continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 1 (Amendment) "First-time adoption of Hong Kong Financial Reporting Standard". The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 "Interim financial reporting", it should explain those changes and update the reconciliations between previous GAAP and HKFRS. It allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition but before the first HKFRS financial statements are issued. When such remeasurement occurs after the date of transition to HKFRSs but during the period covered by its first HKFRS financial statements, any subsequent adjustment to that event-driven fair value is recognised in equity. Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under HKAS 36 at the date of transition. The amendment did not have any significant impact on the consolidated financial statements.

HKFRS 3 (Amendments) "Business combinations". The amendments clarify that (1) entities should apply the rules in HKFRS 3 (not HKFRS 7, HKAS 32 or HKAS 39) to contingent consideration that arose from business combinations with acquisition dates that precede the application of HKFRS 3; (2) only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets; and (3) the application guidance in HKFRS 3 applies to all share based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. These amendments did not have any significant impact on the consolidated financial statements.

HKFRS 7 (Amendment) "Financial instruments: disclosures". The amendment clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. The amendment did not have any significant impact on the consolidated financial statements.

HK (IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments". The interpretation clarifies the accounting by the debtor when the debtor renegotiates the terms of its debt with the result that the liability is extinguished through issuing its own equity instruments to the creditor (i.e. a "debt for equity swap"). A gain or loss recognised in profit or loss is the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes. The interpretation did not have any significant impact on the consolidated financial statements.

2 BASIS OF PREPARATION *(continued)*

(a) Effect of adopting new standards, amendments to standards and interpretations *(continued)*

HK (IFRIC)-Int 13 (Amendment) "Customer loyalty programmes". The amendment clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of the award credit is not expected to be redeemed by customers. The amendment did not have any significant impact on the consolidated financial statements.

HK(IFRIC) Int – 14 (Amendment) "Prepayments of a minimum funding requirement". Some entities that are subject to a minimum funding requirement have elected to prepay their pension contributions. The prepaid contributions are recovered through lower minimum funding requirements in future years. The previous version of HK(IFRIC) 14 did not permit the recognition of an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was an unintended consequence of the interpretation, which has been amended to require that an asset is recognised in these circumstances. The amendment to the interpretation did not have any significant impact on the consolidated financial statements.

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

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2012 or later periods and have not been early adopted by the Group:

HKAS 1 (Amendment)	Presentations of financial statements [2]
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets [1]
HKAS 19 (Amendment)	Employee benefits [2]
HKAS 27 (Revised 2011)	Separate financial statements [2]
HKAS 28 (Revised 2011)	Associates and joint ventures [2]
HKAS 32 (Amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities [3]
HKFRS 1 (Amendment)	Severe hyperinflation and renewal of fixed dated for the first-time adopters [1]
HKFRS 7 (Amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities [2]
HKFRS 9	Financial instruments [4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [4]
HKFRS 10	Consolidated financial statements [2]
HKFRS 11	Joint arrangements [2]
HKFRS 12	Disclosures of interests in other entities [2]
HKFRS 13	Fair value measurement [2]
HK(IFRIC) – Int 20	Stripping costs in the production phase for surface mine [2]

1 Effective for the Group for annual period beginning 1 January 2012
2 Effective for the Group for annual period beginning 1 January 2013
3 Effective for the Group for annual period beginning 1 January 2014
4 Effective for the Group for annual period beginning 1 January 2015

The Group will apply the above HKFRS, amendments to existing HKFRSs and interpretations of HKFRS from 1 January 2012 or later periods. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether there will be any substantial changes to the Group's significant accounting policies and presentation of financial statements will be resulted.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The 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 interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated profit or loss.

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

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

(iii) Gaining or losing control or significant influence

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to consolidated profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to consolidated profit or loss where appropriate.

(iv) Jointly controlled entities

Jointly controlled entities are those entities over which the Group has contractual arrangements to jointly share control with one or more parties. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. 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.

Dilution gains and losses arising in investments in jointly controlled entities are recognised in the consolidated profit or loss.

(v) Impairment testing of investments in subsidiaries and jointly controlled entities

Impairment testing of the investments in subsidiaries or jointly controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company (the "Board") that makes strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated profit or loss.

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 consolidated profit or loss.

(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 statement of financial positions 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

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.

(d) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, plant and machinery, pipelines, motor vehicles and others. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated profit or loss during the financial year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	12.5 to 25 years or remaining lease period of the land where applicable
Plant and machinery	3 to 20 years
Pipelines	20 years
Others	3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and gains, net" in the consolidated profit or loss.

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.

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Intangible assets *(Continued)*

(i) Goodwill (Continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Other intangible assets

Other intangible assets comprise mainly exclusive rights, club membership and computer operating system.

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.

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.

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.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life-for example, goodwill or intangible assets not ready to use-are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Land use rights

Land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties. 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 consolidated profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. 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. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(2) 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 included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

(3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date-the date on which 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. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except for those investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial assets *(Continued)*

(ii) Recognition and measurement (Continued)

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the consolidated profit or loss within "other (losses)/gains, net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated profit or loss as part of "other income" when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated profit or loss as part of other income when the Group's right to receive payments is established.

(i) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'l0ss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (1) adverse changes in the payment status of borrowers in the portfolio;

  (2) national or local economic conditions that correlate with defaults on the assets in the portfolio.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of financial assets *(Continued)*

(i) Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit or loss.

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated profit or loss-is removed from equity and recognised in the separate consolidated profit or loss. Impairment losses recognised in the separate consolidated profit or loss on equity instruments are not reversed through the separate consolidated profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated profit or loss, the impairment loss is reversed through the separate consolidated profit or loss.

Impairment testing of trade and other receivables is described in Note 3(k).

(j) Inventories

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other receivables

Trade receivables are amounts due from customers for sales and distribution of natural gas and other related products or gas pipeline construction and connection services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(l) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(m) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) 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 and distribution of natural gas

Sales and distribution of natural gas are recognised when the gas is used by the customers. Payments received in advance on pre-paid I/C cards that are related to sales of natural gas not yet delivered are deferred in the consolidated statements of financial position. Revenue is recognised when goods are delivered to the customers.

(ii) Sales of equipment

Sales of equipment 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 equipments sold.

(iii) Gas pipeline construction and connection fee income

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

(iv) Interest income

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

(p) 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 provincial governments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits *(Continued)*

(i) Retirement benefit costs (Continued)

The Group also operates a defined contribution Mandatory Provident Fund Scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and who are eligible to participate in the MPF Scheme. 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 consolidated profit or loss represent contributions payable by the Group 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. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

(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 Group operates an equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits *(Continued)*

(iii) Share-based payments (Continued)

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

(q) Shares held for share award scheme

Where the trustee purchases the Company's shares from the market, the consideration paid, including any directly attributable incremental costs, is presented as "shares held for award scheme" and deducted from total equity.

Upon vesting, the related costs of the vested awarded shares recognised are credited to "shares held for share award scheme", with a corresponding decrease in share option reserve for shares purchased with contributions paid to the trust, and decrease in retained profits for shares purchased through reinvesting dividends received on the vest awarded shares.

(r) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to anyone item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Taxation

Taxation for the period comprises current and deferred tax. Tax is recognised in the consolidated profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Taxation *(Continued)*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(t) 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 consolidated profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial instruments by categories

Group

	Note	**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
As at 31 December 2011					
Available-for-sale financial assets	*21*	**288,095**	**–**	**–**	**–**
Deposits, trade and other receivables	*23*	**–**	**–**	**226,027**	**–**
Financial assets at fair value through profit or loss	*24*	**–**	**426,543**	**–**	**–**
Time deposits, bank balances and cash	*25*	**–**	**–**	**2,027,915**	**–**
Trade and other payables	*26*	**–**	**–**	**–**	**487,200**
Borrowings	*28*	**–**	**–**	**–**	**1,350,339**
		288,095	**426,543**	**2,253,942**	**1,837,539**
As at 31 December 2010					
Available-for-sale financial assets	*21*	190,452	–	–	–
Deposits, trade and other receivables	*23*	–	–	99,320	–
Financial assets at fair value through profit or loss	*24*	–	259,243	–	–
Time deposits, bank balances and cash	*25*	–	–	1,246,473	–
Trade and other payables	*26*	–	–	–	237,046
Borrowings	*28*	–	–	–	297,493
		190,452	259,243	1,345,793	534,539

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.1 Financial instruments by categories *(Continued)*

Company

	Note	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
As at 31 December 2011					
Amounts due from subsidiaries	*19*	**–**	**–**	**1,949,188**	**–**
Available-for-sale financial assets	*21*	**97,643**	**–**	**–**	**–**
Financial assets at fair value through profit or loss	*24*	**–**	**200,814**	**–**	**–**
Time deposits, bank balances and cash	*25*	**–**	**–**	**204,559**	**–**
Amounts due to subsidiaries	*19*	**–**	**–**	**–**	**25,010**
Other payables	*26*	**–**	**–**	**–**	**2,197**
Borrowings	*28*	**–**	**–**	**–**	**700,000**
		97,643	**200,814**	**2,153,747**	**727,207**
As at 31 December 2010					
Amounts due from subsidiaries	*19*	–	–	1,703,575	–
Other receivables	*23*	–	–	7,034	–
Time deposits, bank balances and cash	*25*	–	–	97,597	–
Amounts due to subsidiaries	*19*	–	–	–	7,020
Other payables	*26*	–	–	–	4,080
		–	–	1,808,206	11,100

4.2 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.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to Renminbi. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of Renminbi 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 as at 31 December 2011 that are denominated in a non-functional currency. Currency risk arises on account of monetary assets and liabilities being denominated in a currency that is not the functional currency, however this is not material to the Group as a whole. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

(ii) Price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets and financial assets at fair value through profit or loss. 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 the 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.

(iii) Interest rate risk

As the Group has no significant interest-bearing assets, except for short term bank deposits, 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 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 28.

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.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(iii) Interest rate risk *(Continued)*

At 31 December 2011, it is estimated that a general increase or decrease of 100 basis points in interest rates on Renminbi denominated borrowings, with all other variables held constant, would decrease/increase the Group's profit before taxation by approximately HK$8,239,000 (2010: HK$2,679,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the statement of financial position 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 2010.

(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.

As at 31 December 2011 and 2010, all of the Group's bank deposits are deposited in major financial institutions located in the PRC and Hong Kong, which the management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2011 and 2010 were as follows:

	2011 **RMB'000**	2010 RMB'000
State-owned banks	**1,416,840**	740,292
Listed banks	**380,895**	328,242
Other banks	**230,180**	177,939
	2,027,915	1,246,473

Credit risk is management on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to the customers, including outstanding trade and other receivables.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

The Group generally requests advances from customers. In circumstances of credit sales, to manage the credit risk in respect of trade and other receivables, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs credit evaluations of its customers, and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of receivables and actual losses incurred have been within management's expectation.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

(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 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 tables detail the remaining contractual maturities at the statement of financial position date of the Group's and the Company'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 statement of financial position date) and the earliest date the Group and the Company can be required to pay:

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(Continued)*

(c) *Liquidity risk (Continued)*

Group	Total carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year or on demand HK$'000	Between 1 to 2 years HK$'000	Between 2 to 5 years HK$'000
As at 31 December 2011					
Trade and other payables	**487,200**	**487,200**	**487,200**	**–**	**–**
Borrowings	**1,350,339**	**1,509,592**	**448,584**	**49,640**	**1,011,368**
	1,837,539	**1,996,792**	**935,784**	**49,640**	**1,011,368**
As at 31 December 2010					
Trade and other payables	237,046	237,046	237,046	–	–
Borrowings	297,493	313,912	296,138	8,887	8,887
	534,539	550,958	533,184	8,887	8,887

Company					
As at 31 December 2011					
Other payables	**2,197**	**2,197**	**2,197**	**–**	–
Borrowings	**700,000**	**813,313**	**25,900**	**25,900**	**761,513**
	702,197	**815,510**	**28,097**	**25,900**	**761,513**
As at 31 December 2010					
Other payables	4,080	4,080	4,080	–	–

4.3 Capital risk 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. Capital is equity as shown on the consolidated statement of financial position plus net debt.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditure and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, repurchase the Company's shares, return capital to shareholders, issue new shares or sell assets to reduce debt.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.3 Capital risk management *(Continued)*

The Group monitors capital on the basis of the Group's consolidated gearing ratio which is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less time deposits, bank balances and cash. The Group does not have a defined gearing benchmark or range.

As at 31 December 2011 and 2010, the Group was at net cash position which was primarily due to better operating results and working capital position.

4.4 Fair value estimation

(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.

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2011				
Available-for-sale financial assets:				
– Listed equity investments	**2**	**–**	**–**	**2**
– Unlisted financial instruments	**–**	**97,643**	**–**	**97,643**
Financial assets at fair value through profit or loss:				
– Listed equity investments	**229,378**	**–**	**–**	**229,378**
– Unlisted financial instruments	**–**	**197,165**	**–**	**197,165**
	229,380	**294,808**	**–**	**524,188**
As at 31 December 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

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.4 Fair value estimation *(Continued)*

(i) Financial instruments carried at fair value (Continued)

Company	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2011				
Available-for-sale financial assets:				
– Unlisted financial instruments	–	97,643	–	97,643
Financial assets at fair value through profit or loss:				
– Listed equity investments	200,814	–	–	200,814
	200,814	97,643	–	298,457

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

(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 2011 and 2010.

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 market conditions existing at each statement of financial position 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 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).

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.

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

(a) Estimation of impairment of non-financial assets

The Group tests at least annually whether goodwill has suffered any impairment. Property, plant and equipment, are reviewed for possible impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of natural gas. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(b) Estimation of useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technological advancement and innovations in the natural gas industry. Management will adjust the depreciation charge where residual values vary with previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation in the future periods.

(c) Estimate of natural gas consumption

Revenue for natural gas supply may include an estimation of the natural gas supplied to the customers of which actual meter reading is not available. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers. As of the statement of financial statement date, the overall billed natural gas sales are in line with the natural gas supplied to the customers.

(d) Estimation of fair value of available-for-sale financial assets

Where the fair value of available-for-sale financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the market approach based on a price/book multiple derived from comparable companies. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the available-for-sale financial assets.

(e) Acquisitions of subsidiaries and jointly controlled entities

The initial accounting on the acquisitions of subsidiaries and jointly controlled entities involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The fair values of the identifiable assets, liabilities and contingent liabilities are determined by independent valuers by reference to market prices or present value of expected net cash flows from the assets. Any change in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entity will impact the carrying amount of these assets and liabilities.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(f) Current and deferred income tax

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation charges in the period in which such estimate is changed.

6 REVENUE AND SEGMENT INFORMATION

The Group's principal activities are sales and distribution of natural gas and other related products and provision of construction and connection services of gas pipelines in the PRC. Turnover for the year comprises the following:

	2011 **HK$'000**	2010 HK$'000
Sales and distribution of natural gas and other related products	**3,548,355**	2,225,563
Sales of LPG	**447,906**	132,247
Gas pipeline connection and construction services income	**394,694**	268,197
	4,390,955	2,626,007

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Board for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection. In 2010, sales of LPG segment did not qualify as a reportable operating segment, its financial information is included in sales of natural gas and other related products segment. In 2011, sales of LPG segment qualifies as a reportable operating segment, its financial information is separately disclosed and the corresponding comparatives have been restated.

The Group has presented the following three reportable segments:

– sales and distribution of natural gas and other related products

– sales of LPG

– gas pipeline construction and connection

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

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

6 REVENUE AND SEGMENT INFORMATION *(continued)*

The Board assesses the performance of the business segments based on profit before taxation without allocation of other (losses)/ gains, net, interest income, finance costs and share of results of an associate, which is consistent with these in the financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, as the Board does not use this information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

Information regarding the Group's reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

For the year ended 31 December 2011:

	Sales and distribution of natural gas and other related products HK$'000	Sales of LPG HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results				
Sales to external customers	3,548,355	447,906	394,694	4,390,955
Segment results	520,100	5,011	175,737	700,848
Interest income				24,201
Gains on disposals of financial assets at fair value through profit or loss				17,783
Fair value losses on financial assets at fair value through profit or loss				(48,193)
Finance costs				(33,098)
Unallocated corporate expenses				(15,402)
Profit before taxation				646,139
Taxation				(145,757)
Profit for the year				500,382

6 REVENUE AND SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2010:

	Sales and distribution of natural gas and other related products HK$'000	Sales of LPG HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results				
Sales to external customers	2,225,563	132,247	268,197	2,626,007
Segment results	343,420	(10,472)	107,158	440,106
Interest income				12,879
Gains on disposals 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

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2011 and 2010.

Analysis of the Group's revenue and results by geographical market has not been presented as over 90.0% of the Group's revenue and business activities are conducted in the PRC.

7 OTHER INCOME

	2011 HK$'000	2010 HK$'000
Dividend income from listed securities	1,583	167
Government grants	4,911	–
Income from advance to Shuanghe Coal Mine (Note 23 (c))	10,418	–
Others	9,970	7,839
	26,882	8,006

8 OTHER (LOSSES)/GAINS, NET

	2011 HK$'000	2010 HK$'000
Gains on disposals of financial assets at fair value through profit or loss, net	17,783	8,601
Fair value (losses)/gains on financial assets at fair value through profit or loss	(48,193)	8,143
Gain on disposal of a subsidiary	–	7
	(30,410)	16,751

9 OPERATING PROFIT

Operating profit has been arrived after charging:

	2011 HK$'000	2010 HK$'000
Staff costs (excluding directors' remuneration (Note 11)):		
Salaries and wages	126,798	104,796
Equity-settled share-based payments	5,329	5,380
Retirement benefits scheme contributions	32,127	14,143
	164,254	124,319
Minimum lease payments under operating leases for leasehold land and buildings	9,773	6,490
Cost of inventories recognised as expenses	3,074,745	1,878,575
Auditors' remuneration	1,300	1,080
Depreciation of property, plant and equipment (Note 16)	124,950	97,249
Bad debts written off	2,274	3,639
Amortisation of land use rights (Note 17)	2,527	2,065
Amortisation of intangible assets (Note 18)	140	127
Losses on disposals of property, plant and equipment	1,175	3,842
Net exchange losses	2,980	1,092

10 INTEREST INCOME AND FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Interest income from:		
Bank deposits	24,201	12,879
Finance costs:		
Interest on:		
Bank borrowings, wholly repayable within five years	(38,926)	(18,038)
Other borrowings, wholly repayable within five years	(18,029)	(950)
Securities trading account	–	(41)
Less: Amounts capitalised	23,857	–
	(33,098)	(19,029)
Finance costs, net	(8,897)	(6,150)

Amounts capitalised are borrowing costs that are attributable to the construction of qualifying assets. The average interest rate used to capitalise such borrowing cost was 5.9% (2010: Nil) per annum for the year ended 31 December 2011.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of remuneration of directors for the year ended 31 December 2011 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	120	2,880	12	–	3,012
Cheung Shing	120	–	–	–	120
Guan Yijun	120	585	12	–	717
Zhu Yuan	120	545	–	179	844
Independent non-executive directors:					
Shi Xun-zhi	120	–	–	–	120
Li Yun-long	120	–	–	–	120
Wang Guang-tian	120	–	–	–	120
Total	840	4,010	24	179	5,053

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

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	120	3,021	12	–	3,153
Qu Guo-hua (Note (a))	57	176	14	–	247
Cheung Shing	120	77	–	–	197
Guan Yijun (Note (b))	37	211	4	–	252
Zhu Yuan (Note (b))	37	197	15	25	274
Independent non-executive directors:					
Shi Xun-zhi	120	–	–	–	120
Peng Long (Note (c))	83	–	–	–	83
Li Yun-long	120	–	–	–	120
Wang Guang-tian	120	–	–	–	120
Total	814	3,682	45	25	4,566

Notes:

(a) Retired on 20 May 2010.

(b) Appointed on 10 September 2010.

(c) Resigned on 10 September 2010.

During the year, no remuneration was waived by any executive directors (2010: Nil).

Of the five individuals with the highest remunerations in the Group, one (2010: one) was directors of the Company whose emoluments is included in the above disclosures. The emoluments of the remaining four (2010: four) individuals were as follows:

	2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	**1,715**	1,873
Equity-settled share-based payments	**2,841**	2,708
Retirement benefits scheme contributions	**70**	60
	4,626	4,641

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

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

	Number of employees	
	2011	2010
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**	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 2011 and 2010.

12 TAXATION

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax for the year (2010: Nil).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in the Mainland China are subject to the PRC corporate income tax rate at 25% (2010: 25%). Certain subsidiaries are entitled to tax concessions and tax relief whereby the profits of those subsidiaries are taxed at a preferential income tax rate of 15% (2010: 15%).

	2011	2010
	HK$'000	HK$'000
Current tax:		
PRC corporate income tax		
– current year	**143,346**	86,792
– overprovision in prior years	**–**	(1,599)
Deferred tax (Note 29)	**2,411**	475
Taxation	**145,757**	85,668

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2011 (2010: Nil).

12 TAXATION *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	2011	2010
	HK$'000	HK$'000
Profit before taxation	**646,139**	439,498
Tax calculated at the applicable rates in the tax jurisdictions concerned	**173,156**	106,266
Tax effect of income not subject to taxation	**(12,325)**	(3,876)
Tax effect of expenses not deductible for tax purpose	**17,088**	11,684
Overprovision of current tax in prior years	**–**	(1,599)
Tax effect of tax concessions	**(32,162)**	(26,807)
Taxation	**145,757**	85,668

The weighted average applicable tax rate is 26.8% (2010: 24.2%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective jurisdictions.

13 DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2011 (2010: Nil).

14 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of approximately HK$58,745,000 (2010: HK$6,406,000).

15 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$208,932,000 (2010: HK$164,560,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,949,503,000 shares (2010: 4,909,840,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$208,932,000 (2010: HK$164,560,000), and the weighted average number of ordinary shares of approximately 4,972,588,000 shares (2010: 4,966,488,000 shares) which is the weighted average number of ordinary shares in issue less shares held under share award scheme during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 23,085,000 shares (2010: 56,648,000 shares) and the effect of awarded shares of approximately 23,085,000 shares (2010: Nil) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	(Note (i)) Others HK$'000	Construction in progress HK$'000	Total HK$'000
As at 1 January 2010						
Cost	162,333	367,048	675,903	184,508	56,785	1,446,577
Accumulated depreciation and impairment losses	(18,510)	(39,842)	(125,259)	(49,447)	-	(233,058)
Net book value	143,823	327,206	550,644	135,061	56,785	1,213,519
Year ended 31 December 2010						
At 1 January 2010	143,823	327,206	550,644	135,061	56,785	1,213,519
Currency realignment	4,513	10,269	17,281	4,179	1,782	38,024
Acquisitions of subsidiaries (Note 32(b))	2,787	4,246	7,049	1,673	21,071	36,826
Additions	8,722	6,213	4,475	18,650	208,022	246,082
Transfers	44,075	7,454	59,823	(612)	(110,740)	-
Depreciation for the year	(11,194)	(28,465)	(30,453)	(27,137)	-	(97,249)
Disposals	-	(1,474)	(3,772)	(486)	-	(5,732)
As at 31 December 2010	192,726	325,449	605,047	131,328	176,920	1,431,470
As at 31 December 2010						
Cost	223,136	397,107	760,609	207,370	176,920	1,765,142
Accumulated depreciation	(30,410)	(71,658)	(155,562)	(76,042)	-	(333,672)
Net book value	192,726	325,449	605,047	131,328	176,920	1,431,470

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	(Note (i)) Others HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2011						
At 1 January 2011	192,726	325,449	605,047	131,328	176,920	1,431,470
Currency realignment	8,236	13,908	23,553	5,569	7,561	58,827
Acquisitions of subsidiaries (Note 32(a))	18,883	11,965	118,241	6,359	4,140	159,588
Additions	41,845	44,376	130,571	76,217	583,120	876,129
Transfers	25,926	116,077	127,272	5,168	(274,443)	–
Depreciation for the year	(11,405)	(36,613)	(44,754)	(32,178)	–	(124,950)
Disposals	(3,769)	(38,214)	(17,785)	(26,713)	–	(86,481)
At 31 December 2011	272,442	436,948	942,145	165,750	497,298	2,314,583
As at 31 December 2011						
Cost	316,368	547,453	1,172,298	259,065	497,298	2,792,482
Accumulated depreciation	(43,926)	(110,505)	(230,153)	(93,315)	–	(477,899)
Net book value	272,442	436,948	942,145	165,750	497,298	2,314,583

Notes:

(i) Others mainly represent motor vehicles, furniture, fixtures and equipment, and tool and moulds with net book values amounting to approximately HK$$123,835,000 (2010: HK$104,393,000), HK$23,525,000 (2010: HK$14,609,000) and HK$18,390,000 (2010: HK$12,326,000) respectively.

(ii) Depreciation of approximately HK$109,841,000 (2010: HK$85,370,000), HK$1,094,000 (2010: HK$2,051,000) and HK$14,015,000 (2010: HK$9,828,000) have been charged in cost of sales, selling and distribution costs and administrative expenses respectively.

17 LAND USE RIGHTS

	2011 HK$'000	2010 HK$'000
Net book value		
At 1 January	77,332	72,095
Currency realignment	3,305	2,263
Additions	40,750	5,039
Amortisation for the year	(2,527)	(2,065)
At 31 December	118,860	77,332

The Group's interests in land use rights are situated outside Hong Kong with medium term leases. The amounts are amortised on a straight-line method over the respective lease periods no longer than 50 years.

18 INTANGIBLE ASSETS

	Group			Company
	(Note) Goodwill HK$'000	Other intangible assets HK$'000	Total HK$'000	Other intangible assets HK$'000
As at 1 January 2010				
Cost	627,068	5,416	632,484	1,702
Accumulated amortisation	-	(289)	(289)	-
Net book value	627,068	5,127	632,195	1,702
Year ended 31 December 2010				
At 1 January 2010	627,068	5,127	632,195	1,702
Currency realignment	2,885	100	2,985	-
Additions	-	1,739	1,739	-
Acquisitions of subsidiaries (Note 32(b))	53,490	-	53,490	-
Amortisation for the year	-	(127)	(127)	-
At 31 December 2010	683,443	6,839	690,282	1,702
As at 31 December 2010				
Cost	683,443	7,264	690,707	1,702
Accumulated amortisation	-	(425)	(425)	-
Net book value	683,443	6,839	690,282	1,702
Year ended 31 December 2011				
At 1 January 2011	**683,443**	**6,839**	**690,282**	**1,702**
Currency realignment	**82,412**	**138**	**82,550**	**–**
Additions	**–**	**586**	**586**	**–**
Acquisitions of subsidiaries (Note 32(a))	**260,605**	**–**	**260,605**	**–**
Amortisation for the year	**–**	**(140)**	**(140)**	**–**
At 31 December 2011	**1,026,460**	**7,423**	**1,033,883**	**1,702**
As at 31 December 2011				
Cost	**1,026,460**	**8,006**	**1,034,466**	**1,702**
Accumulated amortisation	**–**	**(583)**	**(583)**	**–**
Net book value	**1,026,460**	**7,423**	**1,033,883**	**1,702**

18 INTANGIBLE ASSETS *(continued)*

Note:

Goodwill is allocated to the CGU identified for sales and distribution of natural gas and other related products business, the identified groups of CGUs that are expected to benefit from the synergies of the combinations.

The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates a discount rate of 13.6% (2010: 8.3% to 15.5%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates of 3.0% to 23.6% (2010: 5.1% to 20.8%) are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5 year period have been extrapolated using growth rates of 3.0% (2010: 2.0% to 5.0%) per annum, which is based on industry growth forecasts. The Board considered no impairment loss is necessary as at 31 December 2011.

19 INTERESTS IN SUBSIDIARIES

	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**1,983,488**	1,737,875
Amounts due to subsidiaries	**(25,010)**	(7,020)
	1,958,479	1,730,856
Less: Impairment provision	**(34,300)**	(34,300)
	1,924,179	1,696,556

Except for an amount due from 南昌中油燃氣有限責任公司, which is interest bearing at 5% per annum, all the remaining amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments. In the opinion of the directors, the amounts due will not be expected to be settled or repayable in the foreseeable future and are therefore shown as part of the equity investment in subsidiaries.

The amounts due from subsidiaries of approximately HK$36,535,000 (2010: HK$36,214,000) were impaired. The amount of impairment provision was approximately HK$34,300,000 as at 31 December 2011 (2010: HK$34,300,000). 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.

19 INTERESTS IN SUBSIDIARIES *(continued)*

The movements in the impairment provision are as follows:

	2011 HK$'000	2010 HK$'000
At 1 January	34,300	32,000
Impairment loss reversed	–	(9,000)
Impairment loss recognised	–	11,30
At 31 December	34,300	34,300

20 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2011 HK$'000	2010 HK$'000
Share of net assets:		
At 1 January	–	–
Additions (Note 34)	43,831	–
At 31 December	43,831	–

Details of the Group's jointly controlled entity as at 31 December 2011 together with its summarised financial information are as follows:

Name	Registered capital	Country of establishment	Principal activities	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Results HK$'000	Percentage of interest held indirectly
山西國興煤層氣輸配有限公司	RMB100,000,00	PRC	Construction of coalbed methane pipelines	198,006	72,775	–	–	35%

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities:				
– listed outside Hong Kong	**2**	2	**–**	–
– unlisted (Note 36(b)(i))	**190,000**	190,000	**–**	–
Debt securities-unlisted	**98,093**	450	**97,643**	–
	288,095	190,452	**97,643**	–

At the date of the statement of financial position, all the listed equity securities are stated at fair values. The unlisted equity and debt securities to the extent of approximately HK$190,450,000 (2010: HK$190,450,000) are stated at cost. Those securities do not have quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted debt or equity instruments.

The carrying amounts of the available-for-sale financial assets are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**250,188**	190,002	**60,186**	–
Hong Kong dollar	**30,178**	450	**29,728**	–
US dollar	**7,729**	–	**7,729**	–
	288,095	190,452	**97,643**	–

The maximum exposure to credit risk at the statement of financial position date is the carrying value of the debt securities classified as available-for-sale.

None of these financial assets is either past due or impaired.

22 INVENTORIES

	2011	2010
	HK$'000	HK$'000
Raw materials	**62,822**	24,862
Work-in-progress	**79,642**	42,201
Finished goods and natural gas	**32,490**	14,003
	174,954	81,066

23 DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note (b))	**128,427**	99,320	**–**	–
Advanced to Shuanghe Coal Mine (Note (c))	**61,000**	–	**–**	–
Loan to non-controlling interests (Note (d))	**12,200**	–	**–**	–
Loan to a third party (Note (e))	**24,400**	–	**–**	–
	226,027	99,320	**–**	
Prepaid construction costs	**121,451**	–	**–**	–
Prepaid natural gas costs	**124,478**	23,730	**–**	–
Prepaid material and equipment costs	**77,596**	74,511	**–**	–
Other prepayments	**31,022**	20,115	**–**	–
Other receivables	**92,298**	272,012	**8,437**	7,034
	672,872	489,688	**8,437**	7,034
Less: Non-current portion	**(224,184)**	–	**–**	–
Current portion	**448,688**	489,688	**8,437**	7,034

Notes:

(a) The Board considers that the carrying amounts of deposits, trade and other receivables approximate to their fair values.

(b) At each statement of financial position 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.

The ageing analysis of trade receivables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**115,197**	92,752
Past due but not impaired:		
– 91 to 180 days	**5,574**	3,450
– Over 180 days	**7,656**	3,118
Total	**128,427**	99,320

23 DEPOSITS, TRADE AND OTHER RECEIVABLES *(continued)*

Notes *(continued)*:

(b) *(continued)*

As at 31 December 2011, trade receivables of approximately HK$13,230,000 (2010: HK$6,568,000) 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.

(c) On 23 September 2011, the Group entered into a finance arrangement to provide various finance services to Shuanghe Coal Mine for a fee no more than 2.5% of committed financing amount. As at 31 December 2011, the Group advanced to Shuanghe Coal Mine amounted to approximately HK$61,000,000 for the construction of assets which will be under a sale and leaseback arrangement resulting in a finance lease to Shuanghe Coal Mine upon the completion of the assets. The amount is interest bearing at 13.0% per annum.

(d) Loan to non-controlling interests is interest free and repayable on demand.

(e) On 12 August 2011, the Group entered into a loan agreement with a third party to support the third party's acquisition of natural gas friendly vehicles. The loan to the third party is unsecured, interest bearing at 4.0% per annum and repayable annually in five equal installments by 11 August 2016.

(f) The carrying amounts of the deposits, trade and other receivables are mainly denominated in Renminbi.

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities:				
– listed in Hong Kong	**220,715**	41,876	**192,151**	–
– listed outside Hong Kong	**8,663**	4,882	**8,663**	–
	229,378	46,758	**200,814**	–
Debt securities-unlisted	**197,165**	212,485	**–**	–
	426,543	259,243	**200,814**	–

The carrying amounts of the financial assets at fair value through profit or loss are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**22,054**	–	**6,311**	–
Hong Kong dollar	**206,883**	41,876	**181,023**	–
US dollar	**197,606**	217,367	**13,480**	–
	426,543	259,243	**200,814**	–

25 TIME DEPOSITS, BANK BALANCES AND CASH

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**1,974,701**	1,101,511	**194,533**	58,506
Short term bank deposits	**53,214**	144,962	**10,026**	39,091
	2,027,915	1,246,473	**204,559**	97,597
Less: Time deposits with maturity over three months	**–**	(44,460)	**–**	–
Cash and cash equivalents	**2,027,915**	1,202,013	**204,559**	97,597

The interest rate for short term bank deposits was approximately 0.01% to 1.91% (2010: 0.14% to 1.71%) per annum. The deposits have a maturity of ranging from 14 to 90 days.

Included in bank deposits, bank balances and cash are amounts of approximately HK$1,677,931,000 or RMB1,375,353,000 (2010: HK$989,811,000 or RMB845,992,000) denominated in Renminbi which are deposited with banks in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

The carrying amounts of the time deposits, bank balances and cash are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**1,690,120**	991,263	**10,725**	–
Hong Kong dollar	**278,223**	70,806	**193,619**	58,557
US dollar	**59,267**	139,640	**215**	39,040
Other currencies	**305**	304	**–**	–
	2,027,915	1,202,013	**204,559**	97,597

26 TRADE AND OTHER PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**229,237**	121,423	**–**	–
Consideration payables	**52,132**	–	**–**	–
Construction cost payables	**126,083**	–	**–**	–
Other payables and accruals	**79,748**	115,623	**2,197**	4,080
	487,200	237,046	**2,197**	4,080

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

The ageing analysis of trade payables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Current to 90 days	**178,154**	75,315
91 to 180 days	**35,169**	10,735
Over 180 days	**15,914**	35,373
Total	**229,237**	121,423

The carrying amounts of trade and other payables are mainly denominated in Renminbi.

27 RECEIPT IN ADVANCE

	2011	2010
	HK$'000	HK$'000
Receipt in advance for sales of natural gas and other related products	**767,686**	520,960
Amounts due to customers for connections of gas pipelines	**237,696**	117,400
	1,005,382	638,360

As at 31 December 2011, included in receipt in advance for sales of natural gas was the amount received from customers using I/C cards amounting to approximately HK$605,334,000 (2010: HK$442,303,000), in which the movements are as follows:

	2011	2010
	HK$'000	HK$'000
At 1 January	**442,303**	292,266
Currency realignment	**18,902**	9,172
Payments received in advance	**1,487,936**	1,026,812
Redemption during the year	**(1,343,807)**	(885,947)
At 31 December	**605,334**	442,303

28 BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term				
Bank borrowings, unsecured	**8,540**	16,380	**–**	–
Other borrowings, unsecured	**244,000**	–	**–**	–
Other borrowings, secured	**700,000**	–	**700,000**	–
	952,540	16,380	**700,000**	–
Short-term				
Bank borrowings, unsecured	**368,440**	251,550	**–**	–
Other borrowings, unsecured	**29,359**	29,563	**–**	–
	397,799	281,113	**–**	–
Total borrowings	**1,350,339**	297,493	**700,000**	–

Other borrowings are mainly loans China Petroleum Hong Kong (Holding) Limited ("China Petroleum"). Details of the loan from China Petroleum are set out in Note 36(a)(iii).

The Group's borrowings are repayable as follows:

	Bank borrowings		Other borrowings	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**368,440**	251,550	**29,359**	29,563
Between 1 and 2 years	**8,540**	8,190	**–**	–
Between 2 and 5 years	**–**	8,190	**944,000**	–
Wholly repayable within 5 years	**376,980**	267,930	**973,359**	29,563

28 BORROWINGS *(continued)*

The carrying amounts of the borrowings are denominated in the following currencies and carried at the following interest rates:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**650,339**	297,493	**–**	–
Hong Kong dollar	**700,000**	–	**700,000**	–
	1,350,339	297,493	**700,000**	–
Interest free	**–**	–	**–**	–
At fixed rates	**1,049,364**	–	**700,000**	–
At floating rates	**300,975**	297,493	**–**	–
	1,350,339	297,493	**700,000**	–
Weighted average effective interest rates (per annum):				
– Bank borrowings	**6.5%**	6.2%	**–**	–
– Other borrowings	**6.2%**	2.4%	**3.7%**	–

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

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**8,540**	16,380	**9,314**	13,585
Other borrowings	**944,000**	–	**913,905**	–
	952,540	16,380	**923,219**	13,585

The fair values are based on cash flows discounted using a rate based on the effective interest rate of 4.3% (2010: 6.4%) per annum.

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

As at 31 December 2011, borrowings to the extent of approximately HK$700,000,000 (2010: Nil) was secured by the pledge of the entire equity interests in a non-wholly owned subsidiary of the Group.

29 DEFERRED TAX LIABILITIES

Details of deferred tax liabilities in respect of accelerated depreciations allowances and others and amount charged to the consolidated profit or loss are as follows:

	2011	2010
	HK$'000	HK$'000
At 1 January	**11,207**	10,405
Currency realignment	**479**	327
Charged to consolidated profit or loss (Note 12)	**2,411**	475
At 31 December	**14,097**	11,207

Deferred income tax liabilities to the extent of approximately HK$28,016,000 (2010: HK$23,466,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the directors consider that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings totalled approximately HK$882,997,000 (2010: HK$445,366,000) as at 31 December 2011.

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES

(a) Share capital

	Number of shares	**Amount**
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2010, 31 December 2010 and 31 December 2011	125,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2010	4,457,856	44,579
Issue of shares upon placement (Note (i))	500,000	5,000
Repurchase of own shares (Note (ii))	(7,000)	(70)
At 31 December 2010	4,950,856	49,509
Issue of shares upon exercise of share options (Note (iii))	1,260	12
At 31 December 2011	4,952,116	49,521

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(a) Share capital *(continued)*

Notes:

(i) On 2 February 2010, the Company completed a placement of 500,000,000 shares of HK$0.01 each at a subscription price of HK$1.25 per share. Accordingly, 500,000,000 shares of HK$0.01 each were issued at a premium of HK$1.24 each. The premium on issue of shares of approximately HK$600,421,000 was credited to the share premium account. These shares rank pari pasu in all respects with the existing shares.

(ii) During the year ended 31 December 2010, 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 approximately HK$6,028,000 was charged to share premium account. The issue share capital of the Company was reduced by the nominal value of these repurchased shares of approximately HK$70,000 and the equivalent amount was transferred to the capital redemption reserve.

(iii) On 19 August 2011, the Company allotted and issued 1,260,000 shares (2010: Nil) of HK$0.01 each for cash at the exercise price of HK$0.43 (2010: Nil) per share as a result of the exercise of share options.

(b) Share option schemes

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

Under the Old Share Option 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 Old Share Option 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 Old Share Option 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 Old Share Option 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.

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(b) Share option schemes *(continued)*

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 Old Share Option 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 Old Share Option Scheme was valid for 10 years from 31 January 2002 and terminated on 23 November 2011. Nevertheless, the share options granted under the Old Share Option Scheme prior to the termination continue to be valid and exercisable in accordance with the rules of the Old Share Option Scheme.

In order to motivate and reward the Company's staff, on 30 July 2009, the Company had granted to certain eligible participants 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 Old Share Option Scheme (the 10% general limit under the 2002 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.

(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	Vesting condition	Contractual life of option
Option granted to employees:				
– on 30 July 2009	HK$0.43	30,000	Vested 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		

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(b) Share option schemes *(continued)*

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

	2011		2010	
	Weighted average exercise price HK$	**Number of option '000**	Weighted average exercise price HK$	Number of option '000
Outstanding at 1 January	**0.43**	**100,000**	0.43	100,000
Forfeited	**0.43**	**(560)**	–	–
Exercised (Note (a))	**0.43**	**(1,260)**	–	–
Outstanding at 31 December	**0.43**	**98,180**	0.43	100,000
Exercisable at 31 December	**0.43**	**28,740**	–	–

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 1.70 years (2010: 2.68 years).

Notes:

(a) The closing price of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2011 was HK$0.56 (2010: Nil).

(b) The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 1.70 years (2010: 2.68 years).

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(b) 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) Outstanding at 1 January 2011	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2011
A director of the Company	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
			Sub-total	1,500	–	–	1,500
Employees	30 July 2009	0.43	31 July 2011 to 30 July 2012	29,550	(1,260)	–	28,290
	30 July 2009	0.43	31 July 2012 to 30 July 2013	29,550	–	(240)	29,310
	30 July 2009	0.43	31 July 2013 to 30 July 2014	39,400	–	(320)	39,080
			Sub-total	98,500	(1,260)	(560)	96,680
			Total	100,000	(1,260)	(560)	98,180

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(b) Share option schemes *(continued)*

The Company adopted another share option scheme (the "Existing Share Option Scheme") pursuant to a resolution passed by the shareholders on 23 November 2011.

Under the Existing Share Option 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 Existing Share Option Scheme and the Old Share Option Scheme is 10% of the issued shares of the Company from time to time.

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 21 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 Existing Share Option 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 Existing Share Option Scheme was valid for 10 years from 23 November 2011.

No share options has been granted under the Existing Share Option Scheme up to 31 December 2011.

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(c) Share award scheme

On 4 November 2011, the Board approved the adoption of a share award scheme (the "Restricted Share Award Scheme") with the objective to recognise the contributions by eligible employees within the Group and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group.

Pursuant to the rules relating to the Restricted Share Award Scheme ("Scheme Rules"), shares are comprised of (i) shares subscribed for or purchased by the Company and delivered to the Trustee subsequently; or (ii) the Trustee out of cash arranged to be paid by the Company out of the Company's funds to the Trustee and be held on trust for the relevant eligible grantees until such shares are vested with the relevant eligible grantees in accordance with the Scheme Rules ("Restricted Shares"). The Board of Directors implements the Restricted Share Award Scheme in accordance with the terms of the Scheme Rules including providing necessary funds to the Trustee to purchase or subscribe for shares up to 10% of the issued share capital of the Company from time to time.

Under the Restricted Share Award Scheme, the Restricted Shares are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain conditions (including but not limited to, lock-up period) to be decided by the Board at the time of grant of the Restricted Shares under the Restricted Share Award Scheme. The Restricted Share Award Scheme will remain in force for 10 years from the date of adoption.

The Company appointed Best Thinker Limited as the Trustee. The Trustee does not receive any remuneration from the Company for its services and will only be reimbursed the actual expenses involved in the operation of the trust.

The Restricted Share Award Scheme operates in parallel with the Old Share Option Scheme. All options granted under the Old Share Option Scheme continues to be valid and exercisable subject to and in accordance with the terms of the Old Share Option Scheme.

Pursuant to the Scheme Rules, the Board may, from time to time, at their absolute discretion select the eligible grantees after taking into account various factors as they deem appropriate for participation in the Restricted Share Award Scheme as a grantee and determines the number of Restricted Shares to be awarded. The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee.

30 SHARE CAPITAL AND SHARE OPTION/AWARD SCHEMES *(continued)*

(c) Share award scheme *(continued)*

The Trustee shall hold such Restricted Shares on trust for the eligible grantees until they are vested. When the relevant eligible grantee has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Restricted Shares, the Trustee shall transfer the relevant Restricted Shares to that grantee. The relevant eligible grantee however is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares. The said income or distributions shall be used by the Trustee for purchase of further shares for the share award scheme (or may be used as payment of the Trustee's fees or expenses at the election of the Company when appropriate).

Following the Board's decision to award shares to eligible employees, the Restricted Shares are purchased from the market and the cost debited to "shares held for share award scheme".

The cost of the Restricted Shares is charged to "staff costs and related expenses" over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to "share option reserve".

Dividends payable on the Restricted Shares held in the Restricted Share Award Scheme are applied to acquire further shares (dividend shares) from the market and the payment is debited to "shares held for share award scheme". The dividend shares are allocated to the awardees on a pro rata basis and have the same vesting periods as the related Restricted Shares.

Upon vesting and transfer to the awardees, an amount equivalent to the cost of the Restricted Shares and the dividend applied towards acquisition of any dividend shares is credited to "shares held for share award scheme", with a corresponding debit to "share option reserve" and to "retained profits" respectively.

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Restricted Share Award Scheme who may award such shares to the awardees taking into consideration recommendations of the Board.

During the year, no shares has been awarded to an executive director for no consideration but subject to conditions including performance benchmark and lock-up periods.

During the year the Company purchased 18,880,000 shares under the share award scheme. No shares was either granted or vested during the year.

31 RESERVES

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Share held for share award scheme HK$'000	Share option reserve HK$'000	(Note (a)) Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	1,968,998	893	–	2,332	49,753	(866,068)	1,155,908
Issue of shares upon placement, net of issuing expenses	600,421	–	–	–	–	–	600,421
Repurchase of own shares	(6,028)	70	–	–	–	(70)	(6,028)
Set-off against accumulated loss (Note (b))	(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	**1,963,391**	**963**	**–**	**7,737**	**49,753**	**(272,544)**	**1,749,300**
Issue of shares upon exercise of share options	**752**	**–**	**–**	**(223)**	**–**	**–**	**529**
Purchase of own shares for share award scheme	**–**	**–**	**(10,976)**	**–**	**–**	**–**	**(10,976)**
Equity-settled share-based payments	**–**	**–**	**–**	**5,508**	**–**	**–**	**5,508**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(58,745)**	**(58,745)**
At 31 December 2011	**1,964,143**	**963**	**(10,976)**	**13,022**	**49,753**	**(331,289)**	**1,685,616**

Notes:

(a) 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.

(b) The share premium account of the Company is distributable in the form of fully paid bonus shares. During the year ended 31 December 2010, a special resolution was passed on the special general meeting to approve the cancellation of the amount of approximately 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 complied with the Companies Act 1981 of Bermuda.

32 BUSINESS COMBINATIONS

(a) Acquisitions for the year ended 31 December 2011

On 1 January 2011, the Group acquired 100.0% equity interests (of which 51.0% attributable to the Company) in深圳普道環保科技有限公司and its subsidiaries (together, "the Shenzhen Group"), which are engaging in piped city gas business, pipeline design and construction, as well as transports, distributes, sales of CNG, for a cash consideration of approximately RMB278,000,000 (equivalent to approximately HK$339,160,000).

On 6 July 2011, the Group acquired 51.0% equity interests (of which 26.0% attributable to the Company) in 濱州市中海燃氣有限公司, which is principally engaging in piped city gas business, for a cash consideration of approximately RMB7,000,000 (equivalent to approximately HK$8,540,000).

On 30 October 2011, the Group acquired 100.0% equity interests (of which 51.0% attributable to the Company) in 大余華港燃氣有限公司, which is principally engaging in piped city gas business, sales of CNG and LNG, for a cash consideration of approximately RMB15,000,000 (equivalent to approximately HK$18,300,000).

On 9 November 2011, the Group acquired 100.0% equity interests (of which 51.0% attributable to the Company) in 新沂天陽燃氣有限公司, which is principally engaging in gas pipeline design and construction, natural gas transmission through pipeline business, for a cash consideration of approximately RMB12,000,000 (equivalent to approximately HK$14,640,000).

As a result of the acquisitions, the Group is expected to increase its presence in these markets. it also expects to reduce costs through economics of scale. The goodwill of HK$260,605,000 arising from the acquisitions is attributable to acquired customer base and economics of scale expected from combining the operations of the Group and the above acquired subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the above acquisitions, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	The Shenzhen Group HK$'000	Others HK$'000	Total HK$'000
Cash consideration	339,160	41,480	380,640
Less: Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	154,875	4,713	159,588
Inventories	750	77	827
Trade and other receivables	27,605	9,874	37,479
Cash and cash equivalents	10,224	16,896	27,120
Trade and other payables	(65,321)	(14)	(65,335)
Total identifiable net assets	128,133	31,546	159,679
Less: Non-controlling interests	(38,449)	(1,195)	(39,644)
	89,684	30,351	120,035
Goodwill (Note 18)	249,476	11,129	260,605

32 BUSINESS COMBINATIONS

(a) Acquisitions for the year ended 31 December 2011 *(continued)*

The Group recognised the non-controlling interests in the above subsidiaries at the non-controlling interests' proportionate share of these subsidiaries' net assets.

The revenue and profit for the year included in the consolidated profit or loss since the respective acquisition date contributed by the above acquired subsidiaries amounted to approximately HK$217,905,000 and HK$31,269,000 respectively.

Had the above acquired subsidiaries been consolidated from 1 January 2011, the consolidated profit or loss would show revenue of HK$217,905,000 and profit for the year of HK$31,269,000.

(b) Acquisitions for the year ended 31 December 2010

On 31 March 2010, the Group acquired 80.0% equity interests (of which 41.0% attributable to the Company) in 潮安懸華明燃氣有限公司("華明"), which is principally engaging in trading of natural gas business for a cash consideration of approximately RMB35,000,000 (equivalent to approximately HK$40,950,000).

On 28 February 2010, the Group acquired 60.0% equity interests (of which 31.0% attributable to the Company) in 銀川中油精誠燃氣有限責任公司("銀川中油"), which is principally engaging in gas pipeline design and construction, natural gas transmission through pipeline business, for a cash consideration of approximately RMB31,800,000 (equivalent to approximately HK$37,206,000).

On 28 February 2010, the Group acquired 81.0% equity interests (of which 41.0% attributable to the Company) in 泰州中油管輸天然氣有限公司("泰州管輸"), which is principally engaging in gas pipeline design and construction, natural gas transmission through pipeline business, for a cash consideration of approximately RMB37,066,000 (equivalent to approximately HK$43,368,000).

As a result of the acquisitions, the Group is expected to increase its presence in these markets. it also expects to reduce costs through economies of scale. The goodwill of HK$53,490,000 arising from the acquisitions is attributable to acquired customer base and economies of scale expected from combining the operations of the Group and the above acquired subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

32 BUSINESS COMBINATIONS

(b) Acquisitions for the year ended 31 December 2010 *(continued)*

The following table summarises the consideration paid for the above acquisitions, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	華明 HK$'000	銀川中油 HK$'000	泰州管輸 HK$'000	Total HK$'000
Cash consideration	40,950	37,206	43,368	121,524
Less: Recognised amounts of identifiable assets acquired and liabilities assumed				
Property, plant and equipment	19,820	16,624	382	36,826
Inventories	108	2,010	–	2,118
Trade and other receivables	2,097	8,734	24	10,855
Cash and cash equivalents	796	601	49,682	51,079
Trade and other payables	(7,972)	(1,960)	(38)	(9,970)
Total identifiable net assets	14,849	26,009	50,050	90,908
Less: Non-controlling interests	(2,970)	(10,403)	(9,501)	(22,874)
	11,879	15,606	40,549	68,034
Goodwill (Note 18)	29,071	21,600	2,819	53,490

The Group recognised the non–controlling interests in the above acquired subsidiaries at the non–controlling interests, proportionate share of these subsidiaries' net assets.

The revenue and profit for the year included in the consolidated profit or loss since the respective acquisition date contributed by the above acquired subsidiaries amounted to approximately HK$109,779,000 and HK$11,960,000 respectively.

Had the above acquired subsidiaries been consolidated from 1 January 2010, the consolidated profit or loss would show revenue of HK$109,779,000 and profit for the year of HK$11,960,000.

(c) Acquisitions of subsidiaries, net of cash and cash equivalents acquired

	2011 HK$'000	2010 HK$'000
Cash consideration	380,640	121,524
Less: Consideration payables	(8,301)	–
Cash consideration paid	372,339	121,524
Cash and cash equivalents	(27,120)	(51,079)
Net cash outflow from acquisitions of subsidiaries	345,219	70,445

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisitions of additional interests in subsidiaries

Acquisitions of additional interests in subsidiaries for the year ended 31 December 2011 mainly included an acquisition of additional interest in 青海東部中油燃氣有限公司. In November 2011, the Group acquired an additional 16.0% equity interests (of which 8.0% attributable to the Company) in 青海東部中油燃氣有限公司 for a cash consideration of approximately RMB3,200,000 (equivalent to approximately HK$3,904,000), resulting in an increase in the Group's interests in 青海東部中油燃氣有限公司 to 34.2%. The aggregate carrying amounts of the non-controlling interests in those subsidiaries on the respective dates of acquisition was approximately HK$3,941,000. The Group recognised a decrease in non-controlling interests of approximately HK$3,941,000 and a decrease in equity attributable to owners of the Company of approximately HK$3,254,000.

In June 2010, the Group acquired an additional 20.0% equity interests (of which 15.0% attributable to the Company) in 南通中油燃氣有限責任公司 for total cash consideration of approximately RMB3,600,000 (equivalent to approximately HK$4,154,000), resulting in an increase in the Group's interests in 南通中油燃氣有限責任公司 to 75.0%. The carrying amount of the non-controlling interests in 南通中油燃氣有限責任公司 on the date of acquisition was approximately HK$9,660,000. The Group recognised a decrease in non-controlling interests of approximately HK$3,564,000 and a decrease in equity attributable to owners of the Company of approximately HK$590,000.

The effect of changes in the ownership interest of the above subsidiaries on the equity attributable to owners of the Company during the year is summarised as follows:

	2011 **HK$'000**	2010 HK$'000
Carrying amount of non-controlling interests acquired	**3,944**	3,564
Consideration paid to non-controlling interests	**(7,198)**	(4,154)
Excess of consideration paid recognised within equity	**(3,254)**	(590)

33 TRANSACTIONS WITH NON-CONTROLLING INTERESTS *(continued)*

(b) Disposal of interests in a subsidiary without loss of control

The Group did not dispose of any interests in a subsidiary for the year ended 31 December 2011.

In February 2010, the Group disposed of 49.0% equity interests (of which 37.0% attributable to the Company) in江都中油燃氣有限責任公司at total cash consideration of approximately RMB19,600,000 (equivalent to approximately HK$22,932,000), resulting in a decrease in the Group's interests in江都中油燃氣有限責任公司to 39.0%. The carrying amount of the non-controlling interests in江都中油燃氣有限責任公司on the date of disposal was HK$14,663,000. The Group recognised an increase in non-controlling interests of HK$22,758,000 and an increase in equity attributable to owners of the Company of HK$174,000.

The effect of changes in the ownership interest of the above subsidiary on the equity attributable to owners of the Company during the year is summarised as follows:

	2011 **HK$'000**	2010 HK$'000
Carrying amount of non-controlling interests disposed of	**–**	(22,758)
Consideration received from non-controlling interests	**–**	22,932
Gain on disposal within equity	**–**	174

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Total comprehensive income for the year attributable to owners of the Company	**338,544**	192,728
Changes in equity attributable to owners of the Company arising from:		
– Acquisitions of additional interests in subsidiaries	**(3,254)**	(590)
– Disposal of interests in a subsidiary without loss of control	**–**	174
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	**(3,254)**	(416)
	335,290	192,312
Consideration paid to non-controlling interests	**(7,198)**	(4,154)
Consideration received from non-controlling interests	**–**	22,932
Net cash (paid)/received arising from changes in ownership interests in subsidiaries	**(7,198)**	18,778

34 ACQUISITION OF A JOINTLY CONTROLLED ENTITY

On 5 November 2011, the Group acquired 35.0% equity interests in山西國興煤層氣輸配有限公司from Kunlun Energy Company Limited ("Kunlun") for a cash consideration of approximately RMB35,927,000 (equivalent to approximately HK$43,831,000). 山西國興煤層氣輸配有限公司is principally engaging in the construction of coalbed methane pipelines in the PRC.

The share of assets and liabilities on the date of acquisition arising from the acquisition are as follows:

	HK$'000
Cash consideration payables	43,831
Less: 35% share of identifiable assets acquired and liabilities acquired	(43,831)
	–

35 COMMITMENTS

(a) Operating leases

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 year to 20 years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**5,080**	6,393
After one year but within five years	**10,541**	11,477
After five years	**38,239**	36,863
	53,860	54,733

(b) Capital commitments

The Group had the following capital commitments outstanding not provided for at the statement of financial position date:

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted but not provided for:		
Acquisition of subsidiaries	**–**	227,682
Property, plant and equipment	**88,922**	4,698
	88,922	232,380

36 RELATED PARTY TRANSACTIONS

As at 31 December 2011, the Company was indirectly owned by Sino Best International Group Limited ("Sino Best"), a company incorporated in the British Virgin Islands ("BVI") which in turn was wholly and beneficially owned by Mr. Xu Tie-liang, the Chairman and executive director of the Company, as to approximately 22.5%. The remaining 77.5% of the Company's shares were widely held. Mr. Xu Tie-liang and other directors of the Company are considered to be related as he is a member of the key management personnel of the Company.

Related parties also include China National Petroleum Corporation ("CPNC") and its subsidiaries (together, the "CNPC Group") as PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, is an intermediate holding company of Kunlun which in turn is non-controlling interests of a subsidiary of the Company, China City Natural Gas Co., Ltd.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

(a) Transactions with the CNPC Group

(i) The Group has entered into various natural gas supply contracts with PetroChina and its subsidiaries (together, the "PetroChina Group") pursuant to which natural gas was supplied to various subsidiaries of the Group by the PetroChina Group. The Group purchased natural gas from the PetroChina Group amounted to approximately RMB1,886,800,000 (equivalent to HK$2,301,896,000) (2010: RMB1,181,000,000 (equivalent to HK$1,381,770,000)) for the year ended 31 December 2011.

(ii) On 1 June 2010, the Group entered into a tenancy agreement with the PetroChina Group pursuant to which, the Group leases a parcel of land from the PetroChina Group for the construction of gas supply of certain gas stations. The rental is payable upon commencement of the operation of the gas stations. Up to the consolidated statement of financial position date, no rental was paid or payable to the PetroChina Group as the subject stations have not yet commenced operation.

(iii) On 5 January 2011, the Company entered into a loan agreement with China Petroleum, a subsidiary of CNPC, pursuant to which China Petroleum granted the Company a loan amounting to approximately HK$700,000,000 for 5 years at a fixed interest rate of 3.7% per annum.

The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Transactions with key management personnel

(i) On 26 November 2010, the Group entered into a sale and purchase agreement with Sino Advance Holdings Limited ("Sino Advance"), a company wholly owned by Sino Best, to acquire 8.0% of the issued share capital of Sino Director Limited ("Sino Director"), a company wholly owned by Sino Advance, at a consideration of approximately HK$190,000,000. Sino Director indirectly holds 70.0% 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.

(ii) The directors of the Company are considered as key management personnel of the Group. 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 11.

37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITIES

(a) Details of the principal subsidiaries are as follows:

Name	Place of incorporation and kind of legal entity	Nominal value of issued share capital/registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Profaith Group Limited	BVI, Wholly foreign-owned enterprise	US$1	100.0%	–	Investment holding
All Praise Investment Limited	BVI, Wholly foreign-owned enterprise	US$1	100.0%	–	Investment holding
Hong Kong China Oil And Gas Group Limited ("HKCOGG")	Hong Kong, Wholly foreign-owned enterprise	HK$1	100.0%	–	Investment holding
China Oil And Gas Management Limited	Hong Kong, Wholly foreign-owned enterprise	HK$1	–	100.0%	Investment holding
City Natural Gas Co., Ltd. ("CCNG")	PRC, Wholly foreign-owned enterprise	RMB500,000,000	–	51.0%	Investment holding and trading of natural gas
西寧中油燃氣有限責任公司	PRC, Limited liability company	RMB65,874,000	–	40.8%[i]	Trading of natural gas, gas pipeline construction and operation of natural gas stations
青海宏利燃氣管道安裝工程有限責任公司	PRC, Limited liability company	RMB15,000,000	–	40.8%[i]	Gas pipeline construction
青海中油壓縮天然氣銷售有限公司	PRC, Limited liability company	RMB20,000,000	–	40.8%[i]	Trading of natural gas
西寧中油商貿有限公司	PRC, Limited liability company	RMB900,000	–	40.8%[i]	Trading of natural gas-related equipment
醴陵中油燃氣有限責任公司	PRC, Limited liability company	RMB30,000,000	–	30.6%[i]	Trading of natural gas and gas pipeline construction
濱州中油燃氣有限責任公司	PRC, Limited liability company	RMB20,000,000	–	40.8%[i]	Trading of natural gas and gas pipeline construction

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(continued)
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37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITIES *(continued)*

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued share capital/registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
惠民中油燃氣有限責任公司	PRC, Limited liability company	RMB8,000,000	–	50.5%	Trading of natural gas and gas pipeline construction
湖南中油燃氣有限責任公司	PRC, Limited liability company	RMB27,000,000	–	30.6%[i]	Natural gas transmission through pipeline
青海中泰中油燃氣技術開發有限公司	PRC, Limited liability company	RMB12,000,000	–	51.0%	Production and trading of liquefied natural gas
泰州中油燃氣有限責任公司	PRC, Limited liability company	RMB15,000,000	–	51.0%	Trading of natural gas and gas pipeline construction
潮州中油燃氣有限公司	PRC, Limited liability company	RMB30,000,000	–	51.0%	Trading of natural gas and gas pipeline construction
潮安縣華明燃氣有限公司	PRC, Limited liability company	RMB12,000,000	–	40.8%[i]	Trading of natural gas
中油中泰物流（珠海）有限公司	PRC, Limited liability company	RMB10,000,000	–	51.0%	Transportation services
青海中油管道燃氣有限公司	PRC, Limited liability company	RMB20,000,000	–	51.0%	Natural gas transmission through pipeline
泰州中油管輸天然氣有限公司	PRC, Limited liability company	US$6,700,000	–	41.3%[i]	Gas pipeline design and construction, natural gas transmission through pipeline
銀川中油精誠燃氣有限責任公司	PRC, Limited liability company	RMB12,000,000	–	30.6%[i]	Trading of natural gas and gas pipeline construction

37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITIES *(continued)*

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued share capital/registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
鄒平中油燃氣有限責任公司	PRC, Limited liability company	RMB17,000,000	–	41.8%[i]	Trading of natural gas and gas pipeline construction
深圳市普道環保科技公司	PRC, Limited liability company	RMB71,000,000	–	51.0%	Investment holding
仙桃市天然氣有限責任公司	PRC, Limited liability company	RMB15,000,000	–	35.7%[i]	Trading of natural gas and gas pipeline construction
仙桃市洁能天然氣有限公司	PRC, Limited liability company	RMB2,000,000	–	35.7%[i]	Trading of natural gas
武漢市東方天然氣有限責任公司	PRC, Limited liability company	RMB75,000,000	–	35.7%[i]	Trading of natural gas and gas pipeline construction
西寧中油中泰管道燃氣有限公司	PRC, Limited liability company	RMB50,000,000	–	40.8%[i]	Gas pipeline design and construction
南京潔寧燃氣有限公司	PRC, Wholly foreign-owned enterprise	HK$187,500,000	–	100.0%	Investment holding, construction of natural gas stations and trading of natural gas
安徽中油燃氣有限公司	PRC, Sino-foreign equity joint venture	RMB18,000,000	–	80.4%	Trading of natural gas and gas pipeline construction
中油燃氣(廣東)投資有限公司	PRC, Wholly foreign-owned enterprise	USD12,000,000	–	100.0%	Investment holding
恒泰國際融資租賃有限公司	PRC, Limited liability company	USD1,800,000	–	100.0%	Financial leasing

37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITIES *(continued)*

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued share capital/registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
江都中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture	RMB40,000,000	–	38.8%(ii)	Trading of natural gas and gas pipeline construction
青海中油甘河工業園區燃氣有限公司	PRC, Sino-foreign equity joint venturerventure	RMB26,000,000	–	60.4%	Trading of natural gas and gas pipeline construction
南通中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture	RMB15,000,000	–	75.0%	Trading of natural gas and gas pipeline construction
萍鄉市燃氣公司	PRC, Sino-foreign equity joint venture	RMB100,000,000	–	51.0%	Trading of natural gas and gas pipeline construction

Notes:

(i) The Group holds controlling interests in these subsidiaries through a 51.0% owned subsidiary, CNGC. Therefore the Group has control over these entities and they are considered as subsidiaries of the Company.

(ii) The Group holds controlling interests in this subsidiary through CNGC and a wholly owned subsidiary, HKCOGG. Therefore the Group has control over this entity and it is considered as subsidiary of the Company.

(iii) 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.

37 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND CONTROLLED SPECIAL PURPOSE ENTITIES *(continued)*

(b) Details of the controlled special purpose entity are as follows:

The Company controls a special purpose entity which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The Restricted Share Award Scheme (the "Trust")	Purchases, administers and holds the Company's shares for the 2011 Scheme for the benefit of eligible the Group's employees

As the Trust is set up solely for the purpose of purchasing, administrating and holding the Company's shares for the 2011 Scheme (Note 30(c)), the Company has the power to govern the financial and operating policies of the Trust and it can derive benefits from the services of the employees who have been awarded the Restricted Shares through their continued employment with the Group. The assets and liabilities of the Trust are included in the Company's statement of financial position from its adoption and the Company's shares held by the Trust are presented as a deduction in equity as "shares held for share award scheme".

38 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 20 March 2012.

FIVE YEAR FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**4,390,955**	2,626,007	1,721,138	1,471,364	677,372
Profit before taxation	**646,139**	439,498	305,381	221,128	129,447
Taxation	**(145,757)**	(85,668)	(52,609)	(34,085)	(15,639)
Profit for the year	**500,382**	353,830	252,772	187,043	113,808
Attributable to:					
Owners of the Company	**208,932**	164,560	132,090	73,025	72,622
Non-controlling interests	**291,450**	189,270	120,682	114,018	41,186
	500,382	353,830	252,772	187,043	113,808

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**7,101,536**	4,466,006	3,364,619	2,792,668	2,186,411
Total liabilities	**(2,903,432)**	(1,214,329)	(1,141,871)	(888,840)	(644,226)
Total equity	**4,198,104**	3,251,677	2,222,748	1,903,828	1,542,185
Non-controlling interests	**(1,438,629)**	(822,565)	(590,676)	(405,004)	(287,013)
Equity attributable to owners of the Company	**2,759,475**	2,429,112	1,632,072	1,498,824	1,255,172